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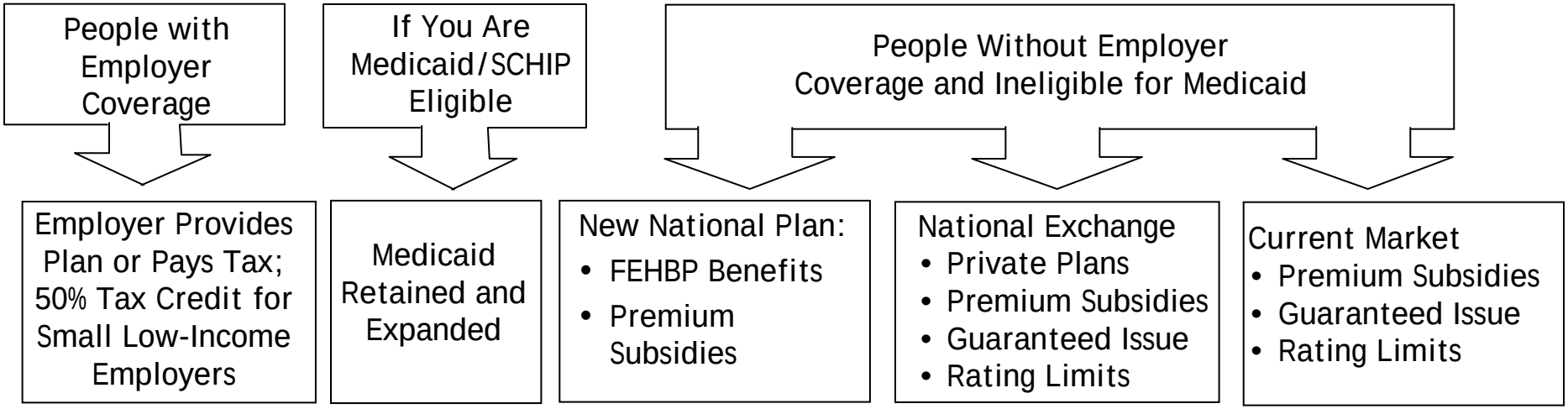
Opening a Buy-In to a Public Plan: Implications for Premiums, Coverage and Provider Reimbursement

Presentation to Senate Finance Committee Republican Staff

December 5, 2008

Obama Health Proposal – *"Plan for a Healthy America"*

- All Children Must Have Coverage – Enforcement not Specified
- Voluntary Subsidized Coverage for Low-Income – Not Specified
- New National Exchange as Alternative to Current Market



Other Proposal Features

- Guaranteed Issue and No Health Status Rating in Exchange
- Funds Health Information Technology
- Funds Clinical Effectiveness Research
- Disease Management
- Minimum Loss Ratio (in non-competitive areas)
- Negotiate Part D Drug Prices Directly With Manufacturers
- Permit Re-importation of Drugs
- Reduced Medicare Advantage Rates

