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State health reform

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- Introduction
- Factors underlying health reform efforts
- State health reform initiatives
- Employer considerations
- Mercer's view

Why is health reform in the US important?

- Whether at the federal or state level, health reform will affect employers in the following ways
 - Cost management strategies
 - Administration and reporting requirements
 - Design and cost sharing flexibility
 - Access to and use of data on provider quality and efficiency
 - Talent attraction and retention



Factors underlying health reform efforts

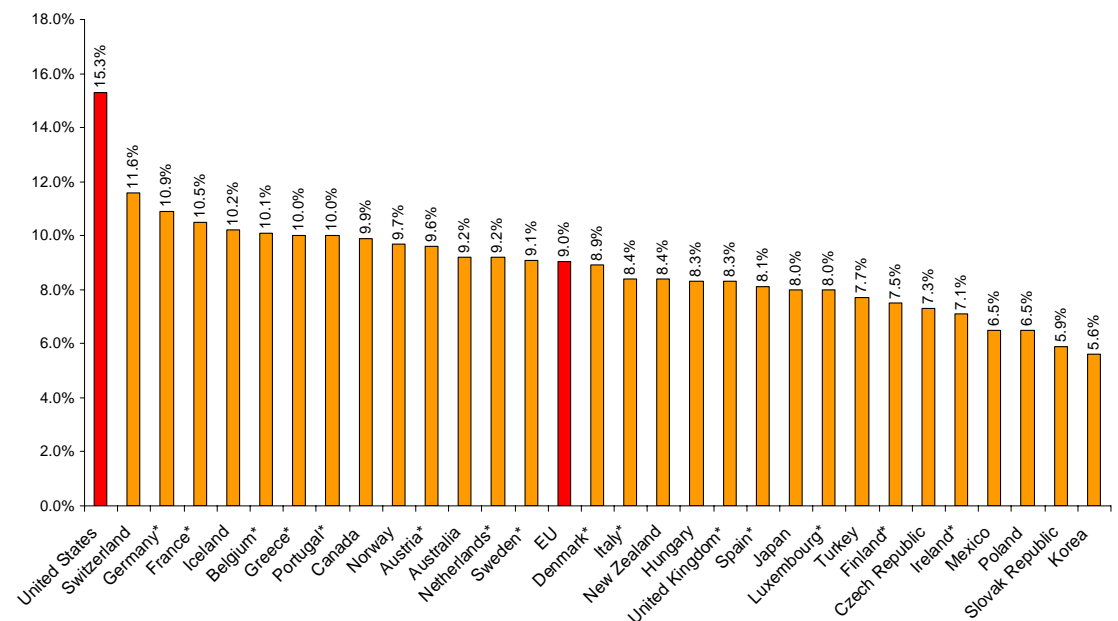
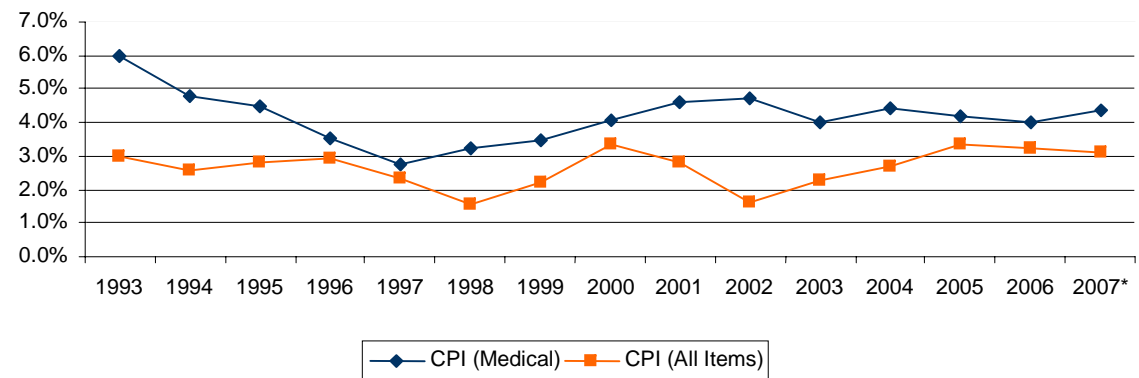
A system in need of change

- The number of uninsured individuals is both a social and an economic problem
 - Approximately 47 million people lack health coverage; almost half of these work full time
- The uninsured exacerbate today's health system's problems, which are reflected in
 - Quality
 - Under-use of effective services, poorer management of chronic conditions, higher emergency room use
 - Health
 - US ranks 25th (out of 30 countries) in infant mortality
 - US ranks 20th (out of 30 countries) in longevity
 - Cost
 - Bad debt and cost-shifting to insurers, employers, covered individuals, direct-pay consumers and others
 - Cost burden falls on state government

A system in need of change (cont.)

