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The Future of Medicare Advantage

A View from the B-W Parkway

A Presentation to the National Congress on Health Care Reform

JOHN GORMAN
Chief Executive Officer
January 20, 2011

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One Can Relate.

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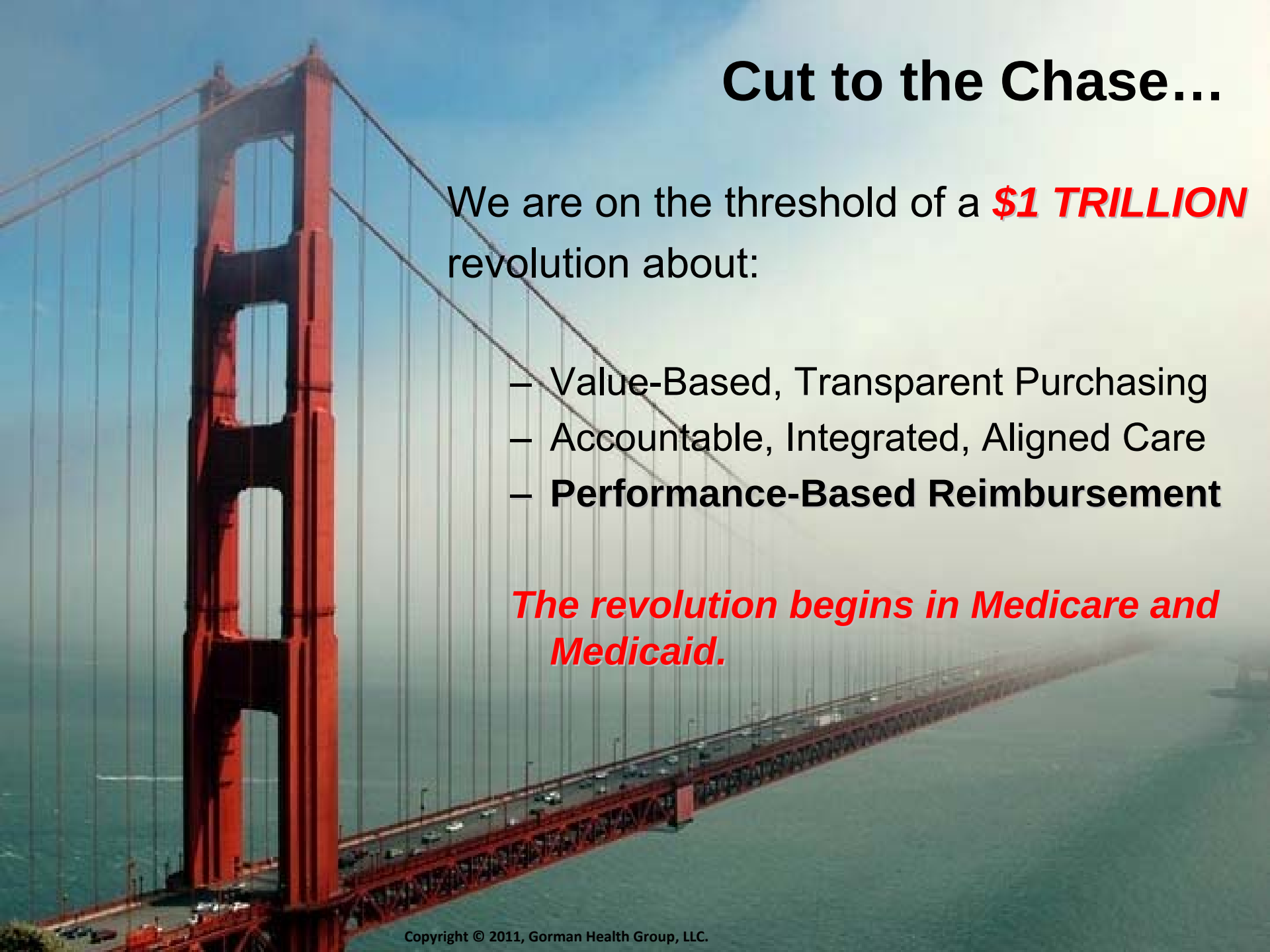


Cut to the Chase…

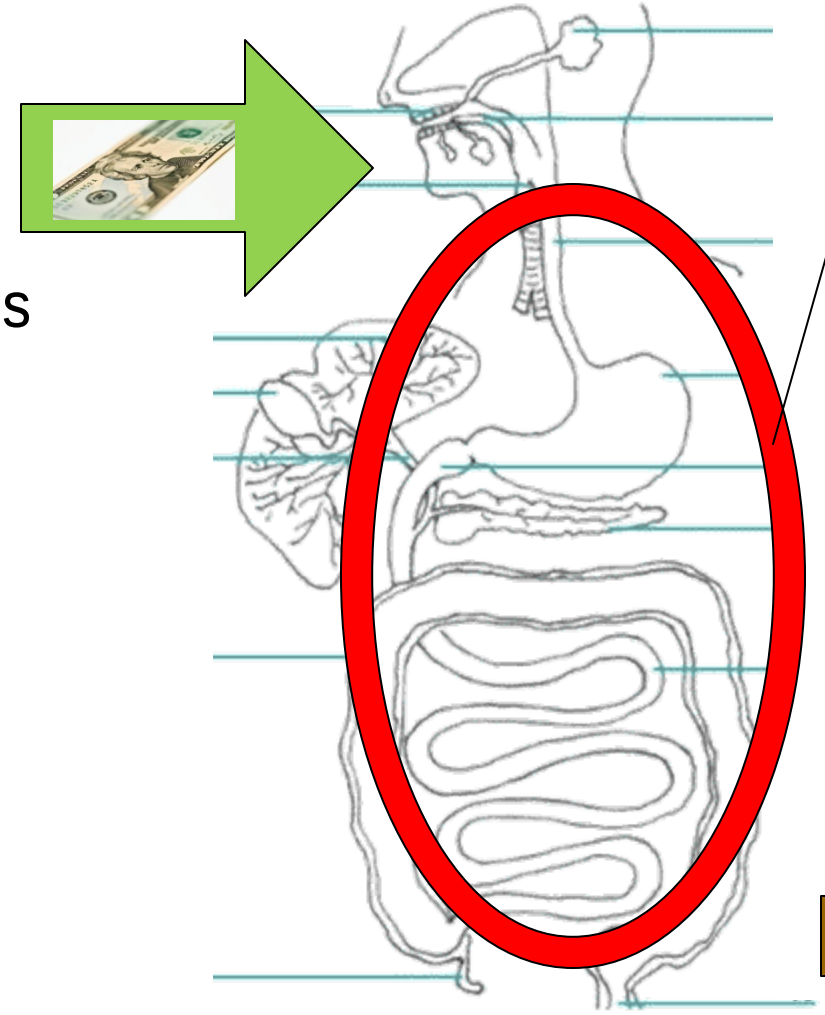
We are on the threshold of a ***$1 TRILLION*** revolution about:

- Value-Based, Transparent Purchasing
- Accountable, Integrated, Aligned Care
- **Performance-Based Reimbursement**

The revolution begins in Medicare and Medicaid.

DC Perception is Reality

Health Plans ingest premiums ...



We have to define our value proposition using money, data, and service.

...and excrete claims.

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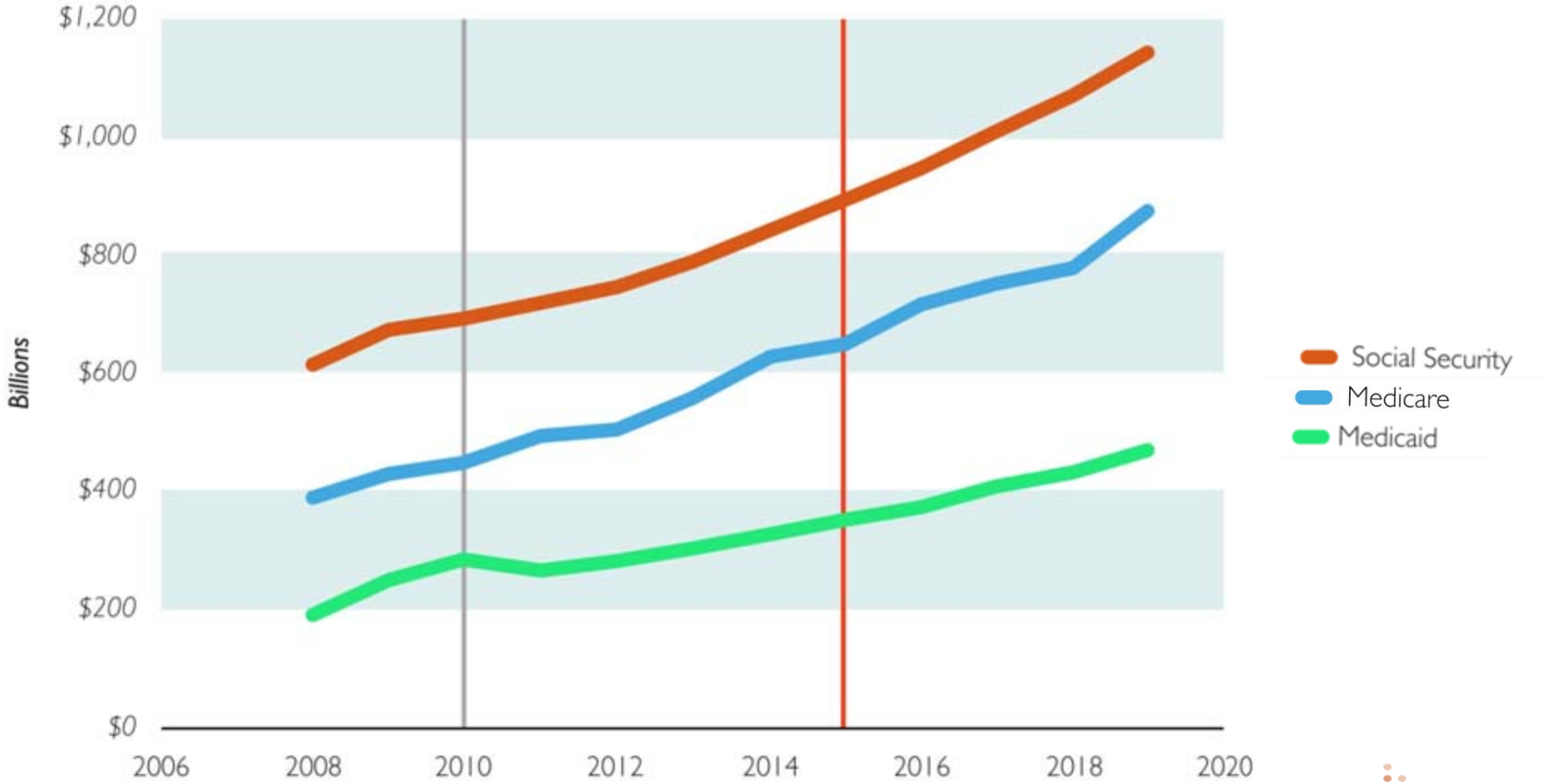
SUSTAINABILITY

