Health Research Institute

Health reform:
Prospering in a post reform world

Institute of Internal Auditors
New challenges for employers and important strategic considerations

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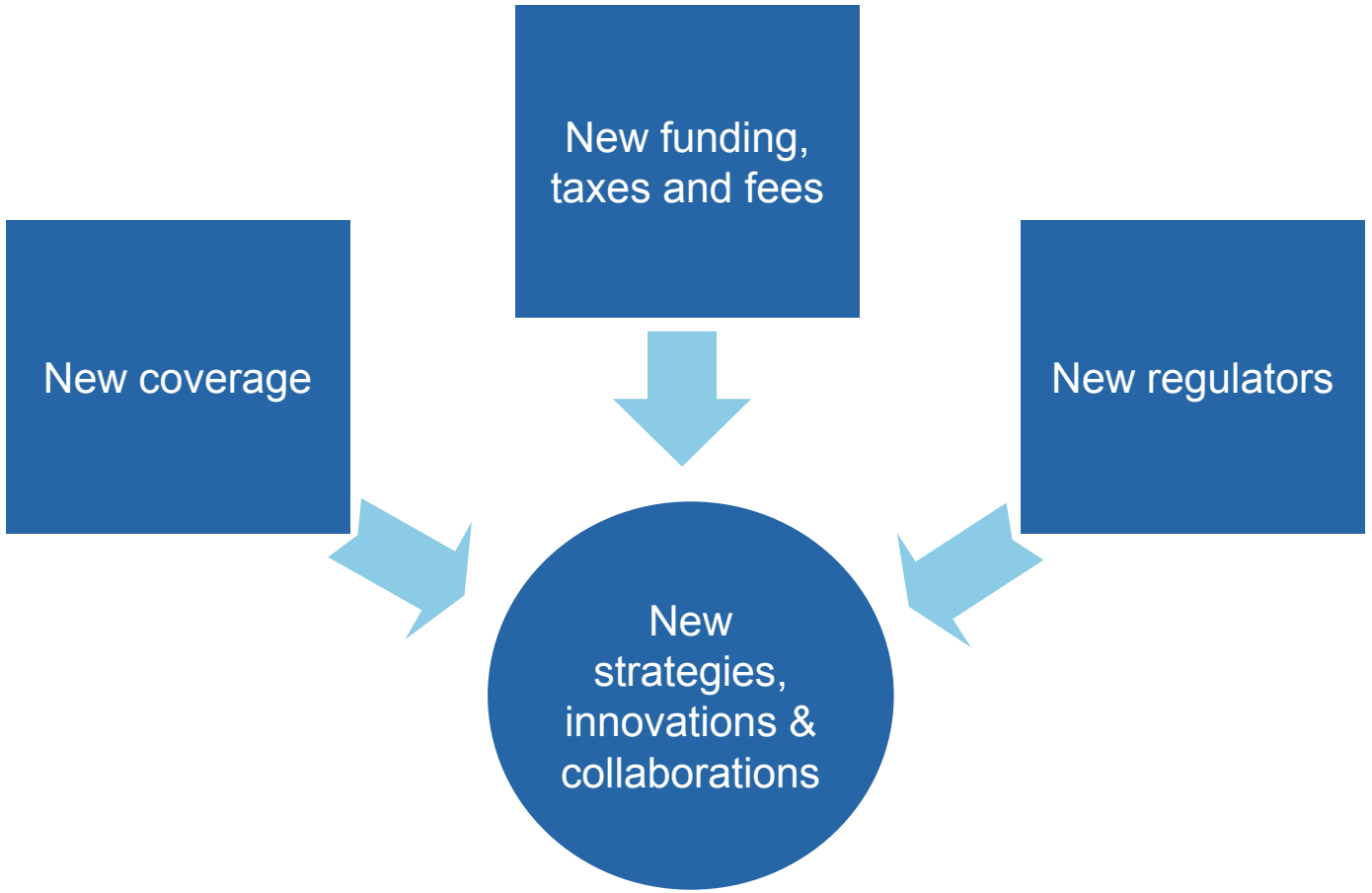
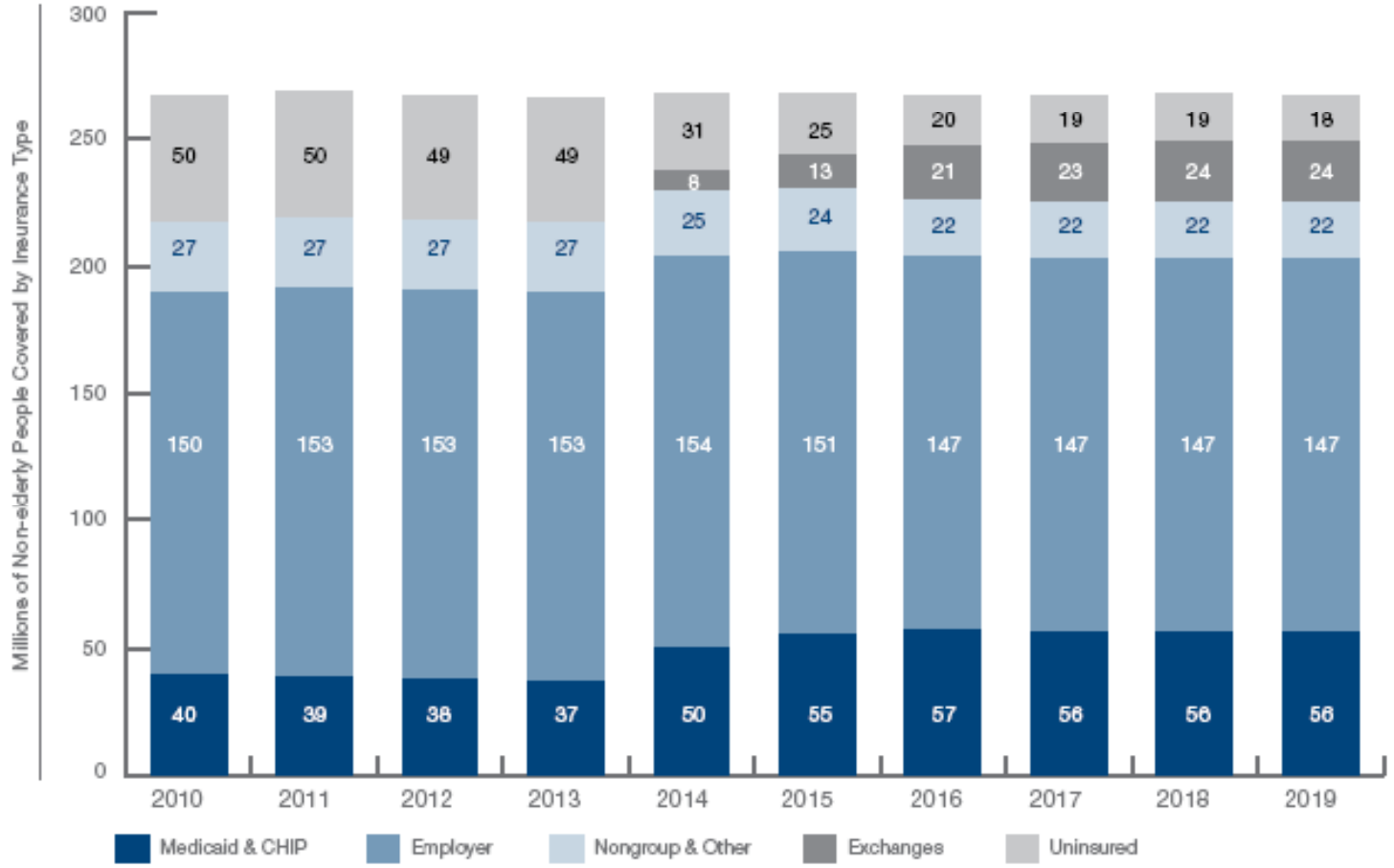
Section 1
Health Reform Overview

