

Understanding the Health Insurance Business: Commercial Insurance

Thursday, August 1, 2019



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Overview of Commercial Insurance

2

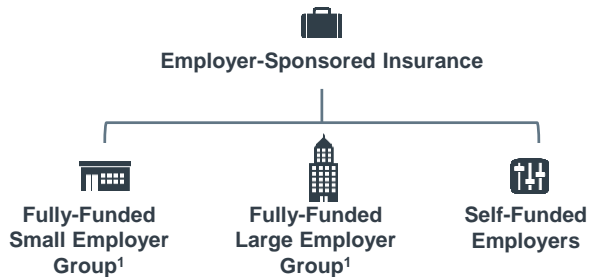
Major Trends Impacting Commercial Insurance Plans

3

Key Advisory Board Resources for Commercial Insurance Plans

Commercial Insurers Sell to Employers, Individuals

Two Ways for Individuals to Secure Commercial Health Insurance



Employers purchase insurance for their employees from commercial insurance companies

Employers: Health insurance expenditures tax-deductible
Individuals: Reduces personal costs

Employers: High-cost benefit
Individuals: Limited choice of plans

Purchasing Method

Pros

Cons

Individuals purchase insurance for themselves and family members

Employers: No costs
Individuals: Additional plan choices

Employers: Reduced benefits competitiveness
Individuals: Personally costly

¹) The small group definition was originally legislated to change to up to 100 employees for coverage in 2016, but the Protecting Affordable Coverage for Employees (PACE) Act of 2015 amended this change and leaves definition determination to the discretion of state regulators. For 2018, only California, Colorado, New York, and Vermont have expanded the definition of small group to up to 100 employees.

Understanding Self Funding for Employers

Employer considerations for self-funding

Advantages:

- Exclusively finances employee population
- Control and flexibility
- National consistency
- Access to data
- Cash flow management



Risks:

- Unpredictable spending
- Administrative work
- Stop-loss coverage not guaranteed
- Variability in economic benefit

Percentage of covered workers in self-funded plans

By employer size, 2018



Insurer nomenclature

Third-Party Administrator (TPA)

- Legal term
- Typically independent organization
- Rents networks, enabling flexible design and payments
- Personalization, flexibility

Administrative Services Only (ASO) division

- Typically division of parent carrier company
- Modeled from existing networks and products
- Stability, efficiency

Health Insurance Exchanges an Evolving Market

A New Marketplace for Individual Insurance

Characteristics of Health Plans in ACA Marketplaces



No denial due to pre-existing conditions (“guaranteed issue”)



Premiums can only vary by age, tobacco use, family status, benefit design, and geography (“adjusted community rating”)



Four metal tiers: bronze, silver, gold, and platinum

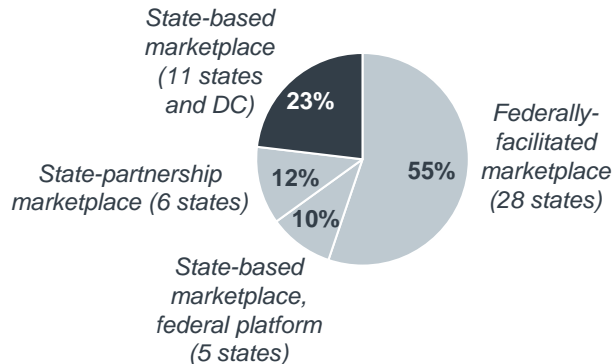


Essential Health Benefits and free preventive services



Subsidies available up to 400% of FPL

State Decisions on Marketplace Participation, 2018



Not to be confused with private exchanges!

Source: “State Health Insurance Marketplace Types, 2019”, Kaiser Family Foundation, <https://www.kff.org/health-reform/state-indicator/state-health-insurance-marketplace-types/?currentTimeframe=0&sortModel=%7B%22coll%22:%22Location%22,%22sort%22:%22asc%22%7D>; “State Health Insurance Marketplace Types, 2018,” Kaiser Family Foundation, <http://kff.org/health-reform/state-indicator/state-health-insurance-marketplace-types/>; “Drivers of 2017 Health Insurance Premium Changes,” American Academy of Actuaries, <https://www.actuary.org/content/drivers-2017-health-insurance-premium-changes-0>; Advisory Board interviews and analysis.

