

# Commercial Insurance

Understanding the Health Insurance Business (part 2)

*Thursday, September 13<sup>th</sup>, 2018*

*3:00 – 3:30PM EST*



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## Overview of Commercial Insurance

2

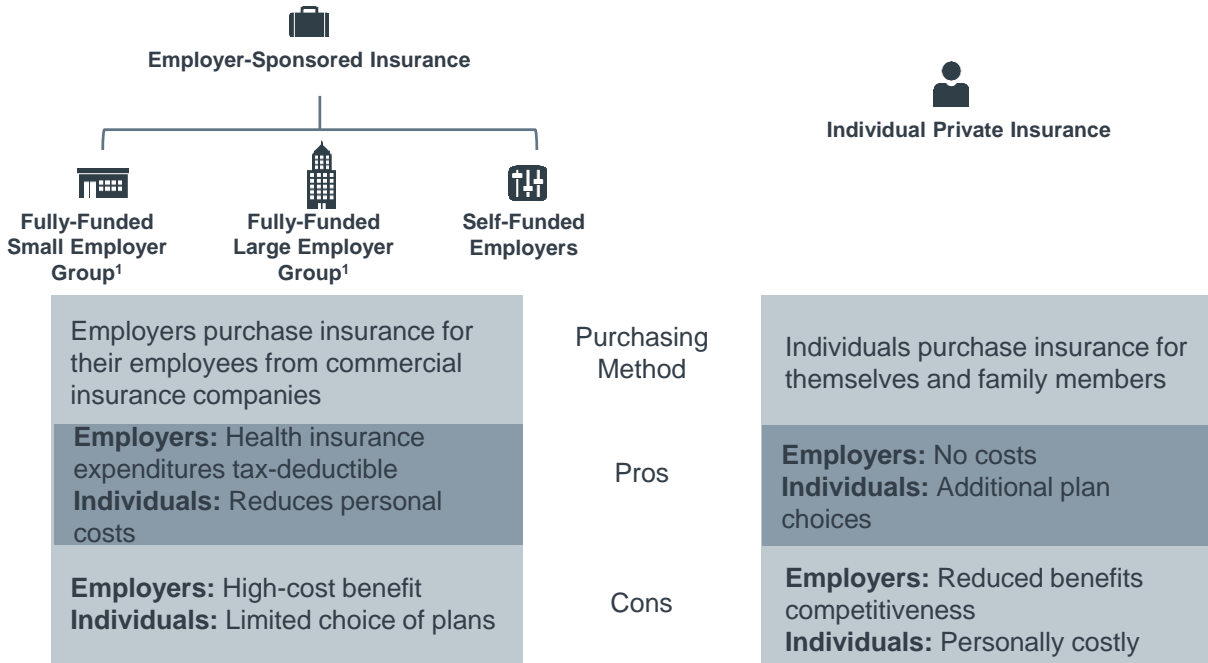
Major Trends Impacting Commercial Insurance Plans

3

Key Advisory Board Resources for Commercial Insurance Plans

# Commercial Insurers Sell to Employers, Individuals

## Two Ways for Individuals to Secure Commercial Health Insurance



<sup>1</sup>) The small group definition was originally legislated to change to up to 100 employees for coverage in 2016, but the Protecting Affordable Coverage for Employees (PACE) Act of 2015 amended this change and leaves definition determination to the discretion of state regulators. For 2016, only California, Colorado, New York, and Vermont have expanded the definition of small group to up to 100 employees.

# Health Insurance Exchanges an Evolving Market

## A New Marketplace for Individual Insurance

### Characteristics of Health Plans in ACA Marketplaces



No denial due to pre-existing conditions ("guaranteed issue")



Premiums can only vary by age, tobacco use, family status, benefit design, and geography ("adjusted community rating")



Four metal tiers: bronze, silver, gold, and platinum

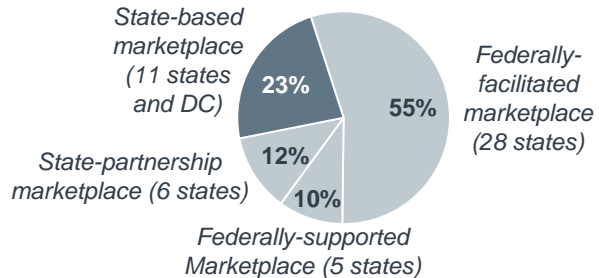


Essential Health Benefits and free preventive services



Subsidies available up to 400% of FPL

### State Decisions on Marketplace Participation, 2018



Not to be confused with private exchanges!

