State and Federal Healthcare Reforms

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Agenda

- Update on State health care/insurance reforms
- Update on Federal health care reforms
  - Anthem's position on reform
  - Concerns with some proposals
  - How you can engage

Ohio Political Climate

Governor Ted Strickland – Democrat elected in 2006

Democrats control the Ohio House of Representatives for first time in 16 years (53 D, 46 R)

Republicans continue strong majority in the Ohio Senate (21 R, 12 D)

Term limits are having a dramatic effect with 35 members (1/4 of General Assembly) new to the legislative process

Ohio Political Climate

2010 Campaigns are already in full-swing

- Governor's race
- Control of Ohio's Apportionment Board (which has constitutional authority to draw legislative and Congressional districts)
- US Senate race and a number of swing Congressional districts

State Budget Woe$

Ohio's recently passed budget had to fill a $3.2 billion shortfall

- Federal stimulus money and other one-time moneys
- Depletion of Rainy Day Fund
- Severe budget programming cuts
- Slot machines (VLTs) at Ohio's race tracks

Agreeing on how the balance the budget forced Ohio to pass its first continuation budget since 1991.

Ohio Healthcare Reforms

One of Governor Strickland's top priorities in the budget bill (HB 1) were his reforms to the commercial insurance market.

- The Administration estimates that these changes will provide coverage to more than 110,000 Ohioans.
- Overall goal was to provide more coverage and increase insurer "transparency"
- No state funding

Ohio Healthcare Reforms

Main reforms contained in HB 1 included:

- Rate restrictions on premiums charged in Ohio's open enrollment program
- Increase dependent age up to 28 years old
- Require insurers provide a detailed report of administrative expenses
- New rate filing requirements with ODI
- Made changes to the external review process for claims denied based on medical policy
- Require employers to adopt Section 125 "cafeteria" plans
- Made previously approved changes to State continuation of coverage (for groups less then 20 employees) permanent

Dependent Age 28

- Insurers and public employee benefit plans must offer parents the opportunity to purchase coverage, at the insured's request, for unmarried children up to age 28.
- Effective for health care contracts issued or renewed on or after July 1, 2010.
- In order to be eligible, the child must:
  - Be the natural child, stepchild or adopted child
  - A resident of Ohio or a full-time student
  - Not eligible for employer sponsored insurance or coverage under Medicaid or Medicare

Dependent Age 28

- Specifies that this mandate does NOT require an employer to pay for any part of the premium for these dependents that have attained the limiting age.
- A provision that would have required continuous coverage was vetoed by the governor, thus allowing the child come on at any time.
- Pre-existing condition exclusions can be applied to these individuals
- Provides an Ohio income tax deduction for costs of premium

Open Enrollment Program

The Open Enrollment Program is a limited guaranteed issue program that offers coverage to individuals with pre-existing conditions.

- HB 1 will cap the premium rates that insurers can charge individuals purchasing coverage through open enrollment:
  - For 2010 and 2011, insurers may charge 2.0 x the base rate
  - For 2012 and thereafter, caps the premium rates at 1.5 x the base rate
- The budget also increases the enrollment quotas that insurers must accept:
  - For 2010 and 2011, must accept up to 8% of the carrier's Individual book of business
  - For 2012 and thereafter, must accept up to 16% of the carrier's Individual book of business

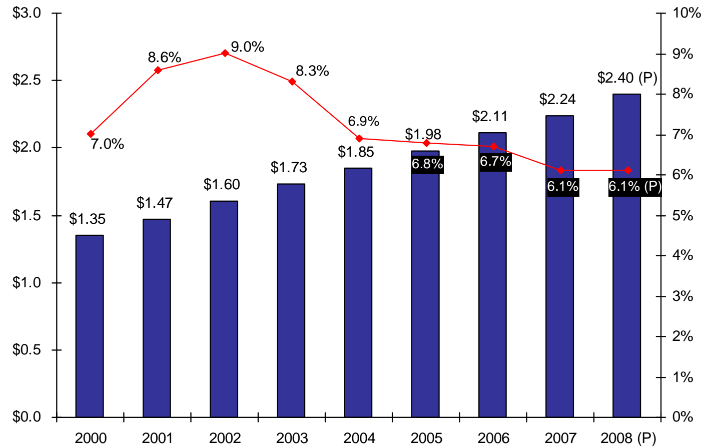
Open Enrollment Program

- Eliminates the HIC/HMO open enrollment program for HICs that do not sell Individual products.
- Requires ODI to perform a market-wide analysis after 2010 to determine if the new requirements have caused standard Individual premiums to increase more than 5 ¼ percentage points.
  - Objective is to ensure that the new requirements have not resulted in significant market disruptions.
  - If benchmarks are hit, then no further changes will occur.
- Any losses associated with the program are borne entirely by the Individual market; there is no impact on Ohio's group market.
- Caps agent commission for Open Enrollment policies at 5% of total premium amount for initial polices and 4% for renewals.