Projected Spending for Social Security, Medicare and Medicaid During 2008-2019



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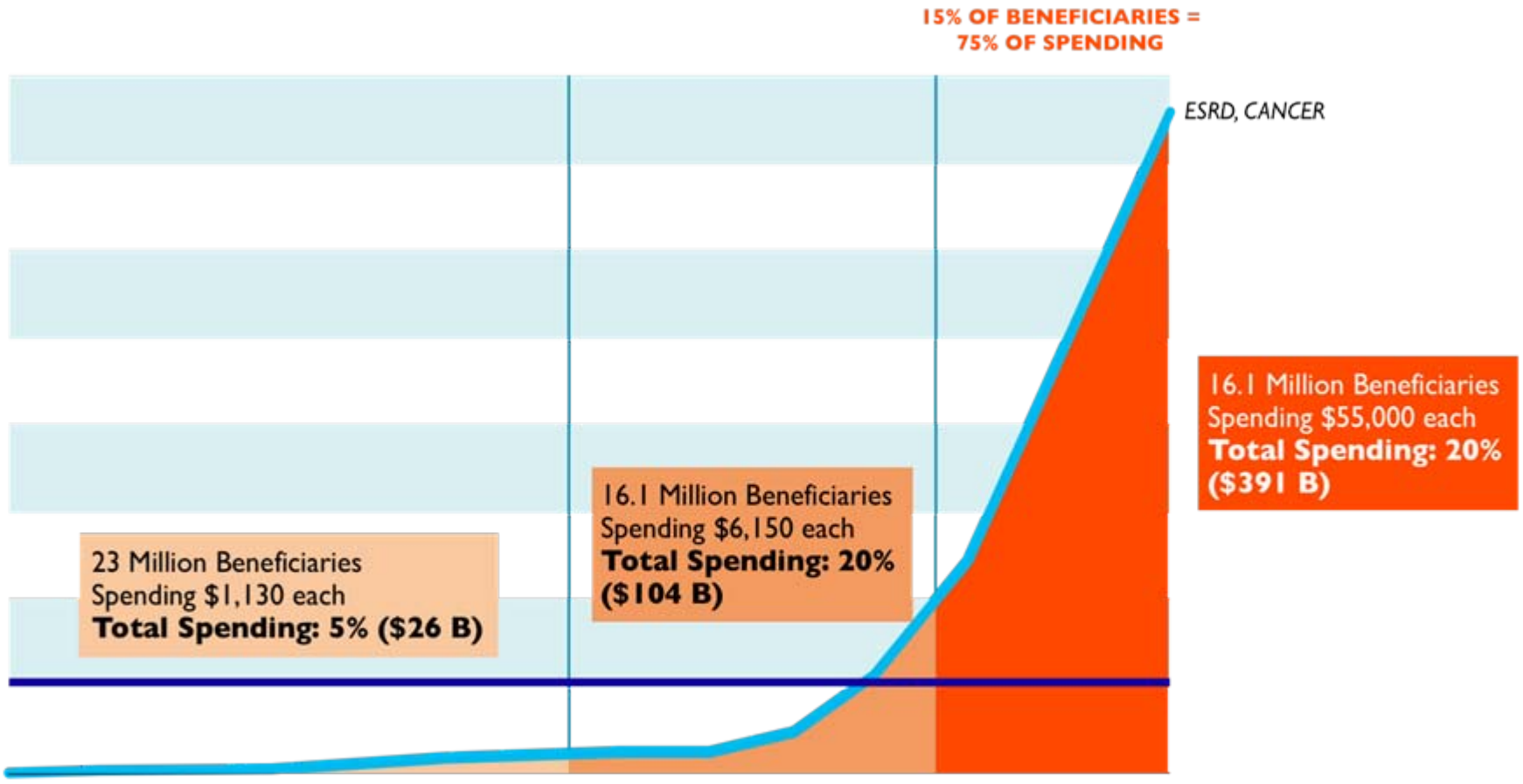
CONCENTRATION OF SPENDING

In Medicare



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THE NEW MANTRA

"Value-based Purchasing"

Government as purchaser of best quality at lowest price, with least hassles.

Incentives for:

- chronic care management
- member satisfaction
- compliance

Cornerstone is transparent data reporting.

Performance measures proliferate – and are worth more.

This is Dr. Berwick's bag.

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“Big Dog” Perspective

“I’m actually really excited about where the Medicare provisions ended up. They didn’t kill us in MA, they helped us in Part D and we now have the basic rules of the road. All at a time when the senior market is about to explode.”

-- Chairman/CEO of a Top-3 Medicare Plan

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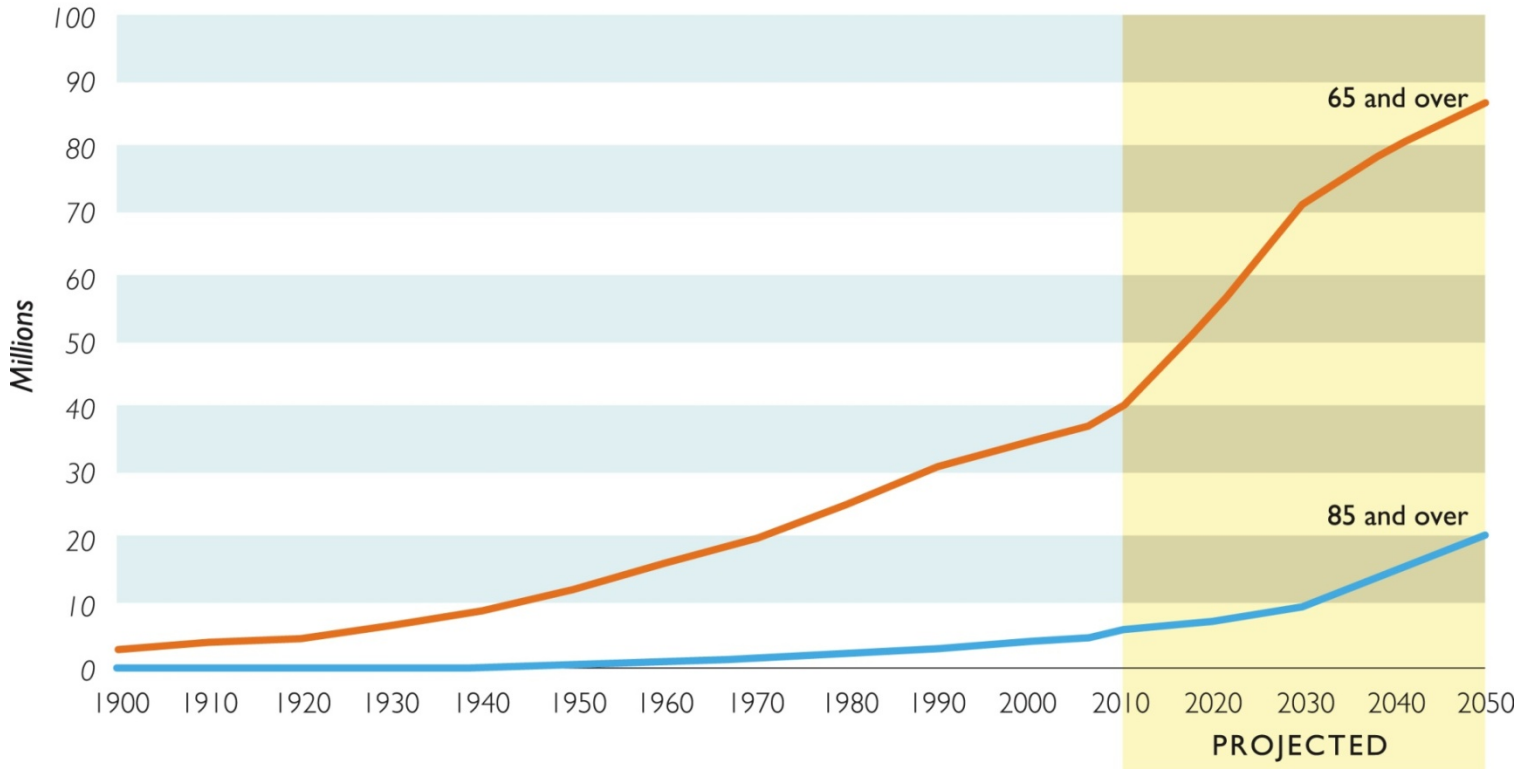
Seniors

