Insurance Exchanges –
Public & Private Implications for Hospitals

Global Healthcare, LLC  |  2014 National Accountable Care Congress
Los Angeles, California  |  November 11, 2014
Meeting Agenda

• Introductions

• Private Exchanges
  – What are private exchanges and how do they work?
  – Private exchange adoption outlook
  – Implications for hospitals and health systems

• Public Exchange Update – National Outlook

• Narrow Network Prospects and Implications

• Summary Implications

• Questions
Health Insurance Exchanges Are Here

• “Exchanges” are marketplaces for individuals and businesses to comparison shop and purchase healthcare coverage

• Seek to increase competition and/or consumer choice while providing benefit standardization, lower costs

• Public and private exchanges will co-exist in many areas

**Public: Individual**
- Federally mandated for January 2014
- Individual exchanges will target uninsured and self-insured individuals
- SHOP exchanges will target small employers (<50) early on
- Community-rated premiums with limited risk-adjustment
- Small business tax credits and individual subsidies will make exchanges attractive

**Public: SHOP**
- Won’t exist in all states
- Less regulated than public exchanges
- Will support defined contribution models
- Various exchange models will target different employer segments

**Private**

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Private Exchanges – What Are They And How Do They Work?
Private Exchanges – What Are They?

As the commercial insurance market continues to move from defined benefit to defined contribution plans, employers will seek new benefit models to maximize or cap the value of their healthcare benefit subsidies.

Private exchanges will support this market shift by offering a broader choice of plan and coverage options sponsored by a variety of organizations.

Private Exchange Sponsors

- MERCER
- TOWERS WATSON
- AON Hewitt
- bloom HEALTH
- buck consultants
- LIAZON
- UnitedHealthcare
- Aetna
- CIGNA
- BlueCross BlueShield
Private Exchange Adoption Outlook
### 2014 Private Exchange Enrollment Has Reached 1.2 Million Commercial Lives and Over 3 Million in Total

<table>
<thead>
<tr>
<th>Exchange Operator</th>
<th># of 2014 Enrollees</th>
<th># of 2014 Employers</th>
<th># of Enrollees per Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>AON Hewitt</td>
<td>600,000</td>
<td>18</td>
<td>33,333</td>
</tr>
<tr>
<td>Buck Consultants</td>
<td>400,000</td>
<td>14</td>
<td>28,571</td>
</tr>
<tr>
<td>Liazon</td>
<td>100,000</td>
<td>2,400</td>
<td>42</td>
</tr>
<tr>
<td>Mercer</td>
<td>75,000</td>
<td>33</td>
<td>2,273</td>
</tr>
<tr>
<td>Towers Watson</td>
<td>46,500</td>
<td>3</td>
<td>15,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,221,500</strong></td>
<td><strong>2,468</strong></td>
<td><strong>495</strong></td>
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</tbody>
</table>

Private exchanges are experiencing hyper-growth. Accenture estimates there were more than 3 million individuals that enrolled in private exchanges during the 2014 benefit year, much higher than their initial projection of 1 million.

Early Adopters Include Many Household Names with Outsized Representation by the Retail and Restaurant Industries
Private Exchange Enrollment Is Projected to Surpass Public Exchange

- By 2017, 1 in 5 Americans will purchase their health insurance coverage through an exchange.
- Recent employer surveys indicate that more than 1 in 4 employers are considering moving to a private exchange in the next three to five years.

Source: Accenture, “Are you Ready? Private Health Insurance Exchanges are Looming”, March 2013
### Drivers That Could Impact Commercial Shift to Private Exchanges

