

Health Service Board

Market Trends Update

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Prepared by:
Aon | Aon Hewitt | Health & Benefits



ACA Goals—A Refresher

The original goals of the Affordable Care Act were threefold:

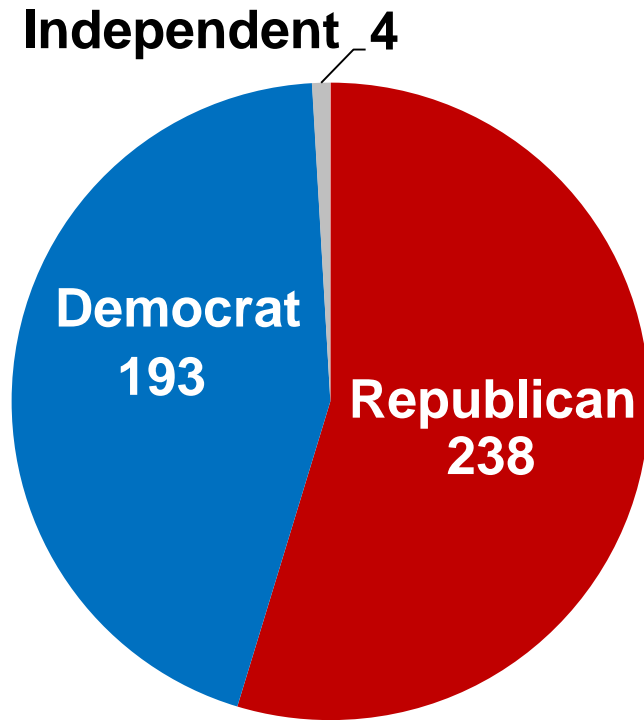
1. Expand access to health insurance
2. Protect patients against arbitrary actions by insurance companies
3. Reduce costs

The 45th President of the United States

- President Donald Trump
 - 279 electoral votes
 - 306 electoral votes, counting states that have not been called
 - 47% of popular vote
- Vice President Mike Pence
 - Indiana governor 2012-present
 - Former Congressman

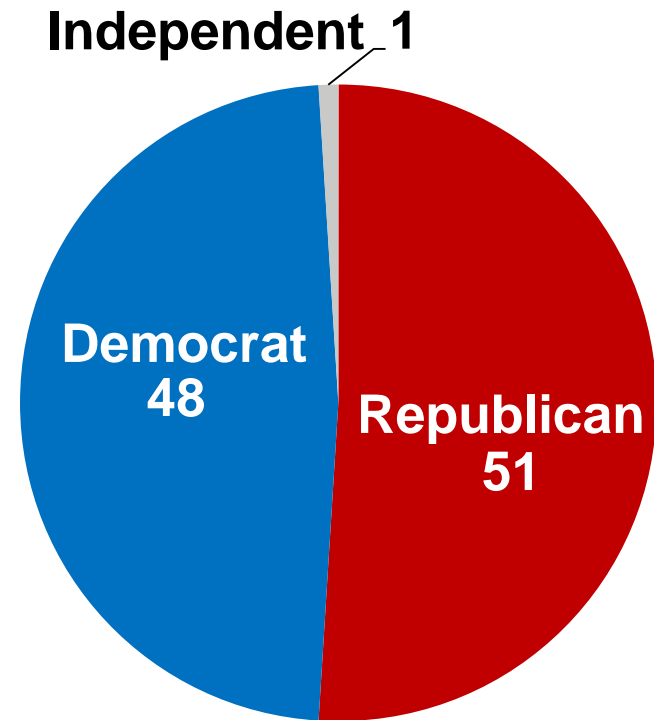
115th Congress

House of Representatives



■ Paul Ryan (House Speaker)

U.S. Senate



■ Mitch McConnell (Majority Leader)

Health Care Reform—The Trump Platform

Repeal & Replace the Affordable Care Act

- ✓ Not clear what “replace” would look like
- ✓ Expand Health Savings Accounts (HSAs)
- ✓ Repeal Cadillac/Excise tax
- ✓ Allow individuals to buy health insurance coverage across state lines
- ✓ Allow individuals to fully deduct health insurance premiums
- ✓ Require provider price transparency
- ✓ Permit purchase of drugs imported from overseas

Repeal & Replace—Where to Start?

