What Can the National Health Care Reform Learn from Massachusetts?

Payer Perspective

November 15, 2012

Rina C. Vertes, FSA, MAAA
President
Marjos Business Consulting, LLC

Outline of Presentation

Background – MA prior to HCR

MA HCR highlights

Results

Lessons Learned

MA Small Group and Individual Market *pre-HCR*

- Separate markets and risk pools; similar rules
- Small group – 1-50 eligible employees
- Guaranteed issue and renewability
- Rating factors
  - 2:1 Rate Bands
  - Age, industry, area, participation, size, benefits
- Specific benefit plans for individual market
- Uncompensated Care Pool funded by hospitals and payers

MA Small Group and Individual Market *post-HCR*

- Insurance reforms
  - Merged small group (1-50) and individual markets
  - Retained guaranteed issue and renewability
  - 2:1 Rate Bands, age, industry, participation, size, area, benefits
  - Rating factors for tobacco and wellness introduced
- Coverage expansion
  - Expanded Medicaid
  - State subsidized plans for those at <=300% FPL
- Coverage mandates – individual and employer
- Connector – exchange created to facilitate purchase of coverage for individuals and small employers

Connector

- Initially envisioned by insurers as "Travelocity" of health insurance
- Emerged as quasi-regulatory body trying to drive premium rate levels, product offerings, underwriting rules
- Define minimum creditable coverage and affordability standards
- Management of Commonwealth Care
  - Successfully expanded subsidized coverage
  - Managed separately from Medicaid and private markets
- Commonwealth Choice
  - Limited enrollment

Results – Merged Market

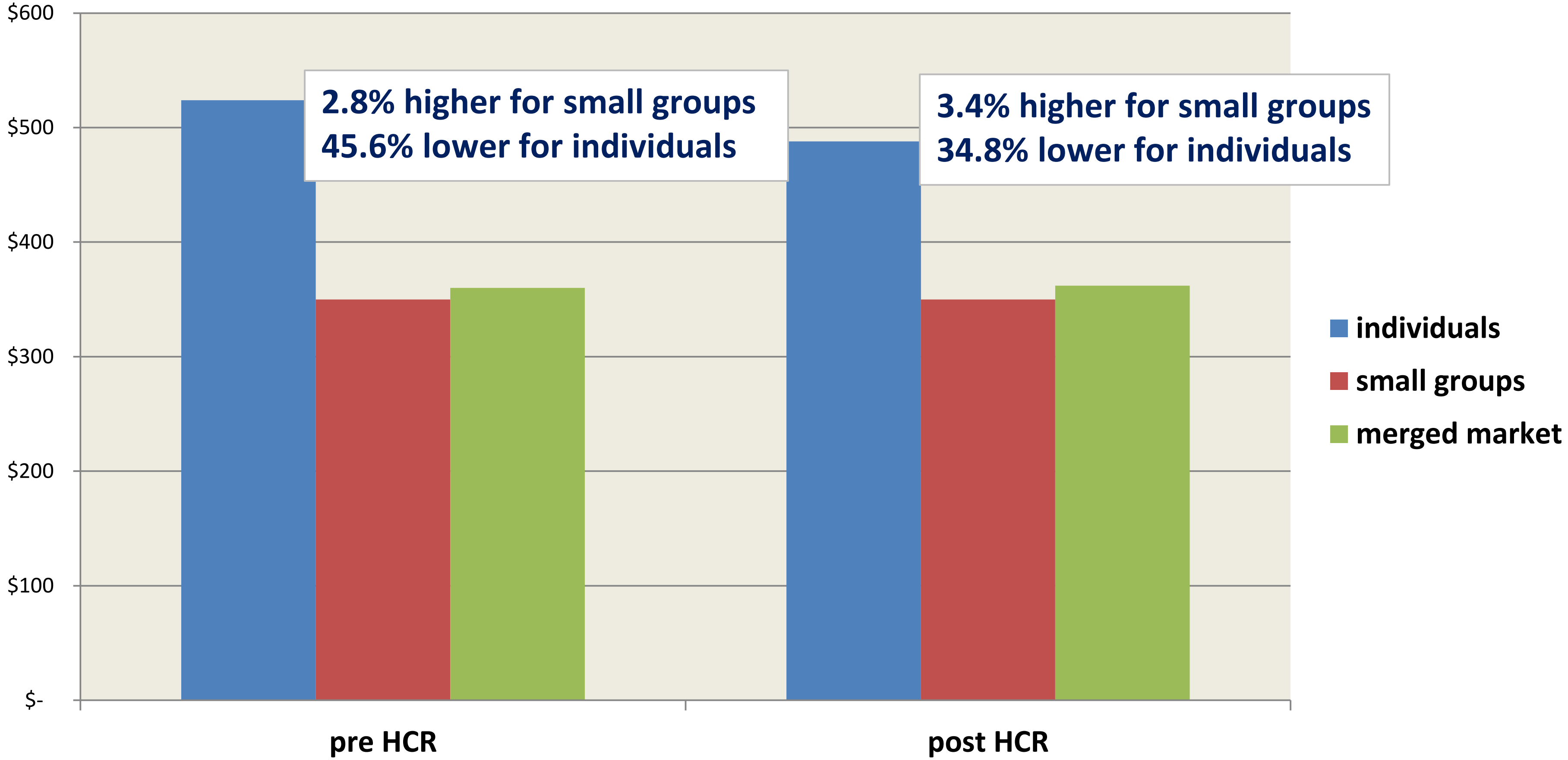
- Actual costs exceeded expectations
  - Additional costs translated into higher premium rates
- Economic downturn exacerbated many of the issues
- Adverse selection created imbalanced risk pools
- Insufficient uptake from low cost, healthy individuals
- Further adverse selection concerns if employer groups are broken up