3.6 million boomers age-in to Medicare every year starting 2011



US Population 65+

2010: 1 in 8

2030: 1 in 4

4 million seniors over 85 will grow to 9 million by 2030

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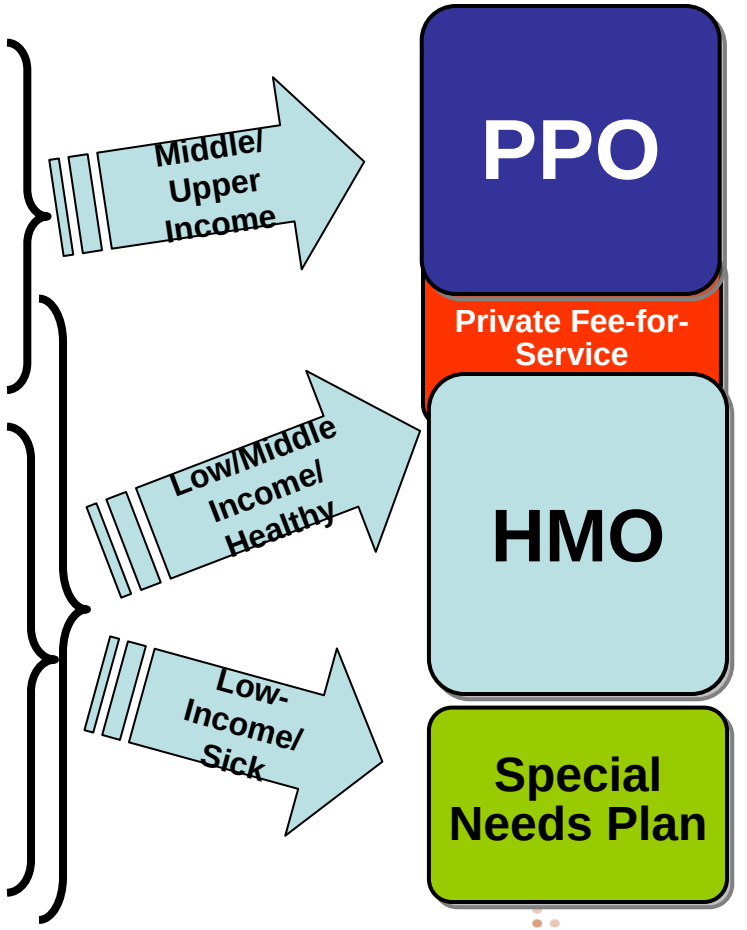
Segmentation of the MA Market

INCOME	INCOME DISTRIBUTION	SPEND	INDEX
$50,000+	6%	4%	67
$25,000 - 50,000	21%	17%	81
$15,000 - 25,000	26%	21%	81
$10,000 - 15,000	18%	19%	106
$5,000 - 10,000	24%	34%	142
< $5,000	4%	6%	150



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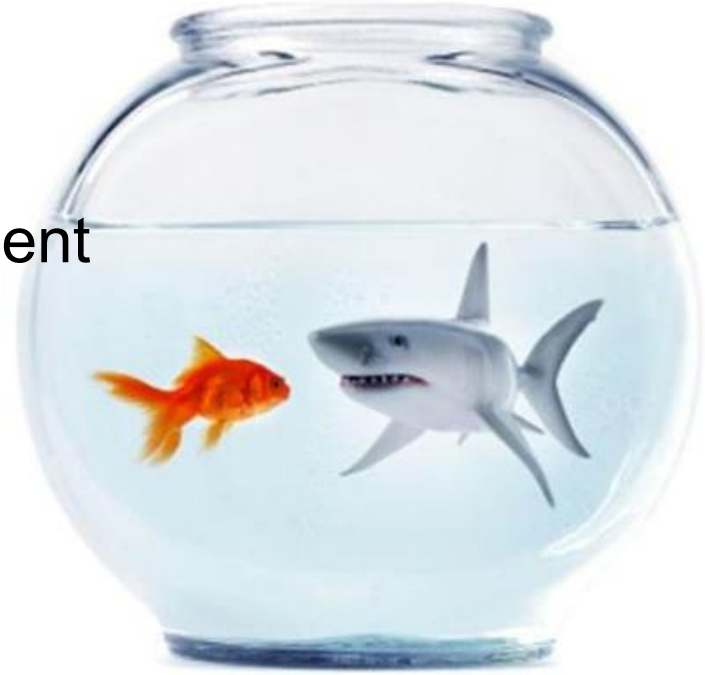
Medicare Advantage in 2011

- Premiums FELL, benefits steady – plans trading margin for members
- Consolidation to accelerate going into 2012
  - PFFS marginalized
  - SNPs down 39%
  - PPOs ascendant
- Publicly-traded now MA-dependent
- Plan-friendly population enters
  - 41% of age-ins choose MA
- Enrollment grows 5%



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MA REIMBURSEMENT AFTER 2010

New rates phased in over 4-6 years, starts in 2011 with rate freeze

QUARTILE	FROM	TO	PERCENTAGE OF FFS	PERCENTAGE OF MA LIVES, 3/10	PERCENTAGE OF OF US COUNTIES
1	$0	$639.70	115%	19%	27%
2	$639.70	$690.98	107.5%	15%	24%
3	$690.98	$743.75	100%	22%	24%
4	$743.75	$1,306.33	95%	45%	24%
MEDIAN		$690.98			

MA benchmarks set by arraying counties into quartiles based on FFS cost.

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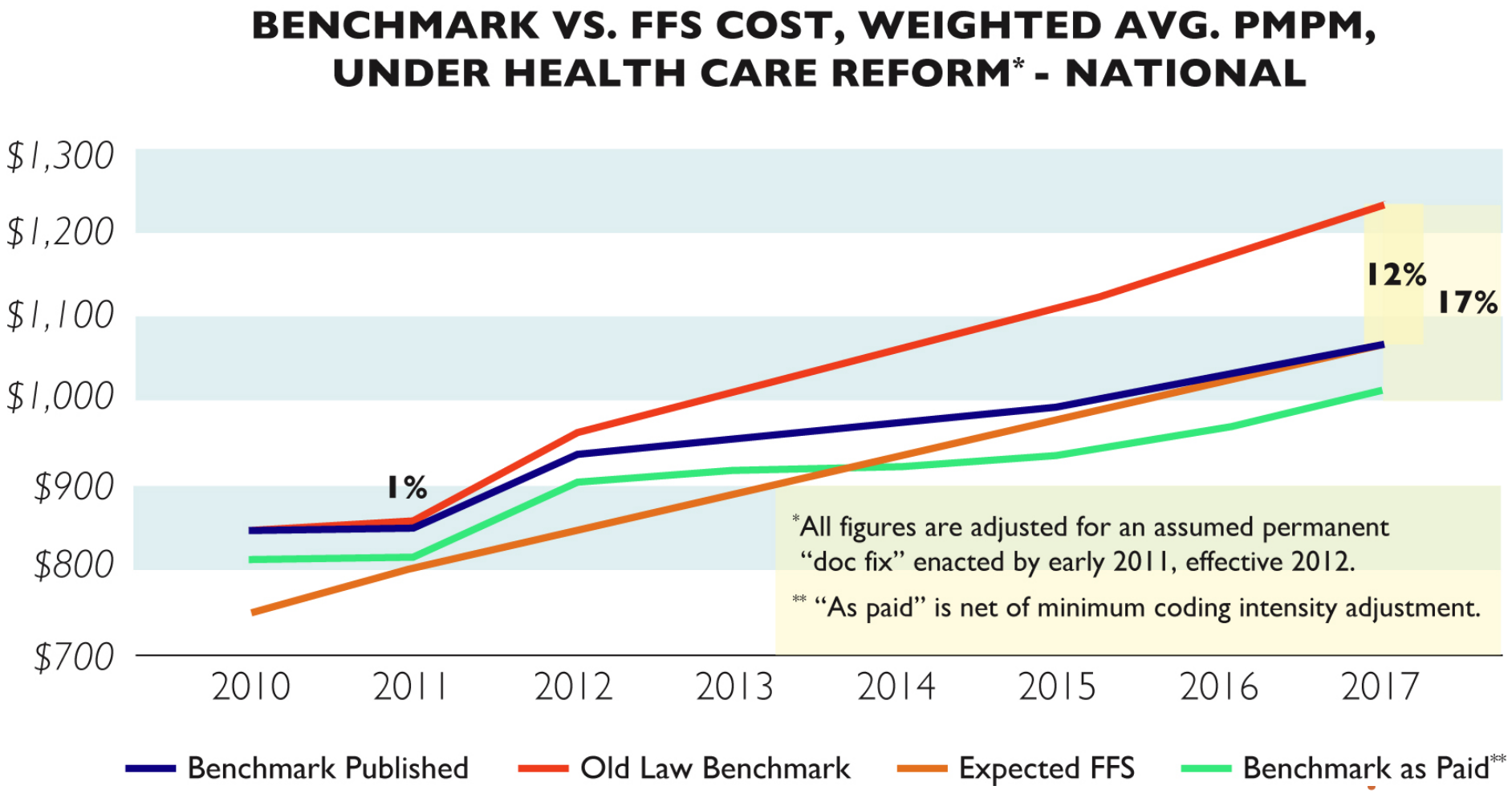
WHERE ELSE ARE YOU GOING TO FIND $200 PMPM?