Challenges in the Face of New Market Realities

Key Commercial Payer Challenges



Employers seeking new ways to control expenses

As health benefits costs continue to rise with little inflection from member cost sharing, employers are putting more pressure on plans and exploring new ways to actively manage costs themselves



New era of marketplace competition and uncertainty

Acquired plan and consumer experience along with continued regulatory supports contribute to a more stable and competitive marketplace, but new policies may alter the enrollment mix



Consumers are demanding hands-on support

Partly due to increased cost sharing, consumers have greater incentive to choose cost-effective health services but expect plans to guide them through this

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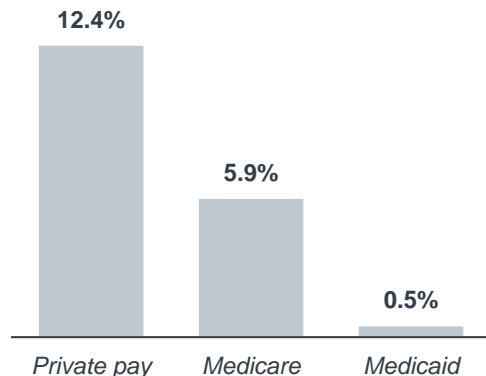
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A clear cross-subsidy threat

Employers carrying the reimbursement growth burden

Cumulative hospital price growth by payer segment (June 2014–February 2019)



Employers shoulder an outsized share of health care costs

241%

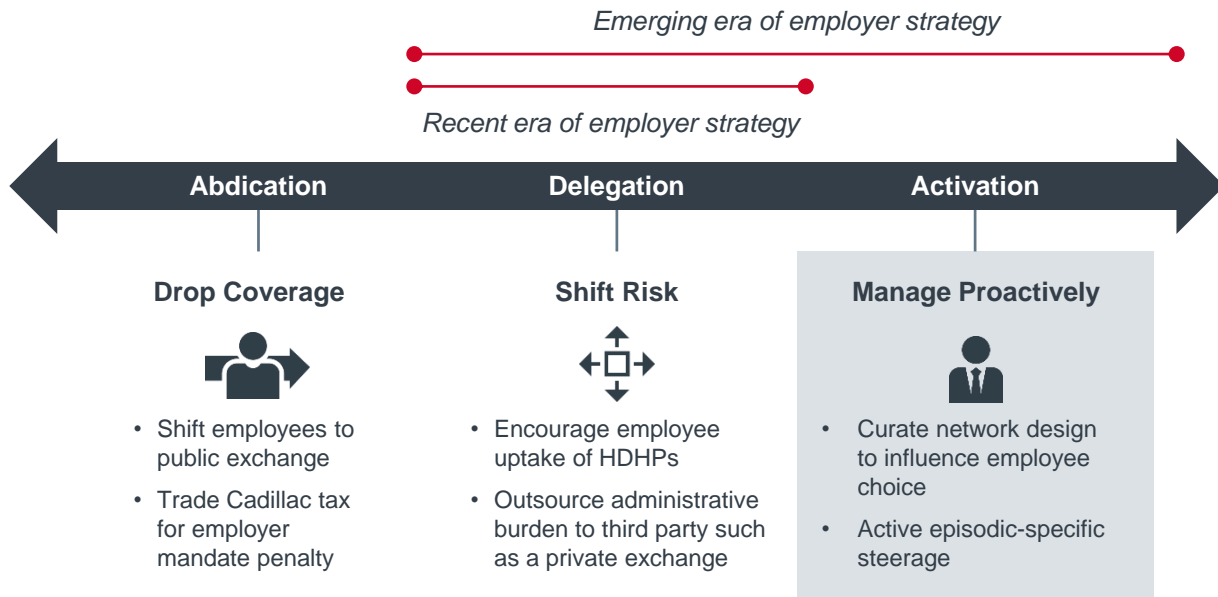
Percentage that private health insurance pays hospitals compared to Medicare on average