Health Reform Makes Collaboration an Important Strategy for Success



Health Reform Reduces the Number of Uninsured by 32 million by Expanding Medicaid and Creating Exchanges

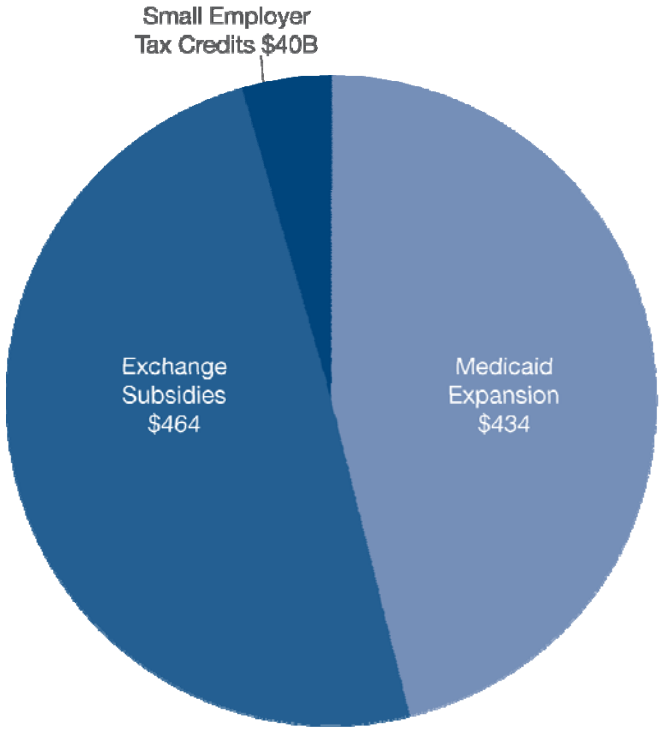


32 million individuals gain insurance coverage at a cost of $214 billion in 2019

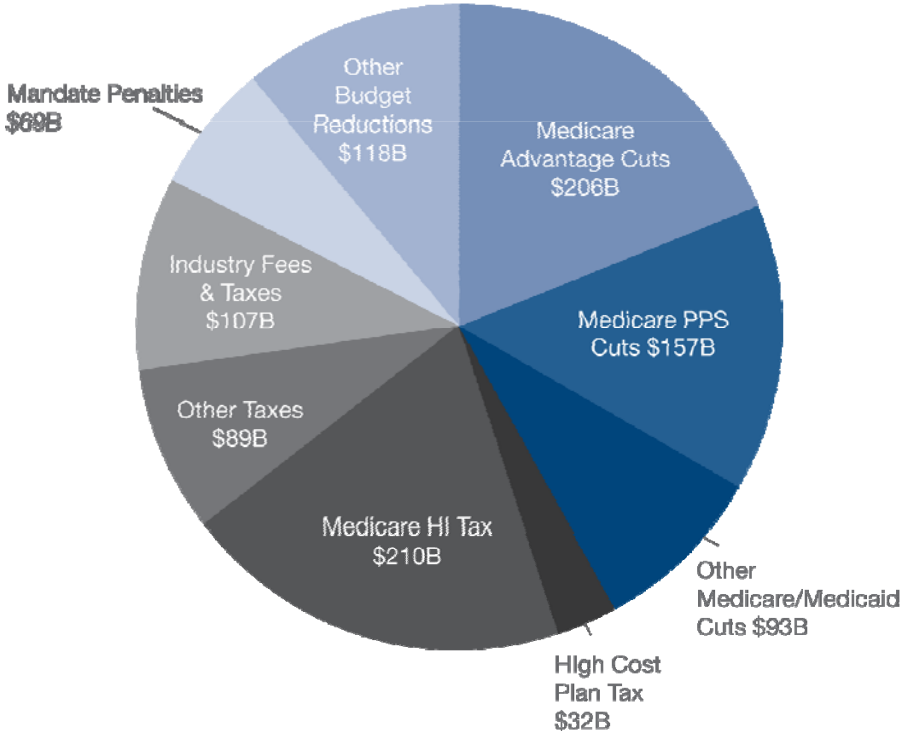
Sources: CBO, Letter to Nancy Pelosi, 20 March 2010.

