

The Impact of Health Insurance Exchanges

Becker's Hospital Review Annual Meeting



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Health Care in 2013: May You Live in Interesting Times

- Fourth year of sluggish volumes
- Battles for local market share
- Broadening zone of accountability
- Return of risk contracting
- Tiered network plans, insurance exchanges
- Price transparency looming on the horizon
- Management struggles with timing and overload.
- Rural providers struggling across the country
- Consolidation, alliances, partnerships accelerate.

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What Is an Insurance Exchange?

- A marketplace for aggregating, comparing and enrolling in health insurance plans
- Targeted at individuals and small employers
- Supported by subsidies up to 400% FPL
- Run by the state or the federal government or a private insurer(s)
- The emergence of a retail marketplace

FPL = federal poverty level.

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Insurance Exchanges: The “Sleeper” Issue of Health Care Reform

Short-term Impacts

- Payer mix shifts
- Market share shifts
- Net revenue impact

In which markets should I seek to participate?

In which products/networks should I seek to participate?

At what contracted rates?

Long-term Impacts

- Acceleration of shift to price-sensitive retail market

How do I achieve a competitive value position in the emerging retail market?

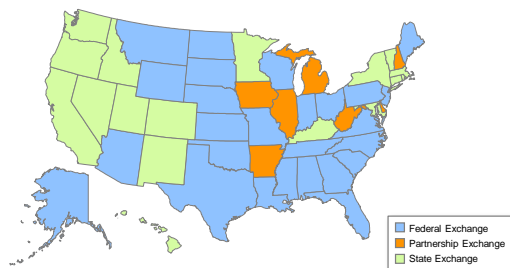
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The Sprint Toward October’s Open Enrollment: Turbulence Ahead

State Action Toward Creating Health Insurance Exchanges as of April 1, 2013



Sources: Kaiser Family Foundation, Establishing Health Insurance Exchanges: An Overview of State Efforts, November 2012, Sg2 Interviews and Analysis, 2012-2013.

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Massachusetts Experience Provides a Window to Future Impact of Reform

Insurance Coverage

- 2% increase in employer-sponsored coverage from 2006 to 2009
- 79% of individuals have employer-sponsored insurance

Utilization Impact

- 5% increase in low-income and middle-income adults with typical source of care
- 7% increase in use of preventive care
- 30%–40% decrease in low-income individuals and those with chronic health conditions reporting unmet health needs due to cost

Challenges

- Emergency department visits rising
- Avoidable hospitalizations persist

Note: Low-income indicates <300% FPL and middle-income indicates 300%–500% FPL. Source: Blue Cross and Blue Shield Foundation of Massachusetts, Health Reform in Massachusetts: Expanding Access to Health Insurance Coverage, April 2011.

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MA Plans to Use Tiered Networks and Risk Contracting to Drive Down Rates

Tiered and limited networks take aim at high-cost providers.

- BCBS-MA introduced a "Hospital Choice Cost Sharing" option in 2011.
 - Patients were charged additional fees for services at 15 high-cost hospitals, including Massachusetts General, Brigham and Women's and UMass Memorial Medical Center in Worcester.
 - For example, patients pay an additional \$1,000 for IP care or OP surgery and an additional \$450 for high-tech imaging services.

Risk contracting puts primary care physicians in the driver's seat and holds them accountable for costs and quality.

- BCBS-MA has formed Alternative Quality Contract partnerships with seven organizations since 2009.
 - Five-year contract for global budget based on historical costs with performance incentives up to 10%
 - 2.8% savings in first two years compared to nonparticipating groups

MA = Massachusetts; BCBS-MA = Blue Cross and Blue Shield Massachusetts; IP = inpatient; OP = outpatient.
 Sources: Andrews M. Insurance trade-off: reducing premiums by eliminating expensive doctors, hospitals. Kaiser Health News. March 1, 2011; Song Z et al. Health Aff (Millwood). 2012;31:1885-1894.

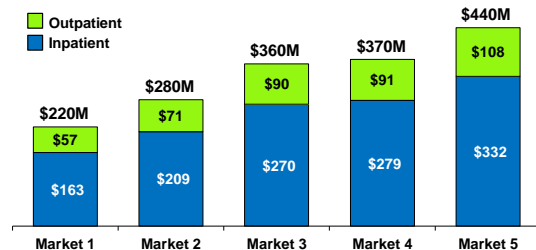


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Projected HIX Impact on Net Revenue

Incremental Net Revenue From HIX (in Millions), 2016



Note: Incremental HIX net revenue is the difference between exchange revenue at commercial rates and the revenue those discharges would have accrued from the original payer sources (ie, self-pay and commercial). HIX = health insurance exchange; M = million.
 Sources: Sg2 Impact of exChange™, 2013; Sg2 Analysis, 2013.