Source: White C and Whaley C, "Prices paid to hospitals by private health plans are high relative to Medicare and vary widely," RAND, 2019; "Health sector economic indicators: price brief," Altarum, March 15, 2019; Schulman K, "The implications of 'Medicare for All' for US hospitals," JAMA, April 4, 2019; Goldsmith J et al., "Medicare expansion: A preliminary analysis of hospital financial impacts," Navigant, 2019; Health Care Advisory Board interviews and analysis.

Adding New Layers of Control

Embracing Activation in Addition to Delegation

Spectrum of Options for Controlling Health Benefits Expense



Pick the best surgeons for new employer contract

Employers contracting with systems for the best physicians' capacity

Six best Mount Sinai surgeons chosen for COE¹ program with 32BJ²



Health system contracts with local union, 32BJ



Surgeons follow standardized care pathway, deliver **\$12,000 savings** per case to employer



System selects six highest-quality surgeons

10% ➔ 60%

Shift in market share for lower-extremity joint replacements



In the past, we were always reliant on surgeons to bring cases to the system. Now, the system is also bringing cases to the physicians.



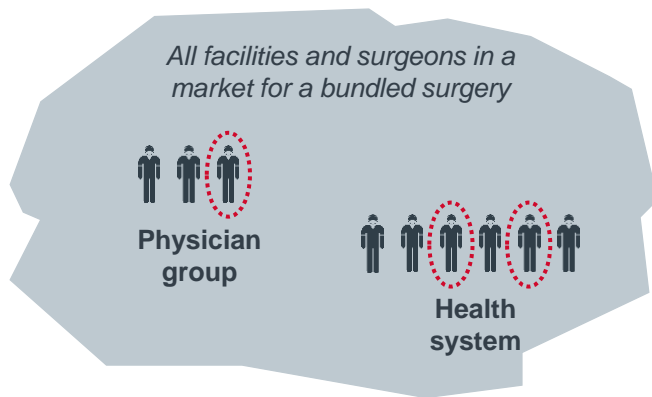
Niyum Gandhi, Chief Population Health Officer, Mount Sinai

1) Center of excellence.
2) Labor union in New York City.

Chart the future one surgeon at a time

Delivering on employers' demands for the best of the best

Carrum Health's selective provider contracting process



Find most efficient facilities and surgeons in a market using:

- 1 Recommendations for surgery appropriateness from high-quality specialist advisors
- 2 Public quality and claims data
- 3 Confidential data provided by system or group



Statistics on Carrum Health's surgeons¹

57%

Fewer complications

45%

Fewer readmissions

25%

Avoided surgeries

1) Compared to the national average.

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A hyperactive regulatory environment

Regulatory actions regarding ACA marketplaces

Potential destabilization



Potential stabilization



Negated individual mandate penalty

Effectively eliminates requirement for individuals to have insurance coverage



Short-Term Health Plans (STHPs)

Lengthens duration of plans with more coverage flexibility and eligibility barriers



Association Health Plans (AHPs)

Easier access to plans with more premium rating and coverage flexibility



More insurers win lawsuits seeking CSR¹ payments

- Common Ground Healthcare Cooperative (+91 insurers), Maine Community Health Options, L.A. Care, Community Health Choice, Montana Health Co-op



State reinsurance programs through innovation waivers

- **Approved:** AK, HI, MD, ME, MN, NJ, OR, WI
- **Pending:** CO, MT, ND

Continued uncertainty and future changes to watch



Expanded HRAs²:

Employers can offer employees HRA funds to purchase individual market coverage



Texas v. United States (pending):