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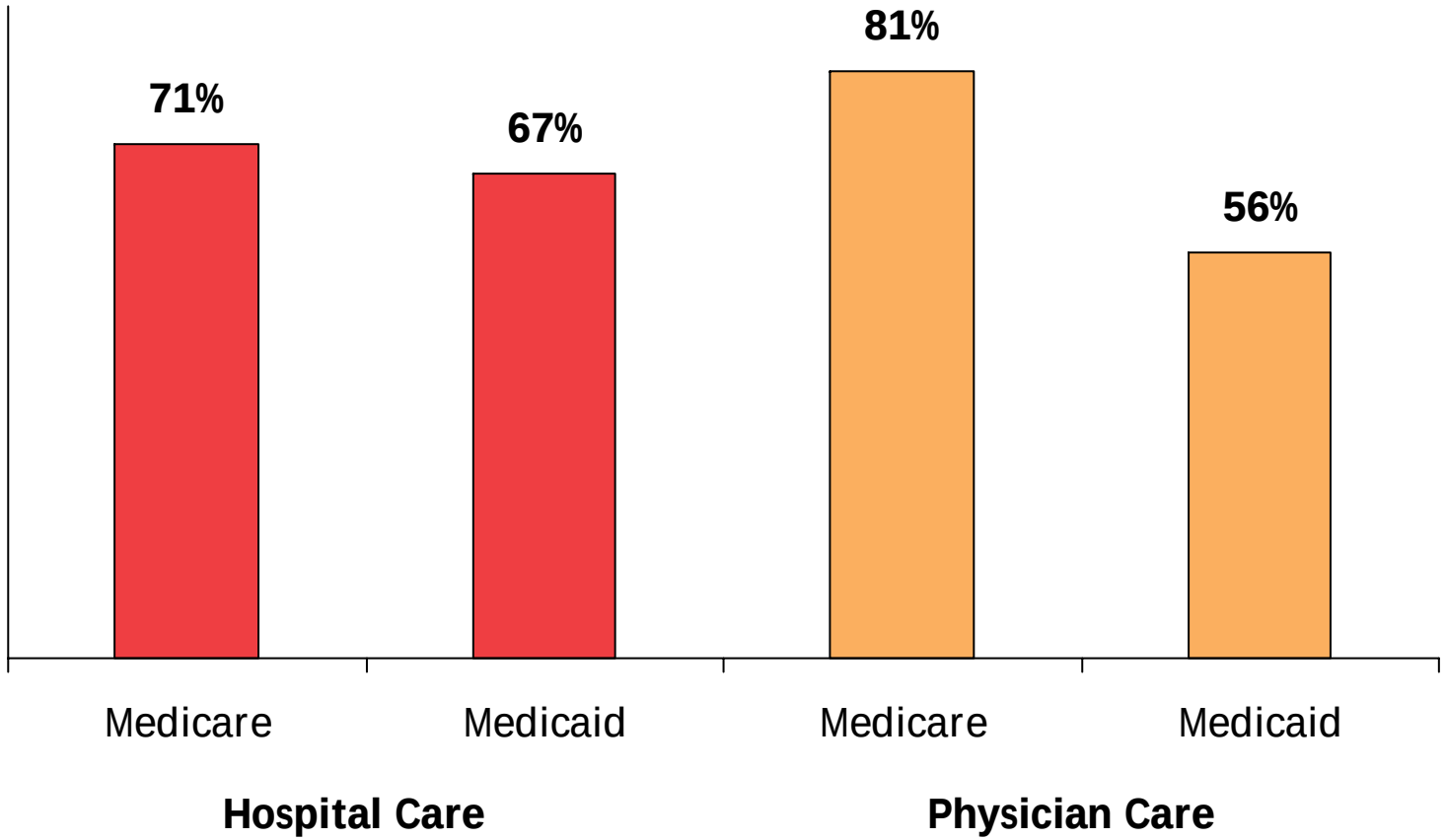
Public Program Provider Payments as a Percent of Private Payments for Similar Services