<table>
<thead>
<tr>
<th>Driver</th>
<th>Influence Factors</th>
<th>Shift Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Me Too” Effect</td>
<td>Secondary wave of “fast followers” will emerge if initial wave of employers demonstrates success</td>
<td>↑</td>
</tr>
<tr>
<td>Rising Administrative Costs</td>
<td>Employers continue to look for ways to lower administrative expenses of employee benefits</td>
<td>↑</td>
</tr>
<tr>
<td>Delivery Cost</td>
<td>Favorable insurer network contracts will increase plan participation and pressure on employers to shift</td>
<td>↑</td>
</tr>
<tr>
<td>Cadillac Tax</td>
<td>Some employers may use private exchanges to avoid the excise tax stipulated to begin in 2018</td>
<td>↔</td>
</tr>
<tr>
<td>Exchange Plan Options and Premiums</td>
<td>Plan designs and premiums must be as good or better than current group coverage</td>
<td>↔</td>
</tr>
<tr>
<td>Paternalism</td>
<td>Employers can be paternalistic and resistant to significant changes in employee benefit design</td>
<td>↓</td>
</tr>
<tr>
<td>Union and Public Sector</td>
<td>Collectively bargained cohorts and public sector employers typically are slower to change</td>
<td>↓</td>
</tr>
</tbody>
</table>

Implications for Hospitals and Health Systems
Private Exchanges Are Likely to Lead Some Employees to Trade Down to Cheaper Options

Impact on Plan Choice of Shift From Defined Benefit to Defined Contribution

Liazon Corporation

Chose Less Expensive Plan

70%

Primary Options for Employees Seeking to “Trade Down”

High Deductible

Narrow/ Tiered Network

“Very few people spend other people’s money as carefully as they spend their own.”

Milton Friedman
Nobel Prize-Winning Economist

Sears and Darden Among the Major Employers to Pioneer the Private Exchange Concept

Sears and Darden Private Exchange

- Sears and Darden chose a defined benefit/private exchange healthcare benefit model for 2013
- More than 100,000 active employees of Sears, Darden, and other employers were given a company credit to purchase benefits via an exchange sponsored by Aon Hewitt
- Aon Hewitt decision support tools and benefits advisors facilitated employee plan decisions

Many Participants Shifted to CDHPs in the First Year of the Sears and Darden Private Exchange


Sears and Darden found that choice of plans changed when employees were presented with expanded plan options and control over employer subsidy.
Transparency Tools Are a Key Catalyst for High Deductible Impact

- Growth in high deductible plans has prompted payers and employers to develop price transparency tools revealing cost and quality data to members.
- Informed patients are likely to choose the “low-cost/high-quality” providers when faced with increased cost sharing.
- Providers in competitive markets are at risk of revenue and market share erosion as payers and patients become aware of reimbursement variance.
- Improving cost structure and competing on value is the only viable long-term option.

Select Companies Offering Transparency Tools

![Company Logos]
Private Exchanges Will Break Apart Employee Populations, Leading to New Contracting and Strategic Considerations

Employee populations will break apart

Lives will be broken up across multiple carriers and networks, many of which could be narrow or tiered, resulting in increased fragmentation, risk of share and revenue loss.
Exchanges and Value-Based Payments Have Already Merged in Some Markets

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**Open Network**

**ACO Options**

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**Medica Private Exchange**

- Exchange offers MN participants 5 Options (4 with partner ACOs and 1 open network)
- ACOs seek to lower cost via fee reductions and enhanced coordination/outcomes
- More than 40% of enrollees chose ACO plan; all of year-one employers renewed

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Private Exchanges Will Accelerate the Transition to Emerging Payment Models and Create New Strategic/Financial Challenges

Today’s Model  Emerging Models

Open Access PPO  High Deductible  Narrow/Tiered

Private Exchanges

Expected to decline over time  Likely near-term model of choice  Expected to increase over time as narrow/tiered networks mature

Implications

Risk of Share Loss  Price Pressure  Bad Debt  Use Rate Pressure

Limited Threat  Significant Threat
Public Exchange Update
Public Exchange Update and Analysis – National
28 Federally Facilitated Exchanges: This Will Likely Change

2014 INSURANCE EXCHANGE OPERATIONAL MODEL

Source: Avalere State Reform Insights, August 15, 2013
* Utah will operate a marketplace plan management model for its individual exchange and rely on its existing small group exchange for the SHOP exchange.
** New Mexico will operate a partnership for its individual exchange, but run its own SHOP exchange.
*** Although Idaho will operate a state-based exchange, it will rely on HHS for certain functions, such as eligibility and enrollment.
1 FFE-MPM: Marketplace Plan Management Exchange
Public Exchange Enrollment Surpassed Both Incremental and Cumulative Administration Targets for March