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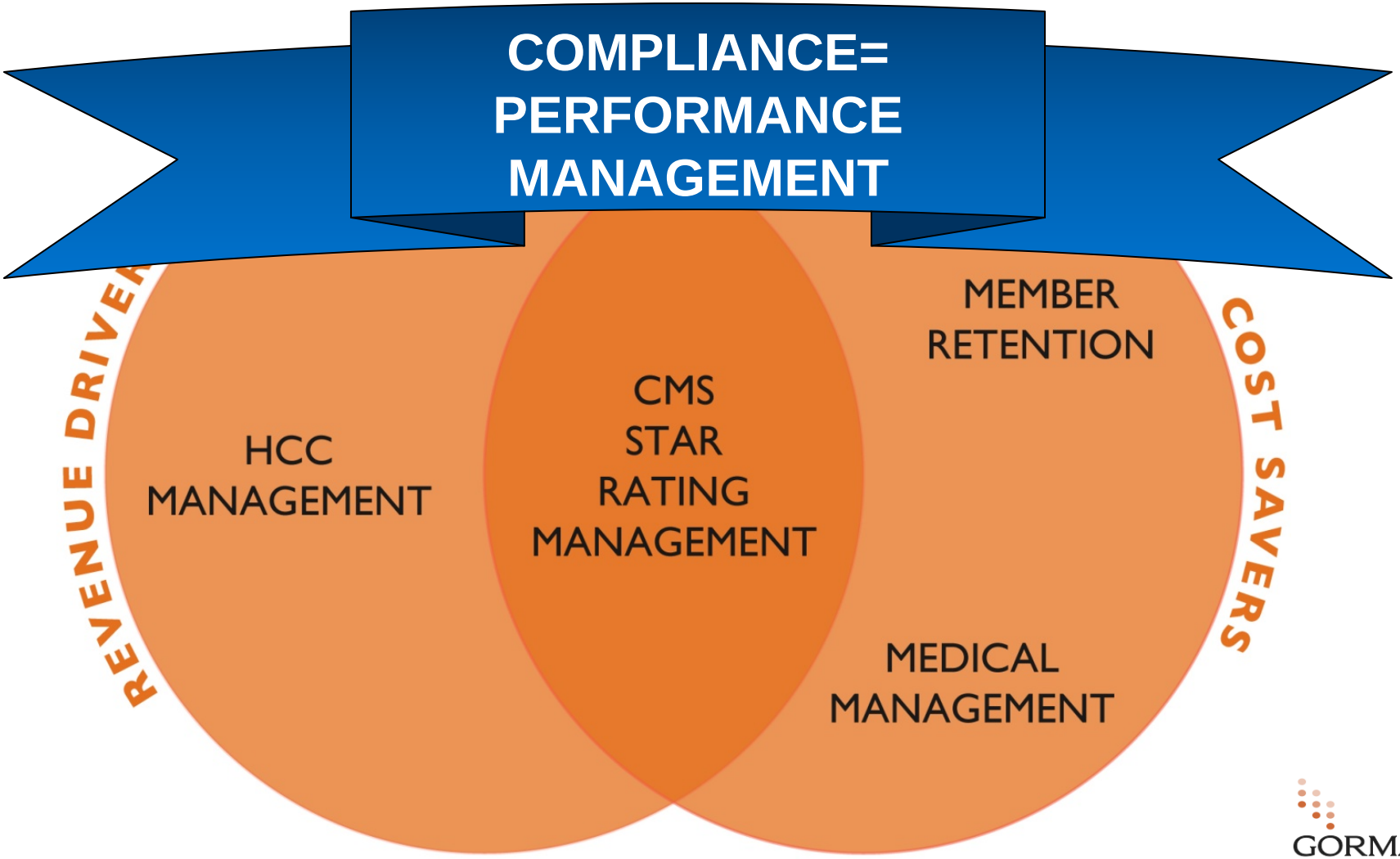
YOU'LL FIND IT HERE:

The New Medicare Advantage Value Chain



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WHERE WILL YOU FIND $200 PMPM?

Measure	Yield
Prospective HCC Management	$175 PMPM
Cutting-Edge Member Management	$15 PMPM
Reduce MLR 1%	$85 PMPM
Reduce Member Defection by 1/3	$10 PMPM
Maintain 4-Star CMS Rating	$50 PMPM

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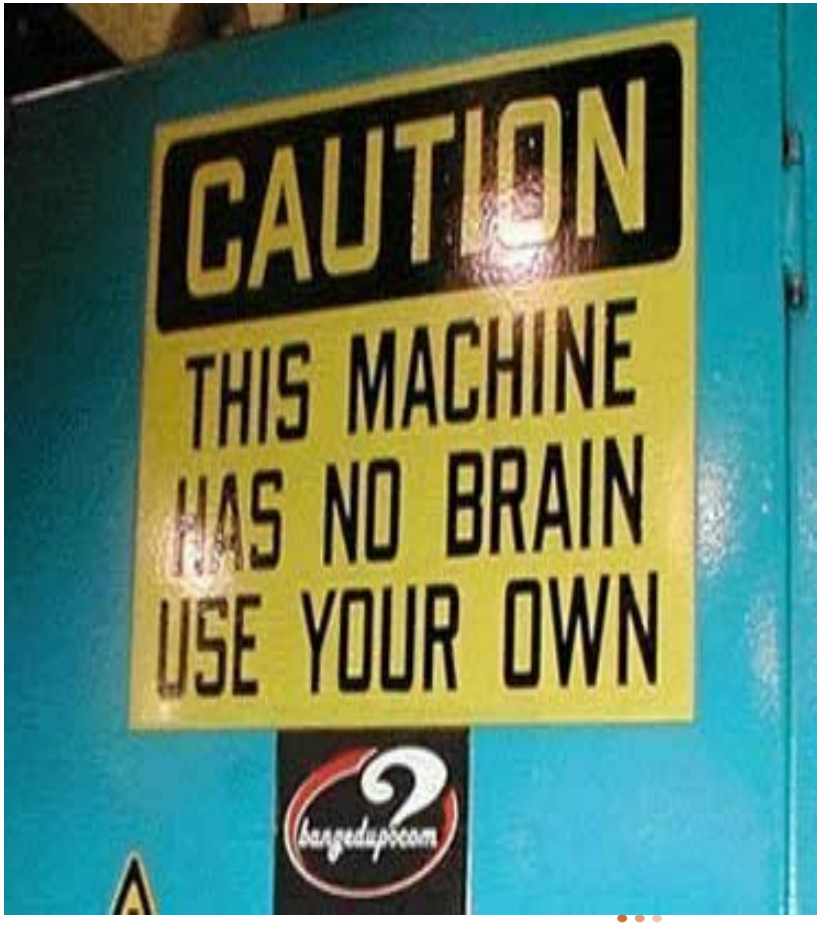
REVENUE AND HCC MANAGEMENT

- Embed HCC management in Medical Management
- Move to prospective evaluations, minimize chart review dependence
- Invest in state of the art enrollment/recon capability
- “Audit-proof” this function



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State of the Art HCC Management

Retro: “Last Season”

- Capturing what is in the chart but not in a claim
- Risk-adjusting claims data
- Audit exposure
- Chasing dollars with CMS
- No value to member or purchaser

Pro: “New Hotness”

- High-risk member intel that gets into RAPS
- Managing the patient and liability via patient assessment
- Audit-proof
- Faster return on codes
- High value to plan, member and purchaser

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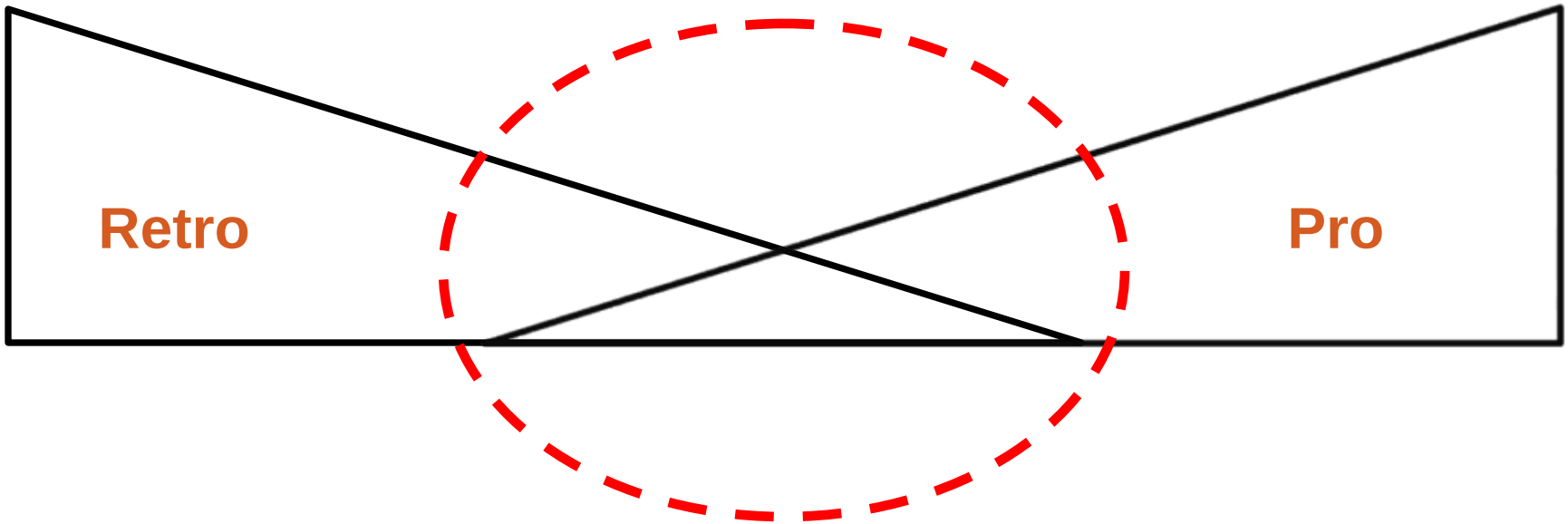
OVER TIME…

Portion of Codes Derived From Chart Review



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CMS STAR RATINGS

The "New" Risk Adjustment

- High Performer Bonuses
  - 3+ star plans eligible for a bonus
  - Begins phasing-in 2012; implemented 2014
- High Performer Rebates
  - Links beneficiary rebates to plan ratings; e.g. 70% for 4.5 stars; 50% for under 3 stars
  - Phased in over 3 years starting in 2011
- High Performer Sales
  - 5-star plans get SEP to market/sell year-round

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MIRROR MIRROR ON THE WALL

Graded on a curve...