- Health care cost has consistently increased at a more rapid rate than other costs
- Health care cost in the US accounts for a larger portion of the GDP than in any other industrialized country
- High, rising costs undermine US businesses' economic competitiveness
- Employers and employees face increasingly expensive coverage

CPI Annual Percent Change



Federal role still evolving

- This is not 1993 – there is growing consensus on the need for reform
- Health reform is a part of the national debate
 - A variety of federal legislative proposals have been introduced
 - Presidential candidates from both parties are addressing reform ideas in their campaigns
 - Ideas range from federal solutions to letting individual states determine their own course of action
 - Business, labor and others have organized into coalitions to address health reform
- But... broad-based federal reform is unlikely in the near future due to a partisan political climate, presidential election cycle, federal budget deficit, etc.

States are taking the lead

- Federal government may support state action, including
 - ERISA preemption for self-funded employers may start to erode, with specific enabling legislation
 - Other Medicaid and State Children's Health Insurance Program (SCHIP) funding
- Many states are focusing efforts on increasing employer responsibility
 - Some states made a public issue of private sector employers whose employees enrolled in Medicaid
 - Employer accountability was the impetus for Maryland legislation and similar measures
- State governments, as employers, are facing their own challenges



State health reform initiatives

States are taking action

- Prevalent approaches
- Sources of funding



Prevalent approaches

Focus on employers and the health care system

Focus on employers

- Employer play-or-pay
- Cafeteria plan expansion
- Extension of dependent eligibility for coverage

Focus on health care system

- Connector or Exchange agencies
- Small group and individual market reforms
- Individual coverage mandates
- Wellness and prevention
- Transparency

Employer play-or-pay

▪ Overview

- Employers must either provide a certain level of coverage, spend a certain amount of payroll on health benefits, or pay to state
- States would use employer payments to fund expanded coverage

▪ Examples

- Massachusetts Fair Share Contribution
- Vermont employer contributions
- California and Illinois proposals
- Maryland's preempted Fair Share law

Employer play-or-pay

▪ Overview

- Employers must either provide a certain level of coverage, spend a certain amount of payroll on health benefits, or pay to state
- States would use employer payments to fund expanded coverage

▪ Employer impact

- Costs will increase for employers who are
 - Not offering health coverage to all or a part of the workforce
 - Required to increase their contribution rate or benefit design
- Costs could decline for employers able to pare back existing plans and meet minimum state coverage requirements
- Reporting requirements typically increase administrative cost for all employers

Expanding cafeteria plans

- **Overview**

- Allow employees to make salary-reduction premium contributions for health care

- **Examples**

- Massachusetts – make available to nearly all employees in state
- Connecticut, Rhode Island, Missouri – enacted mandates
- Washington – targeted at certain small employers

Expanding cafeteria plans

▪ Overview

- Allow employees to make salary-reduction premium contributions for health care

▪ Employer impact

- Poses administrative challenges for forwarding salary reductions to any health insurer/vendor
- Increases administration costs for employers without cafeteria plans today or for those needing to amend existing plans
- Creates FICA savings

Expanding dependent eligibility for coverage

- **Overview**

- Extend the age of unmarried children entitled to coverage under insured products and HMO plans

- **Examples**

- Numerous states require coverage to age 24 or 25
- Higher age limits are appearing, for example, 26 or 30

Expanding dependent eligibility for coverage

▪ Overview

- Extend the age of unmarried children entitled to coverage under insured products and HMO plans

▪ Employer impact

- Will increase health costs for employers who have limited eligibility for dependents in insured plans and HMOs
 - 2006 Mercer Survey results indicate the average age to extend health coverage for children is 24 for full-time students, and 19 for non-students
- Increases complexity of administrative/payroll processes to ensure appropriate taxation of coverage for dependents who don't qualify for tax-free benefits
- May lead to spillover effect on dependent eligibility under an employer's self-insured coverage

Connector or Exchange agencies

- **Overview**

- State agencies to provide residents with access to affordable health coverage, setting minimum plan designs, facilitating premium payments, sometimes running subsidized programs for low-income residents

- **Examples**

- Massachusetts Connector
- Washington – more limited initial role

Connector or Exchange agencies

▪ Overview

- State agencies to provide residents with access to affordable health coverage, setting minimum plan designs, facilitating premium payments, sometimes running subsidized programs for low-income residents

▪ Employer impact

- Increases burden to establish processes and meet compliance obligations
- Potential to ease access, particularly for small groups, pre-65 retirees and uncovered employees

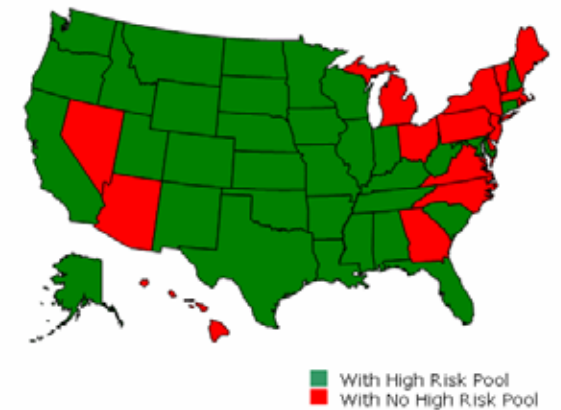
Small group and individual market reforms