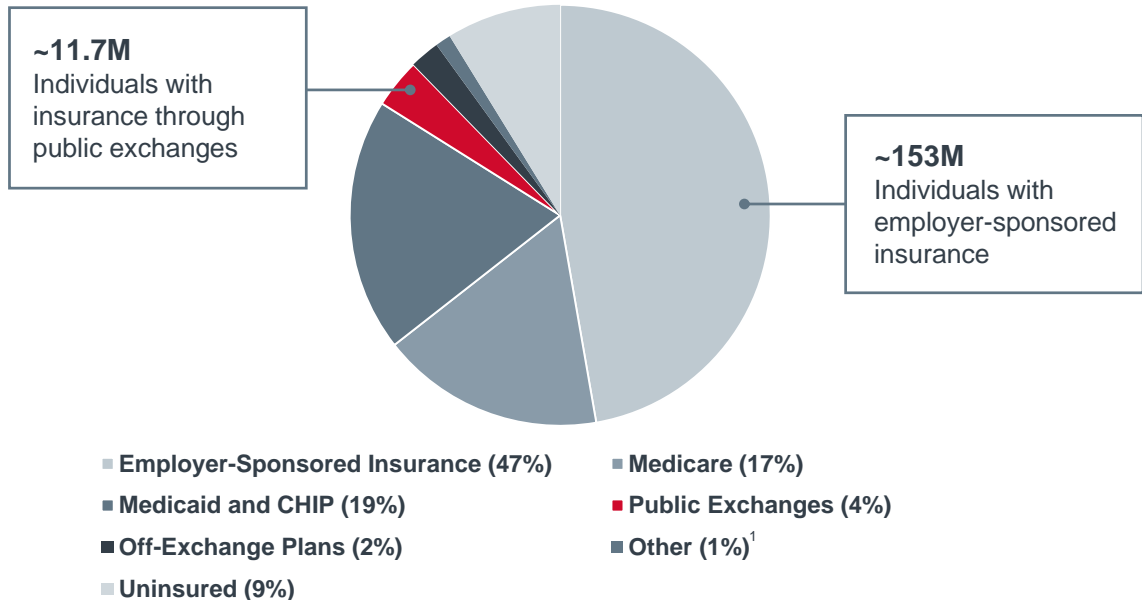
1) Federal poverty level.

# For Payers, a Relatively Limited Impact

Despite Political Significance, Exchanges Only a Small Segment of Market

## Approximate Coverage of US Population by Payer Sector

As of 2018



Source: KFF, "Marketplace Enrollment, 2014-2018," <https://www.kff.org/health-reform/state-indicator/marketplace-enrollment-2014-2017>; Gaba, C., "Healthcare Coverage Breakout for the Entire U.S. Population in 1 Chart," [ACASignups.net](http://acasignups.net), March 28, 2016, available at: <http://acasignups.net/16/04/18/show-your-work-healthcare-coverage-breakout-entire-us-population-1-chart>; Health Care Advisory Board interviews and analysis.

# Challenges in the Face of New Market Realities

## Key Commercial Payer Challenges



### **Employers seeking new ways to control expenses**

As health benefits costs continue to rise with little inflection from member cost sharing, employers are putting more pressure on plans and exploring new ways to actively manage costs themselves



### **Exchange market uncertainties**

Regulatory changes, implementation failures and the influx of inexperienced, less-healthy and high-cost enrollees undermine health plan ability to predict future costs



### **Consumers are demanding hands-on support**

Partly due to increased cost sharing, consumers have greater incentive to choose cost-effective health services but expect plans to guide them through this