Overall Score	Contract Count	%	MA-PD % Weighted By Enrollment
5 stars	3	0.5	1.0
4 stars	74	13.2	23.2
3 stars	271	48.4	60.4
2 stars	48	8.6	7.2
Not enough data to calculate overall rating	104	18.6	3.6
Plan too new to be measured	60	10.7	4.5
Total	560	100	100

Source: CMS Fact Sheet: Proposed Changes to the Medicare Advantage and the Medicare Prescription Drug Benefit Programs for Contract Year 2012 and Demonstration on Quality Bonus Payments, 11/11/10

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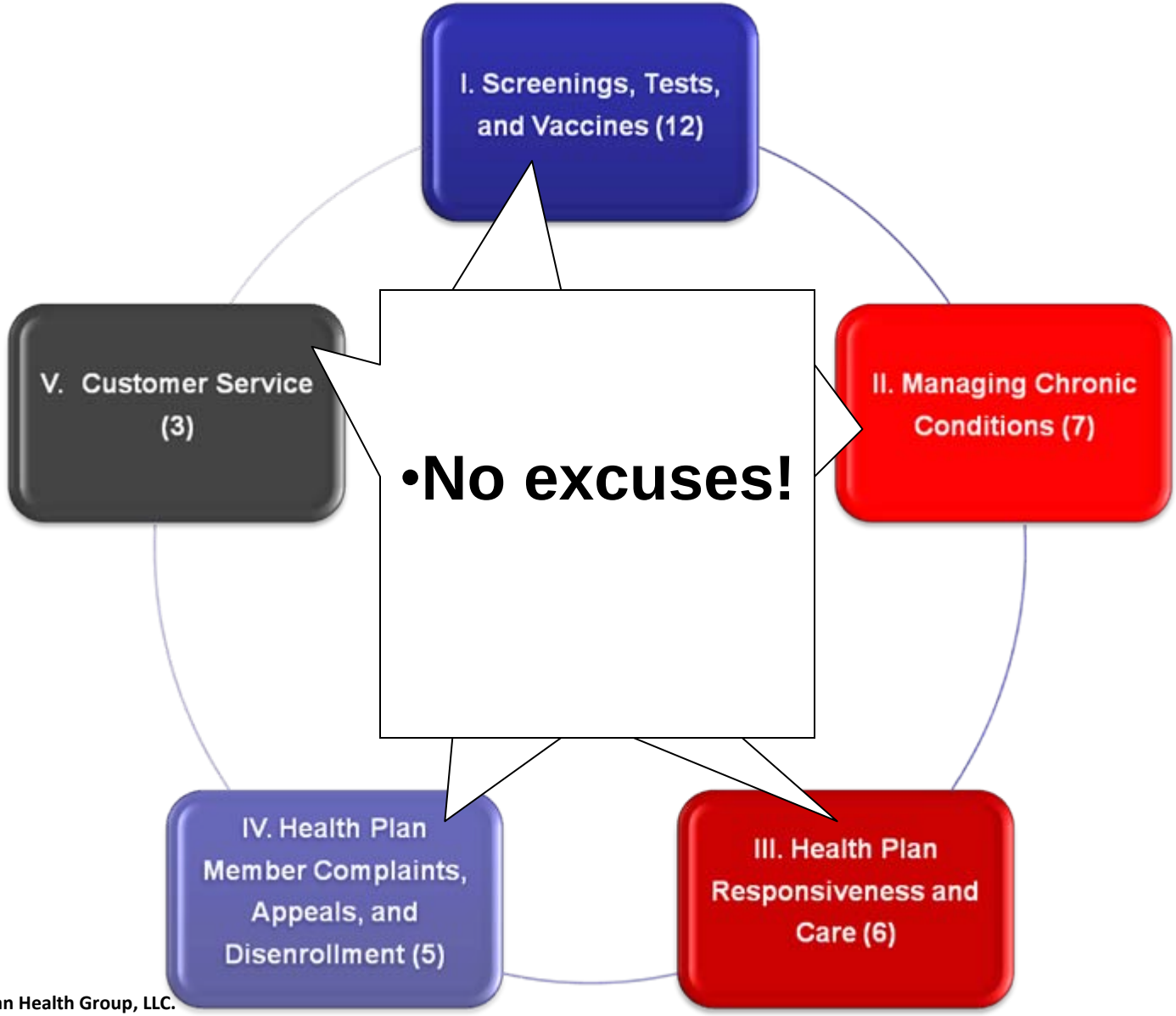
STARS: MAKING IT WORK



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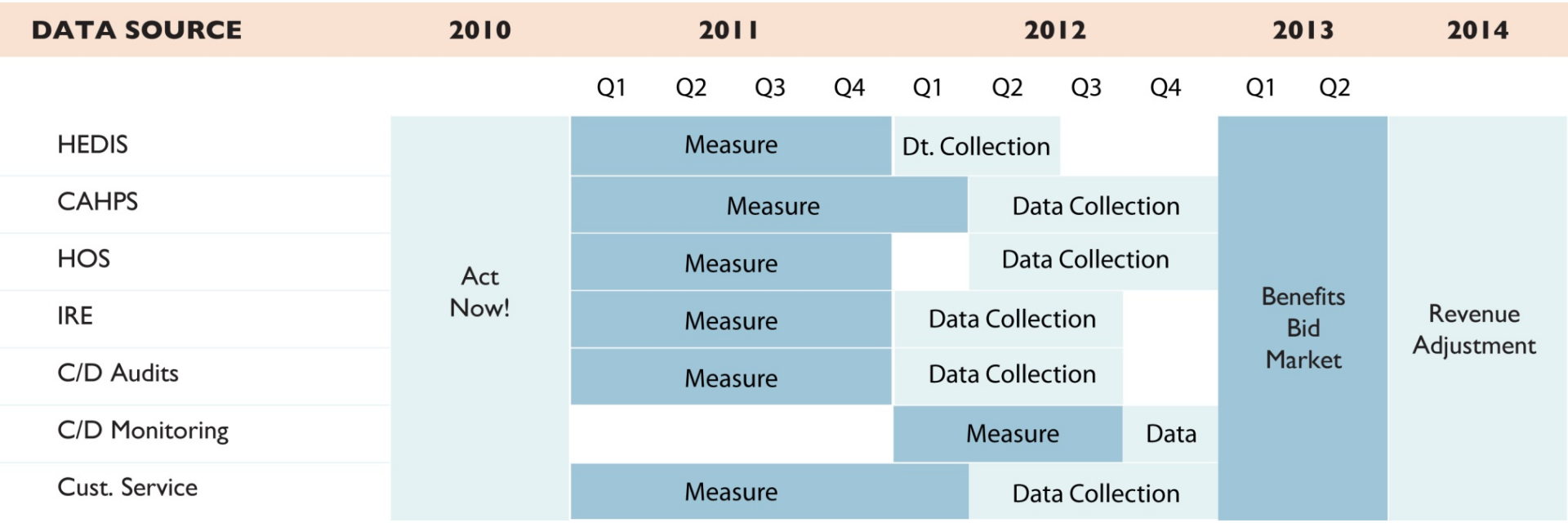
THREE…YEAR…L…A…G…