Federal Funding of Coverage is Paid with New Fees, Taxes and Payment Reductions

Spending on health reform-$938B



Paying for health reform-$1,081B



Sources: CBO Letter to Nancy Pelosi, 20 March 2010;
Joint Committee on Taxation Report JCX-16-10, 20 March 2010;
PricewaterhouseCoopers Analysis

Regulators Involved in the Implementation of Health Reform

Major new regulators will oversee cost control and innovation

Control cost of existing programs

- Independent Payment Advisory Board
- National Prevention Health Promotion and Public Health Council
- Patient-centered Outcomes Research Institute

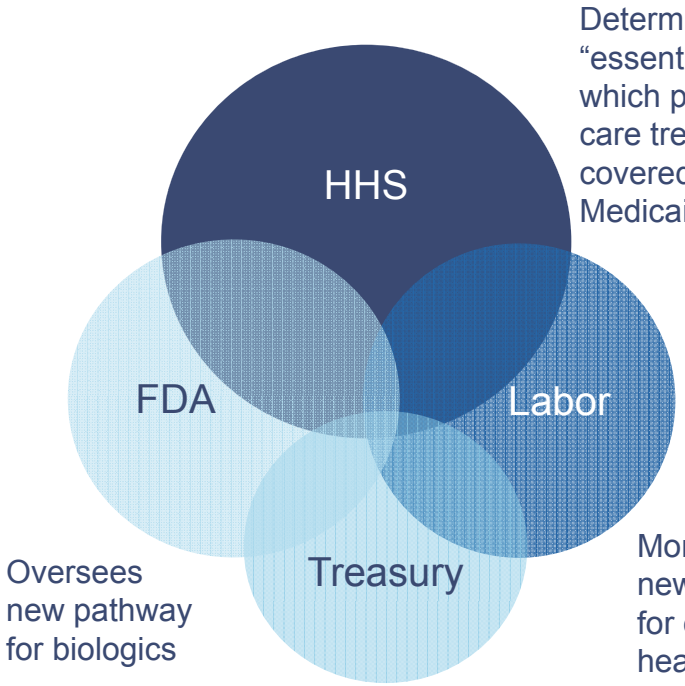
Implement new programs

- Community Living Assistance Services and Supports
- Health Insurance Reform Implementation Fund

Create new ways of funding, delivery

- CMS Innovation Center
- Community-based Collaborative Care Network Program

Existing federal agencies take on complex new responsibilities



Determines "essential services," which preventive care treatments are covered, expands Medicaid to 16 million

Oversees new pathway for biologics

Monitors array of new regulations for employers' health coverage

Implements new tax rates, structures

Three Tranches of Health Reform

Regulation and coverage (2010-2013)

- Elimination of pre-existing coverage exclusions for children and lifetime coverage limits and rescissions; dependent coverage through age 26
- MLR minimums
- Medicare Part D gap narrows, Medicare Advantage rates frozen, bonuses available, beneficiary rebates, free preventive care
- Temporary high risk pools
- Fee on brand -name pharmaceutical manufacturers
- Community Living and Support Services Act (CLASS Act)

Major expansion of coverage (2014)

- Mandates for individuals
- Employer penalties for those that do not provide coverage
- Health insurance exchanges
- Small employer and individual subsidies
- Health insurer industry fee
- Guaranteed issue, rating bands, and risk adjustment
- Medicaid expansion
- Disproportionate share payment reductions to hospitals

Bending the cost curve (2015-2020)

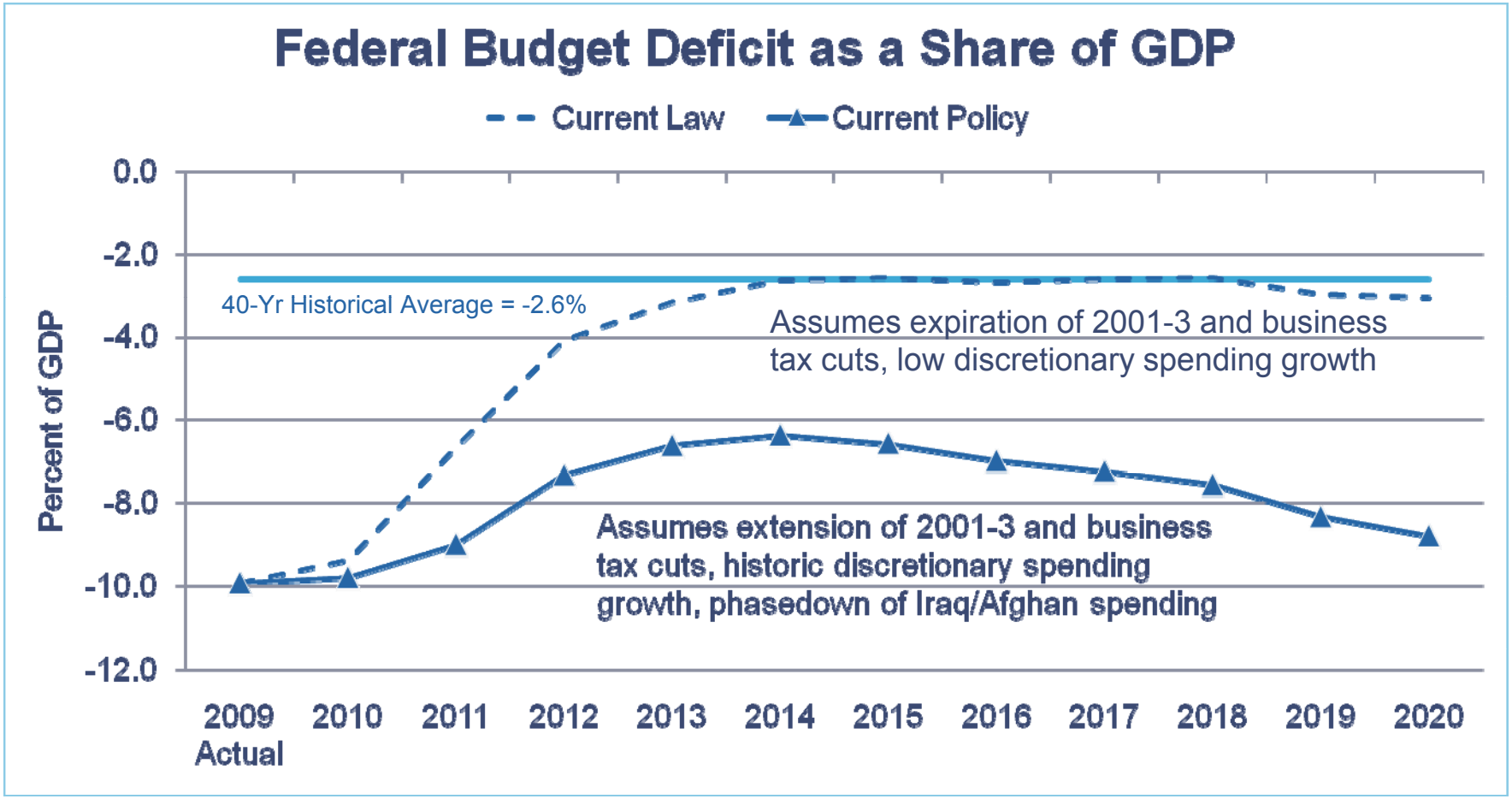
- Penalty for not adopting electronic medical records
- Independent Payment Advisory Board (IPAB)
- High-cost plan excise tax
- Medicare Part D "Doughnut Hole" closes
- Reduced payment for hospital-acquired conditions

