Overview of the ACA and 2014 Premiums

July 10, 2013
Introduction

Topics for today’s discussion:

+ Overview of the Louisiana health insurance market
+ Premium impact of the Affordable Care Act (ACA)
+ What 2014 premiums will look like for specific customer groups
+ Q&A with BCBSLA experts
  - Mike Reitz, President & CEO
  - Mike Bertaut, Senior Healthcare Economist
  - Brian Small, Senior Vice President and Chief Actuary

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The Louisiana Market
Mike Bertaut, Senior Healthcare Economist
Louisiana Market Share as of December 2012

Total Population of Louisiana: 4.6 Million

- Medicaid, Including Dual Eligible (29.3%)
- Commercial Insurance—Not BCBSLA (23%)
- BCBSLA Locally Controlled (21.5%)
  (Group Insured, Self-insured, Individual Coverage)
- Uninsured (15.2%)
- Medicare (11%)

*Sources available upon request*
2014 Louisiana Commercial Market

Total Population: 2,049,000

- 65%
- 26.5%
- 8.5%

Self-funded: Will see some change

Fully Insured Groups: Will see some change

Individuals: Rates and rules are really changing

* This is our focus today.
2014 Louisiana Commercial Market
ASO/Self-funded Groups

Self-funded Population: 1,331,850

Self-funded: Will see some change

65%
2014 Louisiana Commercial Market Fully Insured Groups

Total Risk Population: 717,150
Group Members: 542,086

26.5%

Fully Insured Groups: Will see some change
Individual Members: 175,064

Individuals: Rates and rules are really changing
Specifics of the ACA
Mike Reitz, President & CEO
Brian Small, Senior Vice President & Chief Actuary
The Federal Fallback Marketplace ("marketplace" or "exchange")—radically changes how individuals will buy health insurance.

Employer coverage will continue to be the backbone of the health insurance system.

Those eligible for a government health insurance program will not receive any subsidy from the marketplace.

The marketplace is designed to be health-neutral, gender-neutral and very heavily subsidized by the federal government.
How BCBS of Louisiana Uses Each Premium Dollar

- **37¢** hospital costs
- **31¢** physician and diagnostic
- **17¢** prescription drugs
- **6¢** taxes and fees
- **6¢** operating costs

85¢ = your medical expenses

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*1 Taxes include state and federal taxes; fees consist of regulatory assessments, producer commissions, contributions to state and federal high-risk insurance pools. 2 Operating costs consist of salaries, utilities, etc.*
Health insurers no longer sell true “insurance”—insurers manage medical costs for their customers.

Insurers are developing new products, new types of networks and new ways to reduce costs.

Key point: BCBSLA already complies with many of the ACA’s consumer protections.
Five ACA Components that Affect Premiums

1) Guaranteed Issue—Brian Small, Chief Actuary
2) Changes in the Way Premiums Are Determined—Brian Small
3) Coverage and Benefits—Mike Bertaut, Senior Healthcare Economist
4) Taxes and Fees—Mike Bertaut
5) Subsidies—Mike Bertaut
1) Guaranteed Issue

The ACA guarantees access to health coverage for all.

Going away are the traditional industry practices of:

- Medical questions
- Pre-existing condition exclusion periods
- Rates based on an individual’s health conditions
- Insurers must accept all applicants
1) Guaranteed Issue

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- Going away are the traditional industry practices of:
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  - Pre-existing condition exclusion periods
  - Rates based on an individual’s health conditions
  - Insurers must accept all applicants

- Individuals must have coverage or pay a penalty
  - Penalty for 2014 – $95 or 1% of taxable income, whichever is greater
  - Penalty for 2016 – $695 or 2.5% of taxable income, whichever is greater
1) Guaranteed Issue

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+ Going away are the traditional industry practices of:
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  - Penalty for 2014 – $95 or 1% of taxable income, whichever is greater
  - Penalty for 2016 – $695 or 2.5% of taxable income, whichever is greater

+ More sick people entering the individual market
  - Some healthy people may choose the penalty over coverage.
  - Insurance costs will go up to reflect the higher mix of sick versus healthy in the individual market.
Health of the newly insured population:

+ The newly insured under ACA could drive up costs 32% nationally and 33% in Louisiana.
  - “Cost of Newly Insured Under Affordable Care Act”, Society of Actuaries
+ Medical costs for the previously uninsured will be about 30% more than a person of similar age and gender in the current individual market.
+ Almost 40% of uninsured people eligible to receive subsidies through the exchanges have chronic conditions or report fair or poor health.
  - Center for Studying Health System Change, 2010.
1) Guaranteed Issue (continued)

High-risk pool:

+ Existing “guaranteed issue” program in Louisiana
+ Administered by the state
+ Funded by Blue Cross and Blue Shield of Louisiana and other insurers in the state
+ This group and others in similar circumstances will now be moved to the online marketplace
2) Determining Premiums

The ACA creates a different rating system than what we have today.

+ ACA allows only limited rating factors.
  - Geographic location
  - Age (limited 3 to 1)
  - Tobacco use

+ Rating based on health status and gender is not allowed.

+ ACA impact varies by customer.
  - Rates for younger males will generally be higher.
  - Rates for older people and those with health conditions may decrease.
3) Coverage and Benefits

All policies* must meet new minimum standards under the ACA.