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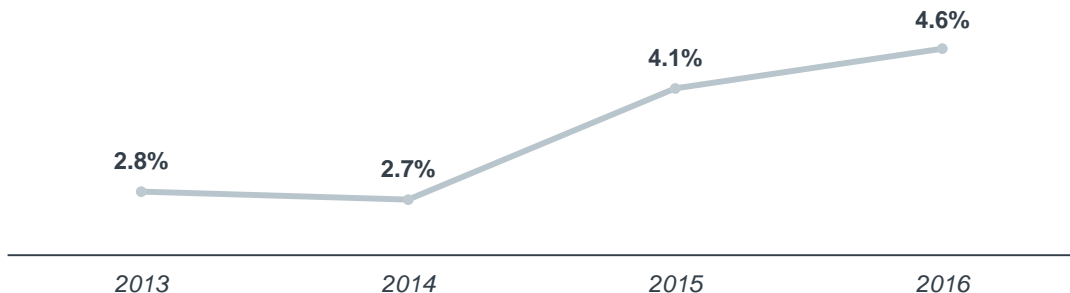


# Employer Health Spending Continues to Grow

## Bracing for Accelerations in Spending in 2018

### Employer Health Care Spending Continues to Rise

Percent Change in Annual Spending Per Person, Relative to Previous Year



## Exact Projections Vary, But Wide Expectations of Accelerated Spending Growth in 2018

**Willis Towers Watson**

“U.S. employers expect their health care costs to **increase by 5.5 percent in 2018**, up from a 4.6 percent increase in 2017”



“PwC’s Health Research Institute (HRI) anticipates a 6.5 percent growth rate for calendar year 2018, **half a percentage point higher than in 2017**”



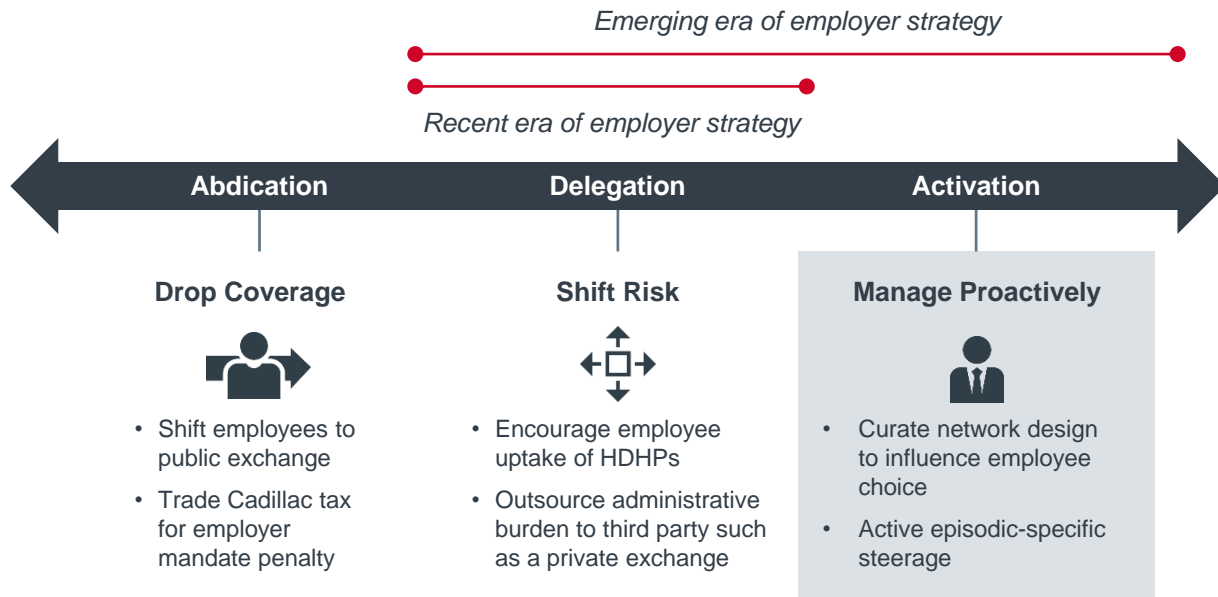
“Average per-employee health benefit cost is predicted to rise by 4.3 percent in 2018, **the highest since 2011**”

Source: HCCI, “2016 Health Care Cost and Utilization Report,” January 2018; Willis Towers Watson, “Best Practices in Health Care Employer Survey Report,” January 31, 2018; PwC, “Medical cost trend: Behind the numbers 2018,” June 2017; Mercer, “Mercer Survey Shows Employers Face a 4.3% Increase in 2018 US Health Benefit Cost, Highest Since 2011, But Trend Stable,” September 18, 2017; Health Care Advisory Board interviews and analysis.