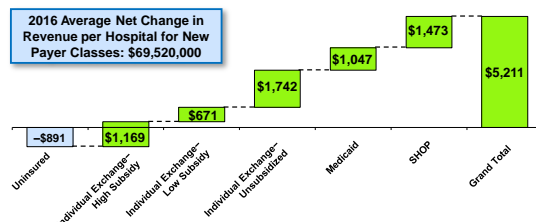


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Ignore the Insurance Exchange Market at Your Peril

All Modeled Hospitals in Sample States (N = 75)
 Incremental Net Patient Revenue (in Millions), 2016



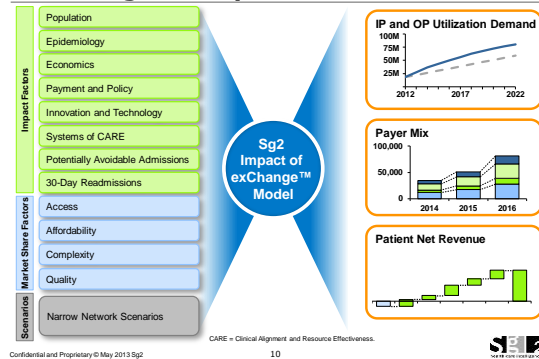
Notes: Values are shown in millions of dollars. SHOP = Small Business Health Options Program.
 Sources: Sg2 Impact of exChange™, 2012; Sg2 Analysis, 2012.



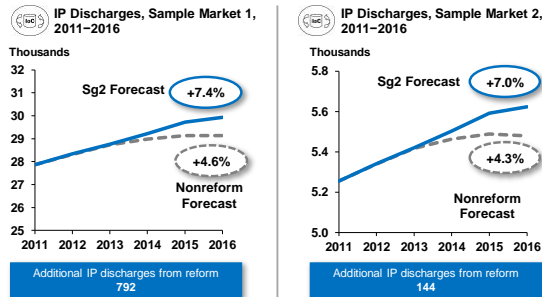
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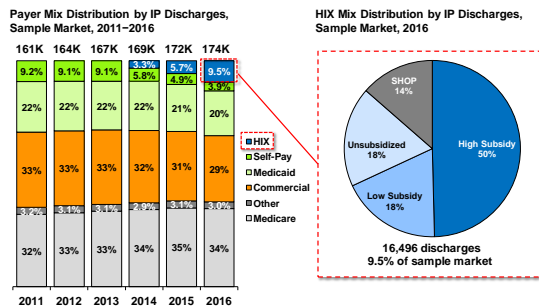
Sg2 Impact of exChange™ Model: Localizing the Impact of HIX



HIX Model Findings: Impact of Reform



Market Impact: Shift in Payer Mix Distribution



HIX Market Share Factor Impact

HIX Market Share Factor Scores, Sample Market, 2013

Hospitals	Affordability (50%)	Access (30%)	Complexity (10%)	Quality (10%)	Composite Score
Hospital A	+1	0	+1	+1	+70%
Competitor 1	0	+1	+1	+1	+50%
Competitor 2	0	+1	0	-1	+20%
Hospital B	+1	-1	-1	0	+10%
Competitor 3	0	0	-1	+1	0%
Competitor 4	0	0	0	0	0%
Competitor 5	0	0	0	0	0%
Hospital C	0	0	0	0	0%
Competitor 6	0	0	0	0	0%
Hospital D	0	0	-1	0	-10%
Competitor 7	0	-1	0	+1	-20%
Competitor 8	0	-1	0	+1	-20%
Competitor 9	0	-1	-1	0	-40%
Hospital E	-1	-1	0	0	-80%
Competitor 10	-1	-1	-1	-1	-100%

Note: Green denotes a positive impact and orange denotes a negative impact. Market share factor scoring was manually adjusted based on input from local market teams. Sources: Sg2 Impact of exChange™, 2013; Sg2 Analysis, 2013.

