San Francisco Health Service System

Market Trends Update

Board Forum:
November 10, 2016

Prepared by:
Aon | Aon Hewitt | Health & Benefits

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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 Presidential Election—The Candidates

Hillary Clinton

Donald Trump

Health Care—Clinton vs. Trump

Hillary Clinton

Build on the ACA

- ✓ Public option for public exchanges
- ✓ Repeal Cadillac tax
- ✓ Medicare buy-in at age 55
- ✓ Slow growth of overall health care costs
- ✓ Lower OOP costs
- ✓ Continue delivery system reforms
- ✓ Expand access to rural areas
- ✓ Expand ACA value and quality initiatives

Donald Trump

Repeal and Replace the ACA

- ✓ Not clear what “replace” would look like
- ✓ Expand HSAs
- ✓ Repeal Cadillac 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

After November—The Next Legislative Wave

Issues	The Landscape	Likelihood of Action
Repeal and Replace ACA	Democrats will defend; Republicans have no replacement	Unlikely absent “wave election”
Making ACA Exchanges Sustainable	Insurers still incurring losses; transition reinsurance program, risk corridors end after 2016	Next Administration will re-assess
Repeal Cadillac Tax	Loss of tax revenue and a tool for cost control, BUT complicated to administer and employers support repeal	Good bet for repeal in next Administration

After November—The Next Legislative Wave

Issues	The Landscape	Likelihood of Action
Taxation of Employer Health Care Coverage	Democrats likely to oppose eliminating exclusion, but GOP may support replacing exclusion with cap tied to refundable tax credit	Unlikely, but might surface if tax reform discussions gain traction
U.S. negotiates Medicare Rx Prices	Issue for Democrats; Trump may push if elected	Could be part of Medicare reform
Relax ACA employer mandate	Some support, even among Democrats	Democrats will oppose if a backdoor ACA repeal
Federal Paid Family Leave	Both candidates have proposed paid leave plans	Better than 50%, depending on Congress

