

# HEALTH CARE REFORM AND MARKET IMPACT

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# AGENDA

- Where we are today: Recap of reforms already implemented
- Market impact
- What's to come



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# KEY DATES AND MILESTONES

## 2010 & 2011

- No lifetime dollar limits
- Phasing out of annual dollar limits
- 100% preventive care
- Dependent coverage to age 26
- Doctor choice
- No preexisting conditions (*under age 19*)
- Health Savings Account (HSA) distribution tax penalty
- Grandfathering
- Over-the-counter drugs and HSAs/HRAs/FSAs
- Eliminating the Medicare Part D coverage “donut hole”
- Medical Loss Ratio (MLR) takes effect

# KEY DATES AND MILESTONES

## 2010 & 2011

## 2012 & 2013

- Quality of care reporting rules published
- Summary of benefits and coverage
- Comparative effectiveness research fee
- MLR reporting and rebates
- Preventive care/women's health
- Reducing paperwork and administrative costs
- W-2 reporting begins
- Flexible spending account limits
- Additional Medicare taxes
- Employee notice of coverage options

# KEY DATES AND MILESTONES

2010 & 2011

2012 & 2013

2014

## **New marketplace**

- Exchanges
- Individual mandate
- Employer mandate
- Essential health benefits
- Guaranteed issue
- New taxes and fees
- Preexisting conditions (*all ages*)

# MINIMUM MEDICAL LOSS RATIO (MLR) REQUIREMENT

## Overview

- Effective 2011, minimum MLR of 80% in Individual and Small Group markets, and 85% in Large Group market
  - A few states have lower minimum threshold for Individual segment (2011-13 only)
- Rebates owed to customers when minimum MLR is not met
- Business subject to the requirement
  - Commercial insured medical and pharmacy
- Business excluded from the requirement
  - Government-funded insured medical and pharmacy (Medicare/Medicaid)
  - Self-insured medical and pharmacy
  - Stop loss
  - Plans excepted by PHS Act 2791(c)
    - Accident, Disability, Dental, Vision, Long-term Care, Medicare Supplement, Hospital Indemnity, Specified Disease, etc.



# MINIMUM MEDICAL LOSS RATIO (MLR) REQUIREMENT

## Calculation details

- MLR calculation generally defined as follows:

$$\text{MLR} = \frac{(\text{Claims} + \text{Quality Improvement Expense})}{(\text{Premium} - \text{Taxes})}$$

- Claims are developed through March 31 of the following year but only include amounts associated with prior year service dates
- Beginning in 2014, calculation will incorporate applicable values related to risk adjustment, risk corridor and reinsurance (the “3 R’s”)
- Calculation applied at the “cell” level, defined as Legal Entity, Segment (Large, Small, Individual), State
  - Credibility adjustment added to MLR for cells with fewer than 75K members
    - In 2013+, adjustment not allowed for cells where MLR < Minimum for three consecutive years
  - MLR requirement waived for cells with fewer than 1K life years
- Special calculation rules for mini-med and expatriate business
  - Expatriate numerator multiplied by 2
  - Mini-med numerator multiplied by 2 in 2011; 1.75 in 2012, 1.50 in 2013; 1.25 in 2014

# MINIMUM MEDICAL LOSS RATIO (MLR) REQUIREMENT

## Calculation details (cont.)

- Special phase-in calculation rules:
  - 2011 calculation based solely on 2011 experience
  - 2012 calculation:
    - For cells with < 75K members
      - Based on 2-yr average (2011–2012)
        - 2011 rebates added to numerator
    - For cells with  $\geq$  75K members
      - Based on 2012 experience only
        - 2011 rebates not added to numerator
  - 2013 calculation based on three-year average (2011–2013)
    - 2011–2012 rebates added to numerator
  - 2014+ calculation based on rolling three-year average
    - Open question as to whether rebates will be added to the numerator