Cumulative U.S. Public Exchange Enrollment

*Thousands*

<table>
<thead>
<tr>
<th>Month</th>
<th>Enrollment</th>
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<tbody>
<tr>
<td>Oct</td>
<td>106</td>
</tr>
<tr>
<td>Nov</td>
<td>364</td>
</tr>
<tr>
<td>Dec</td>
<td>2,153</td>
</tr>
<tr>
<td>Jan</td>
<td>3,300</td>
</tr>
<tr>
<td>Feb</td>
<td>4,242</td>
</tr>
<tr>
<td>Mar</td>
<td>8,020</td>
</tr>
</tbody>
</table>

% Target

<table>
<thead>
<tr>
<th>Month</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct</td>
<td>21%</td>
</tr>
<tr>
<td>Nov</td>
<td>30%</td>
</tr>
<tr>
<td>Dec</td>
<td>65%</td>
</tr>
<tr>
<td>Jan</td>
<td>75%</td>
</tr>
<tr>
<td>Feb</td>
<td>75%</td>
</tr>
<tr>
<td>Mar</td>
<td>113%</td>
</tr>
</tbody>
</table>

Notes: (1) HHS definition of enrollment (those who have “selected a plan”) (2) March data includes Special Enrollment Period through 19 April 2014 (3)Percentage of HHS enrollment target.

States Range Widely on Their Overall Enrollment

Cumulative Public Exchange Enrollment by State

Absolute Enrollment

California: 1,405,102
Florida: 983,775
Texas: 733,757

Source: Department of Health and Human Services; Health Insurance Marketplace: Addendum to the Summary Enrollment Report for the Initial Annual Open Enrollment Period; 1 May 2014
Most States Hit or Came Close to Meeting Targets but Some Fell Short of HHS Targets

Cumulative Public Exchange Enrollment by State

% of HHS Targets

Federally–Run Exchange

State–Run Exchange

National Average: 113%

Source: Department of Health and Human Services; Health Insurance Marketplace: Addendum to the Summary Enrollment Report for the Initial Annual Open Enrollment Period; 1 May 2014
The Vast Majority of Those Enrolled Nationally Chose Silver and Bronze Plans

National Plan Selection by Metal Level

Initial Enrollment Period

- Bronze: 20%
- Silver: 65%
- Platinum: 9%
- Gold: 5%
- Cat. (2%)

Plan Choice Trends
- 85% of those enrolled nationally chose cheaper Bronze or Silver plans
- Silver plans (eligible for cost-sharing subsidies) are the most popular and account for 65% of all enrollment

Notes: (1) Includes additional special enrollment period activity through 19 April 2014. (2) Catastrophic plan.
Source: ASPE, Health Insurance Marketplace Enrollment Report, 1 May 2014.
Initial National Public Exchange Enrollment Skews Older Than Administration Targets

National Exchange Age Distribution
*Initial Enrollment Period*¹

- 25% 55 - 64
- 23% 45 - 54
- 17% 35 - 44
- 28% 18 - 44
- 6% <18

Well below national HHS 18-34 target of 39%

- Enrolling young and healthy people is critical to a stable risk pool
- Age 18-34 enrollment lags the 39% administration target
- How enrollment compares to health plan expectations will dictate plan profitability
- The “3Rs” will mitigate premium changes in the near to medium term

Note: (1) Includes additional special enrollment period activity through 19 April 2014.
Source: ASPE, Health Insurance Marketplace Enrollment Report, 1 May 2014.
Despite Recent Improvements, the Previously Uninsured Represent Only About Half of the National Enrollment

% of Public Exchange Enrollment by Uninsured

National Surveys

- McKinsey surveys suggest that a majority of those enrolled nationally previously had individual or employer coverage
- Broker/consultant data from mid-January found that 33% were previously uninsured
- Kaiser Family Foundation Survey of small sampling suggests that 57% were previously uninsured