▪ Overview

- Create high-risk pools
- Merge small group and individual markets
- Require community rating

▪ Examples

- 30 states have created high-risk pools
- Massachusetts has merged small group and individual markets



Small group and individual market reforms

▪ Overview

- Create high-risk pools
- Merge small group and individual markets
- Require community rating

▪ Employer impact

- Potential to increase access for employees
- A merged market would likely increase small groups' costs, though likely decrease costs of non-group insurance
- Minimal direct impact on self-insured employers

Individual coverage mandates

- **Overview**

- Every state resident must have health insurance, at specified levels of coverage and cost, or face penalties

- **Examples**

- Massachusetts mandate in effect now
- California proposal
- Presidential candidates – Clinton and Edwards

Individual coverage mandates

▪ **Overview**

- Every state resident must have health insurance, at specified levels of coverage and cost, or face penalties

▪ **Employer impact**

- Could increase competitive and employee relations pressure to assist with or provide adequate coverage

Wellness and prevention coverage

▪ Overview

- Allow insurance carriers to include wellness incentives and other wellness designs in their products (cost benefit to members)
- Incorporate wellness initiatives in state-sponsored programs (such as, state employee health program, Medicaid program)

▪ Examples

- Massachusetts, Vermont and Washington included quality, prevention and wellness initiatives in comprehensive health reform
- Delaware, Kentucky, Oklahoma, Rhode Island and South Dakota have launched health promotion initiatives for state employees

Wellness and prevention coverage

▪ Overview

- Allow insurance carriers to include wellness incentives and other wellness designs in their products (cost benefit to members)
- Incorporate wellness initiatives in state-sponsored programs (such as, state employee health program, Medicaid program)

▪ Employer impact

- Can lead to healthier population overall
- Could lead to higher premiums unless benefits are designed with strong ROI and direct impact on managing cost for high-risk patients
- May lead to pressure on employers with self-funded plans to add or modify their wellness strategies

Transparency

- **Overview**

- Require provider reporting to the state on quality measures and/or costs
- Establish repositories for provider quality and cost information

- **Examples**

- Patient reporting
- Over 30 states now require some price reporting
- Government-run websites include Arizona, California, Florida, Kentucky, Maryland, Massachusetts

Transparency

▪ Overview

- Require provider reporting to the state on quality measures and/or costs
- Establish repositories for provider quality and cost information

▪ Employer impact

- Facilitates consumer engagement strategies
- Bolsters efforts to improve provider quality and efficiency
- Provides opportunity to reduce cost attributed to poor quality and inefficiency

State funding sources

- General state taxes
 - New broad-based taxes
- Employer funding
 - Targeted taxes or fees tied to the provision of health care (for example, play-or-pay tax for employers not offering sufficient coverage)
- Social taxes
 - Tobacco
 - Alcohol
 - Gambling revenue
- Redistribution of existing state funds



Employer considerations

Employer concerns

- Employers see patchwork solutions emerging to address declines in employer-sponsored coverage
- Compliance with varying state requirements – eligibility, contributions, design, incentives, communication – is becoming more complex for multi-state employers
- Employers do not agree on the solutions and the basic premise of a government-driven solution
- Employers have varying levels of interest in tracking and opining on developing proposals, but they share some key concerns, including
 - Impact on labor cost and retention
 - Ability to control design decisions and ERISA preemption
 - Impact on administrative complexity and staffing support
 - Ability to influence meaningful outcome in the debate

Employer concerns

- Open questions
 - Will reductions in uninsured and uncompensated care really create savings or increase the need to negotiate new contracts to avoid windfall gains by providers?
 - Will play-or-pay mandates increase labor costs or stabilize them through reduced turnover?
 - What's the impact on global companies' labor strategies and cost of total employment expense in each country?
 - Will legislation help spur local demonstrations and pilot projects to advance clinical innovations and efficiency breakthroughs?
 - Will merging small group and individual markets increase or control costs?
 - Will Connectors or Exchange agencies provide meaningful and innovative new coverage alternatives?



Mercer's view

Our view

- We recognize that employers have differing views about reform efforts, government mandates and the extent of the employer's responsibility
- However, reform is inevitable and employers need to articulate their point of view on best alternatives
- The framework for a viable solution must address
 - Reducing the uninsured population through access to employer-sponsored plans and incentives for individual coverage
 - Standardizing measurement to yield significant gains in quality of care, reductions in errors and inefficient delivery of services
 - Investing in population health status
 - Developing comprehensive, statistically valid databases to measure provider performance
 - Providing incentives for providers to invest in health technology, including standardized electronic medical records

Our view – (cont.)

- Solutions that increase administrative costs without proof of positive impact on access, quality, cost and population health are counterproductive
- Our goal is to help employers
 - Navigate health reform proposals
 - Understand and manage implications
 - Align your healthcare strategy in an environment of change
 - Implement legislated requirements

Questions and contacts

Questions

To submit a question while in full-screen mode, use the Q&A button on the bottom right-hand side of your screen.



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