Source: PricewaterhouseCoopers LLP

Reform requires action

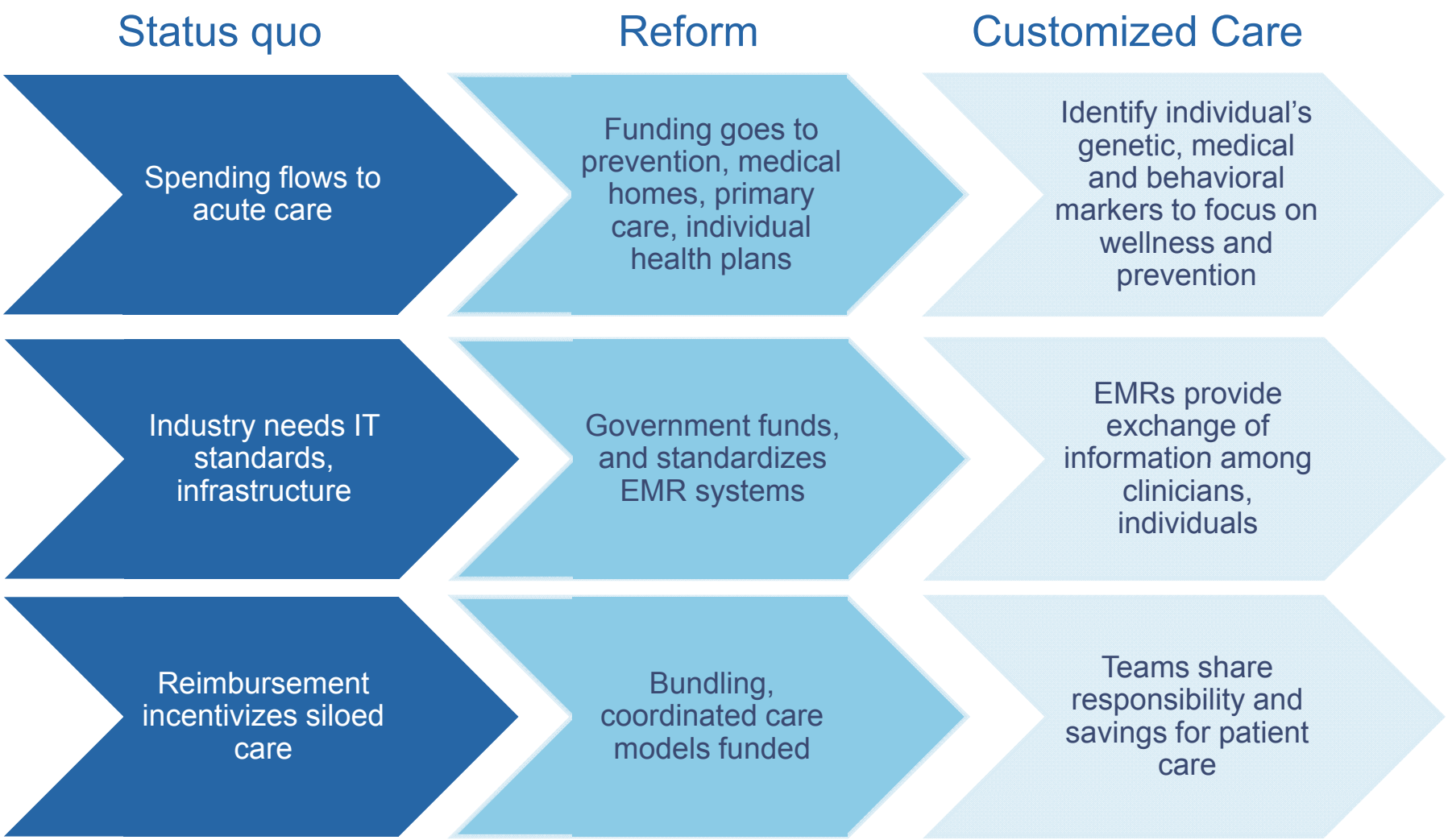
Providers	Pharmaceutical Companies
• Accelerate physician alignment and employment. • Mitigate quality penalties and reputational cost. • Adjust to movement of uninsured to Medicaid.	• Manage 4.3% drug spending reduction. • Plan around biologic pathway to “generics.” • Provide products based on payment for health outcomes.
Payers	**Employers**
• Lower administrative expenses to meet the new medical loss ratios (MLR). • Shift attention from group to individual plans. • Differentiate on price, service, quality, and provider network in the insurance exchanges.	• Assess short-term impact on health benefit plans. • Assess short and long-term cost impact of reform. • Develop longer term strategy for health benefits.

Federal budgetary pressures will require attention in coming years, which could affect reform provisions



Source: Congressional Budget Office, January and March 2010, PricewaterhouseCoopers calculations.