Plan Premiums Vary Significantly Across States

Monthly Premium of Lowest Cost Individual Bronze Plan in State

Note: 1) Age weighting for all states is based on expected age distribution in the Marketplaces, estimated by the RAND Corporation.
Premium Payment Stability Is Likely to Fluctuate in the Near-term

National Estimated Distribution of Enrollees by Payment Status
As of August 31, 2014

- 87% Premiums Paid
- 10% Premiums Unpaid
- 3% Premiums Expected to be Paid

How Many Enrollees Have Paid Their Premium?
- 3% of current enrollees drop their coverage each month
- Slightly more than 7 million enrollees have paid for their coverage
- A haircut should be applied to reported enrollment figures to adjust for these non-payments

Source: The Graph, Updated: Paid QHPs should have broken 8 million at last! ACASignups.net, August 31, 2014, http://obamacaresignups.net/14/08/31/graph-updated-paid-qhps-should-have-broken-8-million-last-92m-total
Consumers Have Varying Degrees of Choice When Selecting Plans

Insurer Competition by State

*Individual Market*

### Drivers That Could Impact Commercial Shift and Employer “Dumping” to Public Exchanges

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<thead>
<tr>
<th>Driver</th>
<th>Influence Factors</th>
<th>Shift Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Size</td>
<td>Small firms are more likely to choose SHOP exchanges or dump to HIX</td>
<td></td>
</tr>
<tr>
<td>Subsidy/Tax Credits</td>
<td>Subsidy and tax credit availability will stimulate exchange uptake</td>
<td>↑</td>
</tr>
<tr>
<td>Delivery Cost</td>
<td>Favorable insurer network contracts will increase plan participation and pressure on employers to shift</td>
<td></td>
</tr>
<tr>
<td>Wages/Part-Time Workforce/Retirees</td>
<td>Low-wage geographies will have greater subsidy availability; part-time employees and pre-65 retirees more apt to shift</td>
<td></td>
</tr>
<tr>
<td>Exchange Implementation and Promotion</td>
<td>Good communication, promotion, and receptivity will stimulate enrollment</td>
<td>↔</td>
</tr>
<tr>
<td>Timing</td>
<td>Uptake could initially be slow but increase over time once the market settles out, particularly if the “me too” effect takes hold</td>
<td></td>
</tr>
<tr>
<td>Recruitment and Retention</td>
<td>Higher skilled/ wage employers who prioritize recruitment and retention may not be willing to shift to public exchanges</td>
<td></td>
</tr>
<tr>
<td>Exchange Plan Options and Premiums</td>
<td>Fewer plan options and higher premiums will delay uptake</td>
<td>↓</td>
</tr>
<tr>
<td>Penalties</td>
<td>Employer responsibility penalties a key deterrent for larger employers; fear among some that penalties could be increased in the future</td>
<td></td>
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</table>
Narrow Network Considerations
Limited Networks Are Present in Most State Exchanges

2014 Limited Network Percentage of Plan Offerings By State

Federal Exchange States

Limited Network Penetration

- Network adequacy regulations, hospital competition, spare capacity will influence prevalence.
- Narrow network guidelines will be established to provide greater regulatory oversight.

Note: Limited network defined as EPO and HMO plans. Survey results exclude the 49% of respondents who indicated that they “did not know” their exchange contract network plan design.

Source: Health Insurance Marketplace Premiums for 2014 Databook (Information Current as of Sept 18, 2013); MHA member survey.
Key Considerations for Narrow Network Participation

Key Consideration Steps:

1. Evaluate market share of local competitors to quantify if additional share can be gained
   • How much volume is potentially at risk if you do not participate?
2. Based on available market share, evaluate elective vs. emergent split – how much elective volume can you expect to gain?
3. Does the organization have the capacity to handle the additional volume?
4. What discounts will be required to participate in narrow networks and are individuals likely to choose narrow networks?

