



SOCIETY OF ACTUARIES

**Health Spring Meeting
May 2008**

Session # 33: A Health Care Odyssey

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2008: A Health Care Odyssey

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AMERICAN ACADEMY *of* ACTUARIES

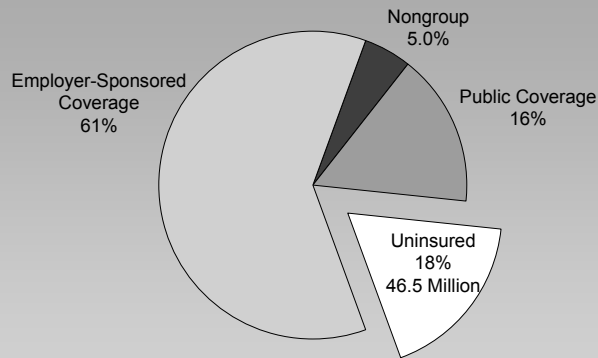
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May 2008

What health-related issues await the next president and Congress?

- Uninsured
- Rising health care costs
- Quality concerns
- Medicare
- Long-Term Care
- Other Issues
 - Pandemics / catastrophic events
 - Mental health parity / benefit mandates
 - Genetic nondiscrimination

Uninsured

Insurance Coverage of the Under 65 Population, 2006

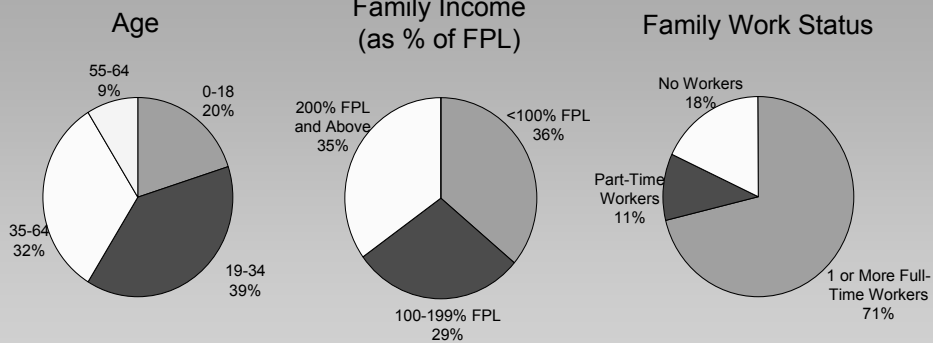


Source: The Henry J. Kaiser Family Foundation, "The Uninsured: A Primer," October 2007

Uninsured

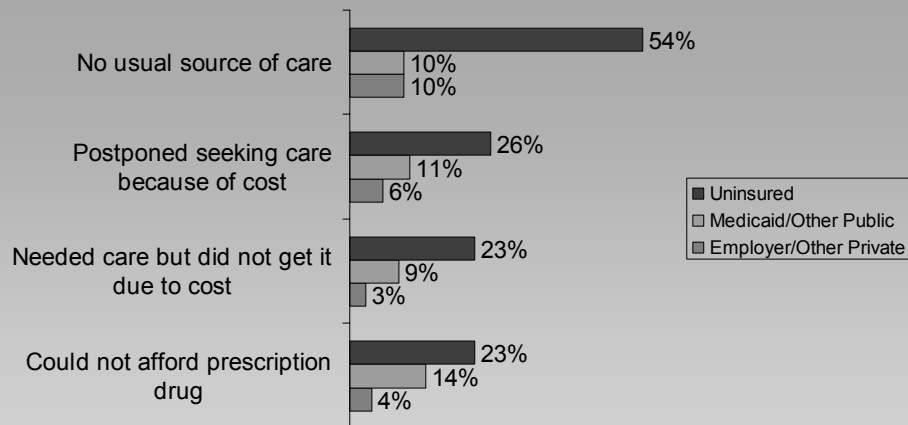
Characteristics of the Nonelderly Uninsured, 2006

Total Uninsured = 46.5 million



Source: The Henry J. Kaiser Family Foundation, "The Uninsured: A Primer," October 2007

The uninsured experience more barriers to care



Source: The Henry J. Kaiser Family Foundation, "The Uninsured: A Primer," October 2007