How Health Reform Moves the Status Quo to Customized Care



Section 2
Employer Strategic Considerations

Timeline of major provisions affecting employers

New rules for employer-sponsored insurance and plans

The health reform laws require companies to…

Begin:

2010
- Providing coverage to children up to age 26
- Covering children regardless of pre-existing conditions
- Considering participation in pre-65 retiree reinsurance program

2011
- Reporting value of worker health benefits on W-2
- Considering offering new community living assistance services and supports benefit (CLASS)

2012
- Providing uniform statement of benefits to employees
- Providing 1099 for certain corporate service providers

2013
- Notifying workers about the state insurance exchanges that will start in 2014

2014
- If available, considering whether to join state health insurance exchanges (small employers)
- Covering all full-time workers or pay the "free-rider" penalty
- Getting subsidies for providing coverage to their workers (small employers only)
- Considering offering 30% wellness incentives to workers

2017-2018
- If available, considering whether to join state health insurance exchanges (large employers)

First plan year after Sept. 23, 2010

Stop:

2010
- Setting lifetime limits on benefits
- Implementing annual benefit limits that do not meet HHS standards

2011
- Allowing OTC drugs as qualified medical expenses

2013
- Allowing FSA contributions of more than $2,500
- Deducting federal subsidies for retiree drug coverage

2014
- Setting out-of-pocket limits that are greater than health savings account plan limits
- Making workers wait more than 90 days to enroll
- Setting annual plan limits
- Excluding benefits for pre-existing conditions

2017-2018
- Offering "high-cost" benefit plans or face 40% excise tax

Growth in medical costs for 2011 is expected to be 9%, down 0.5% from 2010

Pre-managed care benefit design with higher deductibles and more coinsurance

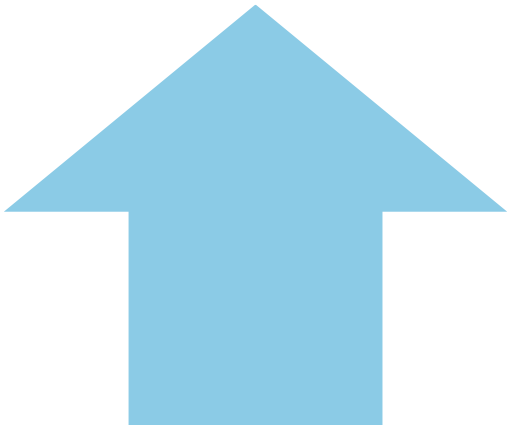
Generics erode brand-name drug spending

COBRA costs return to more normal levels

Cost-shifting from Medicare

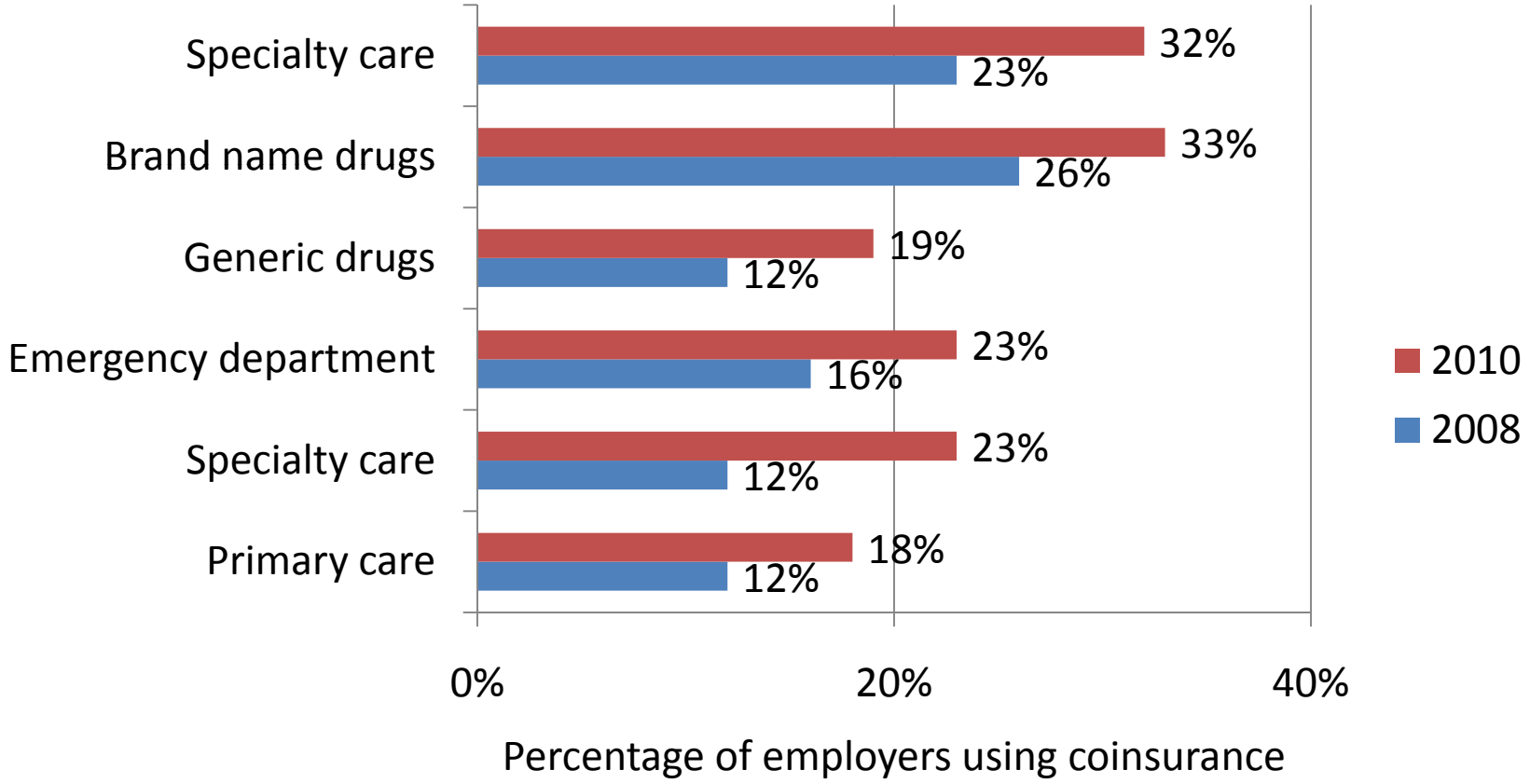
Provider consolidation could increase their bargaining power