# MINIMUM MEDICAL LOSS RATIO (MLR) REQUIREMENT

## Administrative requirements

- MLR and rebate reporting
  - HHS version of the MLR and rebate report due by 6/1 (7/31 for reporting years 2014+)
  - NAIC version of MLR report due by 4/1
    - Officially known as “Supplemental Health Care Exhibit”
    - Reflects somewhat different calculation rules vs. HHS version
- Rebate issuance
  - Rebates must be paid by 8/1 (extended to 9/30 for reporting years 2014+)
  - Rebates issued to individual and group policyholders
    - Typically not issued to group enrollees (with some limited exceptions)
    - Group policyholders must use rebates for the benefit of enrollees
- Rebate notices
  - Notices must be sent by 8/1 (9/30 for reporting years 2014+)
  - Provide information to help explain why rebates are being issued
  - Sent to individual and group policyholders, as well as to subscribers to group policies

# MARKET IMPACTS

## EMPLOYERS



Employer provisions



Legislative compliance



Administration and reporting requirements



Technology and analytical needs



Medical costs



Premiums



Shifting landscape

## HEALTH PLANS



Employer provisions



Legislative compliance



Admin and reporting requirements



Technology and analytical needs



Communication



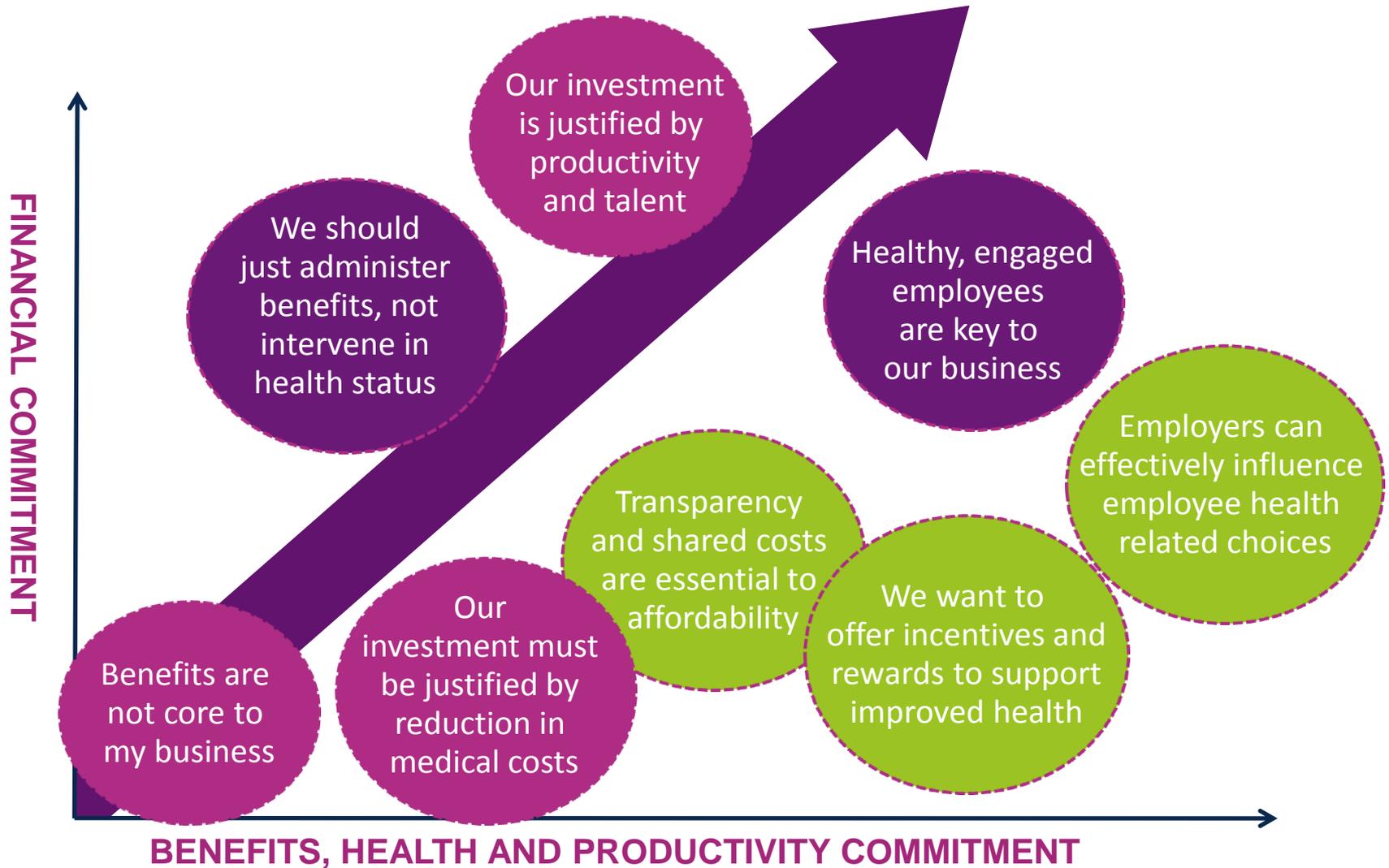
Financial investment



Financial exposure and medical costs

# MARKET IS DYNAMIC – EMPLOYERS ARE WEIGHING OPTIONS

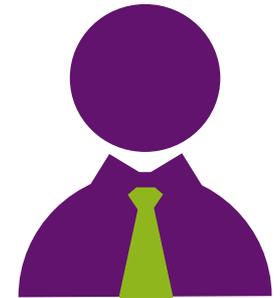