Unequal tax treatment of health insurance

- **Employment-based coverage**
 - Excluded from compensation for income and payroll tax purposes
 - Federal income tax subsidy estimated at \$106 billion for FY2007 (Joint Committee on Taxation, 2007)
 - Deductions provide greater tax subsidies for those with higher incomes
- **Individual market coverage**
 - No tax subsidies except:
 - Self-employed can deduct premiums for income tax (but not payroll tax) purposes
 - Premiums plus medical expenses exceeding 7.5% of AGI can be deducted

Major health initiatives enacted since 1992

- 1996: Health Insurance Portability and Accountability Act (HIPAA)
- 1997: State Children's Health Insurance Program (SCHIP)
- 2002: Health Coverage Tax Credit
- 2003: Health Savings Accounts

Current proposals to expand coverage

- Focus on the private insurance market
 - Tax incentives to purchase private insurance
 - Individual market reform (including AHPs, insurance purchase across state lines)
 - Expand Health Savings Accounts (HSAs)
- Encourage state-based efforts
 - Block grants to states
 - Allow redirection of federal and state resources to help low-income uninsured purchase private coverage

Proposals to expand coverage (cont.)

- Combined Private/Public Approach
 - Enhance purchasing opportunities
 - Create regional purchasing pools (with market reforms)
 - Allow individuals to purchase FEHBP plan
 - Create FEHBP-type national plan
 - Government-sponsored reinsurance
 - Expand Medicaid/SCHIP eligibility
 - Individual mandate and/or employer mandate

- Single Payer

Presidential candidate proposals to expand coverage

	Sen. Clinton	Sen. Obama	Sen. McCain
New regional or national markets	√	√	
Issue/rating rule limitations	√	√	“Guaranteed Access Plans” for high risks
Low-income premium assistance	√	√	
Premium subsidies to employers	Small employers, Retiree health plans	√	
Expand Medicaid/SCHIP	√	√	
Mandates	Individual - √ Employer – Large ers	Individual - Kids only Employer - √	
Restructure tax preferences			√
Deregulate state insurance markets			√
Expand use of HSAs			√

Selected Congressional proposals

- **Healthy Americans Act (Wyden/Bennett)**
 - Replaces employer group insurance system and Medicaid with a mandatory individual system through state-run entities
 - New health care standard deduction, which phases out at higher incomes; income-based subsidies
 - Employers must make “shared responsibility” contributions, based on employer size and revenues
 - Premiums may not vary by age, gender, industry, health status
- **Universal Health Care Choice and Access Act (Coburn)**
 - Replaces tax exclusion for employer coverage with a tax credit to individuals
 - Any left over tax credit money could be deposited in HSAs
 - Allows for insurance purchase across state lines

Selected Congressional proposals (cont.)

- **Small Business Health Options Program (Durbin/Snowe/Lincoln/Coleman)**
 - Creates statewide small business health insurance market (nationwide plans also available)
 - Rating compression; no variation based on health status
 - Tax credits to small businesses
- **Ten Steps to Transform Health Care in America (Enzi)**
 - Replaces tax exclusion for employer coverage with a new health care standard deduction; income-based subsidies
 - Merge state individual and group markets (group market rules apply)
 - Rating compression; no variation based on health status
 - Allow cross state pooling
 - Harmonization of state-mandated benefit requirements

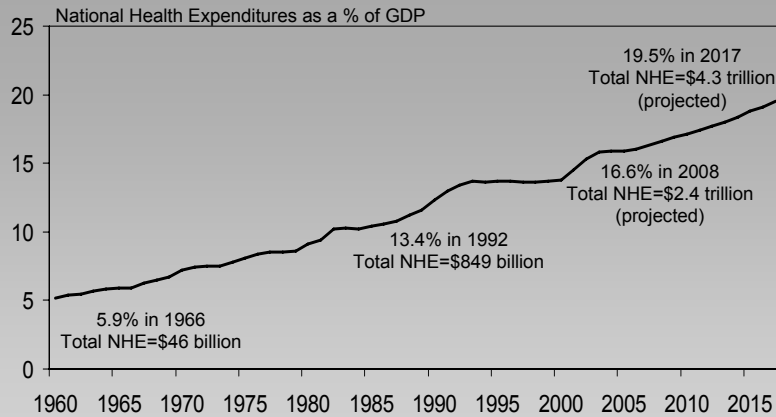
Academy activities/publications related to the uninsured

- **The Uninsured**
 - Issue brief, “Health Coverage Issues: The Uninsured and the Insured”
 - Forthcoming issue brief on coverage/plan design issues
- **Risk Pools**
 - Election 2008 backgrounder, “Medical Insurance Pools”
 - Issue brief, “Wading Through Insurance Pools: A Primer”
 - Issue brief, “FAQs on AHPs”
 - Comment letters to Congress on AHPs and related legislation
 - Capitol Hill briefings on AHPs and risk pooling issues

Academy activities/publications related to the uninsured (cont.)