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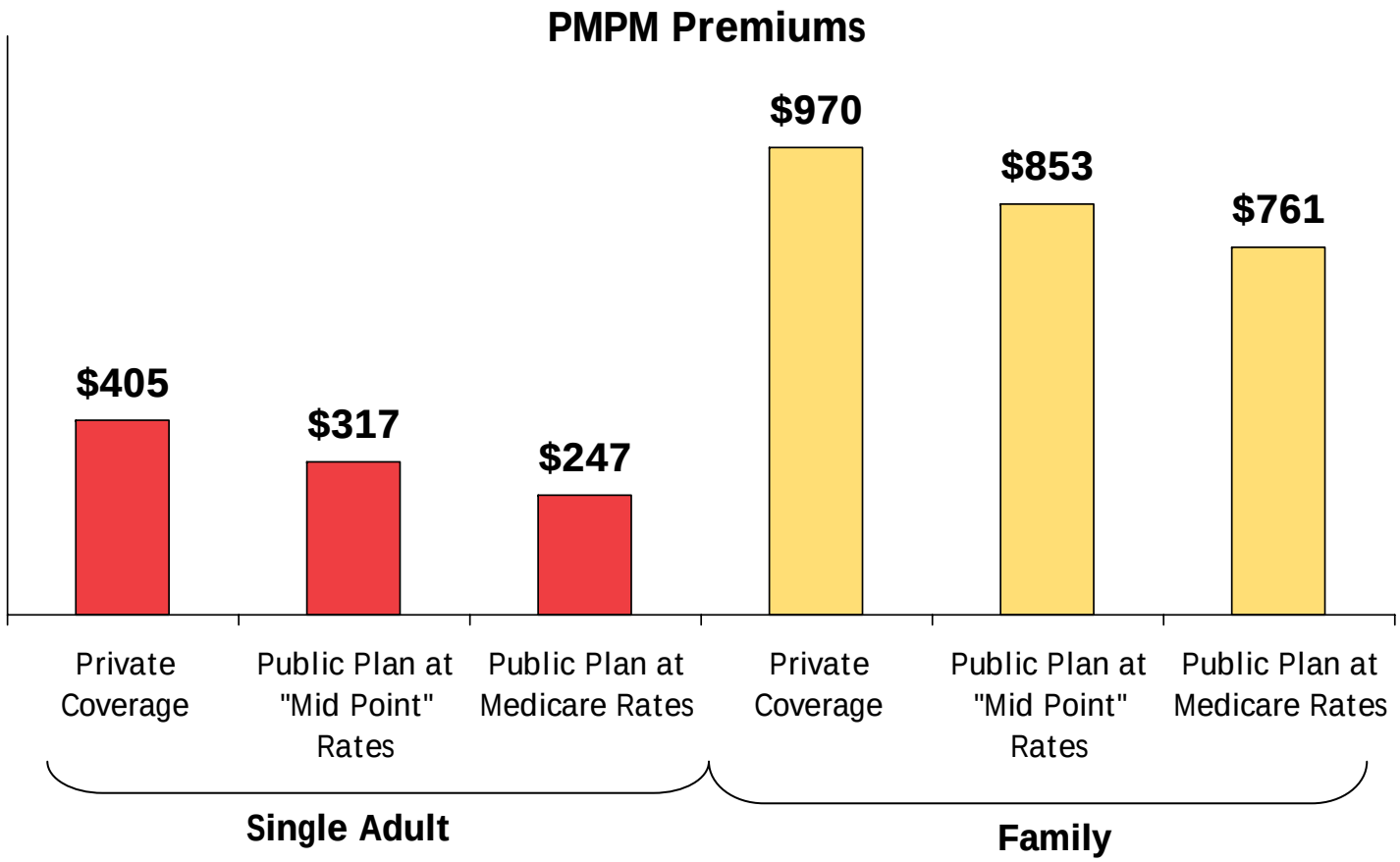
Public Plan Premiums Under Alternative Provider Payment Levels and with Medicare Administration per Person per Month (PMPM)



a/ Includes provider payment rates at midpoint between private and Medicare payment rates.

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Enrollment in Public Plan Under Obama Proposal Under Alternative Scenarios

	Eligible Groups					
	Small Firms, Self employed and Individuals Only			All Firms, Self-Employed and Individuals		
	Private Payer Levels	Midpoint Payment Levels	Medicare Payment Levels	Private Payer Levels	Midpoint Payment Levels	Medicare Payment Levels
Public Plan Premiums as Percent of Private	-10%	-25%	-40%	-9%	-18%	-32%
Coverage Effects (millions)						
Reduction in Uninsured	23.8	26.1	27.4	25.1	26.7	28.2
Enrollment in National Public Plan	17.0	31.5	42.7	20.6	77.5	130.5
Change in Private Coverage	-10.4	-21.5	-31.8	-12.5	-67.5	-118.5

Impact on Hospital Revenues in 2009 (billions)

