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Initial Reactions to Health Care Reform: An Insurer and Reinsurer Perspective

With the passing of the Patient Protection and Affordable Care Act, the environment for health insurers has drastically changed. Undoubtedly, the wheels of progress move slowly and we have only begun to understand the full impact that the reforms will have on our industry. What we do know is that these changes will have a significant and immediate impact on every organization conducting business in the health care arena.

In order to assess the current situation, brokers throughout Guy Carpenter & Company, LLC reached out to our business partners in all segments of the health care industry. We spoke with executives from fully insured and stop loss providers, large, individual and small group insurers, Medicare and Medicaid programs, as well as high risk health pools and commercial plans. The insurers that we spoke with ranged from small, single-state carriers to large national insurers. To enhance the scope of our survey, we also contacted reinsurers who are active in this market. Not only do reinsurers provide essential resources that may help insurers manage their increased exposure as a result of health care reform, but they also provide tremendous insight into what their clients are seeing in the market.

In total, Guy Carpenter spoke with 24 various organizations about the immediate and long term effects of health care reform. There were two general themes that persisted throughout these conversations. The first theme was that insurers are still navigating their way through the legislation. The second theme was that growth opportunities do exist and in order to survive in the new post-reform world, insurers must be able to identify and capitalize on these opportunities.

The overwhelming consensus is that insurers and reinsurers alike have yet to fully identify how health care reform will impact their organizations. This is a significant point to make; the reform is complex and multi-faceted so health insurers are taking their time in determining how to adapt to the new environment. If anything is learned from the Guy Carpenter survey it should be that the majority of health insurers have yet to develop their strategic plan for health care reform implementation.

Although most executives are still trying to understand the full impact of health care reform, it is important to note that many of the changes must be implemented by September 23, 2010. Therefore, while most insurers have yet to make final decisions about how they will adapt to health care reform, we would expect these initial decisions to be made within the coming months.

Another key conclusion from our survey is that health care reform does bring additional opportunities to health insurers as well as the obvious challenges. From the expansion of Medicaid to patient outcome requirements and mandatory coverage requirements, health care reform has created opportunities for membership growth and improvements in medical management. Insurers understand that capitalizing on these opportunities is one of the main keys to long term success.

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In addition to the themes addressed above, several other specific aspects of health care reform were on the top of most executives' minds. Based on the feedback received, this paper identifies the following seven aspects of health care reform that our business partners identified as having the biggest impact on their organization:

- Mandatory Coverage for dependents up to 26 years of age
- Removal of lifetime maximum limits
- Minimum loss ratio requirements
- Expansion of Medicaid
- Mandatory coverage requirements for all
- Pre-existing condition exclusions
- Reduction in Medicare reimbursement rates

Mandatory coverage for dependents up to 26 years old (effective September 23, 2010):

This mandate requires group and individual plans that offer dependent coverage to make such coverage available until the dependent turns 26 years old. Although this will increase the coverage health carriers must offer, in general, this will be a healthier population so the impact on financial results might not be as drastic as other changes being discussed.

Although this requirement does not take effect until September, all of the Blue Cross Blue Shield plans, as well as many national providers, have been early adopters of this law and provided this additional coverage effective June 1, 2010.

Removal of lifetime maximum limits (effective September 23, 2010):

This facet of health care reform prohibits individual and group health plans from placing lifetime limits on the dollar value of their coverage. After the initial review of the reforms, the removal of lifetime maximum limits has been identified as the biggest challenge that health insurers face. In addition to the removal of lifetime limits, and in accordance with the interim final regulations, restrictions on minimum annual limits will be phased in over the next four years according to the below schedule:

- USD750,000 for plan or policy years beginning on or after September 23, 2010
- USD1,250,000 for plan or policy years beginning on or after September 23, 2011
- USD2,000,000 for plan or policy years beginning on or after September 23, 2012

According to our survey, most insurers will look to the reinsurance market to provide protection from this increased exposure. While Guy Carpenter has identified at least one source for unlimited treaty year capacity, the majority of reinsurers do not currently offer an unlimited maximum benefit product. In fact, most have limited their exposure to $5,000,000 to $10,000,000 per insured per year. With the reforms, this is a high demand product and Guy Carpenter is working with the reinsurance market to develop additional capacity, if not unlimited annual maximum reinsurance contracts. In the mean time, Guy Carpenter is pursuing alternative reinsurance structures that would transfer the risk that health insurers assume by providing unlimited lifetime limits.