Company core beliefs and culture continue to play a large role in employer decisions



# WHAT DO WE KNOW NOW? EMPLOYER MANDATES

## Employers must:

- Not have benefit waiting periods of more than 90 days
- Cover all full-time employees, defined as 30 hours/week, and their dependents
- Automatically enroll new full-time employees in employee-only coverage and automatically continue enrollment of current employees
- Notify employees of the opportunity to opt out of employer-sponsored plan and of the availability of the exchanges and potential eligibility for subsidies
- Offer coverage that provides “minimum value” (covers at least 60%) and is affordable (< 9.5% of income) in order to prevent potential penalty



Massachusetts, Hawaii and the city of San Francisco currently have employer mandates.

## EMPLOYER PENALTIES: COMPANY WITH 1,000+ EMPLOYEES

### EMPLOYER DOESN'T OFFER COVERAGE

Company pays \$2,000 per employee for each full-time employee over 30

Pay penalty on 970 employees:

–  $970 \times \$2,000 = \$1,940,000$



### EMPLOYER OFFERS COVERAGE BUT COVERAGE IS UNAFFORDABLE OR DOESN'T PROVIDE MINIMUM VALUE

Company pays the *lesser* of

- \$3,000 for every full-time employee who purchases coverage through the exchange and receives a premium tax credit

OR

- The penalty for not offering coverage

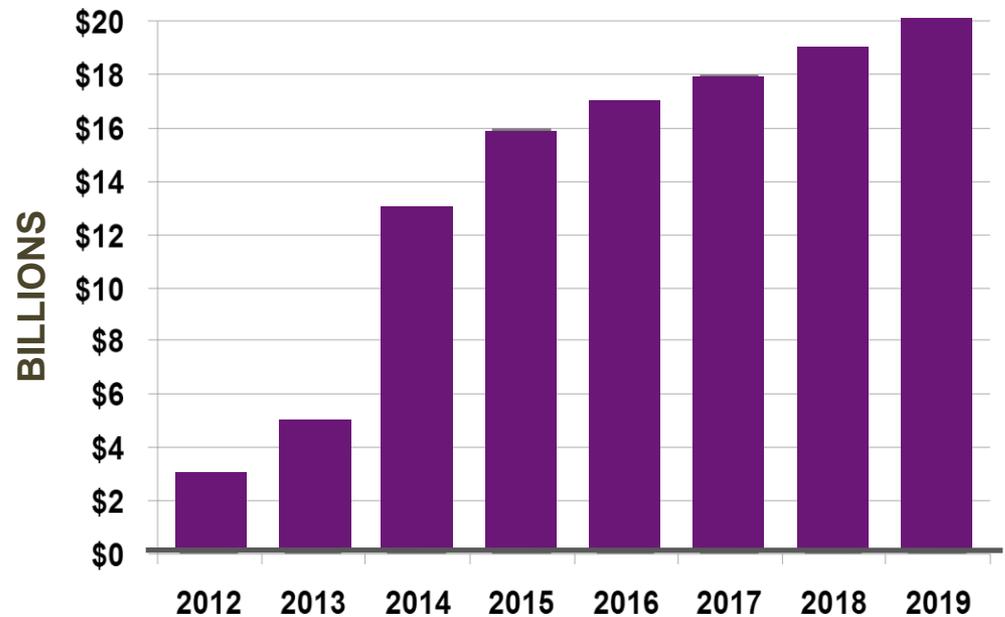
Which is less, depends on how many employees receive tax credits

