



SOCIETY OF ACTUARIES

**Health Spring Meeting
June 2009**

**Session # 22 PD: Current reform initiatives
(State & Federal)**

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Moderator:
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Current Reform Initiatives

Federal Initiatives

Presented by
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Consulting Actuary

June 8, 2009



President Obama

- Not planning to introduce own health care reform proposal
- Will work with Congress to develop details for comprehensive reform
- “Serious” about addressing health care spending growth

2 July 17, 2009

Obama's Eight Principles for Transforming and Modernizing US Health Care

- Protect families' financial health
- Make health care affordable
- Aim for universality
- Provide portability of coverage
- Guarantee choice
- Invest in prevention and wellness
- Improve patient safety and quality care
- Maintain long-term fiscal sustainability

3 July 17, 2009

President Obama – Campaign Proposal

- Public Plan with FEHBP-like benefits
- Health Insurance Exchange for individual and small group
- Large employers contribute percent of payroll to health care costs if don't provide insurance
- Guaranteed coverage for pre-existing condition
- Medical malpractice reform
- Tax credits for low income individuals

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American Recovery and Reinvestment Act of 2009 (Economic Stimulus)

- Temporarily increases federal share of Medicaid funding (\$87b)
- Temporarily subsidizes 65% of COBRA premiums for unemployed (\$25b)
- Provides \$19B for development of health information technology systems
- Comparative effectiveness research - \$1b
- “Prevention and Wellness Fund” - \$1b
- \$10b increase in funding for NIH

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Children’s Health Insurance Program Reauthorization Act

- Renews State Children’s Health Insurance Program (SCHIP)
- Extends coverage to 4 million children without insurance
- Continues coverage for 7 million children currently enrolled
- \$33 billion over the next 4½ years (in addition to current \$25b)
- Caps federal contribution for families with income > 300% FPL
- Incentives to enroll eligible children
- Allows states to cover immigrant children and pregnant women during their first 5 years in the U.S.

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DHHS 2010 Budget

- \$634b reserve fund to help finance health care reform
- Funded by:
 - Federal health savings (\$316b)
 - Establish competitive bidding for MA plans (\$177b)
 - Additional incentives to promote efficiency/accountability (\$111b)
 - Align incentives toward quality (\$20b)
 - Increase premium for high-income Part D participants (\$8b)
 - New revenues (\$318b)
 - Reduce itemized deductions for families with incomes greater than \$250,000 (\$318b)

Note: Savings and revenue figures reflect totals over 10 years

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Senate HELP Committee Framework for Reform

- Chairman Senator Edward Kennedy (D-MA)
- Insurance market reform
 - Individual mandate
 - Guaranteed issue
 - Modified community rating
 - National health exchange
 - Low-income subsidies

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Senate HELP Committee Framework for Reform

- Delivery system reform
 - Chronic disease management
 - Health information technology
 - Evidence-based medicine
 - Medical homes
- Promote prevention and wellness
- Long term care reform
 - Voluntary program financed through payroll deductions

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Senate Finance Policy Options (1st of 3 Papers) Health Care Delivery System

- Medicare payment reform
 - Establish a value-based purchasing program
 - Bonus payments to primary care physicians to increase workforce
 - Pilot programs of patient-centered care coordination models
 - Bundled payment to hospitals to prevent readmissions
 - Update the SGR fee schedule for 2010 and 2011; revert to current law in 2013 (potentially with floor)
- Medicare Advantage reform
 - Modify MA benchmarks or set benchmarks based on plan bids
 - Provide bonus payments for chronic care management
 - Reduce variation in benefits offered by MA plans

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Senate Finance Policy Options (1st of 3 Papers) Health Care Delivery System

- Health care infrastructure investments
 - Invest in health information technology
 - Develop a national quality improvement plan
 - Establish an independent institute for comparative effectiveness research

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Senate Finance Policy Options (2nd of 3 Papers) Expanding Coverage

- Insurance market reforms
 - Impose federal guaranteed issue and modified community rating in non-group and micro market (2-10)
 - Create a national health exchange
 - Establish transition rules
- Benefit coverage options
 - Require insurers to offer four benefit options (high, medium, low and lowest)
 - Provide a tax credit (advance, refundable) for low-income (under 400% of FPL)
 - Provide a small business tax credit

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Senate Finance Policy Options (2nd of 3 Papers) Expanding Coverage