Minimum loss ratio requirements (effective January 1, 2011):

Individual plans and group plans with less than 100 employees will be required to have an annual medical loss ratio of at least 80 percent. Group plans with more than 100 employees will be required to have a medical loss ratio of at least 85 percent. Companies will be required to provide rebates to consumers if their experience is better than the required loss ratio but will have to absorb losses if their experience is worse. These requirements will hold true for Medicare Advantage plans but not for Medicaid plans or stop loss carriers.

In order to diversify themselves away from the minimum loss ratio requirements, some plans are evaluating options to supplement their earnings by marketing other, less regulated, product lines. Some carriers are also examining the potential to expand into other countries.

Expansion of Medicaid (effective January 1, 2014):

Under health care reform, the pool of potential Medicaid members will increase. All individuals under 65 years old and whose income is below 133 percent of the Federal Poverty Line will be eligible for Medicaid. Additionally, federal funding for the Children's Health Insurance Program and Medicare Special Needs Plans has been extended.

It is clear that health care reform will create an opportunity for organizations currently operating in, or wanting to pursue, government sponsored programs. In fact, many Medicare plans that we spoke with are pursuing the possibility of entering other government sponsored programs to help limit the impact of reduced Medicare reimbursement rates.

Mandatory coverage requirement for all (effective January 1, 2014):

The vast majority of Americans will be required to hold some sort of health insurance coverage by 2014. Whether it is through an employee plan, individual coverage, or a government sponsored program, the number of people purchasing health insurance will significantly increase over the next three years. Because of the mandatory coverage requirement, health insurers expect to see a significant increase in health care membership in the coming years.

The question that our clients are asking is whether or not the penalties for not purchasing insurance will be strict enough to force consumers to buy coverage. The penalty will be phased in, starting at USD95 or 1 percent of income (whichever is higher) in 2014 and rising to USD695 or 2.5 percent of income (whichever is higher) in 2016. If the penalties are not high enough, then health insurers will not see a rise in membership and will fight the problem of anti-selection. On the other hand, if the penalties are stringent enough to force all Americans to purchase health insurance this will create an additional membership base for health insurers to draw upon.

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Pre-existing condition exclusions (effective September 23, 2010 for children under 19 and January 1, 2014 for everyone):

Health care reform bars health insurers from imposing pre-existing condition exclusions on all new plans in the individual market. Currently, the majority of these individuals are serviced by the State High Risk Health Pools; however, this market will be eliminated in 2014. At the same time, rating variation will be limited to age, premium rating area, family composition and tobacco use. The bottom line is that health insurers will find it difficult to accurately price for the increased risk associated with the new, and potentially unhealthy, population.

Instead of holding 100 percent of the increased exposure, some insurers will look toward reinsurance to provide protection from the increased loss volatility. This can be achieved through purchasing a variety of reinsurance programs, including, per-person excess coverage, facultative coverage for a specific membership base, or aggregate stop loss coverage to protect annual results.

Reduction in Medicare reimbursement rates (payment reductions phased in over time):

Depending upon the area of coverage, CMS reimbursement rates will be drastically cut to Medicare Advantage plans. While some of the reduced premium revenue can be recovered through CMS star rating bonuses, the future appears difficult for Medicare Advantage plans. With that being said, for the most part, our survey respondents said that the majority of the reforms were anticipated by Medicare Advantage plans and they have already begun developing solutions to overcome the challenges resulting from health care reform.

It is certain that health care reform will create significant obstacles for Medicare Advantage plans to overcome. However, with the expansion of other government sponsored programs and the potential to make up for lost revenue via star bonuses, even under the new stringent confines of health care reform, there is an opportunity for Medicare Advantage plans to be successful.

The impact of health care reform has yet to be fully appreciated. Challenges and opportunities may vary greatly depending upon an organization's specific operations and positions. There appears to be a great deal of uncertainty within the market as a whole. With the intellectual capital of the other MMC operating companies and our own knowledge, experience and resources, Guy Carpenter stands uniquely positioned to assist our clients as they face this new and unclear operational environment. Whether by providing guidance or by deploying defined risk mitigation products and strategies, Guy Carpenter's goal is to allow our health care clients to capitalize on the opportunities presented and to make the uncertainties a little more certain.

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This briefing was prepared by members of Guy Carpenter's Life, Accident & Health team. Questions regarding this briefing may be directed to your Guy Carpenter reinsurance broker or any of the group members, listed below.

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