- **Employer mandate still in effect**
 - Reporting continues for 2016
 - 1094s and 1095s due in 2017 (30 day extension for 1095 B/C)
- **Individual mandate could be weakened by regulation**
 - Broaden exemptions for not buying coverage
- **Enrollees in public exchange might need transition period**
 - Almost 13 million buy policies from public exchange (85% receive subsidies)
 - Cutting off subsidies immediately would:
 - Increase share of premiums paid by policyholders
 - Hasten “death spiral”
 - Accelerate insurer withdrawal from exchanges

Repeal & Replace—Where to Start? (cont.)

- **Impact on hospitals and providers from ending**
 - Medicaid expansion
 - Individual mandate

Outline for ACA “Repeal & Replace

■ Making support for coverage portable

- Universal, advance-able, age-adjusted, refundable tax credit for individuals and families to purchase a health care policy
- If cost of health insurance plan is less than the value of the credit, the difference would be deposited into a Health Savings Account (HSA)

■ Preserving employer-sponsored health insurance

- Cap the exclusion for employer-provided health insurance
- No details on how this is to be done or the cost involved

Outline for ACA “Repeal & Replace

- **Preserving employee wellness programs**

- Supports wellness programs and opposes Equal Employment Opportunity Commission (EEOC) regulations

- **Protecting employers’ flexibility for self-insurance**

- Preserves the current definition of stop loss insurance

- **Purchasing coverage across state lines**

- Consumers would no longer be limited to coverage options available only in their state
- States could enter into interstate compacts for risk pooling

Outline for ACA “Repeal & Replace (cont.)

- **Expanding opportunities for pooling**

- Small businesses and voluntary organizations can band together to offer small business health plans, also known as association health plans (AHPs)

- **Medical liability reform**

- Supports reform of nation’s medical liability system, including caps on noneconomic damages and loser-pays rule

Possible Obstacles to “Repeal & Replace”

- **Impact to the federal budget**

- Need revenue and deficit data

- **Level of congressional support in the house**

- Republican party consensus on all aspects of “repeal and replace”?

- Filibuster? Reconciliation process?

- **Support of stakeholders**

- Employers

- Providers

- Insurers

- Manufacturers of drugs and medical devices

- Consumer advocates

Possible Obstacles to “Repeal & Replace” (cont.)

- **What about the “popular parts”?**
 - Coverage of dependents to age 26
 - Ban on preexisting condition exclusions
 - Community rating for premiums
 - Comprehensive coverage mandates
 - Provider payment reforms
 - Accountable care organizations (ACOs)

The ACA Docket—Clearing the Desk

■ **U.S. House v. Burwell**

- District court case that ruled Obama administration illegally reimbursed insurers that paid federal cost-sharing reductions
- Trump administration likely to conclude payments are illegal and abandon appeal

■ **Risk corridor lawsuits**

- Insurers are suing administration to recover for losses incurred in selling policies on public exchanges
- Obama administration may try to settle before Trump takes office

■ **Contraceptive mandate for religious organizations**

- Trump administration likely to exempt religious organizations from the mandate

■ **Section 1557 nondiscrimination rule**

- Fate uncertain

Impact on Medicaid

- Under the Affordable Care Act, 31 states (including California) and Washington, D.C. expanded Medicaid coverage under the ACA adding 15.7 million people to the program for a total of about 73 million (half of which are children).
- Trump’s repeal of the Affordable Care Act also includes potential impact to Medicaid expansion created under the Act:
 - Currently Medicaid is considered an “entitlement” program by which coverage is guaranteed for everyone who’s eligible and is an open-ended financial obligation of the federal government.
 - The Trump administration, and many republican supporters, have proposed a transformation from an entitlement program into a block grant program – under this type of program states would have more power and flexibility to run their Medicaid programs as desired – including cutting benefits and eligibility.