Challenges constitutionality of individual mandate without associated penalty

Source: Porter, S. "[Short term health plans allowed up to 3 years.](#)" *Health Leaders*, Aug 2018; The Washington Post, "[Trump administration widens availability of skimpy, short-term health plans](#)"; Collins SR, "[First Look at Health Insurance Coverage in 2018 Finds ACA Gains Beginning to Reverse.](#)" To the Point Blog, May 1st, 2018; Congressional Budget Office, Washington, D.C.; King R, "[The Obamacare individual mandate is repealed. Here's what's next.](#)" The Washington Examiner, January 14, 2018.; Andrews M, "[Read The Fine Print Before Picking An Association Plan For Your Small Business.](#)" NPR, June 27, 2018; Hall, M and Brandt, C. "[Network Adequacy Under the Trump Administration.](#)" *Brookings*, Sept 2017; Keith, K, "[Final Rule On Health Reimbursement Arrangements Could Shake Up Markets](#)", Health Affairs Blog, June 14, 2019"; Blumenthal, D et. al., "[States take the lead on Reinsurance to stabilize the ACA marketplaces](#)", The Commonwealth Fund, May 22, 2018; Keith, K, "[More insurers win lawsuits seeking cost-sharing reduction payments](#)", Health Affairs Blog, February 17, 2019; Health Plan Advisory Council interviews and analysis.

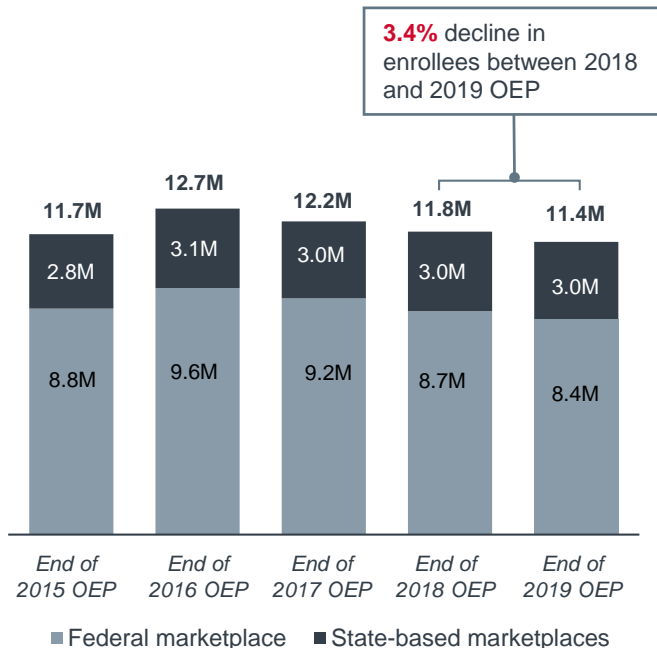
1) Cost Sharing Reductions.

2) Health Reimbursement Arrangements.

Despite policy shifts, enrollment relatively stable

Consumers see smaller premium hikes and more plan options in 2019

Plan selections in the marketplaces, 2015-2019



Marketplace competition



1.5%

Average decline in premiums for silver plans² between 2018 and 2019 (compared to 37% increase from 2017-2018)



4.0

Insurers per state on average in 2019 (up from 3.5 in 2018)

1) Open enrollment period.

2) Second Lowest Cost Silver Plans.

Source: CMS, "Health Insurance Marketplaces 2019 Open Enrollment Report" March 25, 2019, <https://www.cms.gov/newsroom/fact-sheets/health-insurance-exchanges-2019-open-enrollment-report>; CMS, "Data on 2019 Individual Health Insurance Market Conditions", October 2018, <https://www.cms.gov/newsroom/fact-sheets/data-2019-individual-health-insurance-market-conditions>; Fehr, R et al., "Insurer Participation on ACA Marketplaces 2018-2019, November 2018 <https://www.kff.org/health-reform/issue-brief/insurer-participation-on-aca-marketplaces-2014-2019/>; Health Care Advisory Board interviews and analysis; Health Plan Advisory Council interviews and analysis.