Federal Healthcare Reform

Federal Healthcare Reform:
A Moving Target

Rising medical costs



Source: *National Health Expenditure Accounts, CMS*

Building a Sustainable Health Care System

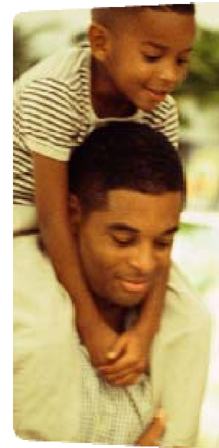
When it comes to health care reform, we should not just get it done, we should get it right.

Building a Sustainable Health Care System:

Improving Quality, Managing Costs

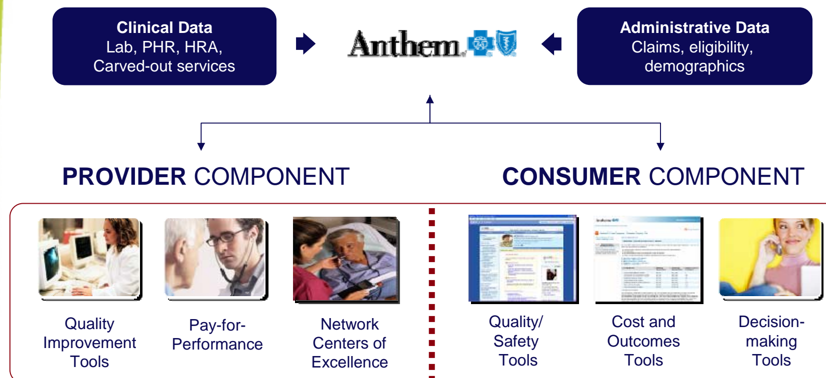
Anthem's principles for improving quality and managing costs

- Promote evidence-based medicine; determine real-world outcomes
- Advance health care quality by disseminating information throughout the system
- Focus on prevention and manage chronic illness
- Improve effective use of drug therapies to prevent and manage illness
- Promote strategies to reduce medical errors and adverse drug events
- Reduce costs through eliminating fraud, reducing costs related to litigation, and improving administration



Improving Quality, Helping Manage Costs:

Comprehensive Approach



Building a Sustainable Health Care System:

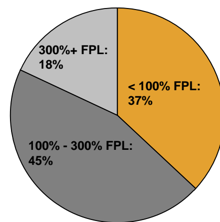
Covering the Uninsured

Anthem's solutions to enact financing strategies to place America on a sustainable path towards covering all of the uninsured:

- Improve and expand programs for the most needy
- Provide a bridge to self-sufficiency through premium assistance
- Expand the employer-based system
- Equalize tax treatment for individuals purchasing coverage on their own
- Increase funding for public-private partnerships

Building a Sustainable Health Care System

How does Anthem's plan address 46 million uninsured?



Element	Eligible
Extend outreach to those already eligible for programs	12 M
Kids expansion to 300% FPL	6.5 M
Parents expansion to 200% FPL	9.3 M
Childless adults to 100% FPL	5.1 M
Premium assistance	4.6 M
Total	37.5 M

For the remaining 18% of uninsured who make over 300% FPL ($67k for family of 4), focus on expanding the employer-based system and designing attractive products

Source: Internal analysis of U.S. Census Bureau Current Population Survey statistics. (http://www.census.gov/hhes/www/cpstc/cps_table_creator.html). September 2008.

Government Run Plan – Our Position

- A government-run health insurance plan will hurt efforts to improve quality and control costs and will ultimately reduce choice for Americans.
- Private health plans are able to develop and implement innovative programs designed to improve quality and control costs in the health care delivery system.
- Government-run programs tend to be less innovative and dictate reimbursement levels by law.

Industry (AHIP / BCBSA) Proposal

- Enforceable, effective individual mandate
- Premium assistance
- "Guaranteed-issue"
- Rating flexibility for age, geography, family size and benefit design
- Premium discounts for healthy behavior such as not smoking
- Protect currently insured individuals from premium increases
- Tax equity between individual and employer-sponsored coverage

Policy Concerns:

Budget Considerations

Expected cost of reform: $1 trillion - $1.5 trillion

Senate HELP	Senate Finance	House
$611 billion*	TBD	$1.2 trillion

*Excludes the cost of an expansion of the Medicaid program, which is likely to add another $500 billion or more to the cost of the legislation.