- **Health Savings Accounts**
 - Election 2008 backgrounder, “Consumer-Driven Health Plans”
 - Issue brief, “FAQs on HSAs”
 - Issue brief and monograph on consumer-driven health plans
 - Comment letter to IRS on HSA draft guidance
- **Individual Market**
 - Forthcoming issue brief on how the market works
- **Reinsurance**
 - Election 2008 backgrounder, “Medical Reinsurance”
 - Issue brief, “Medical Reinsurance: Considerations for Designing a Government-Sponsored Program,” and follow-up paper providing more detail
 - Testimony at hearing of the House Committee on Small Business

Rising health care spending



Source: Centers for Medicare and Medicaid Services, Office of the Actuary

Quality concerns

- Between 44,000 and 98,000 Americans die from medical errors annually (IOM, 2000)
- Gaps in health system performance cost \$50-100 billion annually (Commonwealth Fund, 2006; includes costs stemming from access limitations among the un- and under-insured)
- American adults receive only 54% of recommended care—little difference between preventive care, acute care, and chronic care (McGlynn et al, 2003)
- Care received can vary dramatically across the country; patients in high-spending regions receive more care, but not better outcomes (Fisher et al, 2003)

Quality/cost proposals

- Invest in health information technology (e.g., electronic medical records)
- Promote prevention and chronic care management
- Restructure provider payment systems to include pay for performance incentives
- Encourage more comparative effectiveness research / development of evidence-based medicine guidelines

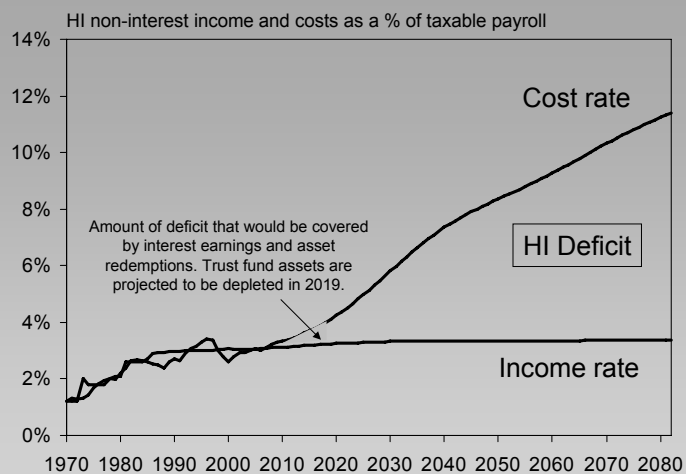
Academy activity/publications on quality/cost issues

- Election 2008 backgrounder, “Rising Health Spending”
- Issue brief, “Pay for Performance: Rewarding Improvements in the Quality of Health Care”
- Issue brief, “Disease Management Programs: What’s the Cost?”
- Practice note, “Disease Management”
- Forthcoming issue brief giving an actuarial perspective on incorporating comparative effectiveness research findings

Medicare financing

- Impending HI trust fund insolvency
- Medicare's demands on the federal budget are increasing
- Paying currently promised Medicare benefits will place an increasing strain on the U.S. economy

HI costs will exceed non-interest income this year



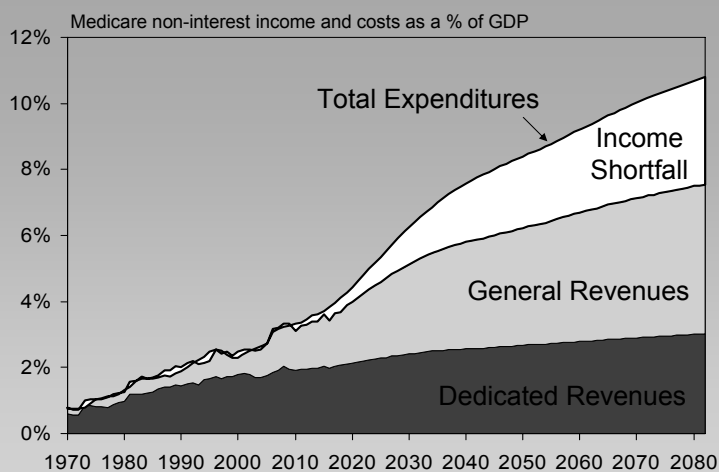
Source: 2008 Medicare Trustees Report

Bottom line for HI trust fund

(According to 2008 Trustees' Report)