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

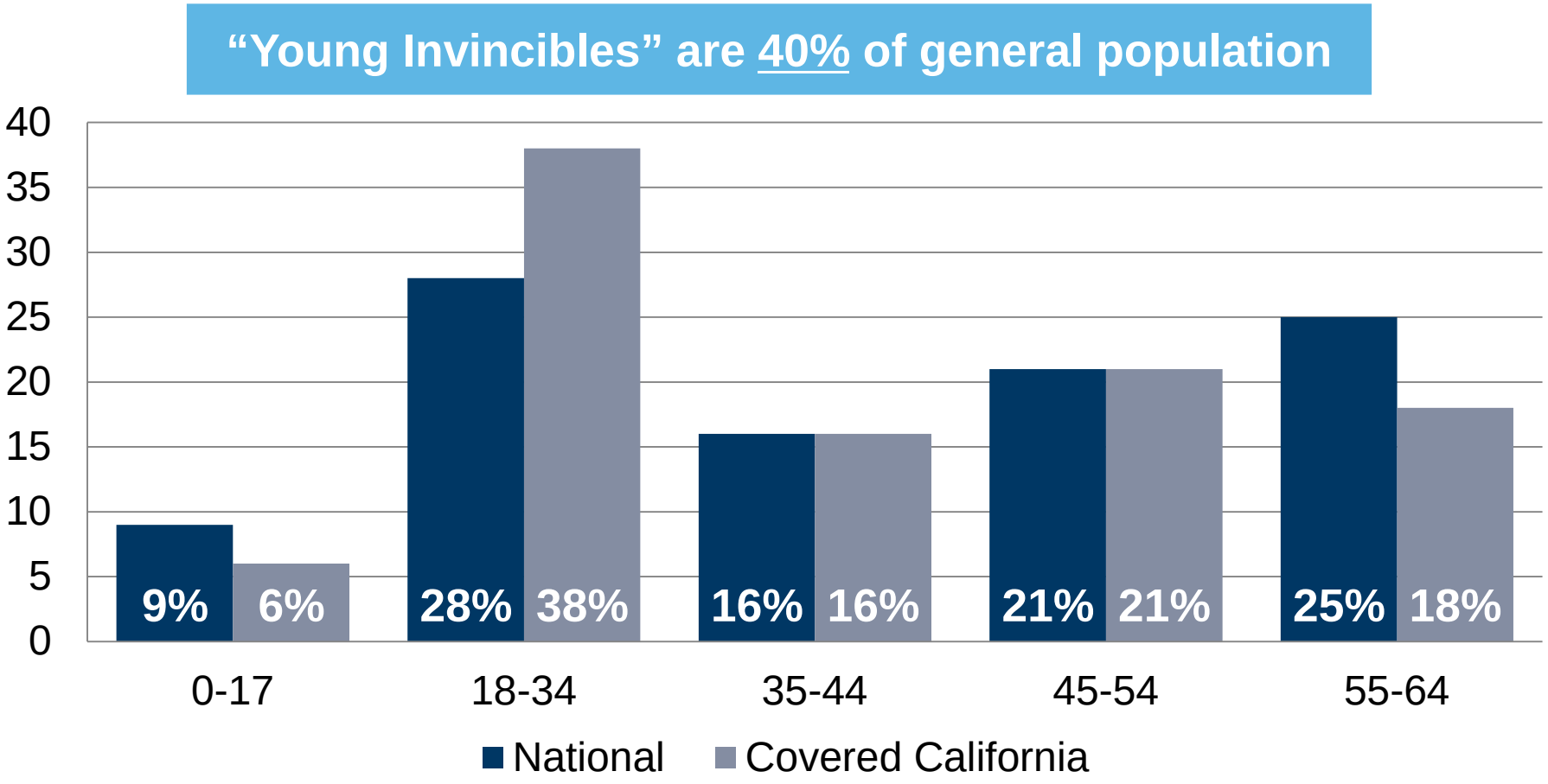
BlueCross BlueShield

- 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"