# Adding New Layers of Control

## Embracing Activation in Addition to Delegation

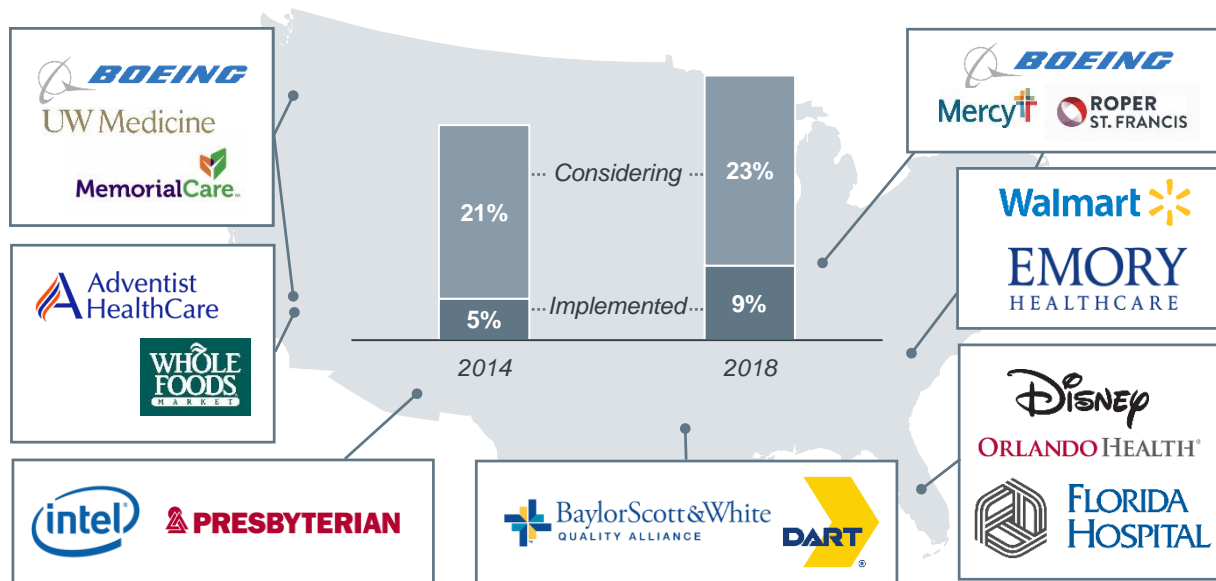
### Spectrum of Options for Controlling Health Benefits Expense



# Some Renewed Interest in Direct ACO Contracting

Limited Signs of Trend Coming to Fruition

Large Employers Expressing More Interest in Direct ACO Contracts



Source: Livingston S, "Left Out of the Game: Health Systems Offer Direct-to-Employer Contracting to Eliminate Insurers," *Modern Healthcare*, January 27, 2018; Minemyer P, "Disney Contracts Directly with Orlando Health, Florida Hospital for New HMO Plans," *Fierce Healthcare*, February 6, 2018; Baylor Scott & White Health, "Baylor Scott & White Quality Alliance Collaborates With Dallas Area Rapid Transit to Improve Quality and Health Care Affordability," September 27, 2017; Emory, "Emory Healthcare and Walmart Collaborate on Employee Health, Spine Surgery and Joint Replacement Surgery," April 19, 2018; PwC, "Medical Cost Trend: Behind the Numbers 2019," June 2018; Health Care Advisory Board interviews and analysis.