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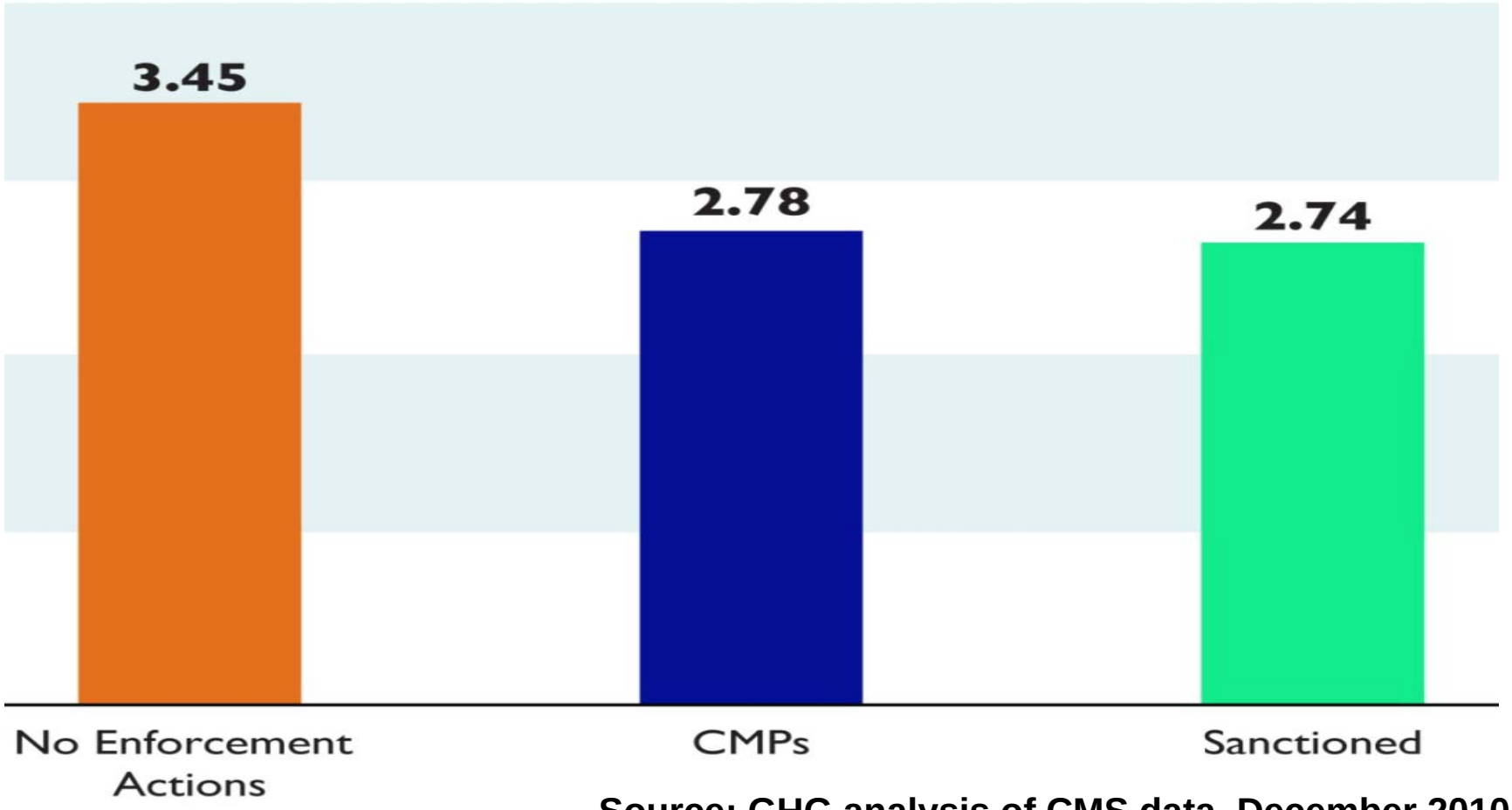
CORRELATION IS NOT CAUSALITY

But it's pretty interesting



Source: GHG analysis of CMS data, December 2010

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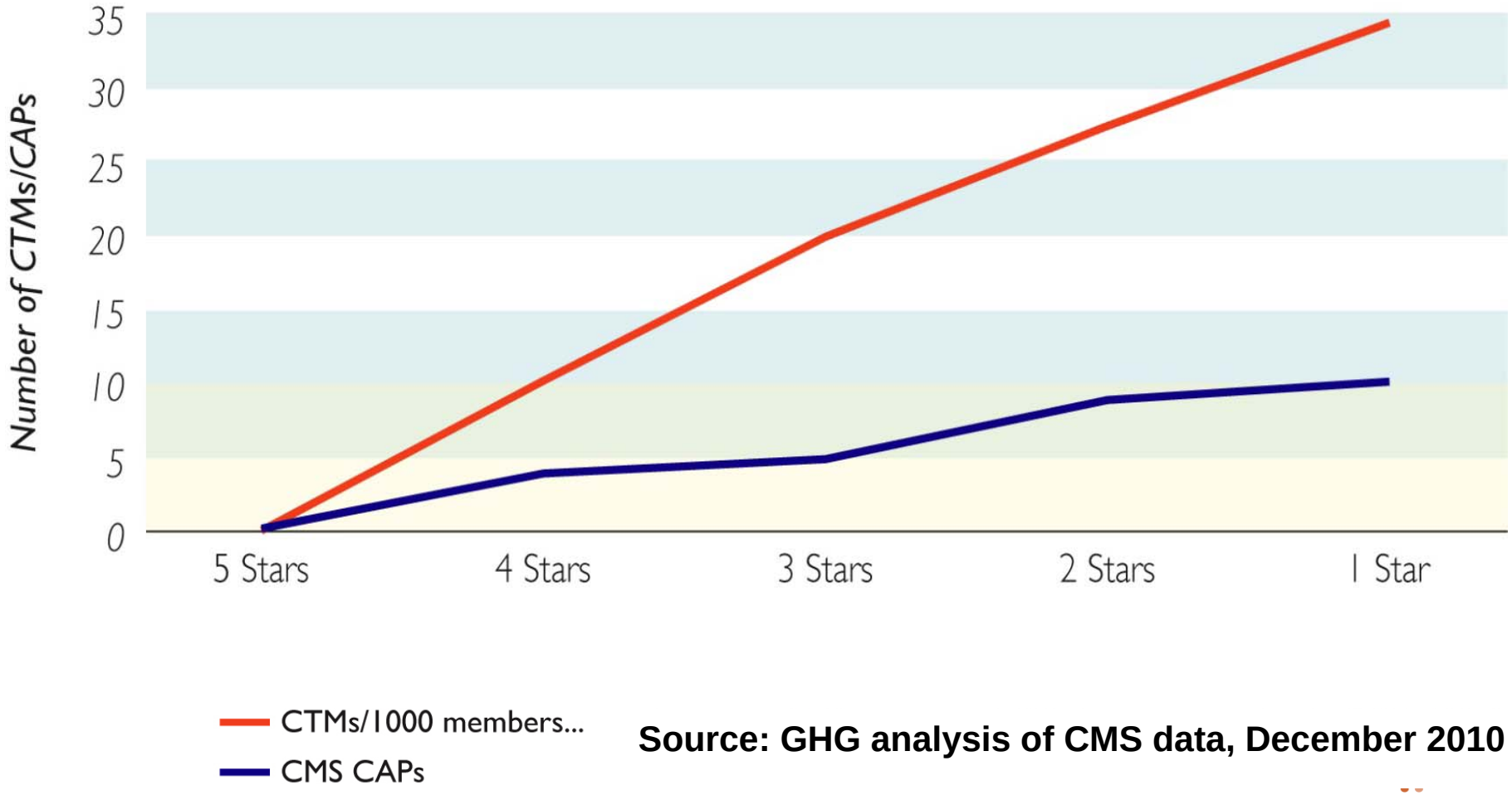
TELL ME SOMETHING I DON'T KNOW

Plan Compliance Record and Star Rating



Source: GHG analysis of CMS data, December 2010

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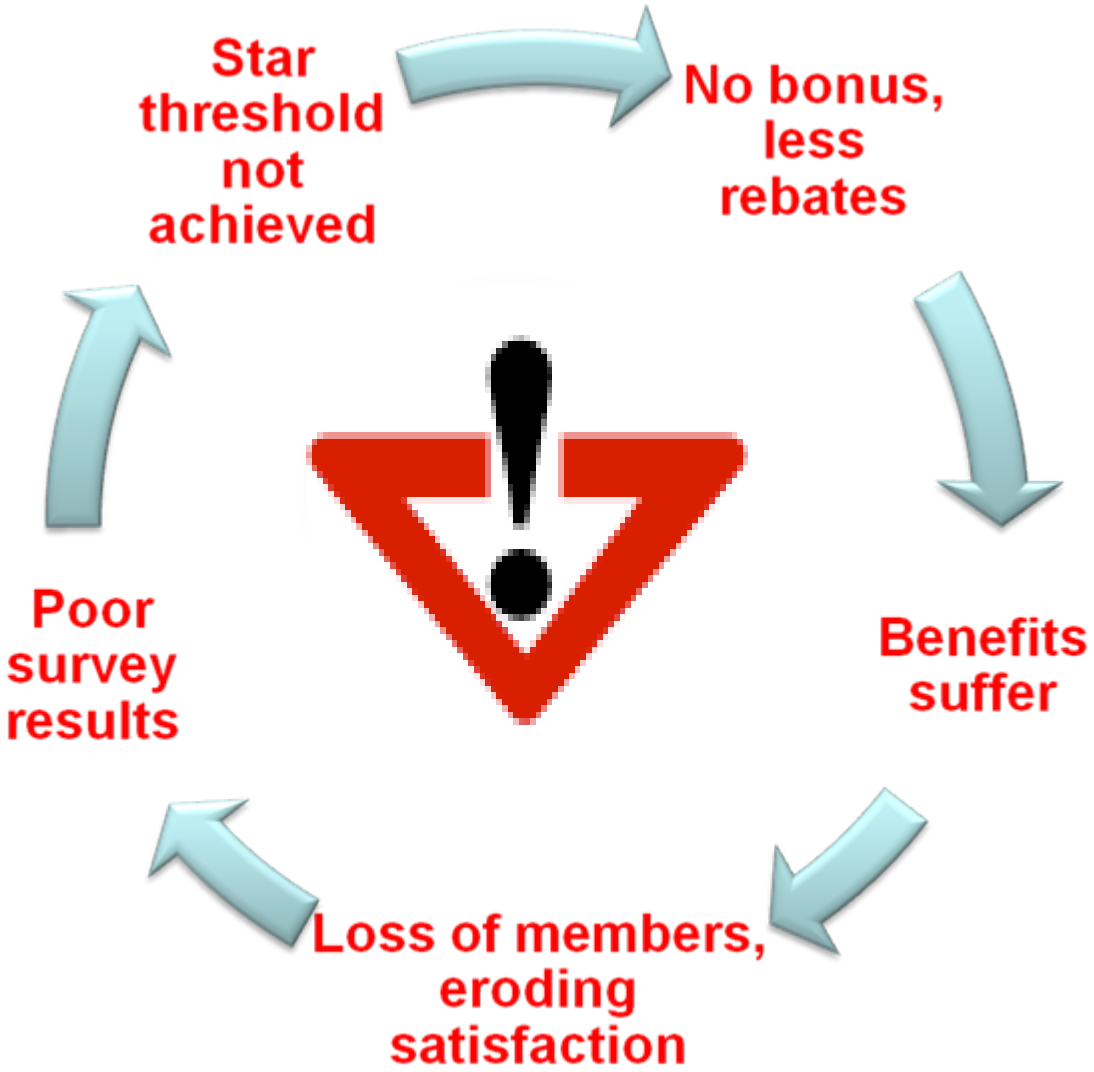
FINANCIAL IMPACT