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

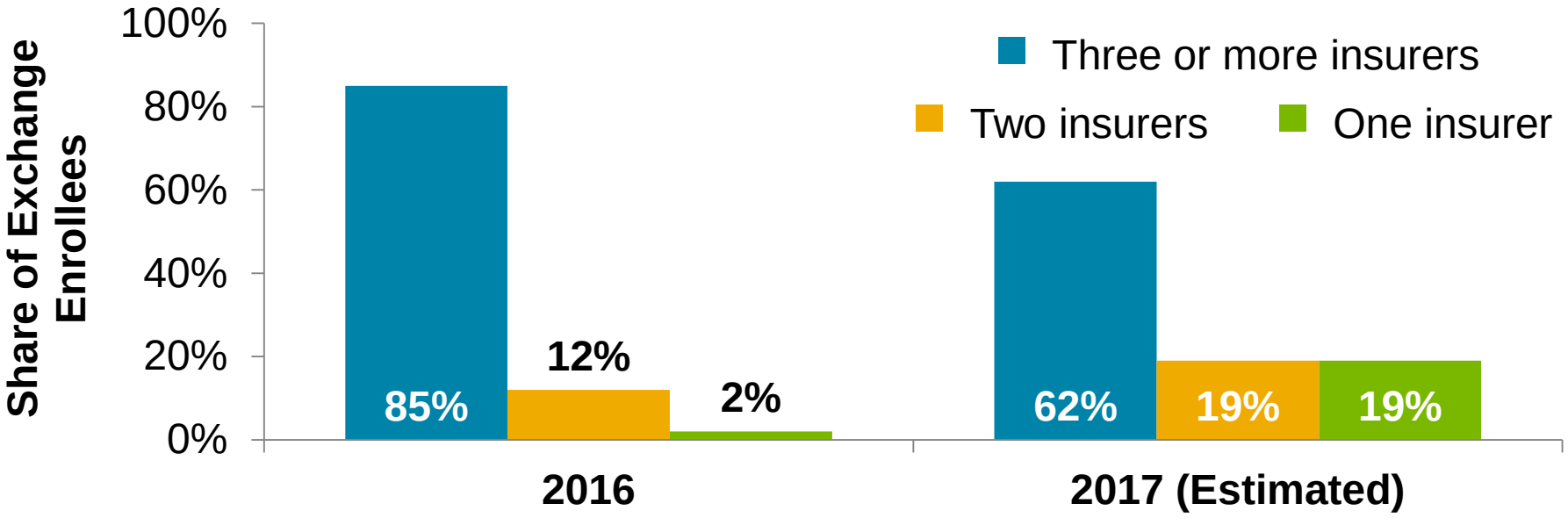
National	85%
California	87%

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

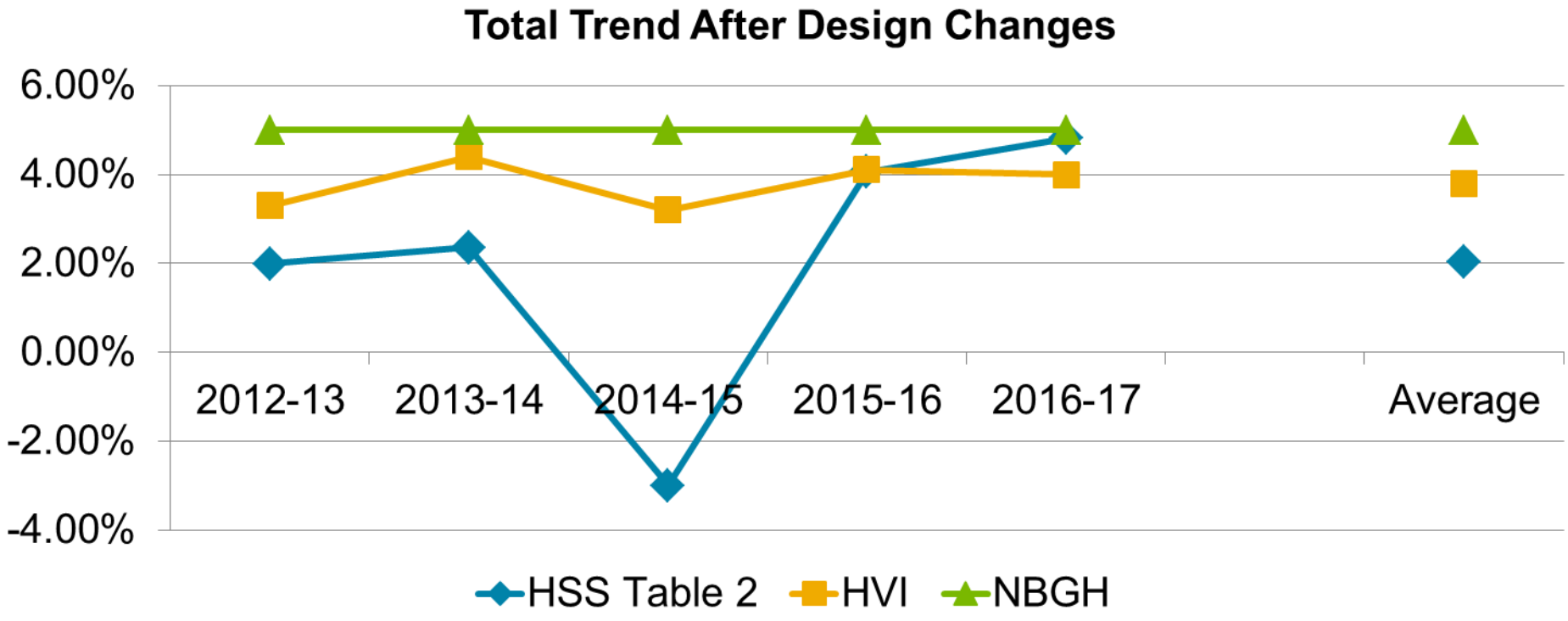
- Extend the two expiring R's
  - Transitional reinsurance fee: This was one of several fees intended to help fund implementation of the Patient Protection and Affordable Care Act (PPACA). This fee will be collected over the three-year period from 2014 through 2016. The majority of the money will be 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.



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