Impact on Medicaid (cont.)

- The Trump administration could also terminate waivers that expanded Medicaid and sent billions in new federal funding to some states that transformed care, including California.
- Additionally, any changes to Medicaid would likely include the Children's Health Insurance Program (CHIP), another federal-state program that provides coverage to children whose families are slightly over the Medicaid eligibility.
- While many actions will involve support from Congress, Trump's could implement changes to Medicaid using the executive branch's power to approve states' requests for waivers from federal rules.
 - This could allow Trump to approve changes proposed by Republican governors, including work requirements for Medicaid enrollees and monthly premiums and other cost-sharing.

Source: Kaiser Health News

Public Exchange Enrollment—2016 vs. 2015

Nationally
Current Enrollment
of
12.7M
Up from 11.7M in
2015

Covered
California Current
Enrollment of
1.42M
Up from 1.36M in
2015

**HHS boosted public exchange enrollment
with special enrollment periods**

**HHS
announced that there
will be fewer special
enrollment categories
in order to address
adverse selection**

- Nationally, 28M remain uninsured (from 43M in 2013).
- In California, 3.8M remain uninsured (from 5.4M in 2013).

Carriers are Exiting the Public Exchanges

UnitedHealthcare

- Will withdraw from most public exchanges due to losses of > \$1 billion
- Exiting 22 states
- Will remain in a handful of states (Nevada, New York, and Virginia)

Aetna

- Withdrawing from 11 of 15 states
- Will remain in Delaware, Iowa, Nebraska, and Virginia
- Projected \$300M loss in 2016 after losses in 2015

Humana

- Individual market business continues to be challenged by volatility in the ACA exchange market
- Setting aside reserves for expected losses on 2016 ACA business

Covered California does not offer Aetna or Humana;
UnitedHealthcare will exit at the end of 2016.