Vicious Cycle



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FINANCIAL IMPACT

Victorious Cycle

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COMPETITIVE ADVANTAGE

The Pac-Man Effect:

- Race to 5-stars to poach members from flat-footed competitors
- If you're in a market with a 5-star plan, start thinking in terms of "retention cost" not "acquisition cost."
- Plans that can sustain this rating, now can move away from agent-based distribution channels -- a plan's #1 historic compliance risk
- Provider-sponsored organizations and other payer/provider integrated plans have the upper hand for the next few years

CMS
CENTERS for MEDICARE & MEDICAID SERVICES

CENTER FOR MEDICARE

DATE: November 19, 2010

Medicare Advantage Organizations

Medicare Enrollment & Appeals Group

Plans in Plan Year 2012

Beginning in 2012, CMS will establish an SEP to allow Medicare beneficiaries eligible for

CMS is exercising its existing statutory authority under Section 1851(e)(4)(D) of the Social

bonus payment demonstration, to give MA plans greater incentive to achieve 5-star status. Plan ratings for the 2012 plan year will be published in the fall of 2011, prior to the annual open enrollment period.

Who will be eligible for this SEP?

- Beneficiaries enrolled in MA plans with a star rating of 4.5 or less
- Beneficiaries who are enrolled in Original Medicare and meet the eligibility requirements for Medicare Advantage

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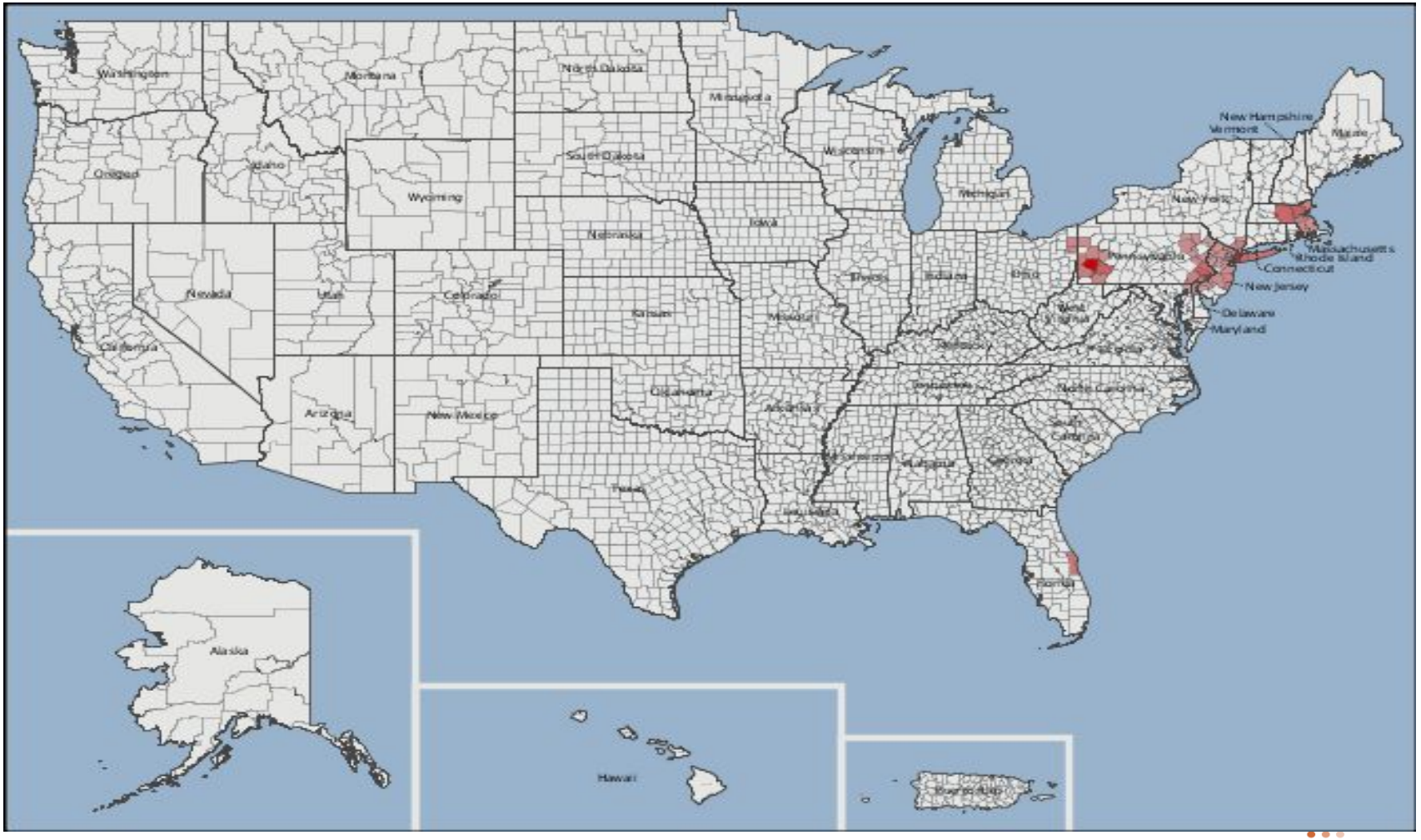
MARKETS TO WATCH

≥ 2 Contracts with ≥4.5 Stars



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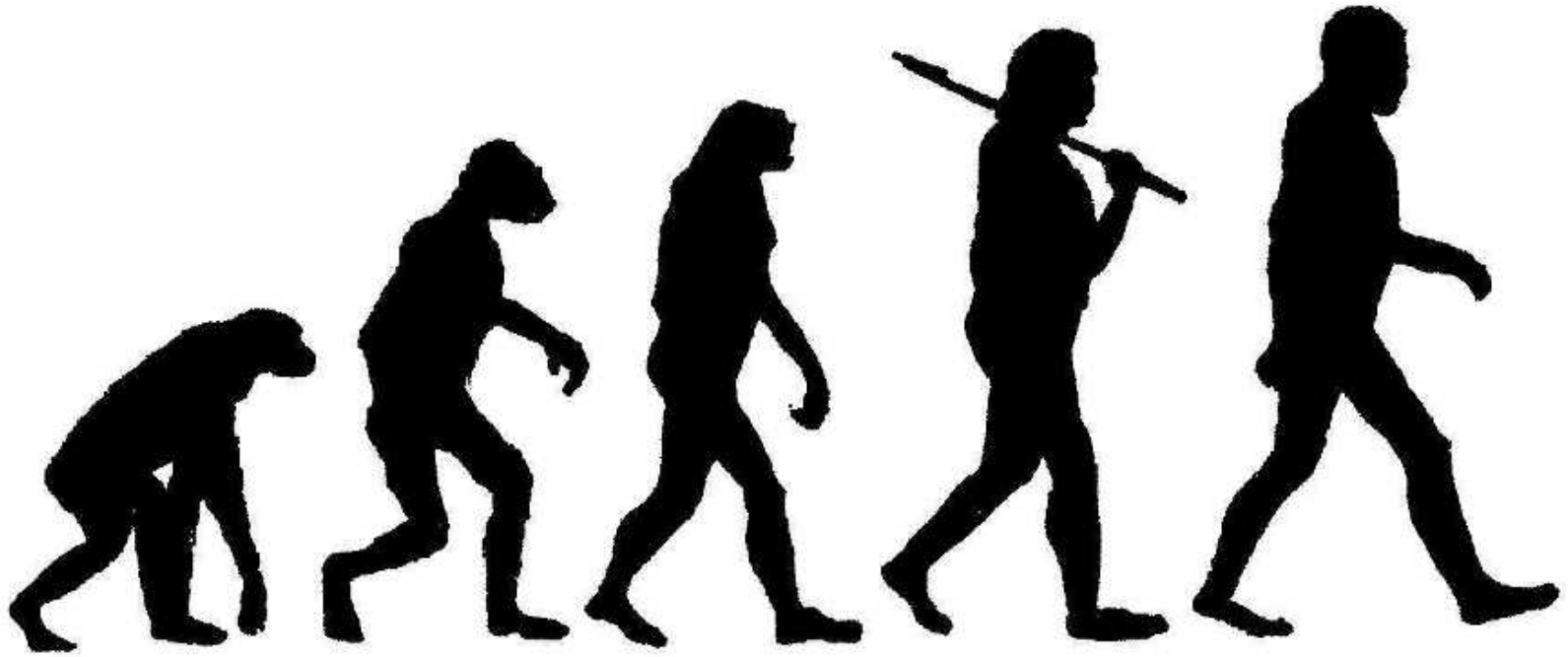
MARKET TO WATCH *CLOSELY*...

Let's all wish BCBS-MA well!