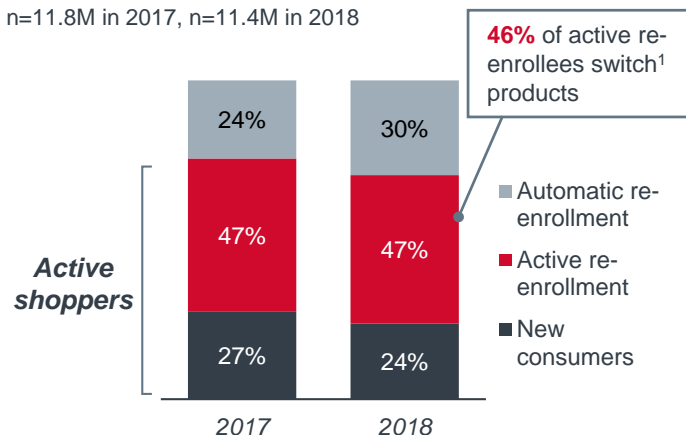
Majority of consumers actively shop, switch products

Consumer price sensitivity met by access to more low-cost options

More than half on ACA are active shoppers

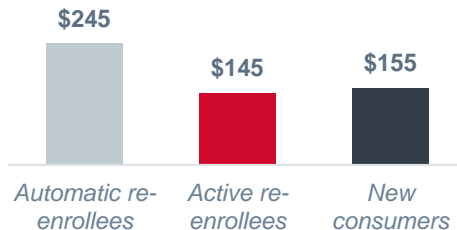
Percentage of plan selections by enrollment type

n=11.8M in 2017, n=11.4M in 2018



Active re-enrollees pay lowest premiums

Average monthly premiums after APTCs², 2019



87% Enrollees received APTC in 2019 compared to 85% in 2018

UPCOMING
WEBCONFERENCE



2019 Individual market growth outlook:

Key trends on provider networks—and their impact on enrollment
Wednesday, August 14, 2019 at 1:00 PM ET

1) Switchers are consumers who enroll in a different product with the same or different insurer than the year prior.

2) Advance Premium Tax Credit.

Bipartisan agreement: Surprise bills must go

Implications for network design, contract negotiations could be drastic

Narrow networks common in marketplace



68%

Products offered on marketplaces with networks that include less than 60% of providers in market, 2017

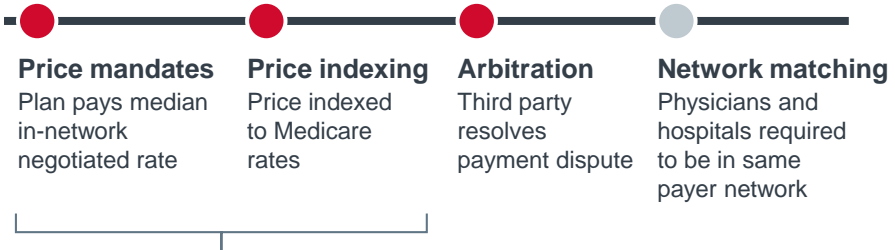


57%

Percent of Americans who have received a surprise medical bill, 2018



Several different legislative solutions proposed to address payment for surprise medical bills



Potential implications



Shifts negotiating leverage toward payers by decreasing incentive to include providers in-network



Could increase receptivity to price indexing or price mandates in other scenarios

Source: Kacik A, "More than half of Americans have received a surprise medical bill," Modern Healthcare, 2018, <https://www.modernhealthcare.com/article/20180830/TRANSFORMATION01/180839993/more-than-half-of-americans-have-received-a-surprise-medical-bill>; CMS, "2019 Marketplace Open Enrollment Period Public Use Files", Accessed June 9, 2019; Adler L et al., "State approaches to mitigating surprise out-of-network billing," USC-Brookings Schaeffer Initiative for Health Policy, February, 2019; Health Care Advisory Board interviews and analysis.