Carriers are Exiting the Public Exchanges

BlueCross BlueShield

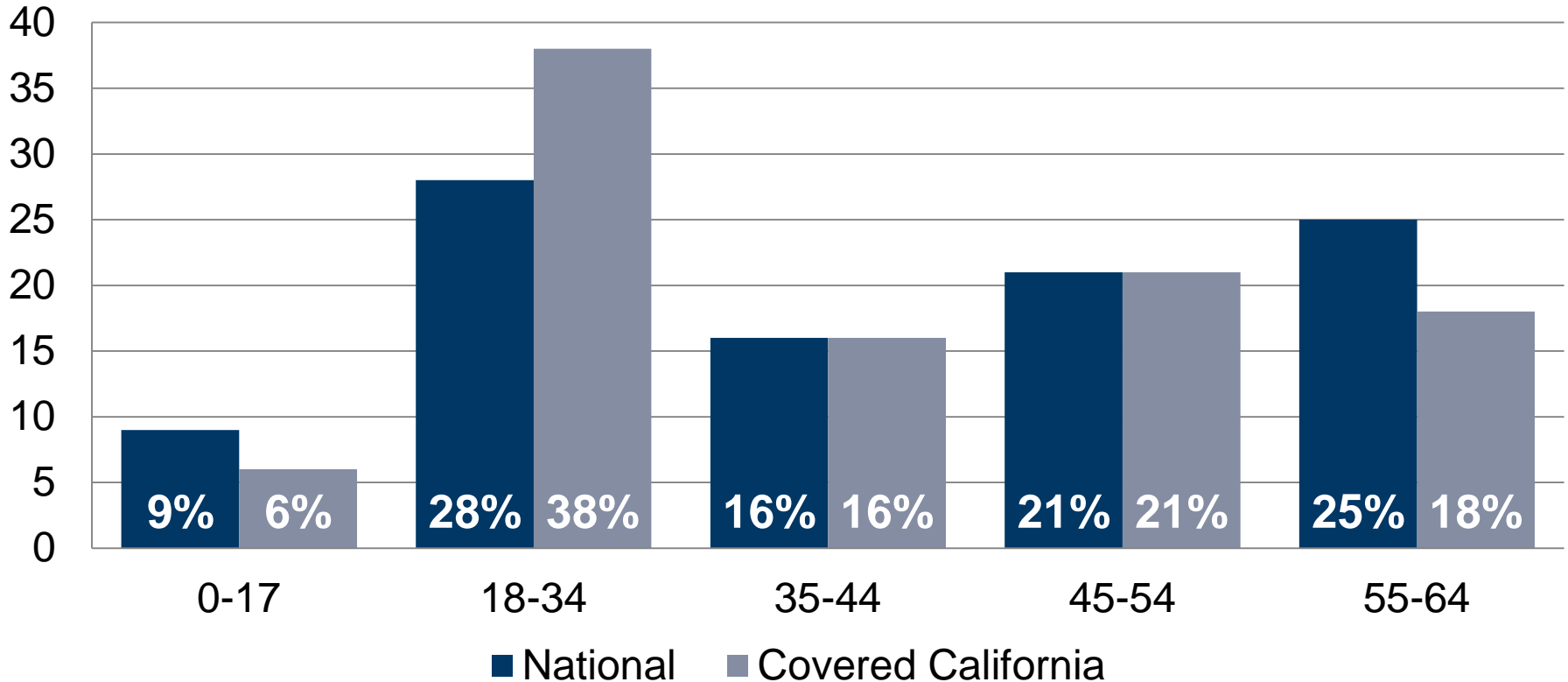
- BCBS NC sued U.S. for \$129M in 2014 risk-corridor payments
- BCBS Texas wants 60% rate hike
- BCBS Minnesota will stop selling ACA policies, will sell individual Blue Plus HMO

Anthem

- Goldman Sachs predicts Anthem will withdraw from public exchanges in 2018

Public Exchanges are not Enrolling Enough “Young Invincibles”

“Young Invincibles” are 40% of general population



Source: Department of Health and Human Services & Covered California

Public Exchanges are not Enrolling Enough “Young Invincibles”