- HI tax revenues will cover 78% of benefits in 2019, when trust fund assets are projected to be depleted
- HI deficit over the next 75 years = \$13 trillion (3.5% of taxable payroll)
- Eliminating 75-year deficit would require:
 - Immediate 122% increase in payroll taxes, or
 - Immediate 51% reduction in benefits, or
 - Some combination

Increasing reliance on general revenues places an increasing demand on the federal budget

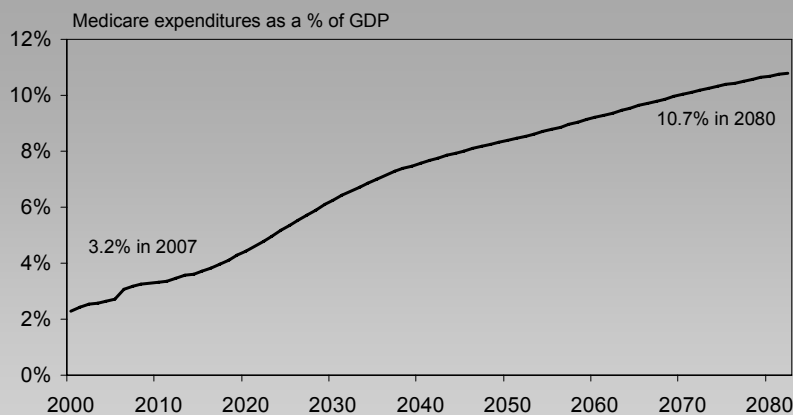


Source: 2008 Medicare Trustees Report

Excess general funding provision triggered again this year

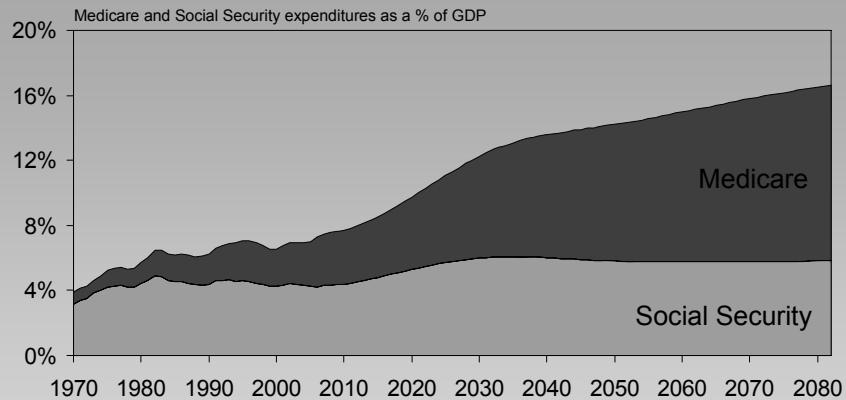
- If for 2 consecutive trustees' reports, general funding sources account for more than 45% of Medicare spending within the next 7 years, the president is required to recommend ways to reduce this share.
 - President's legislative proposal must come within 15 days of next budget submission.
 - Congress required to *consider* the legislation on an expedited basis.
- Provision first triggered in 2007
 - President submitted legislation in February 2008. Proposal would increase Part D premiums for high income beneficiaries.
 - Provision triggered again this year.

Rising costs are key challenge to Medicare's long-term sustainability



Source: 2008 Medicare Trustees Report

Total Medicare and Social Security spending



Source: 2008 Medicare and Social Security Trustees Reports

Criteria for evaluating Medicare reform options

- Is HI solvency improved?
- Is Medicare's strain on the federal budget and/or economy reduced?
- Is it a one-time improvement or a permanent reduction in spending growth?
- Does it reduce spending or merely shift spending to other payers?