# Health Care's Latest Disruptor?

## New Employer Coalition Takes Aim at Health Care Costs



**amazon**

**300K+** Employees



**BERKSHIRE  
HATHAWAY**

**360K+** Employees



**JPMorganChase**

**240K+** Employees

“**The ballooning costs of healthcare act as a hungry tapeworm on the American economy...we share the belief that putting our collective resources behind the country's best talent can, in time, check the rise in health costs while concurrently enhancing patient satisfaction and outcomes.**”

*Warren Buffett  
Berkshire Hathaway Chairman and CEO*

### **PRESS RELEASE: Amazon, Berkshire Hathaway and JPMorgan Chase & Co. to partner on U.S. employee healthcare**

“The three companies, which bring their scale and complementary expertise to this long-term effort, will pursue this objective through an independent company that is free from profit-making incentives and constraints. **The initial focus of the new company will be on technology solutions** that will provide U.S. employees and their families with simplified, high-quality and transparent healthcare at a reasonable cost.”

*Business Wire*

Source: Business Wire, “Amazon, Berkshire Hathaway and JPMorgan Chase & Co. to partner on U.S. employee healthcare,” January 30, 2018; Snider, M., “Amazon, Berkshire Hathaway, JPMorgan Chase to tackle employee health care costs, delivery,” January 30, 2018; Health Care Advisory Board interviews and analysis.

# Risk Square(d)

## Employers Also Willing to Hold Employees Responsible for Network Use

### Stakeholder Responsibilities in SelectHealth SHARE Product

#### Employer

- Exclusively offer SelectHealth SHARE
- Offer qualified HDHP
- Fund employer matched HSA
- Contribute 70% of premium



#### Employee

- Establish an HSA
- Select PCP
- Engage in SelectHealth Healthy Living wellness program
- Get preventive screening exams



#### Provider

- Comply with standards and best practices
- Participate in specified staff meetings
- Accurate and timely coding and billing
- Use certified EMR



#### Health Plan

- Propose incentives for employers to engage in SelectHealth Share (Up to 4% guaranteed yearly rate)
- Implement population health and wellness programs



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# The ACA Takes a One-Two Punch

## HHS Halts CSR<sup>1</sup> Payments...

Based on guidance from the Department of Justice, the Department of Health and Human Services has concluded that there is no appropriation for cost-sharing reduction payments to insurance companies under Obamacare. In light of this analysis, **the Government cannot lawfully make the cost-sharing reduction payments.**"

*White House Press Office  
Oct. 12<sup>th</sup> 2017*

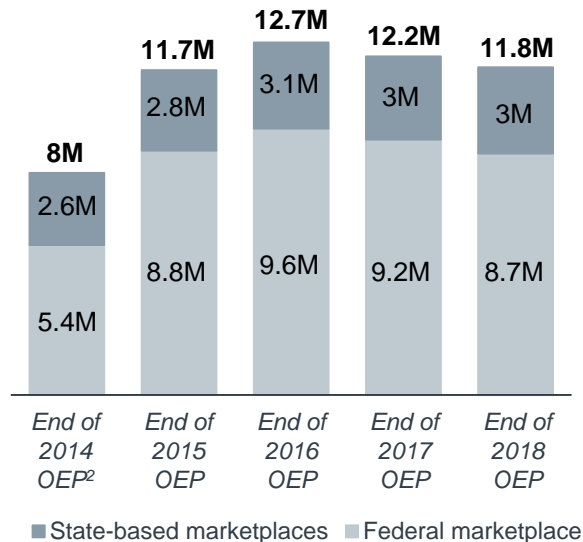
## ...And Congress Guts Individual Mandate

≈8.6M

Estimated increase in number of **uninsured** due to elimination of individual mandate penalty, 2018-2027