**Male /
Female
Ratio**

	Male	Female
National:	46%	54%
California:	50%	50%

**Enrollees
Receiving
Subsidies**

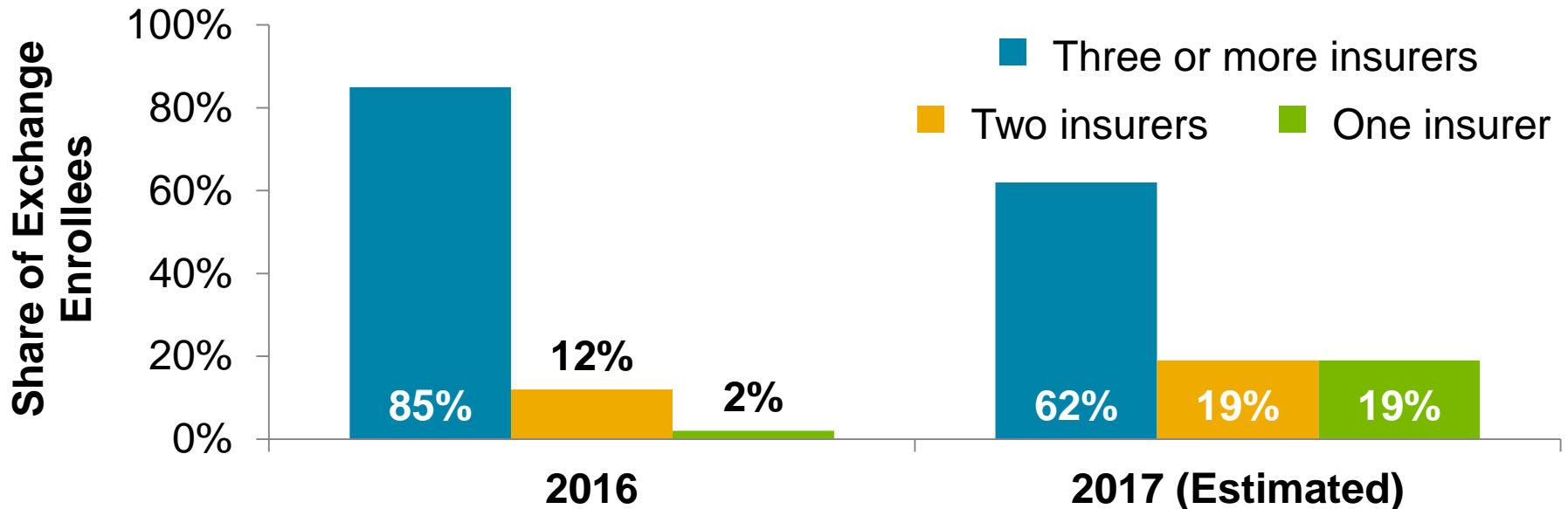
National	85%
California	87%

**Plan
Selections**

	National	California
Bronze:	21%	32%
Silver:	71%	58%
Gold:	6%	5%
Platinum:	1%	3%
Catastrophic:	1%	2%

Impact of Insurer Withdrawals from Public Exchanges

Number of Insurers Available to Exchange Enrollees in 2016 and Estimated Number of Insurers in 2017



Source: Kaiser Family Foundation (Figure 2—Data as of 8/26/2016)
<http://kff.org/health-reform/issue-brief/preliminary-data-on-insurer-exits-and-entrants-in-2017-affordable-care-act-marketplaces/>

Covered California will have 11 insurers available in 2017 (offering varies by geography).

Exchange Renewal Increases

- Premium rates will increase for 2017.
- Following are the average increases (before subsidies):
 - Federal and state-based exchanges will increase 22%
 - The federal exchange will increase 25%
 - Covered California will increase 13.2%

Possible Fixes for the Public Exchanges

- Add a Public Option
 - Republican Congress unlikely to adopt
- Tighten special enrollment periods
- Allow employers to subsidize health care coverage purchased from public exchange
 - Would require a legislative fix to ACA
 - IRS rules currently prohibit employer subsidies
- Greater subsidies to a broader population
 - Greater subsidies for those currently earning between 1 and 4x FPL
 - Lower premiums for “young invincibles” and higher premiums for older enrollees
 - Make subsidies available off the exchange as well

Possible Fixes for the Public Exchanges

- Extend the two expiring R's
 - Transitional reinsurance fee: This was one of several fees intended to help fund implementation of the Patient Protection and Affordable Care Act (PPACA). This fee will be collected over the three-year period from 2014 through 2016. The majority of the money will be used to fund a reinsurance program, which is intended to lessen the impact of adverse selection in the individual market.
 - Risk Corridors: The purpose of this program was to limit losses and gains beyond an allowable range for plans offered on the public exchange. The Department of Health & Human Services (HHS) collects funds from plans with lower than expected claims and makes payments to plans with higher than expected claims.