	Assuming Mid Point Payment Levels	
	Small Firms Only	**All Firms Eligible**
Payment Level Reduction	-$7.1	-$29.3
Payments for Previously Uncompensated Care	$22.0	$22.0
Net Change	$14.9	-$7.3
Change as a Percent of Total Hospital Revenue	2.0%	0.9%
	Assuming Medicare Payment Levels	
Payment Level Reduction	-$14.2	-$58.5
Payments for Previously Uncompensated Care	$22.0	$22.0
Net Change	$7.8	-$36.5
Change as a Percent of Total Hospital Revenue	1.0%	-4.6%

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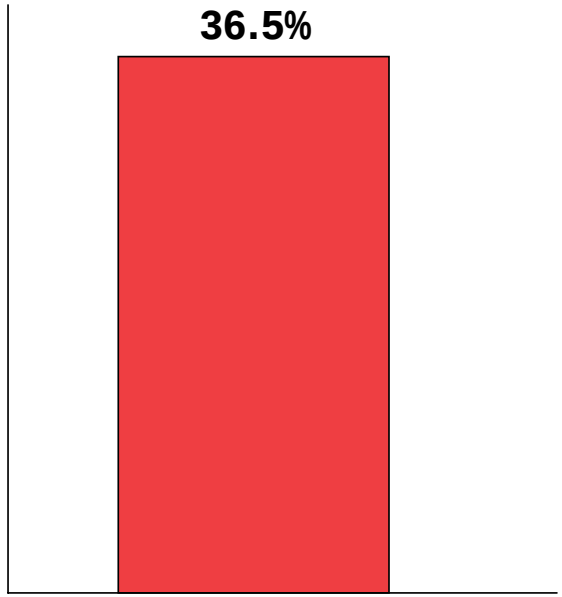
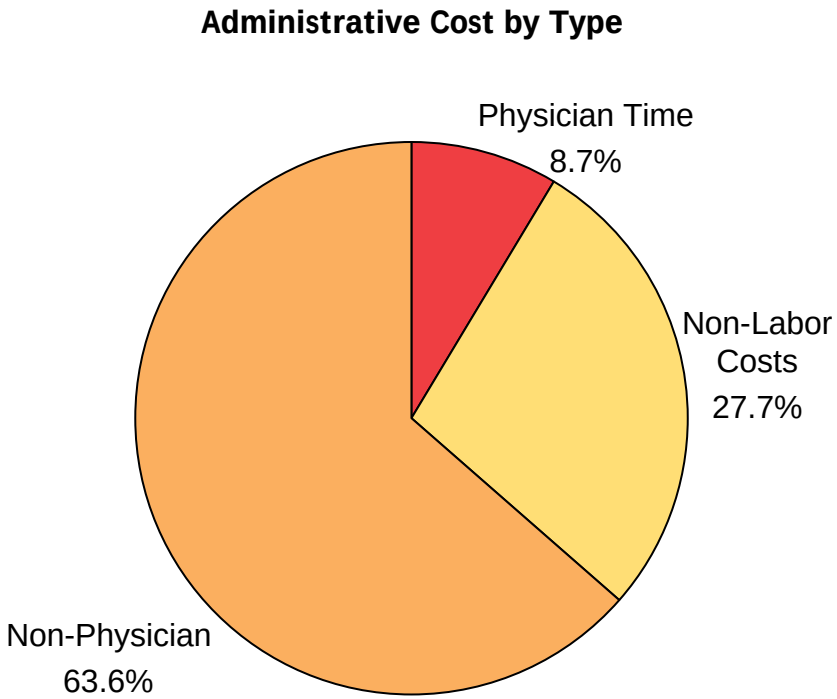
Impact on Physician Revenue in 2009 (billions)

	Assuming Mid Point Payment Levels	
	Small Firms Only	**All Firms Eligible**
Payment Level Reduction	-$5.8	-$19.8
Payments for Previously Uncompensated Care	$3.0	$3.0
Net Change	-$2.8	-$16.8
Change as a Percent of Total Physician Revenue	-0.5%	-3.1%
	Assuming Medicare Payment Levels	
Payment Level Reduction	-$11.7	-$39.4
Payments for Previously Uncompensated Care	$3.0	$3.0
Net Change	-$8.7	-$36.4
Change as a Percent of Total Physician Revenue	-1.6%	-6.8%