Providers increase investment in **electronic health records** to get stimulus funding



Coinsurance is increasingly replacing co-pays

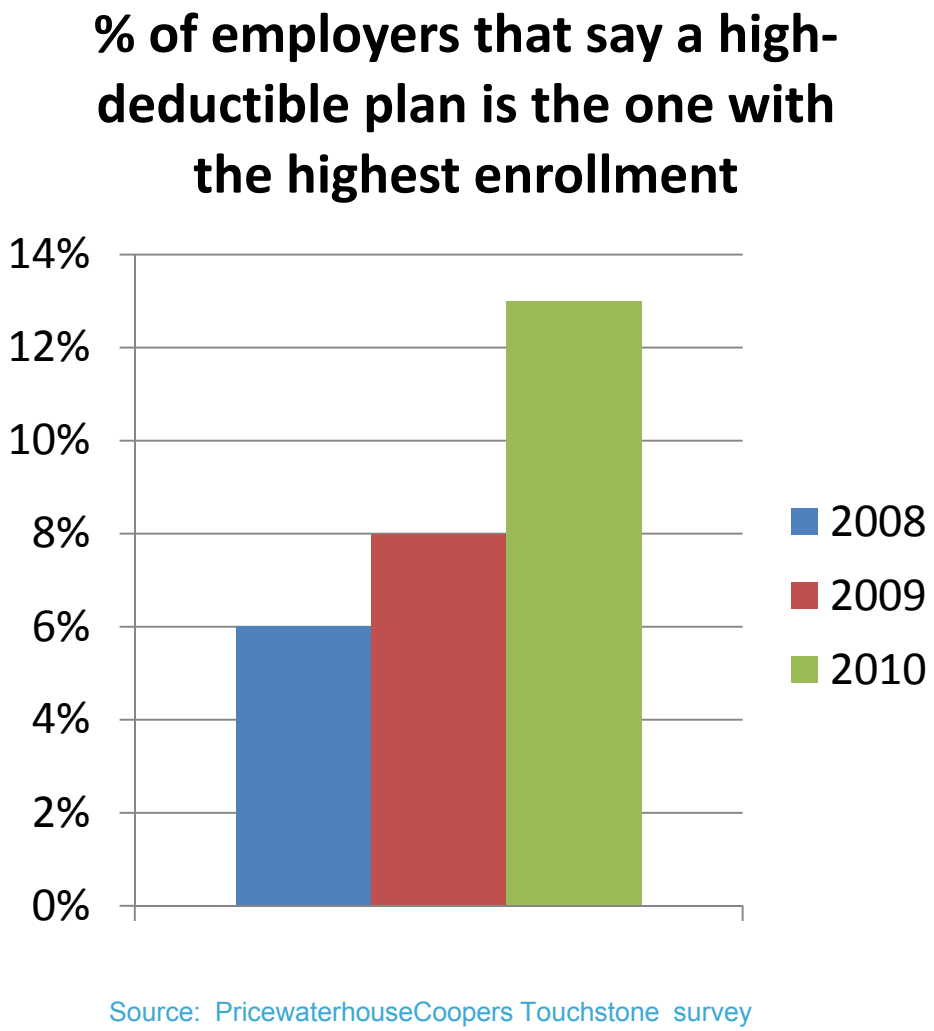
Percentage of employers using coinsurance for selected services



Source: PricewaterhouseCoopers Touchstone survey

Deductibles are high and rising

- 43% of employers have a deductible of $400 or greater, up from 25% in 2008
- 32% of employers offer high-deductible plan with a health savings account (HSA)
- 19% of employers offer high-deductible plan with a health reimbursement account (HRA)