Contract	2011 Star Rating	Type	Plan Name	Enrollees
H2256	4.5	MA Local	Tufts Health Plan Medicare Preferred	75,734
H9001	4.5	MA Local	Fallon Community Health Plan	30,505
H7226	Not renewing	MA Local	Harvard Pilgrim Health Care Inc.	25,316
H2261	4.5	MA Local	Blue Cross Blue Shield of Massachusetts	15,508
H2230	4.5	MA Local	Blue Cross Blue Shield of Massachusetts	12,085
H2224	3.5	MA Local	Senior Whole Health	6,137
H2256	4.5	MA Local	Tufts Health Plan	6,046
H2226	4	MA Local	Evercare® by UnitedHealthcare	4,604
H2228	3	MA Local	Evercare® by UnitedHealthcare	2,868
H8578	Not enough data	MA Local	Health New England Inc.	2,817
H2225	4	MA Local	Commonwealth Care Alliance Inc.	2,630
H2762	Not renewing	MA Local	Cigna Medicare Access	2,465
H1944	Not enough data	MA Local	SecureHorizons by UnitedHealthcare	1,466
H8578	Not enough data	MA Local	Health New England, Inc.	1,318
H5736	Not renewing	MA Local	Aetna Medicare	1,067

R/EVOLUTION



FFS: Volume over value	FFS Model + bonus payments tied to metrics: P4P	Physician (PCP) participates in upside (savings) only	PCP responsible for Part B costs, but no facility costs	PCP* responsible for continuum of care

**this could be IDN, IPA, etc.*

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CMS'S OVERSIGHT MODEL

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MASTER THE NEW VALUE CHAIN AND…

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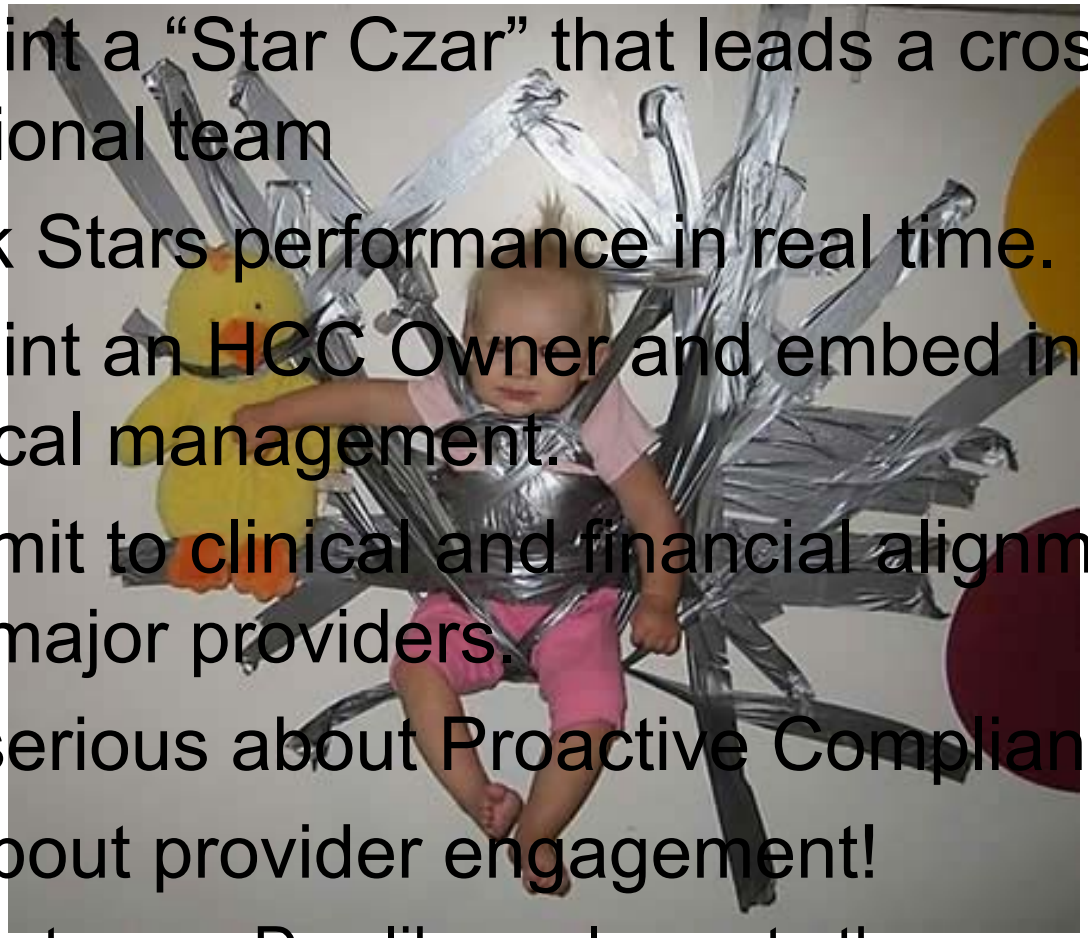
MAKING IT STICK



- Appoint a “Star Czar” that leads a cross-functional team
- Track Stars performance in real time.
- Appoint an HCC Owner and embed in medical management.
- Commit to clinical and financial alignment with major providers.
- Get serious about Proactive Compliance.
- It’s about provider engagement!
  - Treat every Doc like a plan: rate them.

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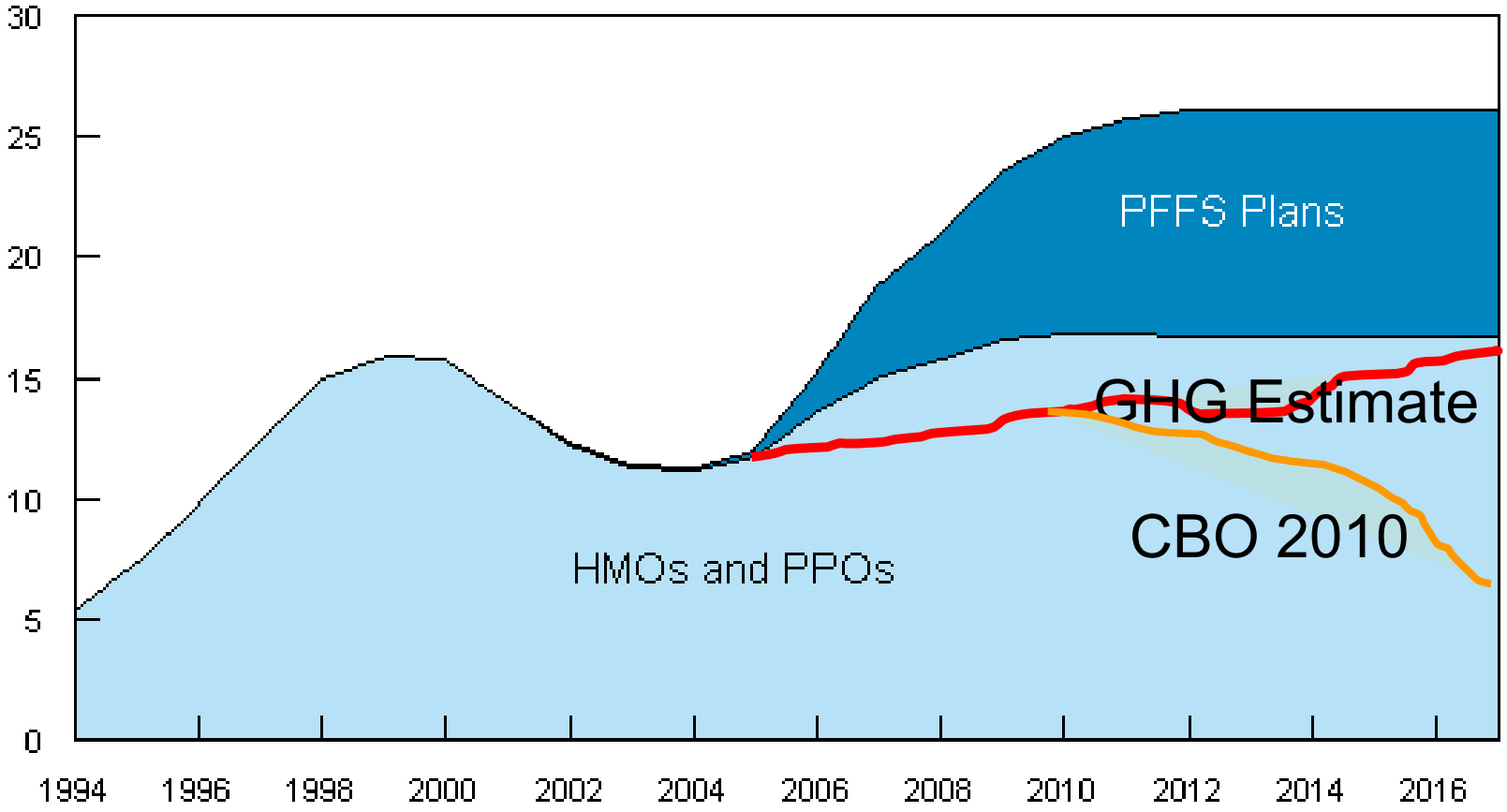
Enrollment Projections for MA

CBO's 2007 and 2010 Projections; GHG Estimates



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Ask Tough Questions

- How committed are we to Medicare?
- What's the ante to stay in…and win?
- What are our comparative marketplace advantages?
- What do our customers and partners expect***…and get*** from us?

"Opportunity is missed by most people because it's dressed in overalls and looks like work."

– T. A. Edison

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ADVERSITY

Impossible odds makes achievements even more satisfying.

Reverse History: MA in 2020

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