## Despite Changes, Uncertainty 2018 Exchange Enrollment Relatively Stable

*Plan Selections in the Marketplaces, 2014-2018*

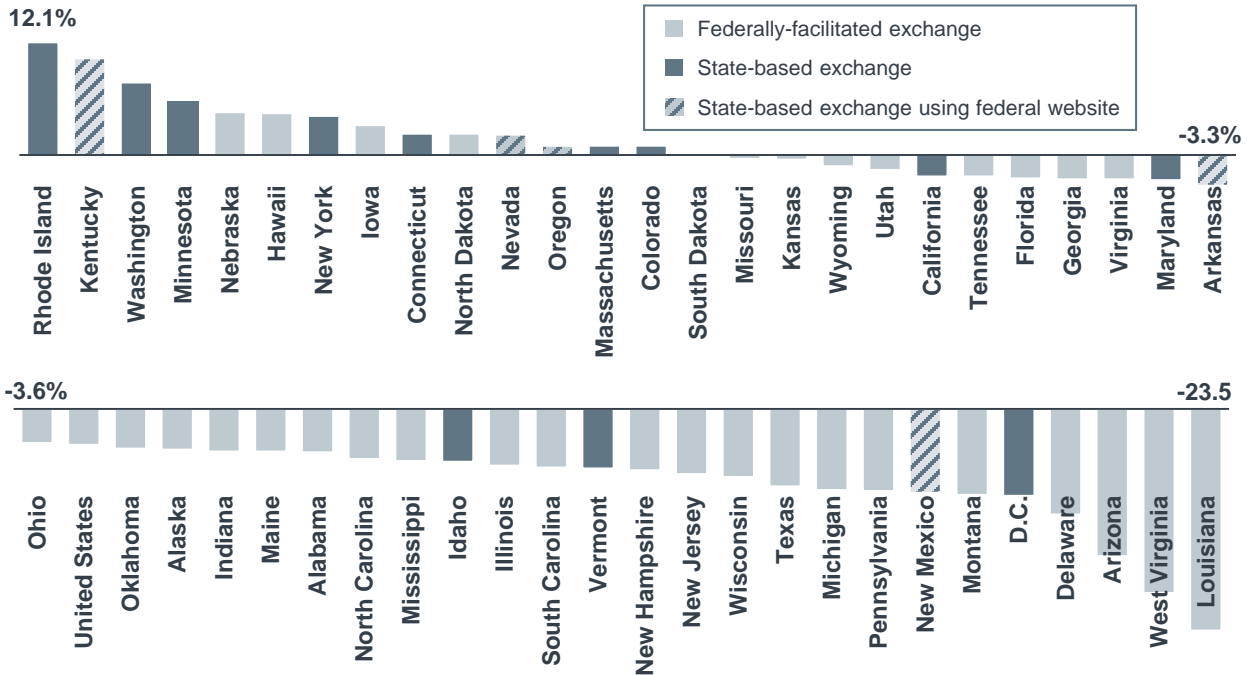


1) Cost-sharing reduction.  
2) Open enrollment period.

Source: Jost T, "Administration's Ending Of Cost-Sharing Reduction Payments Likely to Roll Individual Markets," *Health Affairs Blog*, Oct. 2017; CBO, "Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2018-2028," May 2018; The Daily Briefing, "Side-by-Side: How the GOP Tax Bills Would Affect Health Care," December 18, 2017; CMS, "Health Insurance Marketplaces 2017 Open Enrollment Period Final Enrollment Report: November 1, 2016-January 31, 2017," March 15, 2017; Health Care Advisory Board interviews and analysis.

# Enrollment Impact Highly Variable State-by-State

## Change in Marketplace Enrollment, 2017-2018



Source: KFF, "Change in marketplace Enrollment, 2017-2018," 2018; CMS, Marketplace Open Enrollment Period Public Use Files for 2017 and 2018; Health Care Advisory Board Interviews and analysis.



# Market Instability Offering Threats and Opportunities

## Some Established Carriers Scaling Back, Others Pursuing Growth

### Some Insurers Scaling Back Participation

**aetna** 4 State exchanges Aetna is departing in 2018

**Anthem** 3 State exchanges Anthem is departing in 2018

“We cannot broadly serve [the exchange market] on an effective and sustained basis.”

*Stephen J. Hemsley  
CEO of UnitedHealth Group*

### Other Insurers Growing Presence

**OSCAR** 9 State exchanges Oscar is expanding in or entering in 2018 and 2019

**CENTENE** 9 State exchanges Centene has expanded in or entered in 2018  
*Corporation*

“Based on the interest we have from leading health systems across the country and the receptivity from members we currently serve in the Colorado market, Bright is primed to scale very quickly over the next few years.”