- Public plan option
 - Establish a public plan option to operate through an exchange
 - Medicare-like plan administered by HHS
 - Similar to Medicare-like plan but administered by TPA
 - State-run public plan option
 - Do not establish a public plan option
- Also includes sections on the role of public programs, shared responsibility, and prevention and wellness

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Senate Finance Policy Options (3rd of 3 Papers) Financing Reform

- Health system savings
 - Reduce geographic variation in spending
 - Simplify Medicare beneficiary cost sharing
 - Means test Medicare Part D premiums
- Tax exclusion for employer-provided coverage
 - Cap exclusion based on AGI in excess of \$200,000 (\$400,000 for joint)
 - Cap exclusion based on actuarial value of benchmark plan (e.g., FEHBP)
 - Limit exclusion to percentage of total premium for coverage

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Senate Finance Policy Options (3rd of 3 Papers) Financing Reform

- Other related revenue raisers
 - Modify health savings accounts
 - Modify FICA tax exemption
 - Extend Medicare payroll tax to state and local government employees

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Patient's Choice Act (HR2520/S1099)

- Legislation introduced by House/Senate republicans
- Key provisions:
 - Emphasize prevention
 - Establish state-level insurance exchanges
 - Ensure guarantee issue
 - Independent risk-adjustment among insurers to ensure affordable premiums
 - Individual tax rebate (\$2300/\$5700) to purchase insurance
 - Realign payment incentives in Medicare
 - Public/private partnership to establish uniform measures to report quality/price information

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Recent and Ongoing American Academy of Actuaries Activities and Publications

- Actuarial perspectives on health reform (series of short policy statements addressing aspects of reform from an actuarial perspective)
 - Individual mandate
 - Public plan option
 - Actuarial equivalence
 - Coverage expansion to high-risk individuals
 - Merging the small group and individual markets
 - Risk adjustment and other risk sharing mechanisms

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Recent and Ongoing American Academy of Actuaries Activities and Publications

- Recent and forthcoming issue briefs providing more detail on health reform issues
 - Risk classification in the voluntary individual market
 - Risk adjustment
 - Individual health insurance market
 - Drivers of and options to address health care spending growth
 - Insurance coverage/benefit design issues
 - Value-based insurance design (VBID)
 - Comparative effectiveness research

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Recent and Ongoing American Academy of Actuaries Activities and Publications

- Hill briefings/webcasts for congressional staff
 - Risk pooling and insurance market fundamentals
 - Risk adjustment
 - Drivers of and options to address health care spending growth
- Meetings with congressional staff on various reform issues
 - Transition issues related to market reforms
 - Individual mandate
 - Expanding health insurance options for small firms
 - Risk adjustment

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Recent and Ongoing American Academy of Actuaries Activities and Publications

- Presentations by the AAA Senior Health Fellow and Academy volunteers at “off the record” forums for congressional staff
 - Forums sponsored by other health policy related organizations, including Alliance for Health Reform, National Health Policy Forum, Kaiser Family Foundation
 - Topics include: actuarial equivalence, health insurance market fundamentals, transition issues

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**Society of Actuaries
2009 Health Spring Meeting
May 29, 2009**

Session 22PD – Current Reform Initiatives

Craig R. Springfield



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Tax Considerations of Health Care Reform

- **Origins of Present System of Tax Incentives – Employment-Based Incentives**
 - **Historic tax treatment.**
 - Early treatment.
 - Sections 106 (enacted in 1954) versus section 213 (enacted in 1942).
 - **Price and wage controls during WWII substantially increased popularity.**
- **Praise and Criticisms of Present Tax Treatment**
 - **High percentage of Americans are now covered, but not all.**
 - **Increasing costs.**
 - **Fostering greater quality of care.**
 - **Tax equity?**



Tax Considerations of Health Care Reform

Features of Present System

- Employment Based Coverage
 - Exclusion of premiums. Exclusion of employer-paid premiums from income. (Code section 106.)
 - Exclusion of benefits. Exclusion of insurance benefits from income to the extent of medical expenses incurred. (Code section 105.)
 - Cafeteria plans. Can offer employees the option of cash compensation or certain qualified benefits, including accident & health coverage, without the offer of cash resulting in constructive receipt (income to the employee). (Code section 125.)