In pursuing a narrow network contract, is it worth discounting rates to obtain additional volume, and if so, by how much?
Commercial Market Share by Service Area

Conceptual Illustration

- **Tot. Discharges**
  - **PSA**
    - Other Competitors: 52%
    - Competitor 1: 6%
    - Client: 46%
  - **SSA**
    - Other Competitors: 65%
    - Competitor 1: 29%
    - Client: 18%
  - **PSA + SSA**
    - Other Competitors: 36%
    - Competitor 1: 18%
    - Client: 46%
Understanding What Is Truly “in Play” with Narrow Network Contracts – Emergent vs. Elective Volumes

45% of inpatient commercial volume is emergent and therefore would not be steered by a narrow network contract.
How Much Capacity Is Available to Make Narrow Network Plays?

Conceptual Illustration

Client Occupancy by Facility

<table>
<thead>
<tr>
<th></th>
<th>Staffed Beds</th>
<th>Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client Hospital 1</td>
<td>403</td>
<td>85%</td>
</tr>
<tr>
<td>Client Hospital 2</td>
<td>254</td>
<td>73%</td>
</tr>
<tr>
<td>Client Hospital 3</td>
<td>194</td>
<td>45%</td>
</tr>
<tr>
<td><strong>System Total</strong></td>
<td><strong>851</strong></td>
<td><strong>68%</strong></td>
</tr>
</tbody>
</table>

• Overall, two of the three hospitals appear to have capacity at current occupancy rates to accommodate additional incremental elective volumes
Summary Implications
Balancing New Revenue Opportunities and Cannibalizing the Existing Commercial Business

Uninsured → Exchange
New Rev.

Commercial → Exchange
Lost Rev.

What is the optimal way to balance these threats and opportunities?
Summary Implications

• Exchanges will catalyze the shift of purchasing healthcare benefits from the wholesale to the retail channel

• This channel shift will change the behavioral economics of plan purchasing decisions and increase the prevalence of high deductible and narrow network plans

• Value-based reimbursement will increase over the long-term as pricing and cost pressures grow, which will require improved cross-continuum care coordination

• Competing on value and improving cost structure are the only viable long-term options for continued growth
How Do You Prepare for the Increasing Shift to Public and Private Exchanges?

Kaufman Hall believes that operational and financial success with healthcare exchanges requires an integrated planning framework:

- **Strategic Planning:** A *Health Insurance Exchange Strategy* will be necessary to compete in the changing market environment. New reimbursement and contract models, in addition to FFS, will be used for exchange-based products, most likely requiring providers to assess and acquire new strategies and tactics.

- **Financial Planning:** Many health systems and providers are in the early stages or have not yet begun to plan for how health insurance exchanges will impact their current and future patient populations and revenue base. A thorough analysis and plan to quantify the implications and potential financial impact should be completed.

- **Tactical Planning:** New skills and capabilities will certainly be required for financial and operational success when working with health insurance exchanges. Developing the right tactical plan, resources, and investments while taking into consideration specific opportunities, priorities, risks, and benefits will be necessary.

Exchanges are expanding; make sure your organization is prepared.
Discussion/Questions
Andrew S. Cohen, Vice President

Andrew Cohen is a Vice President at Kaufman Hall and a member of the firm’s Strategy practice. He provides strategic planning advisory services for a wide range of clients, including healthcare systems, academic medical centers, and community hospitals. Mr. Cohen’s responsibilities focus on healthcare reform, value-based contracting, payer relations, market and product development, growth strategy, population-driven demand, and physician and hospital/health system integration.

Mr. Cohen has more than 20 years of leadership experience in the healthcare industry. Prior to joining Kaufman Hall, Mr. Cohen was Vice President of Product Development for UnitedHealthcare, Inc., where he focused during his eight-year tenure on commercial, Medicare, group retiree, and value-based plan product development, strategy, sales, network development, contracting and product portfolio management. Mr. Cohen also has held senior positions at other large insurance companies, including Kaiser Permanente, CIGNA, and HealthNet. Additionally, his experience includes working in healthcare and public sector consulting practices for a global technology consulting firm based in Johannesburg, South Africa.

Mr. Cohen has a B.A. in Economics from the University of Maine.

Contact Mr. Cohen at 212.849.8475 or acohen@kaufmanhall.com
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