Congressional Committees with Jurisdiction over Health Reform

Senate Finance Committee
- Bipartisan "Gang of Six"

Senate Health, Education, Labor and Pensions (HELP)* Committee
- Kennedy/Dodd Legislation*

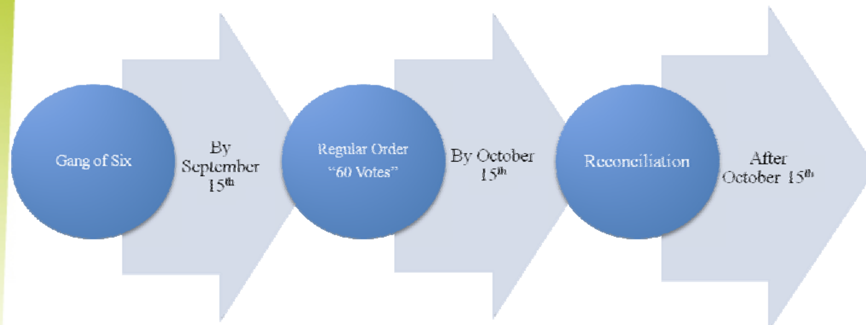
Three House Committees (the "Tri-Committee")
- Education & Labor
- Energy & Commerce
- Ways & Means

Senate Finance Committee "Gang of Six"

The "Gang of Six" is made up of six Senators from the Senate Finance Committee, led by Sen. Baucus, working on a bipartisan proposal:

- Sen. Max Baucus (D-MT)
- Sen. Kent Conrad (D-ND)
- Sen. Jeff Bingaman (D-NM)
- Sen. Chuck Grassley (R-IA)
- Sen. Mike Enzi (R-WY)
- Sen. Olympia Snowe (R-ME)

Three Options for Consideration



Proposed Federal Reform – Comparison of Key Elements

	Senate Finance	Senate HELP	House "Tri Committee"
Government-Run Plan	Co-ops with grants and loans awarded by the federal government	New federally-sponsored plan independent of Medicare operating in the exchange. HHS contracts directly with providers.	New federally-sponsored plan abased on Medicare fee-for-service operating in the exchange that allows Medicare providers to opt-out
Individual mandate	Yes, enforced through tax filing process with various exemptions. Penalty amount increases to $950 per year	Yes, enforced through tax filing process with various exemptions. Penalty amount set at $750 per person per year	Yes, enforced through tax filing process with various exemptions. Maximum penalty 2.5% of income
Market reforms	**IND:** Beginning in 2013 guaranteed issue, 5:1 age rate band, global rate band at 7.5:1 to apply to all factors **SG:** Phase-in over five years to conform to IND requirements, expand SG to 100 Includes risk adjustment, reinsurance, and risk corridors, without detail	Market reforms apply to individual market and small group markets, pooled separately Guaranteed issue, 2:1 age rate band, product rating only by "actuarial value"	Market reforms apply to individual market and group market regardless of groups size. Guaranteed issue, 2:1 age rate band IND products cannot be sold outside of the exchange
Insurance Exchange	States would establish exchanges in 2010 to present products available in market – separately for IND and SG. Unclear if subsidies available just in exchange	Provides states grants to establish "gateways" alongside reformed market. Gateways must make available "qualified health plans". Subsidies only available in exchange	Establishes new federal insurance commissioner that establishes a federal exchange that uses a bidding process for contracting with health plans Subsidies only available in exchange

Proposed Federal Reform – Comparison of Key Elements

	Senate Finance	Senate HELP	House "Tri Committee"
Product Framework (actuarial value)	Four tiers: 65%, 73%, 81%, 90%. Separate policies for "young invincibles".	Three tiers: 76%, 84%, 93%	Three tiers: 70%, 85%, 95%, but products must also not be less rich than the "average employer plan"
MLR Requirements	MLR reporting beginning in 2010	Must report MLR by product	Secretary of HHS to establish MLR requirement "as high as possible"
Subsidies, Coverage Expansions	Subsidies to 400% FPL, unclear if only available in exchange Medicaid to 133% for all	Subsidies only in exchange, to 400% FPL Medicaid to 150% FPL for all	Subsidies only in exchange, to 400% FPL Medicaid up to 133% FPL for all
New Regulatory Entity	States would be required to establish ombudsman offices by 2010.	None	New federal insurance commissioner that has authority that significantly overlaps with state insurance commissioners
Employer mandate	Employer requirement to pay portion of costs for any employees receive government assistance	Pay-or-play set at $750 per year, includes prorated amount for part-time employees	Pay-or play phases-in to 8% of payroll and includes prorated amount for part-time employees
Medicare Advantage	Set benchmarks based on plan bids	None	Set payments equal to 100% of local FFS
Other Major Financing	35% "Cadillac benefit" tax $6 billion annual insurer tax, allocated by market share.	None	New income tax surcharge: 1% for $350k-$500; 1.5% up to $1 million, and 5.4% over $1 million.

Timeline

Item	Date
Senate HELP language released	June 9
House bill released	June 17
Senate Finance language released	TBD
House committee markups	Ongoing
Senate HELP markup	Complete
Senate Finance markup	TBD

Key Milestones

House vote

Senate vote

Conference

Presidential signature
End of year

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