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HIX Market Share Factor Impact (Cont'd)

HIX Market Share Factor Impact, Sample Market, 2012–2016

	IP Discharges 2012	IP Discharges 2016	HIX Market Share Factor Impact	% HIX Market Share Factor Impact
Hospital A	25,432	27,118	+2,449	+9.6%
Hospital B	22,247	24,823	+578	+2.6%
Hospital C	17,412	18,913	0	0%
Hospital D	16,649	16,882	-175	-1.1%
Hospital E	16,786	17,516	-566	-3.4%
All Hospitals	173,642	184,955	+11,521	+6.6%

Sources: Sg2 Impact of exChange™, 2013; Sg2 Analysis, 2013.

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Reform Study: Cost Difference for a Specific Market

Hospital A (Sample City)

"Low-Cost Leader"

The Facts

- Lowest average Medicare inpatient CMI-adjusted cost per discharge: **\$4,899**
- Best cost performance in local market; 24% better than market average

What the Model Shows

- Total IP revenue growth: **24%**
- Nongroup exchange business grows to 12% of payer mix by 2016.

Sg2 Takeaways

- Players will select this hospital for narrow networks.
- Price-sensitive consumers will use the facility for elective care.



Hospital B (Sample City)

"High-Cost Player"

The Facts

- Highest average Medicare inpatient CMI-adjusted cost per discharge: **\$8,004**
- Lagging cost performance in local market; 25% below HRR market average

What the Model Shows

- Total IP revenue growth: **13%**
- Nongroup exchange business grows to 6% of payer mix by 2016.

Sg2 Takeaway

- Hospital will struggle to replace eroding commercial base (-19%) with limited exchange gains by 2016.

CMI = Case Mix Index; HRR = hospital referral region.

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Impact on Total Net Revenue From Differential HIX Inpatient Unit Pricing

Inpatient Incremental HIX Net Revenue at Different HIX Unit Prices, 2016

% of Commercial Rate	Hospital A	Hospital B	Hospital C	Hospital D	Hospital E	All 5 Hospitals	
	Net	Net	Net	Net	Net	Net	Δ
100%	\$27.9M	\$33.2M	\$20.9M	\$16.3M	\$27.0M	\$125.4M	—
90%	\$24.3M	\$25.6M	\$20.5M	\$12.6M	\$23.5M	\$106.4M	(\$19M)
80%	\$21.1M	\$19.7M	\$20.1M	\$9.7M	\$20.4M	\$91.0M	(\$34M)
70%	\$18.4M	\$15.2M	\$19.7M	\$7.5M	\$17.8M	\$78.5M	(\$47M)
60%	\$16.0M	\$11.7M	\$19.3M	\$5.7M	\$15.5M	\$68.2M	(\$57M)
50%	\$13.9M	\$9.0M	\$18.9M	\$4.4M	\$13.5M	\$59.7M	(\$66M)

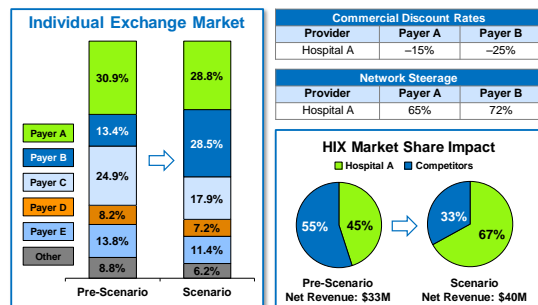
Note: Revenues for each market were calculated using the non-case mix adjusted average commercial revenue per IP discharge for 2011 and validated by local market teams. Numbers may not add up due to rounding.

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Scenario 1: Hospital A Forms Narrow Network With Payer A and B



Note: HIX narrow network scenarios are modeled separately for individual exchanges and small group exchanges. The data shown are for illustration purposes only. Scenario net revenue refers to the incremental net revenue for Hospital A from HIX after discount pricing.
Source: Sg2 HIX Data Request Survey and Interviews With Local Market Teams, 2013.
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Wildcards

- How will **employers** respond to their pay-or-play option?
- How will **individuals/families** choose among the "metal" plans?
- How will **individuals/families** change when they seek care? Where they seek care? Their price sensitivity?
- Will **payors** seek to participate in insurance exchanges or try to boycott them?
- Which **providers** will seek to participate in exchange-focused products? At what payment rates?
- Will the **exchange** be a neutral marketplace or hands-on regulator?

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Sg2 Impact of exChange Model Findings: Key Takeaways

- The health insurance exchange market holds significant potential upside.
- Narrow network strategies are key to success.
- Local factors matter.
- Insurance exchange pricing matters.
- Medicaid expansion matters.

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