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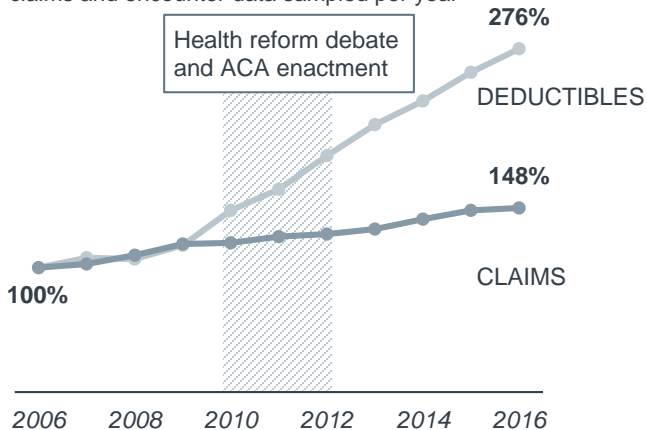
The Crusade for Active Consumers

Cost Sharing Here to Stay—But Not Sufficient

Changes in Insurer and Member Spending

Percentage Increases, Indexed at 100% in 2006

n = 1.05 million to 15.3 million commercial enrollees' claims and encounter data sampled per year



More members enrolled in HDHPs



48%

Workers with deductible over \$1,000, 2018

Two Commonly Cited Shortfalls

- 1 Decreases utilization, but insufficient to drive price shopping
- 2 Window of impact above HSA/HRA and below deductible too limited

Source: "High deductible plans", Peterson-Kaiser Health System Tracker, <https://www.healthsystemtracker.org/indicator/access-affordability/percent-covered-workers-high-deductible-health-plans/>; Claxton G, et al, "Increases in cost-sharing payments continue to outpace wage growth" Kaiser Family Foundation, June 15, 2018, <https://www.healthsystemtracker.org/brief/increases-in-cost-sharing-payments-have-far-outpaced-wage-growth/#item-start>; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2009-2017; Health Plan Advisory Council interviews and analysis.

Cost sharing targets wrong members and services

Members faced with extreme cost sharing blindly reduce care

Members with high cost sharing reduce care spending

Workers with annual deductible of \$1,000 or more



13.8%

Reduction in health care services



25%

Reduction in physician office spending

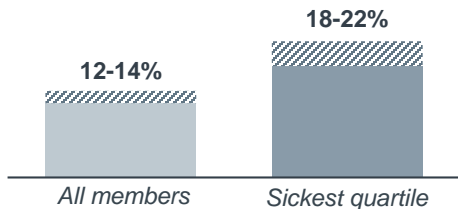


18%

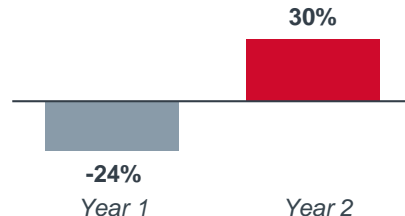
Reduction in ED spending

But not always in cost-efficient ways

Reduction in overall spending by HDHP¹ members



Change in hospitalizations for male HDHP members compared to Year 0²



1) High Deductible Health Plan.

2) Relative to HMO controls.

Tools Mismatched to Consumer Needs

Industry Largely Struggling to Create Self-Service Options

Member Tool Use and Preferences

2%

Use mobile apps

10-25%

Use online portals



Members

Want:

✓ Right answer
"pushed" to them

✓ Advice from their
doctor or family

✓ A single price point

Don't Want:

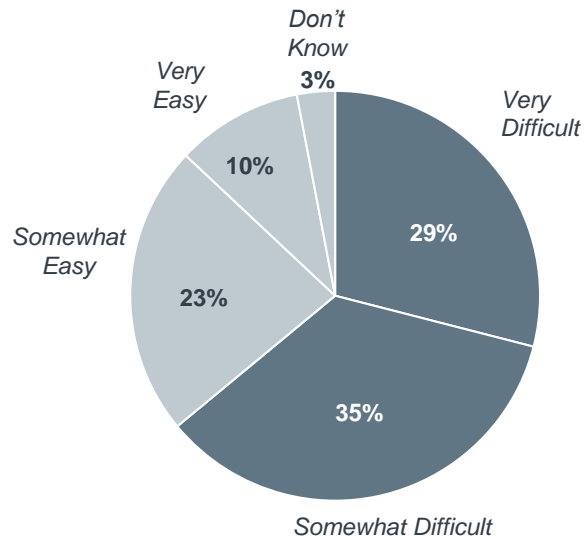
✗ To spend time
"pulling" information

✗ Health plan advice

✗ A cost range
or price estimate

Majority Report Difficulty Finding Cost Information

Consumer Assessment of Difficulty Locating Pricing Information for Doctors and Hospitals