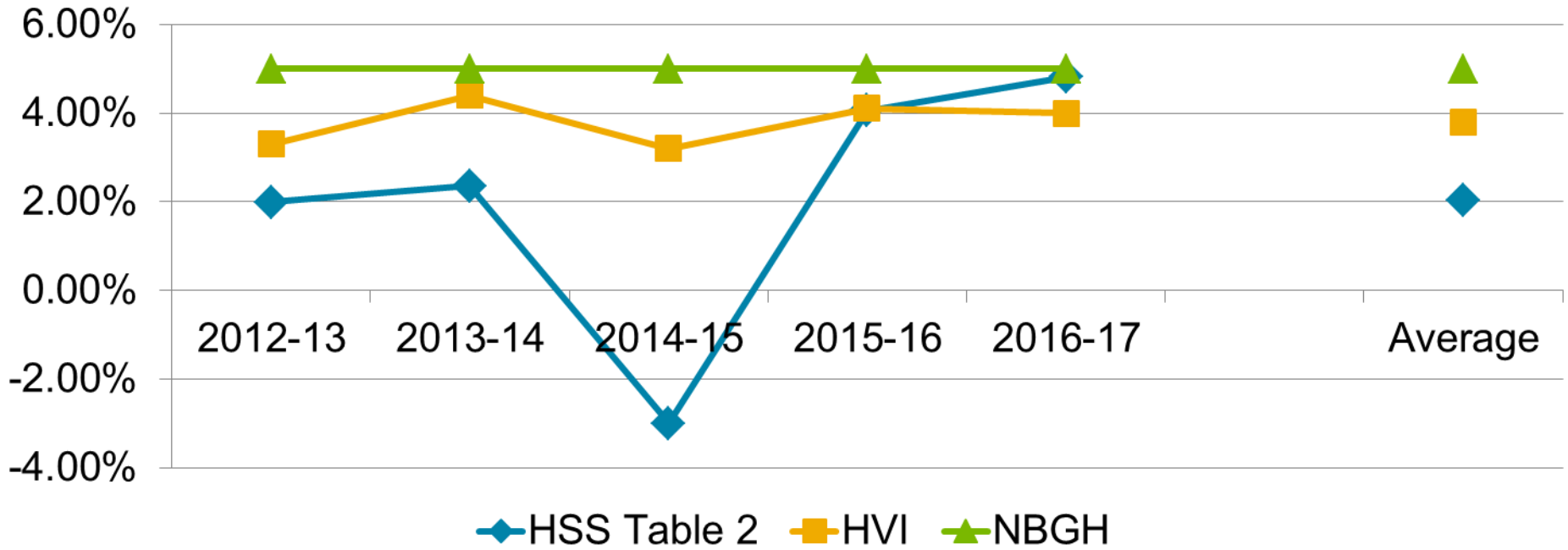
Possible Fixes for the Public Exchanges

- Fully fund the Risk Corridors program
 - Use general taxpayer funds
- Increase individual mandate penalties
- Modify Risk Adjustment program
 - Proposed HHS regulations will permit interstate and intrastate subsidies of exchange insurers

SFHSS Trend vs. National Trend

The table below reflects the trend history from Table 2 of the Board of Supervisors Letter which includes medical, Rx, dental, life and disability; the Health Value Index (HVI, an Aon tool) and National Business Group on Health (NBGH) numbers represent medical and Rx only.

Total Trend After Design Changes



Impact to SFHSS

- It is not anticipated that the premium increases in the public exchanges will impact SFHSS
- Initially large employers (100+ employees) would have been able to join the public exchange in 2017, this has been delayed
 - Time will tell when this happens
 - It is unknown at this time how this may or may not impact SFHSS
- Areas to watch:
 - Final presidential election results
 - Public exchange premium increases and vendor participation
 - Evolution of the ACO
 - Amendment 69, Colorado Care, which will create a single-payer system in Colorado
 - On the ballot for 2017

Note from Executive Director Dodd

- HSS's overall rate trend line while it increased in the last two years, the overall trend line over the 5 years increased by only slightly higher than 2%.
- This is a due to the careful work of both our actuary and the Health Service Board in the following areas:
 - Buying down the rates in Blue Shield of CA (BSCA) with promise pledge funding
 - Close monitoring of the BSCA Accountable Care Organizations and working closely as partners
 - Carefully using the United Health Care - City Plan rate stabilization reserve to prevent large changes in rates
 - Close monitoring of pharmacy benefit management and insisting on the most innovative delivery methods