Results – Merged Market

- Oliver Wyman performed a study at the request of the Division of Insurance; released in June 2010
- People purchased coverage for acute events and then dropped it
  - % of individuals terminating coverage in their 1st year grew post reform
- Incremental adverse selection estimated to be .5-1.5%
- Proposed solutions
  - Introduction of pre-existing condition provisions, waiting periods, or open enrollment periods
  - Strengthening individual mandate

Oliver Wyman Report to the Health Care Access Bureau Within the MA Division of Insurance
Analysis of Individual Health Coverage in MA Before and After the 7/1/07 Merger of the Small Group and Nongroup Health Insurance Markets

Merged Market
High Costs and Morbidity in Individuals



Merged market PMPM costs are 3.4% higher than small group costs, and higher than anticipated prior to the merger. Wide variation by carrier.

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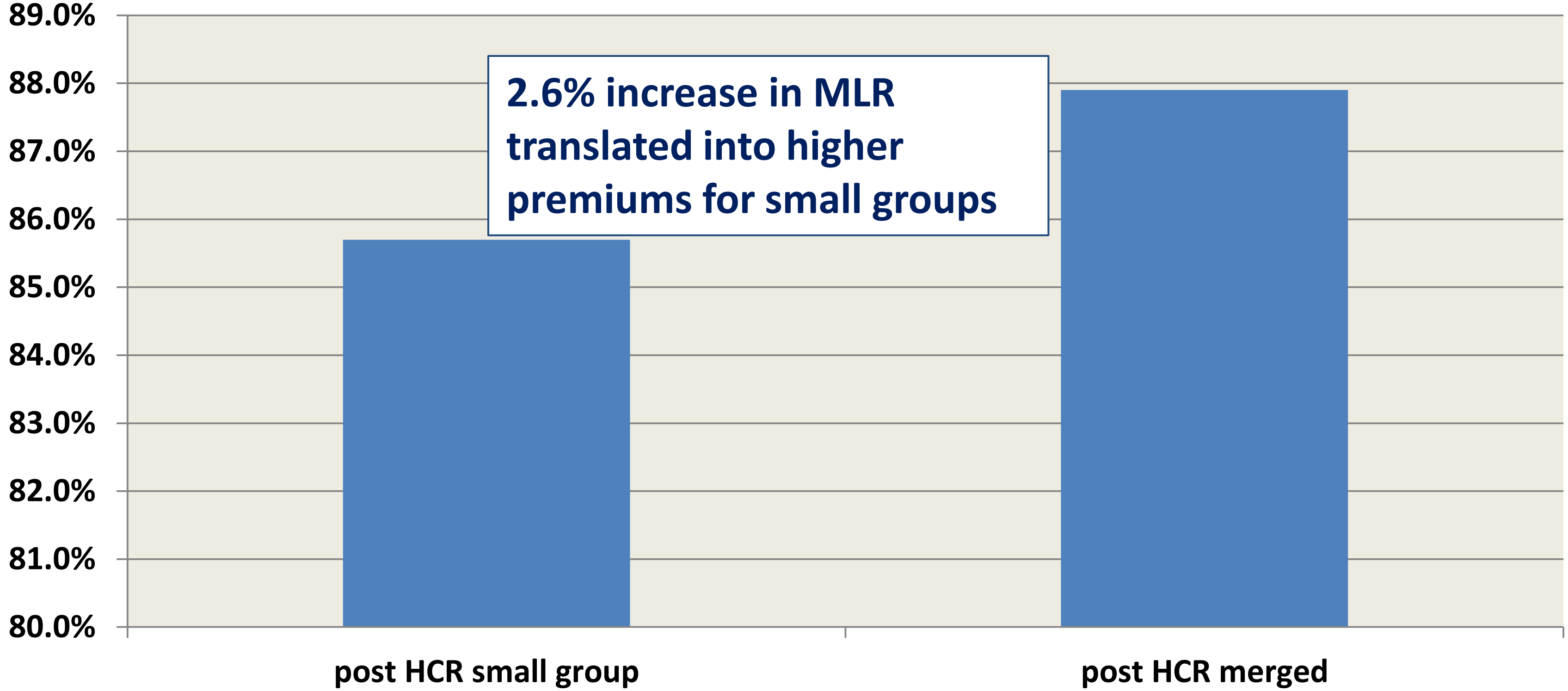
Merged Market
Increased Cost Translates to Higher Premiums



Merged market MLR was 87.9% in 2008 compared to the small group MLR of 85.7%, 1-1.5% higher than projected initially.

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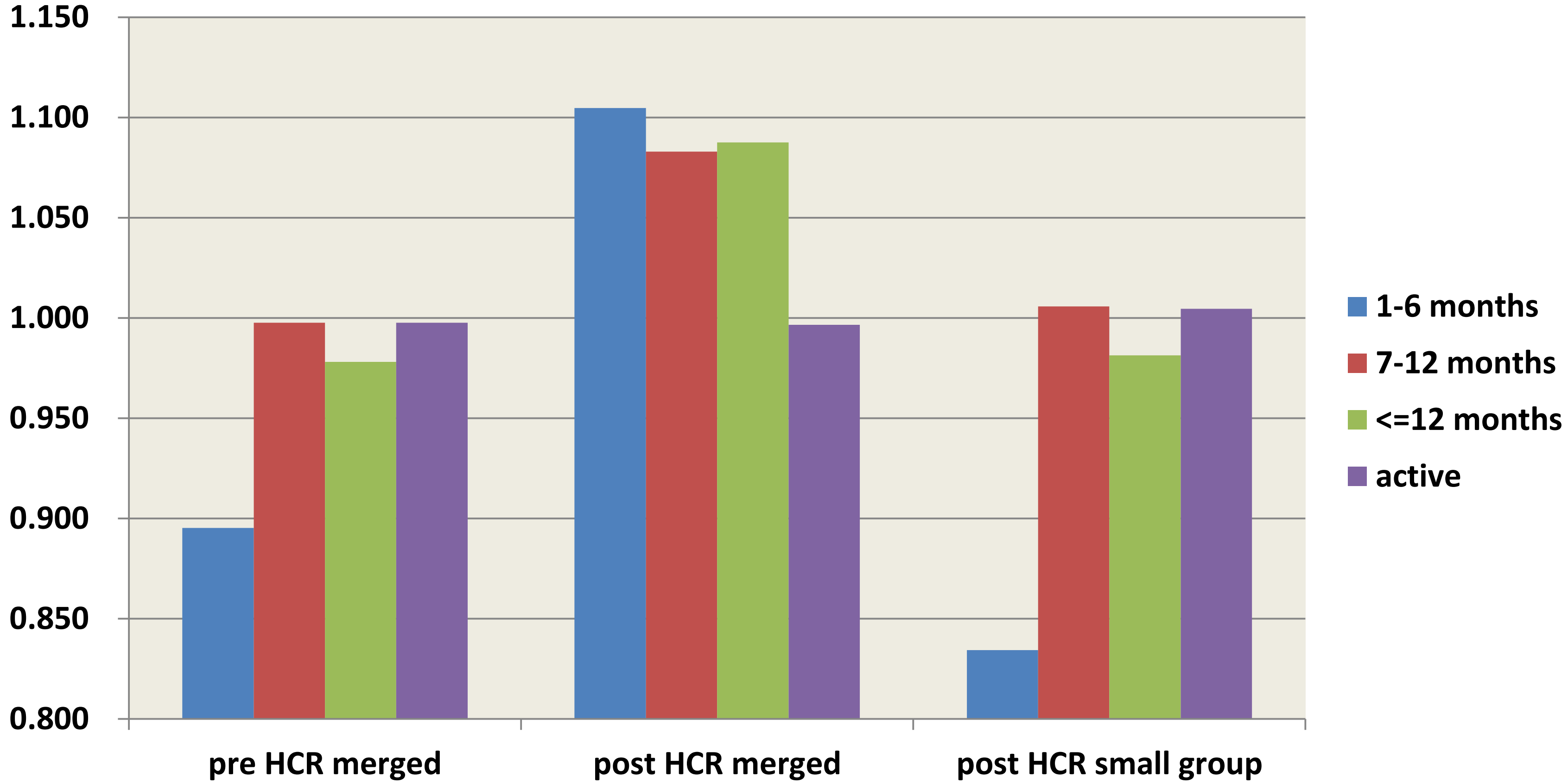
Merged Market
High Loss Ratios for Terminating Individuals