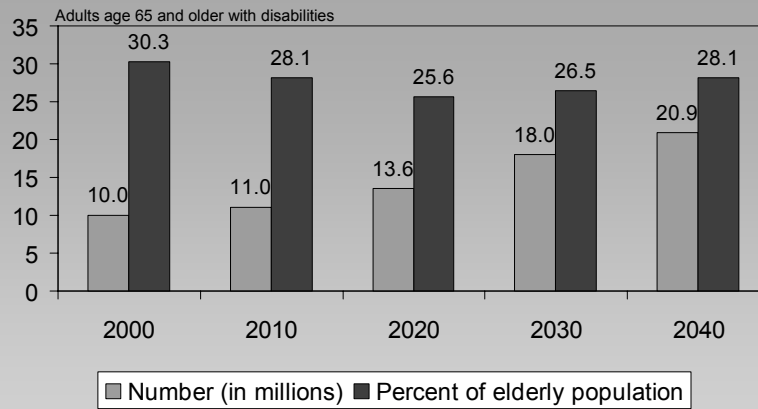
Academy activity/publications on Medicare issues

- Medicare financing
 - Election 2008 backgrounder on Medicare financing issues
 - Op-ed in the *New Hampshire Union Leader*
 - Issue brief, “Medicare’s Financial Condition: Beyond Actuarial Balance”
 - Monograph, “Medicare Reform Options”
 - Capitol Hill briefings on financing issues
- Medicare Part D
 - Practice notes for Part D actuarial equivalence attestation
 - Comment letter to CMS regarding lessons learned on Part D implementation
 - Prior to MMA passage: white papers, Capitol Hill briefings, comment letters to Congress, etc.

Long-term care

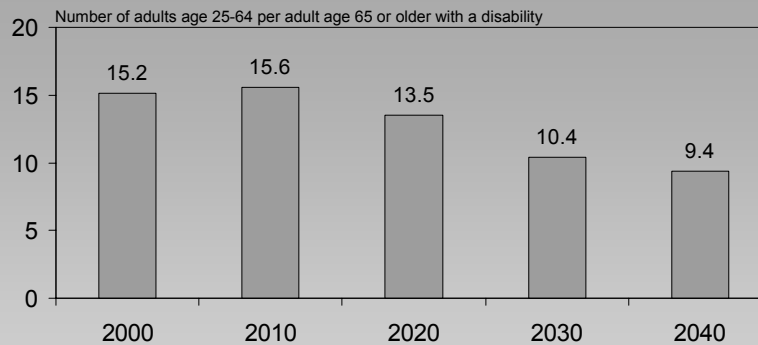
- Demand for long-term care services will increase
- Financing of long-term care services will put additional pressure on state and federal budgets
- Health care workforce faces potential shortages

Frail elderly population will decrease somewhat as share of elderly, but will increase overall



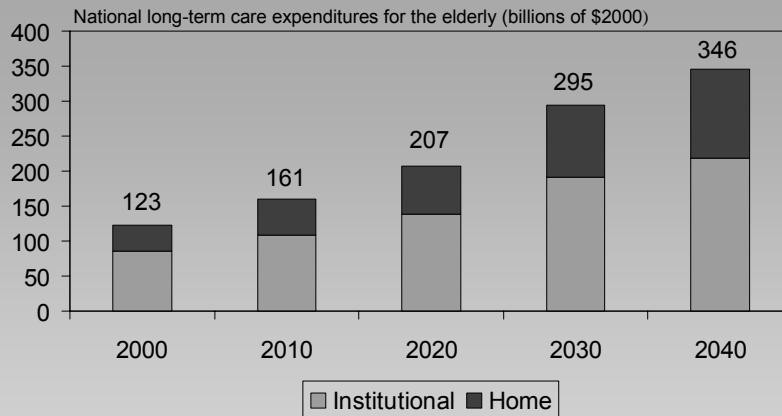
Note: Disability is defined as any ADL or IADL limitation.
Source: Johnson, Toohey, and Wiener, "Meeting the Long-Term Care Needs of the Baby Boomers," 2007

Working age adult population will grow more slowly than frail elderly population



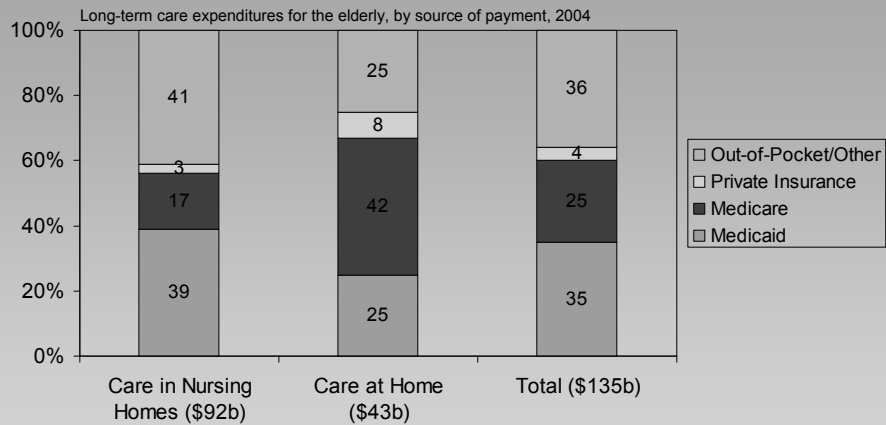
Note: Disability is defined as any ADL or IADL limitation.
Source: American Academy of Actuaries calculations based on Johnson, Toohey, and Wiener, "Meeting the Long-Term Care Needs of the Baby Boomers," 2007