Tax Considerations of Health Care Reform

Features of Present System (continued)

- Employment Based Coverage (continued).
 - Flexible spending arrangements. Employers can reimburse certain out-of-pocket medical care costs without such reimbursements being income to the employee. (Code sections 106 and 125.)
 - Health Reimbursement Arrangements (HRAs).
- Health Savings Accounts (HSAs) / high deductible health plans. (Code section 223.)
 - Self Employed Individuals. Above-the-line deduction of health insurance premiums. Not deductible for payroll tax purposes. (Code section 162(l).)
 - Individual deduction. Insurance premiums for medical care coverage deductible to the extent all medical care costs exceed 7.5% of adjusted gross income. (Code section 213.)



Tax Considerations of Health Care Reform

- Goals of Health Care Reform – And How Do Taxes Fit In?
 - Universal coverage – For many, the one litmus test for defining “comprehensive” health care reform.
 - Control / reduction of costs.
 - Maintain / increase quality of care.
 - Goal of budget neutrality.
 - Other considerations.



Tax Considerations of Health Care Reform

- The goal / problem of deficit neutrality
 - Budget resolution. Deficit neutral over a 10 year window.
 - Practical – must be deficit neutral over a longer time frame.
- Cost of reform – subsidizing lower wage earners to help eliminate the uninsured.
 - How much will be needed?
 - Modification of the earned income tax credit?
- Savings of reform – some will be scored; others won't be.
 - Medicare Advantage?
 - Reimbursements under Medicare – less focus on volume, more on quality.
 - Other savings in health system, e.g., broadening base of those paying for coverage, reduction in unreimbursed services provided, encouraging more primary care and less specialty care, other measures to improve / provide incentives for efficiency.
 - Dynamic model?
 - Taxes?



Tax Considerations of Health Care Reform

- Need for revenue and/or concerns about existing incentives could lead to tax law changes.
- Some possible approaches, together with commentary of their advantages and disadvantages, are described in CBO's "Budget Options," December, 2008.
 - **"Option 9" – Reduce tax exclusion for employer-provided coverage, including employee contributions for health care costs through FSAs or HSAs, that exceeds \$1,440/month (family coverage) or \$565/month (individual coverage). Raises \$452.1 billion over 10 years.**
 - **"Option 10" – Replace tax exclusion with a above-the-line tax deduction. Raises \$552.2 billion over 10 years.**
 - Valuation issues.
 - Taxing individuals on amounts not received in cash and which they might have valued differently (especially if comparable coverage could be individually purchased for less).
 - Geographic considerations.



Tax Considerations of Health Care Reform

- **"Option 11" – Replace income and payroll tax exclusion with a refundable credit. Raises \$606.0 billion over 10 years.**
 - Same valuation issues.
 - Tax equity consideration.
- **"Option 12" – Allow self-employed workers to deduct health insurance premiums from income that is subject to payroll taxes. Loses \$37.2 billion over 10 years.**
- **"Option 13" – Expand eligibility for an "above-the-line" deduction for health insurance premiums. Loses \$65.2 billion over 10 years.**
 - CBO notes expansion of incentive for coverage, but expresses concern about whether it would create an incentive for employers to drop plans. Payroll tax benefit would continue.



Tax Considerations of Health Care Reform

- **“Option 14” – Disallow new contributions to HSAs. Raises \$10.5 billion over 10 years.**
- **“Option 15” – Allow health insurance plans with coinsurance of at least 50 percent to qualify for HSA tax preference. Loses \$0.3 billion over 10 years.**
- **“Option 16” – Levy an excise tax on Medigap plans. Raises \$12.1 billion over 10 years. (\$1.7 billion was from a reduction in Medicare spending.)**
- Some key proposals.



Tax Considerations of Health Care Reform

- Questions regarding tax equity.
 - Larger tax reduction for higher marginal rate taxpayers.
 - Considerations regarding “income” that should be taxed.
 - Valuation issues.
- Questions regarding the effectiveness of tax incentives.
 - Relationship of tax incentives to rising costs?
 - Relationship of tax incentives to improvements in the quality of health care generally?
- How will taxes fit in with non-tax changes to the health care system? What weight will be given to the competing goals for health care reform?
- Where do things stand now?



Questions?