Relative loss ratios for terminating members is about 9% higher than for active members.

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Lessons Learned – Small Employer Market

- Concern about further adverse selection if small groups break apart
  - MA and federal HCR advocating for more "choice"
  - Increased choice leads to incremental underwriting risk and cost
- Alternatives for individual choice within an employer group
- Connector's Business express – employer maintained as a group

Lessons Learned – Small Employer Market
"Vertical" Choice

	Carrier A	Carrier B	Carrier C
Gold Benefit Level			
Silver Benefit Level			
Bronze Benefit Level			

Lessons Learned – Small Employer Market
"Horizontal" Choice

	Carrier A	Carrier B	Carrier C
Gold			
Silver			
Bronze			

Lessons Learned – Small Employer Market
"Diagonal" Choice

	Carrier A	Carrier B	Carrier C
Gold			
Silver			
Bronze			

Recent Environment

- Rate increases denied in early 2010; subsequently granted at rates lower than filed
- Focused on rate of increase in merged market premiums relative to CPI
- Legislation effective in 2011
  - Open enrollment periods
  - Expanded authority of DOI for premium rate regulation
    - Rate reviews focused on MLRs, double digit rate increases, and profit margins
  - Creation of group purchasing cooperatives
  - Creation of limited and tiered network plans at 12% below full network rates
- 2012 rate increases in merged market were low single digits. Premium rates continue to be high relative to other states with Massachusetts ranking highest in the country in 2011 (after dropping to 9th in 2010)
- 2012 legislation focused on cost containment

http://www.mass.gov/ocabr/press-releases/20120430oca-rates.html
Commonwealth Fund State Trends in Premiums and Deductibles, 2003-2010: The Need for Action to Address Rising Costs
http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2011/tiid1.htm

National HCR

- Expanded choice will result in conversion of small employer market to individual market
- Increased adverse selection will result in increased cost and premium rates
- Introduction of risk corridors and risk adjustment will mitigate impact by carrier but not overall impact to market
- Need balanced risk pool in order to stabilize cost and premium rates
  - Protections against unintended consequences through open enrollment periods
  - Young and healthy in pool through incentives or penalties