*Company Statement  
Bright Health*

### Difficulties Facing Exchange Plans



Adverse selection



Inaccurate risk adjustment



Ending Monthly CSR Payments



Abuse of special enrollment period

Source: “Insurer Participation on ACA Marketplaces, 2014-2018”, Kaiser Family Foundation, Nov. 2017; Luhby T, “Obamacare shoppers find fewer insurer choices on exchanges” *CNN News*, Nov 2017; The Affordable Care Act in 2014: Significant Insurer Losses Despite Substantial Subsidies” Mercatus Center, George Mason University; Sachdev A, “Blue Cross Parent Lost \$1.5 Billion on Individual Health Plans Last Year” *Chicago Tribune*, Mar. 2016; Commonweath Fund, “Aug. 2016; Haefner M, “Who’s in and who’s out?: 15 updates on insurers’ 2018 ACA exchange participation” *Becker’s Hospital Review*, June 2017; Migneault J, “New Insurers Enter Health Insurance Exchanges for 2018,” HealthPayer Intelligence, June 23, 2017; Grayson K, “Minneapolis insurance startup Bright Health lands \$160M,” *Minneapolis/St. Paul Business Journal*, June 1, 2017; “Health Care Advisory Board interviews and analysis.

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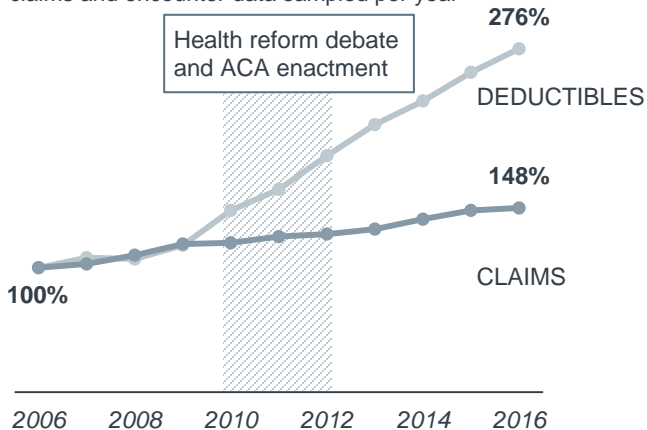
# The Crusade for Active Consumers

## Cost Sharing Here to Stay—But Not Sufficient

### Changes in Insurer and Member Spending

Percentage Increases, Indexed at 100% in 2006

n = 1.05 million to 15.3 million commercial enrollees' claims and encounter data sampled per year



### More members enrolled in HDHPs



**51%**

Workers with deductible over \$1,000, 2017

### Two Commonly Cited Shortfalls

- 1 Decreases utilization, but insufficient to drive price shopping
- 2 Window of impact above HSA/HRA and below deductible too limited

Source: Claxton G, et al, "Increases in cost-sharing payments continue to outpace wage growth" Kaiser Family Foundation, June 15, 2018, <https://www.healthsystemtracker.org/brief/increases-in-cost-sharing-payments-have-far-outpaced-wage-growth/#item-start>; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2009-2017; Health Plan Advisory Council interviews and analysis.

# Tools Mismatched to Consumer Needs

## Industry Largely Struggling to Create Self-Service Options

### Member Tool Use and Preferences

2%

Use mobile apps

10-25%

Use online portals



**Members**

*Want:*

✓ Right answer  
"pushed" to them

✓ Advice from their  
doctor or family

✓ A single price point

*Don't Want:*

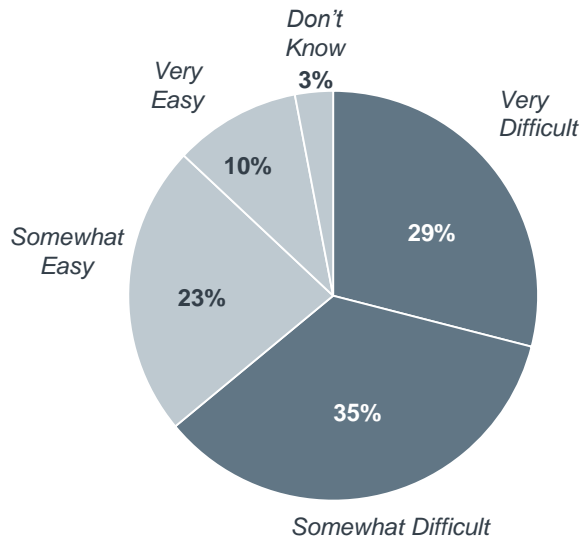
✗ To spend time  
"pulling" information

✗ Health plan advice

✗ A cost range  
or price estimate

### Majority Report Difficulty Finding Cost Information

*Consumer Assessment of Difficulty Locating Pricing Information for Doctors and Hospitals*