–  $200 \times \$3,000 = \$600,000$

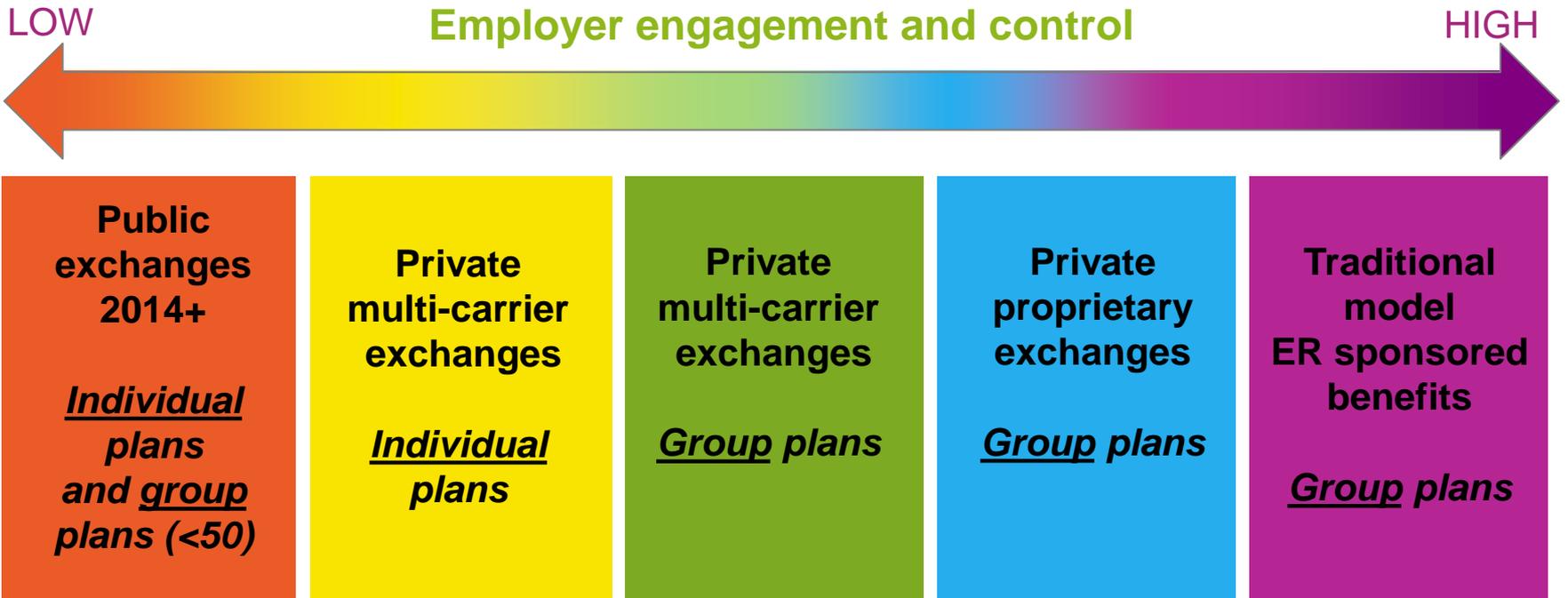
–  $800 \times \$3,000 = \$2,400,000$

## NEW TAXES AND FEES

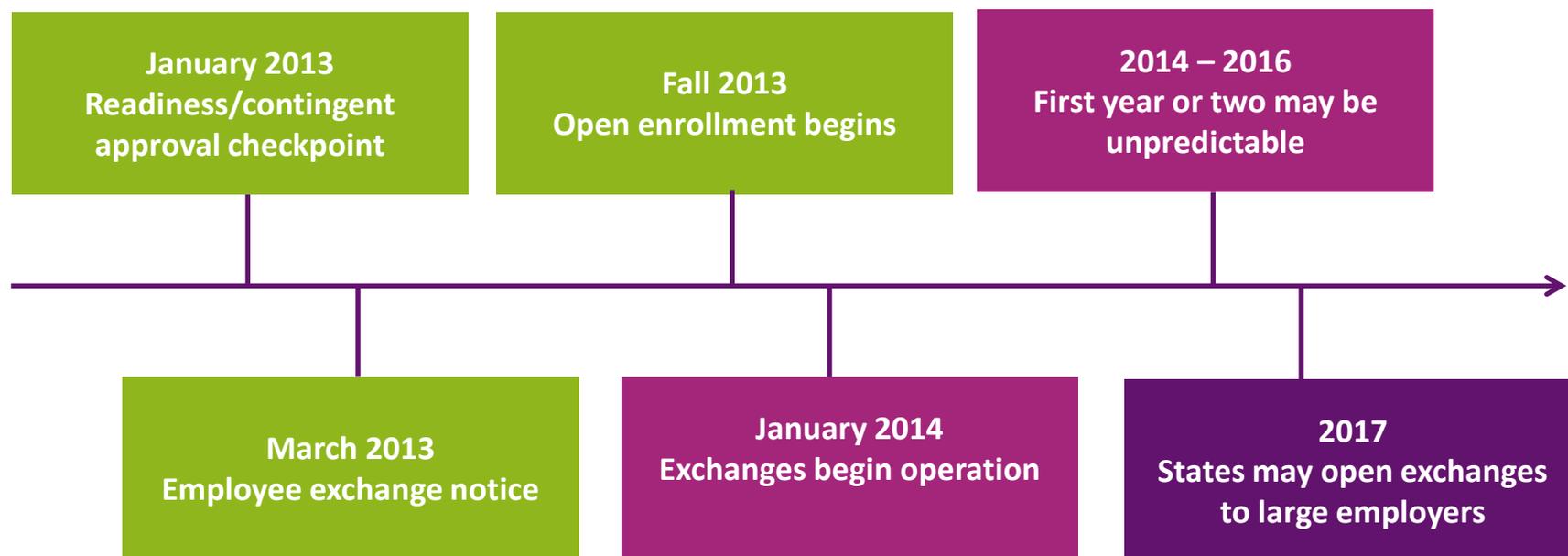
- Pharmaceutical manufacturer tax (2012)
- Medical devices tax (2013)
- Comparative effectiveness research fee (2013)
- Medicare payroll tax increase for high earners (2013)
- Fee on health insurers (2014)
- Reinsurance fee (2014)
- Cadillac plan tax (2018)