Health Care Reform

The View from Washington

Rod Turner

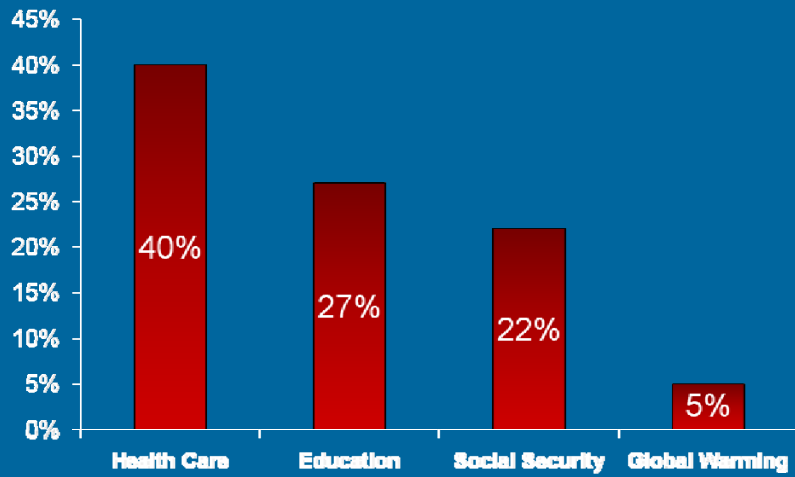
June 8, 2009

Outline

- 1. Health Care Reform: Public's Attitude**
- 2. AHIP's Reform Proposal**
- 3. Critical Issues**

Health Care Reform

Number 2 and Climbing

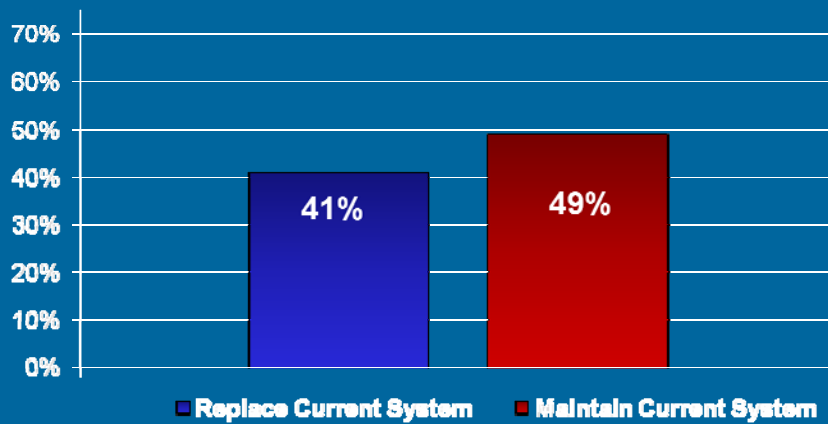


Source: NY Times/CBS News, February 18-22, 2009

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Health Care Reform

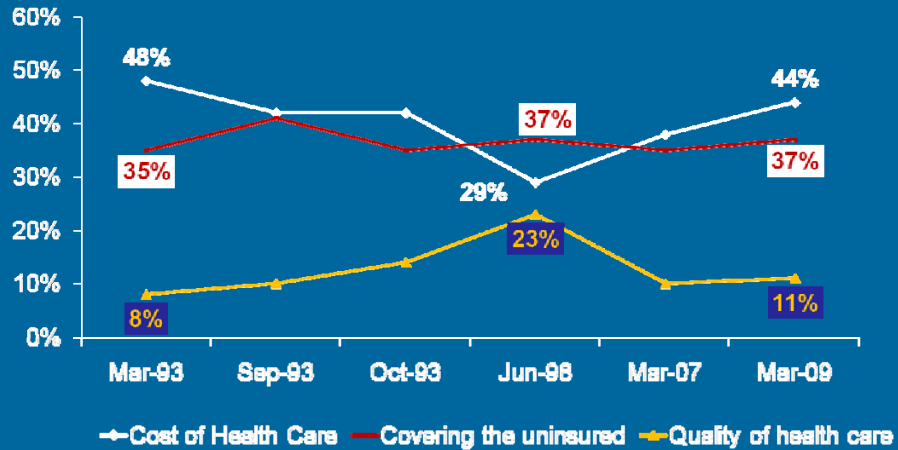
Public is split



Source: Gallup, Nov. 11-13, 2008

Health Care Reform

Reducing health care costs are the #1 concern



Source: NBC News/Wall Street Journal, February 26 – March 1, 2009

Where We Started

Solution-Oriented Approach

March 2006	Board charts new course
November 2006	Access proposal
April 2007	Quality and safety improvement proposal
May 2008	Affordability proposal
Summer 2008	
November 2008	Guarantee issue announcement
December 2008	Comprehensive reform proposal released
March 2009	Rating reform announcement