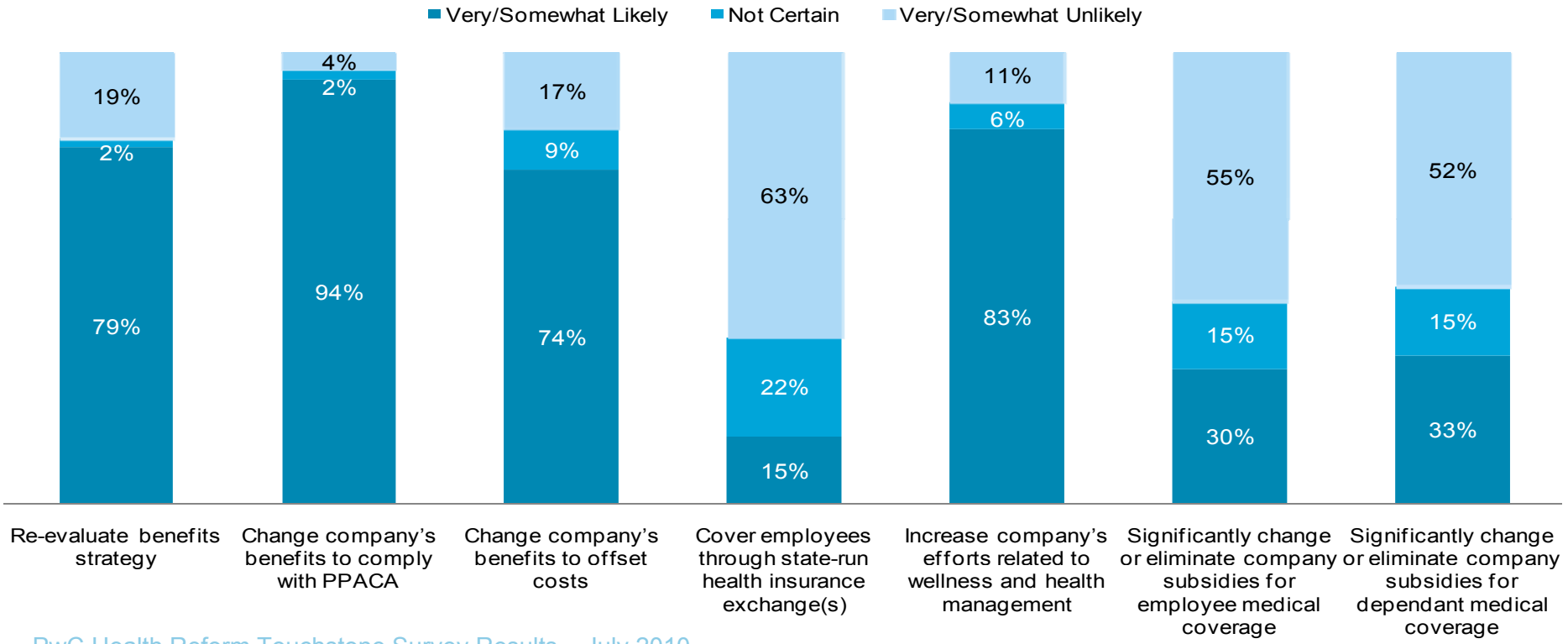


Source: PricewaterhouseCoopers Touchstone survey

Most employers believe health reform will bring significant change…

- 94% of employers expect to have to make changes to their benefits to comply with PPACA while 74% expect to make additional changes to offset the costs of complying.
- 79% expect to re-evaluate their benefits strategy with the most common focus being to increase efforts related to health and wellness and with a substantial minority focusing on significant changes to company subsidies for employees or dependents, or considering coverage of employees through the state exchanges.

As a result of PPACA provisions, likelihood of employers to:

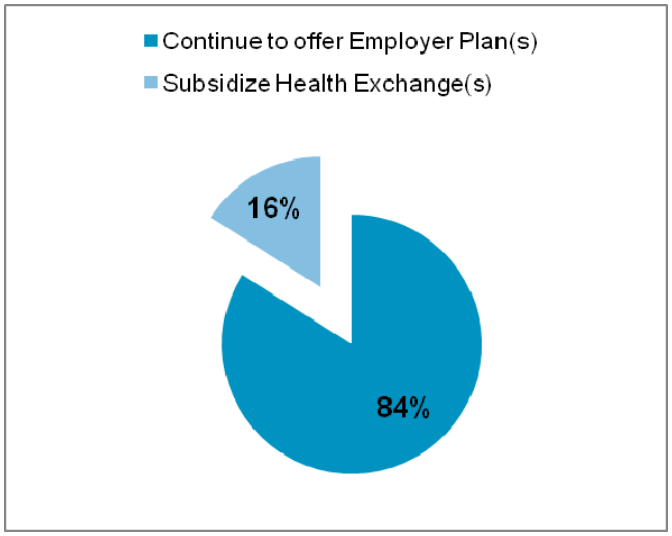


PwC Health Reform Touchstone Survey Results – July 2010

… and some employers will relook at why and how they provide coverage

- While most employers will continue to offer health coverage even when access is guaranteed in the open market, 16% of employers are looking to eliminate company plans and subsidize health exchange programs in the future.
- If employers do provide subsidies to a health exchange in the future, most envision subsidies not varying by age or area but potentially varying based on other factors such as income.
- About half of employers are looking to significantly change or eliminate retiree medical benefits due to PPACA.

Active Health



Retiree Health

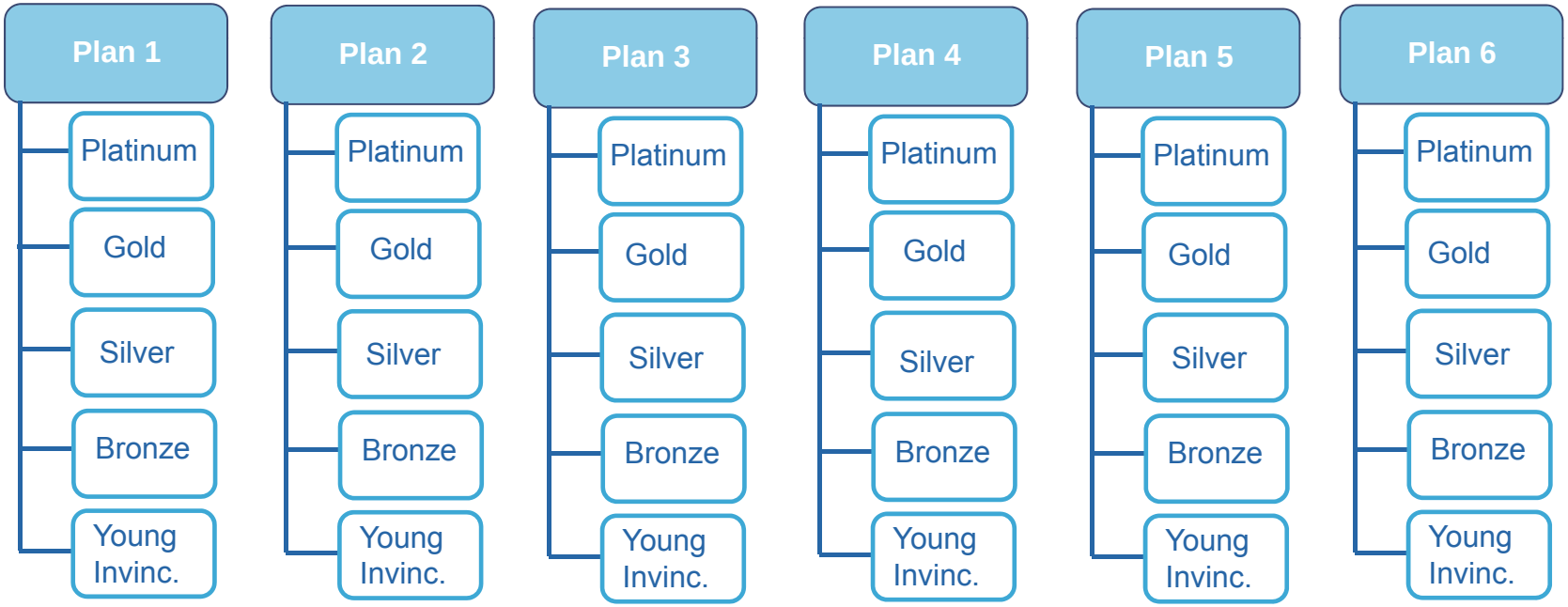
Likelihood of employers significantly changing or eliminating retiree medical benefits due to PPACA