# MARKETPLACE RESPONSE – EXISTING AND EMERGING SOLUTIONS



# EXCHANGES MARKETPLACE TIMELINE HIGHLIGHTS

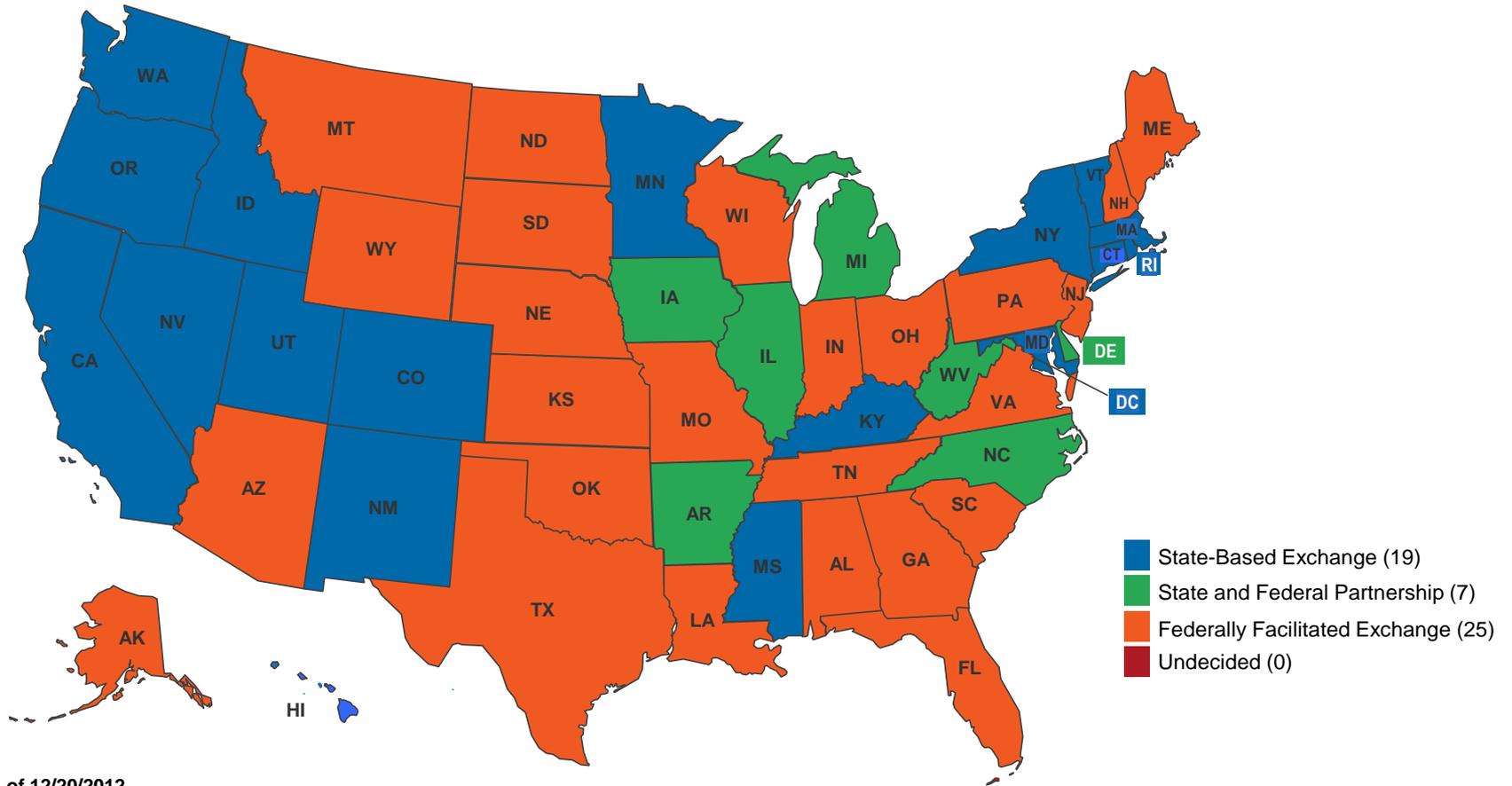


## Plans vary by state:

- **19** states are actively developing exchanges
- **Seven** states intend to partner with the federal government
- **25** states will default to a federally facilitated exchange

# EXCHANGE TYPE BY STATE

Forecast for 2014



As of 12/20/2012

**Disclaimer:**

These types of operation are based on the most recent intensions identified by the states. These could change through the February regulatory deadline.



# EMPLOYER SPONSORED INSURANCE (ESI) MARKET

Market studies predicting the rate of employers dropping Employer Sponsored Insurance post-2014 vary significantly



**McKinsey & Company Quarterly** (June 2011) – 30% of employers (28% of large employers) will definitely/probably **stop offering coverage in 2014+**

**30%**



**Towers Watson** (August 2012) – **88%** of employers surveyed report no plans to terminate their health care plans for those working 30 hours or more a week — up from 71% in 2011

**88%**

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# EMPLOYER SPONSORED INSURANCE MARKET

## What will they do instead?

### HR Policy Association national survey

36%

HR officers giving “serious consideration” moving to a **defined-contribution** plan within the decade

### Aon Hewitt survey

21%

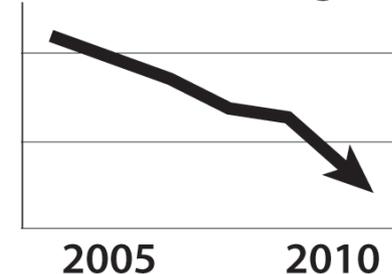
of employers selected by Aon Hewitt are very interested in **defined contribution**