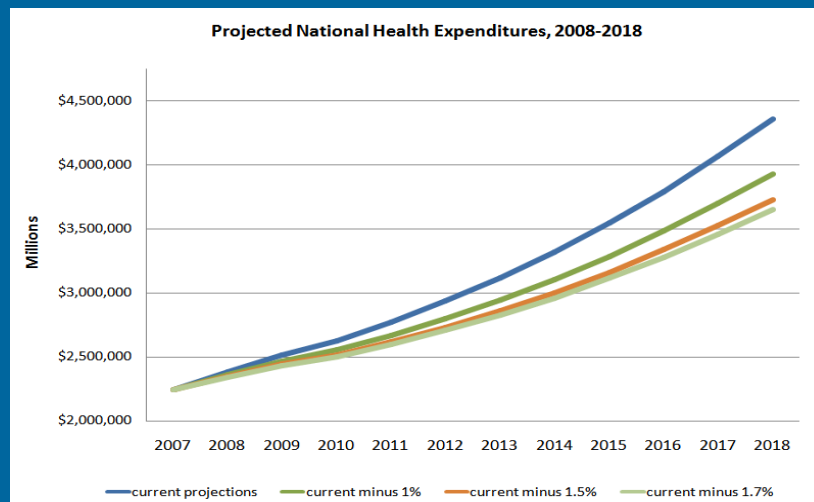
Cost Containment

Reform is Unsustainable Without It

- **Set target of 30% reduction in growth rate over five years**
 - Estimated cumulative savings of more than \$500 billion over five years
- **Create public-private advisory group to provide specific policy recommendations to Congress**
 - All stakeholders would have a seat at the table
- **Recommendations:**
 - Reduce wasteful and unnecessary spending across all sectors
 - Reform payment systems to reward value rather than volume
 - Streamline administrative processes
 - Address the cost-shift problem
 - Advance best practices

Cost Containment

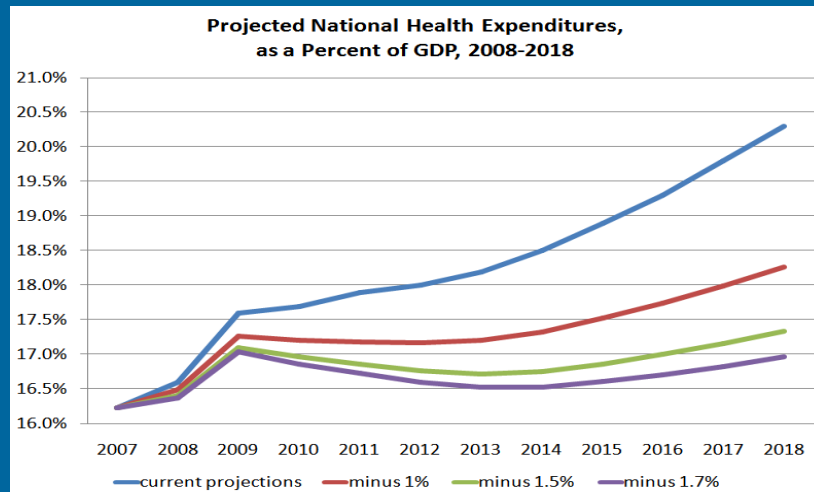
Bending the curve



Cost projections based on CMS National Health Expenditure data

Cost Containment

Reducing the impact on the economy



Cost projections based on CMS National Health Expenditure data

Universal Coverage

A Strong Foundation to Cover All Americans



The Quality Agenda

A High-Value Health Care System

- Refocusing our health care system on keeping people healthy, intervening early, and providing coordinated care for chronic conditions
- Improving care nationwide by adopting uniform standards for quality reporting and information technology
- Investing in more research to better understand which treatments and therapies work best
- Creating accountability for consistently delivered, high-quality care based on the best evidence
- Making targeted investments in our public health infrastructure

Critical Issues

What will the debate focus on

- Government's role
- Employee responsibility
- Individual responsibility
- Health plan responsibility
- Financing
- Reimbursement/Payment model reform