LTC expenditures for the elderly will nearly triple from 2000 to 2040



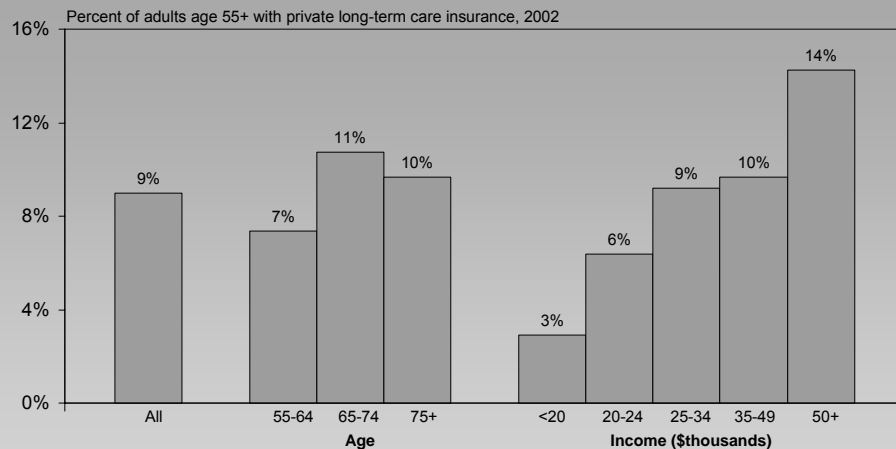
Note: Expenditures do not include informal caregiving. About two-thirds of the disabled living in the community rely exclusively on unpaid sources of care.
Source: CBO, "Projections of Expenditures for Long-Term Care Services for the Elderly," 1999

Medicare and Medicaid pay for majority of LTC expenditures



Source: CBO, "Financing Long-Term Care for the Elderly," 2004

Few elderly / near-elderly have private long-term care insurance



Source: Johnson and Uccello, "Is Private Long-Term Care Insurance the Answer?" 2005

Long-term care proposals

- Tax incentives to purchase private long-term care insurance
- Tax incentives to use retirement savings plan distributions to pay long-term care insurance premiums
- Encourage/expand public/private partnerships
- Tax credits for family caregivers
- Expand Medicaid coverage for home and community-based care
- Establish a national voluntary insurance program

Pandemics / catastrophic events

- What policies can/should be implemented to ensure that the health care infrastructure is adequately prepared for:
 - Bird flu and other pandemics?
 - Natural disasters?
 - Terrorist events?
- Academy activities:
 - Monograph, “Group and Health Coverage in the Wake of September 11”

Mental health parity / benefit mandates

- Mental health parity: The House and Senate have passed different versions of mental health parity legislation
- Other benefit mandates
- Academy activities:
 - Comment letter to Congress on parity legislation
 - Issue brief, “Mental Health Parity: Often Separate, Usually Unequal”

Genetic nondiscrimination

- Congress passed and the president is expected to sign into law, the Genetic Information Nondiscrimination Act of 2008
- Academy activities:
 - Comment letters to Congress
 - Testimony at a House hearing
 - Hill briefing on genetic testing
 - Issue brief, “Genetic Information and Medical Expense Insurance”

Conclusion

- The next president and Congress will have to face many important health-related issues that impact health security, financial security, and retirement security.
- Policies should aim to ensure that individuals have access to high-quality health care that is affordable both to them and to the nation as a whole.
- These issues don't have easy solutions.
- The actuarial profession will continue to provide valuable input on many of these issues.

For more information

- American Academy of Actuaries
 - www.actuary.org
 - www.actuary.org/issues/elect08.asp
- Kaiser Family Foundation election news
 - www.election08.org
- Specific candidate plans:
 - www.hillaryclinton.com
 - www.barackobama.com
 - www.johnmccain.com