	Very Likely	Somewhat Likely	Unlikely	Very Unlikely
Pre-65	13%	35%	39%	13%
Post-65	15%	34%	37%	14%

PwC Health Reform Touchstone Survey Results – July 2010

… as well as New Market Dynamics
– State Exchanges, Guaranteed Issue, Federal Subsidies

- State or region-based marketplaces for health insurance
- Private health plans sell their products side-by-side
- Health benefits standardized
- Enrollment and information through website and phone hotline
- Improved consumer choice and pricing transparency



* • Employers must provide Notices to Employees about the Exchanges (3/2013)
  • For plan years beginning before 1/2016, states may provide that only ≤ 50 employees can participate
  • States may open to large employers in 2017

Impact of Healthcare Reform will vary

Employer segment	High impact provisions	Key decisions
Retail industry: low-wage, high turnover workforce	• Coverage expansion • Free rider penalty • Free choice voucher	• Revise or drop employee coverage • Consider funding access to the exchange (when available)
Mature industries with large retiree populations	• Retiree drug subsidy • Temporary pre-65 reinsurance • Close Part D “Doughnut Hole” • Cutbacks in Medicare Advantage funding	• Assess retiree medical accounting impact • Apply for ERRP • Re-assess strategy on retiree medical benefits
Industries with high average wage (e.g., financial services)	• Additional 0.9% Medicare tax • New 3.8% Medicare tax on unearned income • Nondiscrimination requirements for new insured plans	• Communicate potential under-withholding to 2 wage-earner families • Consider additional qualified plan options (distributions not subject to 3.8% tax) or shifting capital gains to earned income

Source: PricewaterhouseCoopers LLP

Section 3
Discussion: Strategic Implications

Eligibility

- What role should you play with respect to health benefits when access is guaranteed in the open market?
- How will employment policies (e.g. minimum work week) be influenced by “free rider” requirements?
- How does the perceived value of health benefits compare to other rewards?
- If employers elect not to offer coverage, will individual penalties under reform ensure coverage?
- How will health benefits policies be influenced by labor issues?
- Will there need to be specific solutions targeted for unique populations?
- Other?

Contribution & Funding Strategies

- How much should businesses subsidize dependent coverage?
- How will tax policies and tax subsidies influence contribution and funding strategies?
- Should you move toward a defined contribution medical plan design in the state exchanges?
- How should a defined contribution plan design take into account age, gender, area, and health status?
- How can aggregators be utilized to make state exchanges more accessible and viable for national employers?
- Other?

Cost Increases & Impact on Financial Statements

- Will payment reform fundamentally realign incentives in the system?
- How should new provider infrastructures like ACOs and medical homes be integrated into employers' strategies?
- How should personal responsibility for health behaviors be defined and rewarded?
- How can we leverage community health initiatives to accelerate our efforts?
- How do we avoid continued cost shift and promote transparency and accountability for cost management?
- Other?

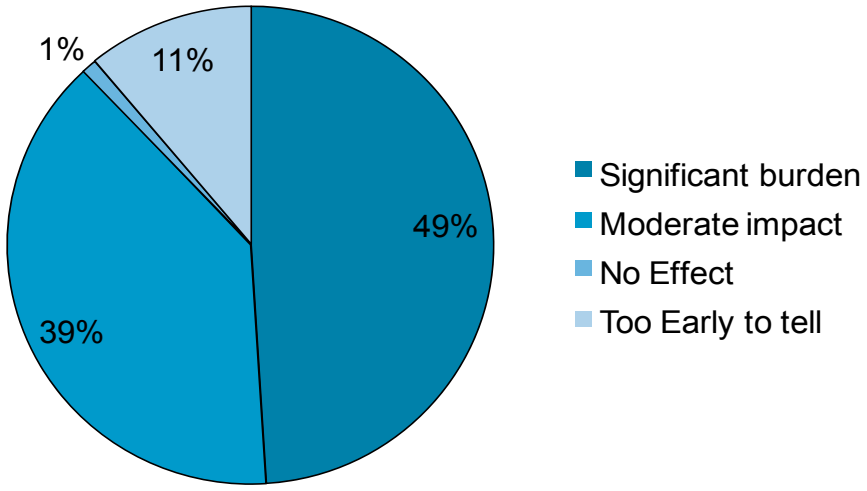
Retiree Health

- How will insurance reforms (e.g. guaranteed issue, subsidies) mitigate need for pre-65 retiree medical?
- How should Medicare solvency issues and future reforms be factored into our planning?
- How should we support employees in retirement planning for health security in a post-reform world?
- Other?

Compliance & Administration

- What are the long term risks and burdens associated with a post-reform environment?
- How could third parties relieve the increased burden and risk of compliance and administration?
- How could outsourcing help to simplify support in a post-exchange world?
- Other?

Anticipated Compliance and Administrative Burden



PwC Health Reform Touchstone Survey Supplement - 2010

Implications for Employers

Short term implications

- Reassess impact on current consumerism and health management strategies
- Evaluate and react to health reform changes needed for 2011 compliance and value of grandfathered status. Consider value of offsets.
- Review “Free Rider Penalties” for potential tax liabilities and impact on labor strategy, benefits eligibility and coverage levels.

Longer term implications

- Reevaluate “total rewards” and “health and wellness” strategies
- Assess potential for health exchanges and federal subsidies to replace all or some of employer provided subsidized health benefits.
- Reconsider retiree health programs including potential early retiree subsidies, expanded Rx coverage and movement toward EGWPs and potential “wrap”.
- Re-examine the longer term risks and burdens of compliance in a post-reform environment.
- Consider potential outsourced solutions.

Section 4
Questions and Answers

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