### Towers & Watson August 2012



Employers will **increase** employee contributions  
**Increase** in percent of employers offering consumer-directed health plans

### Retiree coverage



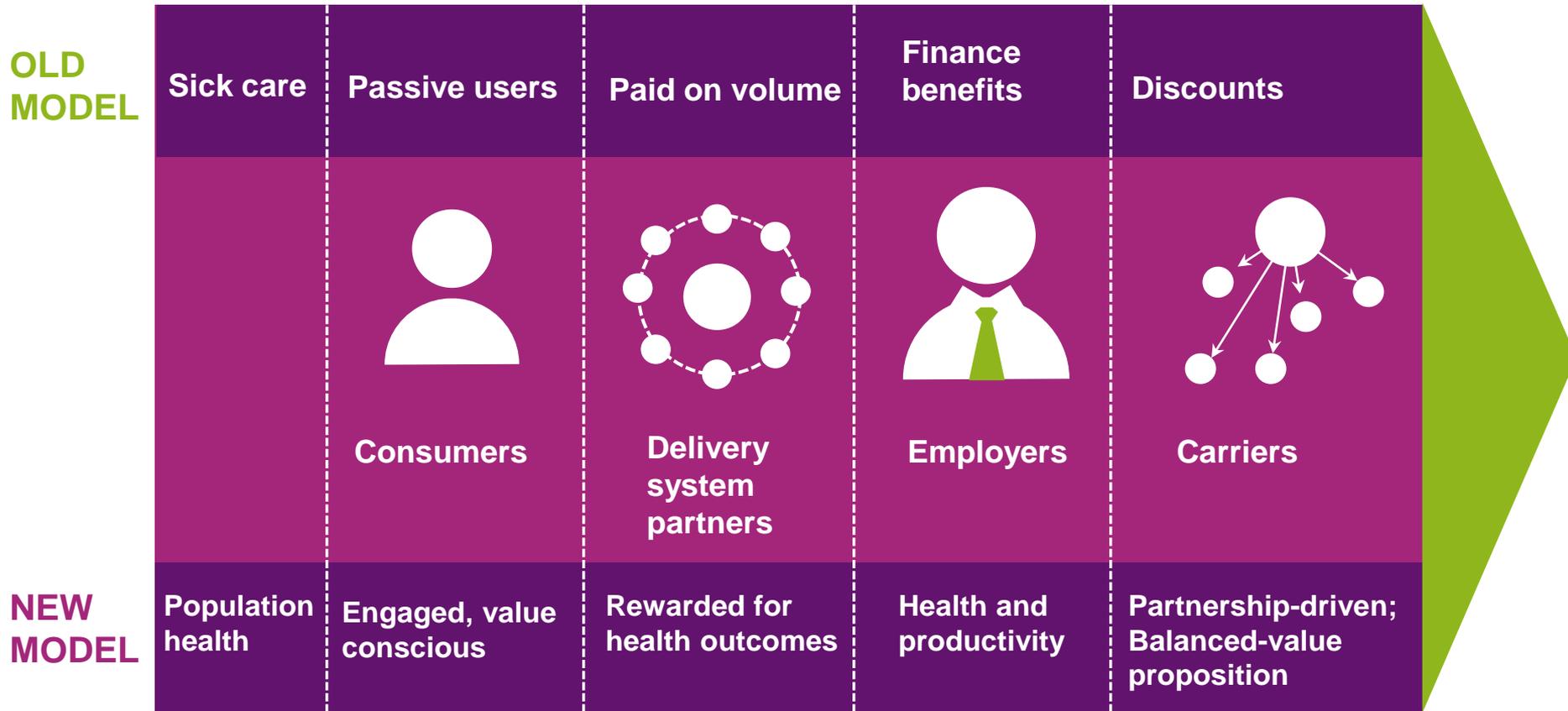
# WHAT ARE SOME SAFE BETS AS THE MARKET EVOLVES?