Medicare Model Could Reduce Physician Practice Administrative Costs



Percent of Physician Practice Expense Attributed to Administration



Administrative Expense

a/ Based upon MGMA data, AMA data from "SocioEconomic Characteristics of the Medical Practice," and physician interviews

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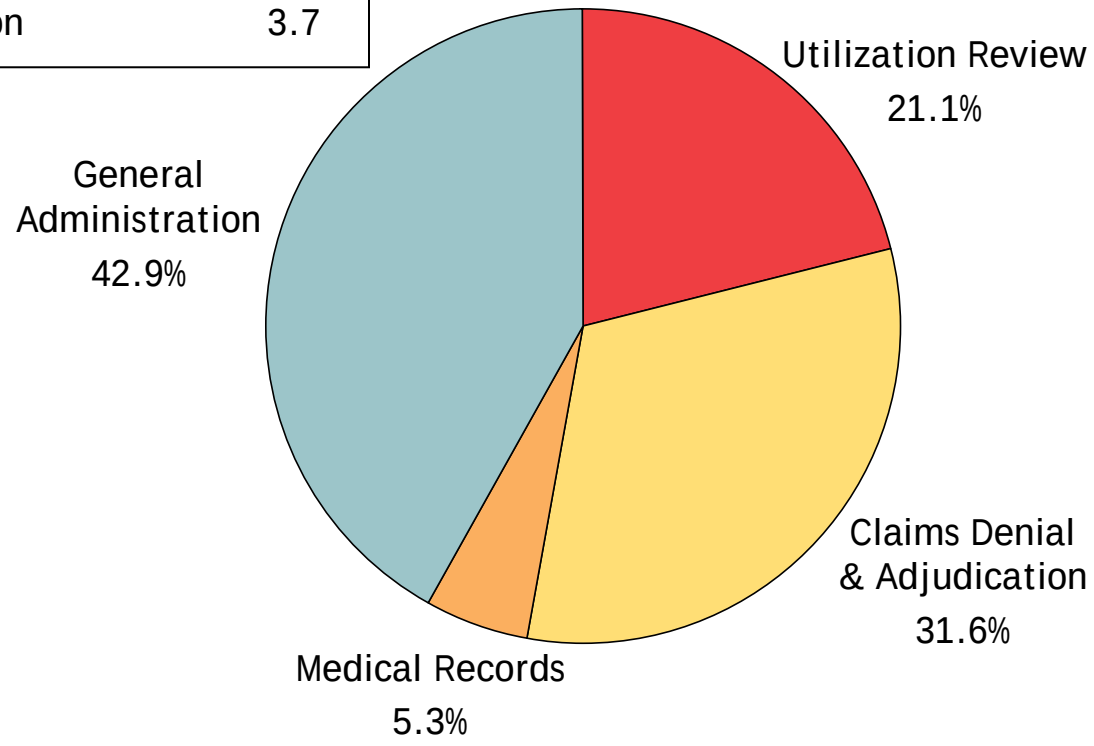
Physician Time by Function a/

Physician Work Hours Per Week	
Patient Care	52.5
Administration	3.7



a/ Based upon MGMA data, AMA data from "SocioEconomic Characteristics of the Medical Practice," and physician interviews

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The Payer Perspective: Impact of Utilization Review on Utilization and Costs

- Reduced Admissions by 12.3%
- Reduced Inpatient Days by 8.0%
- Reduced Hospital Expensed by 11.9%
- Reduced Total Medical Expenditures by 8.3%

- Insurer Savings to Cost Ratio: 8 to 1

- Some Studies provide evidence of potential quality problems.

a/ Feldstein, TM, "Private Cost Containment, "The Effects of Utilization Review Programs on Health Care Use and Expenditures." Wickizer, TM., "Effects of health care cost-containment programs on patterns of care and readmissions among children and adolescents," American Journal of Public Health. 1999 September; 89(9): 1353–1358