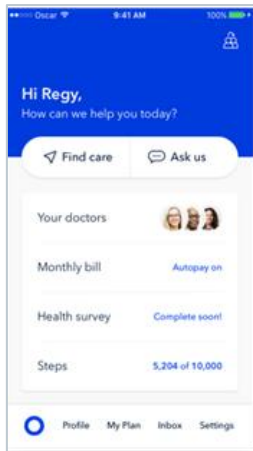


Source: DiJulio, B, et al, "Kaiser Health Tracking Poll: April 2015," Kaiser Family Foundation, April 2015, available at: [www.kff.org/health-costs/poll-finding/kaiser-health-tracking-poll-april-2015/](http://www.kff.org/health-costs/poll-finding/kaiser-health-tracking-poll-april-2015/); Health Plan Advisory Council, "Shattering the Member Engagement Myth, The Advisory Board Company, March 2015, available at: <https://www.advisory.com/research/health-plan-advisory-council/members/briefs/shattering-member-engagement-myth/>; Health Plan Advisory Council interviews and analysis.

# Stepping Up to Serve Members

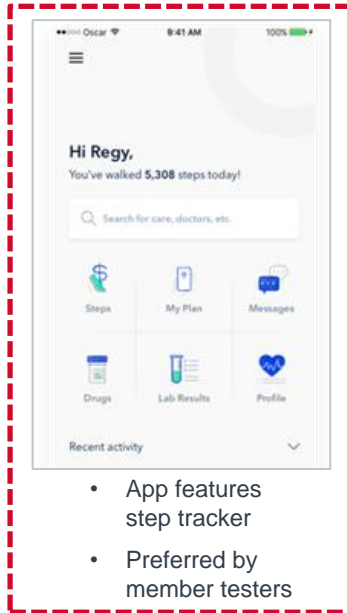
## Feature Members' Priorities to Lead Them to Plan Priorities

### Oscar's A/B Test for Member Priorities



App features tools that:

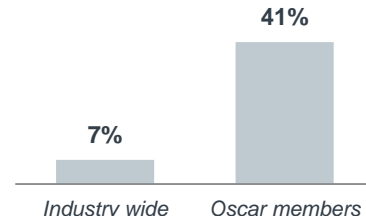
- Relate directly to receiving care
- Impact care costs
- Solve complex problems



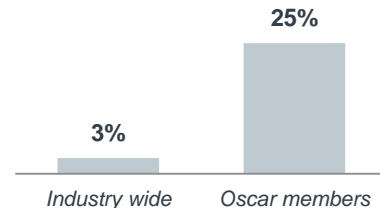
- App features step tracker
- Preferred by member testers

### Oscar's App Utilization Results

#### Monthly Active App Users, 2017



#### Telehealth Utilization Rates, 2017



Sources: Perlera, Regy, "How We Designed Oscar 2.0", *Medium*, August 29, 2017, <https://medium.com/@perlerar/how-we-designed-oscar-2-0-fbba97087bae>; Deep Dive, Oscar, 2018, <https://www.hioscar.com/deepdive/virtual-care-platform>; Oscar Health, New York City, NY, CA; Health Plan Advisory Council interviews and analysis.

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# Other Health Plan Advisory Council Resources



## How to Influence Where Members Seek Care

Five tactics for helping members make better care choices by tapping into their current decision-making process.



## Shattering the Member Engagement Myth

Four strategies for engaging with the new health care consumer to understand what they value in order to retain business.



## Services Preference Portal

Survey results from over 4,800 consumers to help plan leaders understand the factors members consider when choosing one product over another



## Finding High-Cost Members Fast

On-Demand presentation on the latest innovative care management strategies to reach members before high cost events..

Contact us at [hpac@advisory.com](mailto:hpac@advisory.com) for access to more resources on Commercial Insurance needs and priorities