Factors that grow in importance in any scenario



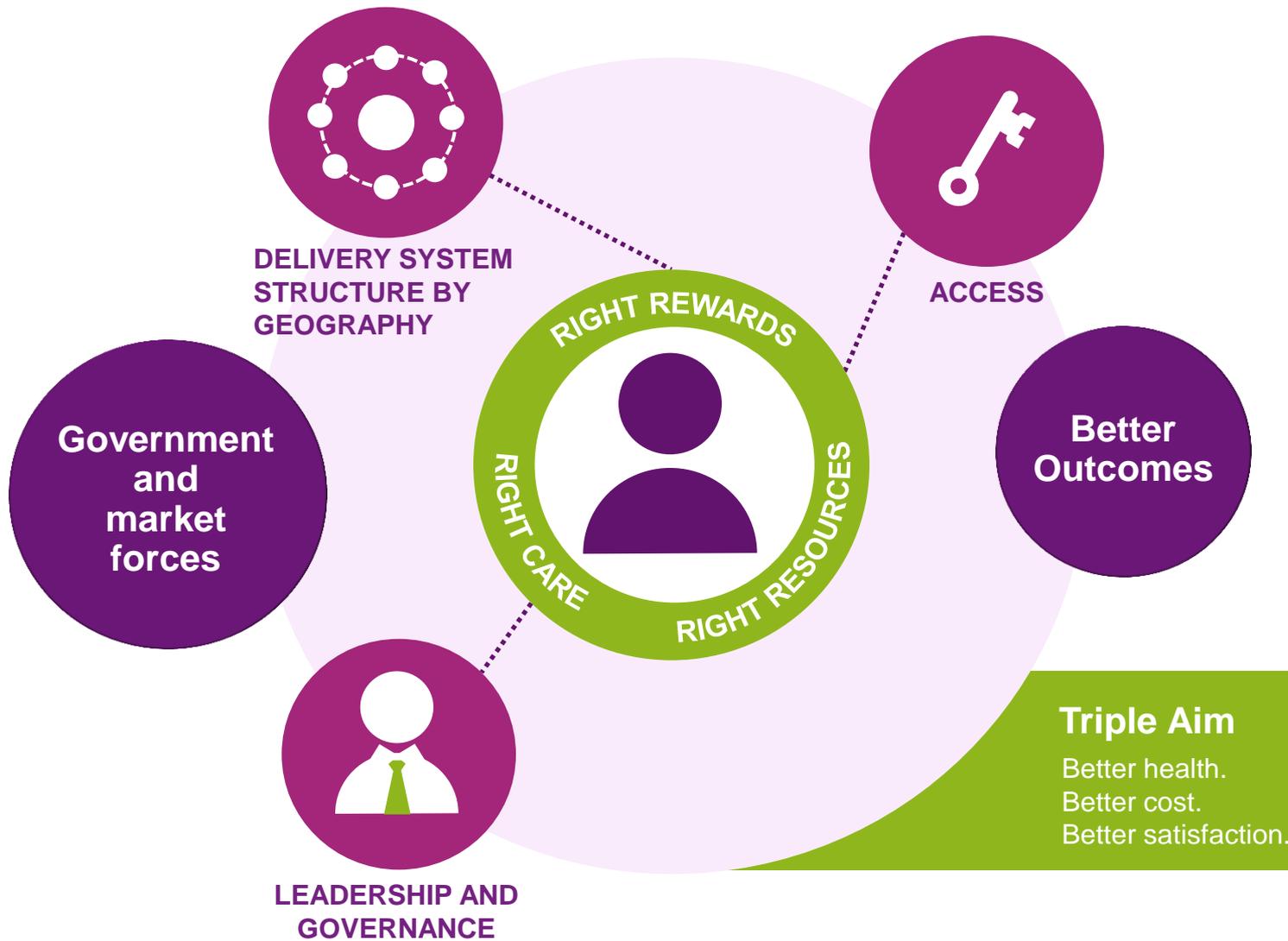
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# IMPLICATIONS OF CHANGE: THE EVOLUTION OF THE CARE DELIVERY MARKETPLACE



Moving from **VOLUME** to **VALUE**

# FACTORS THAT WILL DICTATE SPEED OF MARKET CHANGES:



# QUESTIONS?

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