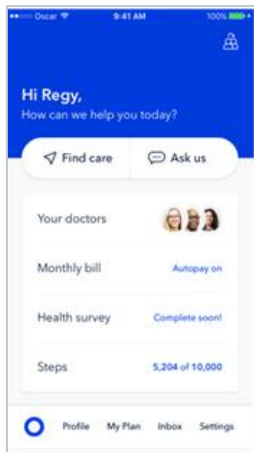


Source: DiJulio, B, et al, "Kaiser Health Tracking Poll: April 2015," Kaiser Family Foundation, April 2015, available at: www.kff.org/health-costs/poll-finding/kaiser-health-tracking-poll-april-2015/; Health Plan Advisory Council, "Shattering the Member Engagement Myth, The Advisory Board Company, March 2015, available at: <https://www.advisory.com/research/health-plan-advisory-council/members/briefs/shattering-member-engagement-myth/>; Health Plan Advisory Council interviews and analysis.

Stepping Up to Serve Members

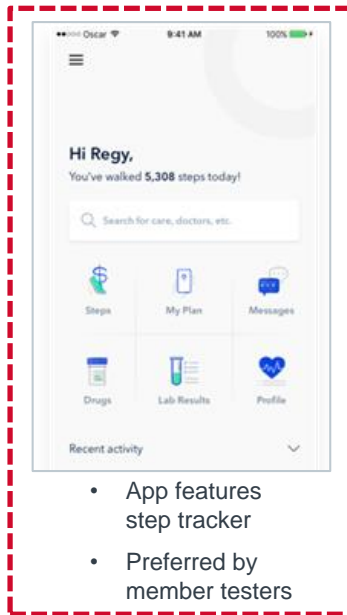
Feature Members' Priorities to Lead Them to Plan Priorities

Oscar's A/B Test for Member Priorities



App features tools that:

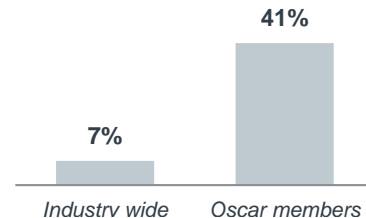
- Relate directly to receiving care
- Impact care costs
- Solve complex problems



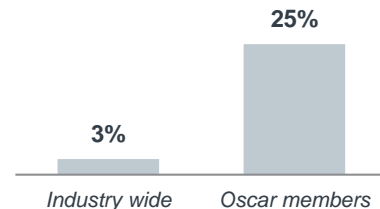
- App features step tracker
- Preferred by member testers

Oscar's App Utilization Results

Monthly Active App Users, 2017



Telehealth Utilization Rates, 2017



Sources: Perlera, Regy, "How We Designed Oscar 2.0", *Medium*, August 29, 2017, <https://medium.com/@perlerar/how-we-designed-oscar-2-0-fbba97087bae>; Deep Dive, Oscar, 2018, <https://www.hioscar.com/deepdive/virtual-care-platform>; Oscar Health, New York City, NY, CA; Health Plan Advisory Council interviews and analysis.

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Other Health Plan Advisory Council Resources



The Member-Centric Virtual Service Model

A white paper detailing hallmarks of virtual customer service models that prioritize personal needs



Shattering the Member Engagement Myth

Four strategies for engaging with the new health care consumer to understand what they value in order to retain business



COMING SOON

2019 Consumer Survey: *What consumers hate about their health care experience*

Survey results from 3,000 consumers correlating health care experience frictions with costly care outcomes



Services Preference Portal

Tool that allows plans to see what consumers want from their plan, provider, and third party to help them lead healthy lives

Contact us at hpac@advisory.com for access to more resources on Commercial Insurance needs and priorities