10 Categories of Benefits

- Ambulatory services
- Emergency services
- Hospitalization
- Laboratory services
- Maternity care
- Mental health and substance abuse
- Pediatric vision and dental
- Prescription drugs
- Preventive wellness services
- Rehabilitative services

*Individual and small group (<50 lives)
Basically, the ACA means more coverage, more benefits, and more costs

+ Many people will be buying more coverage than they have currently
+ Actuarial values will be beyond what many customers choose today
  - Bronze – 60% AV
  - Silver – 70% AV
  - Gold – 80% AV
  - Platinum – 90% AV
  *Allows for range of +/- 2% points
+ Some customers will keep grandfathered plans
4) Taxes and Fees

Eight new ACA taxes and fees directly impact premiums.

+ Health insurer tax
+ Exchange user fee
+ Pharmaceutical fees
+ Device manufacturer fees
+ Patient-Centered Outcomes Research Trust Fund (PCORTF)
+ Risk adjustment fee
+ Reinsurance fee
+ Excise tax for high-cost plans (*effective beginning 2018*)
5) Subsidies

Subsidies will be available to those with incomes 100%–400% of the federal poverty level (FPL)

+ Subsidies will not be available to everyone
  - Not available to those with incomes below 100% of FPL
  - Customers must apply for subsidies, either online or with the help of an agent or broker.

+ Approximately 45% of current BCBSLA customers could qualify for subsidies
  - Determined by a sliding scale based on income level
  - Amounts will vary widely
The ACA will bring many changes to the individual and small group markets in 2014.

• New taxes and fees, new benefits and new costs, and more sick people in the insurance pool will push rates up in general.
• Subsidies will help mitigate rates for those who qualify.
• Insurers are creating new products and new programs to help control costs.
• Visit www.bcbsla.com/qbpc to learn about our new Quality Blue Primary Care program.

ACA Impact—Summary
Additional Affordability Programs

BCBSLA innovations to address healthcare costs include:

• Innovative products, such as Community Blue (Baton Rouge) and BlueConnect (New Orleans).
• Community-based health and wellness programs like the Louisiana 2 Step and 2 Step 4 Kids.
• Member wellness programs provided at no extra charge.
• The *Challenge for a Healthier Louisiana* program fighting obesity statewide.
ACA’s Impact on Specific Customer Groups
Brian Small, Chief Actuary
Overview of 2014 Premium Impacts for Individual Market Customers

+ Healthcare reform looks different for everyone
  - Younger, healthier customers could pay more
  - Older, sicker customers could pay less
  - Some will have grandfathered status and keep their current plans

+ The ACA will drive rates higher, but components such as subsidies and grandfathering will temper the actual impact

+ Subsidies will help offset some, or all, of the cost of coverage for those who qualify
Federal government subsidies will be extremely important in helping mitigate the actual impact of the ACA’s rate increases.

The next few slides show how much subsidies help those who qualify.

These subsidies that make insurance “affordable” under the ACA are funded by taxpayers and industry taxes and fees.

When we talk about rate increases under the ACA, remember the richer benefits and the consumer protection afforded by 80-85% MLR.
Five General BCBSLA Customer Groups and Their ACA Outcomes

- Grandfathered: 31%
- High Subsidies/Lower Premiums: 37%
- Some Subsidy/Premiums Increases Equal to Previous Years: 18%
- Small Subsidy/Higher Increases: 10%
- Very High Premium Increases: 5%
Group 1: Grandfathered

- About 31% of current individual market customers will choose to stay on grandfathered plans

- Premium increases will be similar to previous years (no increases due to ACA)

- Grandfathered plans are exempt from many aspects of the ACA, including subsidies

ACA RATE IMPACT: NONE

Grandfathered
(No subsidies; Premium increases similar to previous years)
Group 2: Higher Subsidies/Lower Rates

- About 37% of current individual market customers
- Helped by rating changes and subsidy impact; will pay less in premiums
- Generally older customers or those in poorer health, though others will be included

ACA RATE IMPACT: LESS THAN 0%
**Group 2: Higher Subsidies/Lower Rates**

**Carol, 64 years old (Female)**

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<thead>
<tr>
<th>BEFORE JAN. 1, 2014</th>
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<tbody>
<tr>
<td>Personal Information</td>
<td>Has some health conditions</td>
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<tr>
<td>Annual Household Income</td>
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<tr>
<td>Current Annual Premium</td>
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<td>Percent of Federal Poverty Level</td>
<td>374%</td>
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<table>
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<tr>
<th>BEGINNING JAN. 1, 2014</th>
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<tbody>
<tr>
<td>Annual Rate with ACA in Effect</td>
<td>$7,632.36</td>
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<tr>
<td>Subsidy</td>
<td>$3,547.36</td>
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<tr>
<td>$ Annual Increase After Subsidy</td>
<td>($4,155.91)</td>
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<td>Net Increase</td>
<td>-50%</td>
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Group 3: Some Subsidy Impact

- About 5% of current individual market customers
- Some subsidy impact; will pay slightly higher monthly premiums
- ACA increases will be similar to what they saw due to normal rating changes in previous years

ACA RATE IMPACT: > 0% to < 15%
Group 3: Some Subsidy Impact

The Comeaux Family,
*Mom, Dad, two kids*
*Both parents age 38*

**BEFORE JAN. 1, 2014**

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<thead>
<tr>
<th>Category</th>
<th>Value</th>
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<td>Personal Information</td>
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<td>Annual Household Income</td>
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<td>Current Annual Premium</td>
<td>$8,434.19</td>
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<td>Percent of Federal Poverty Level*</td>
<td>395%</td>
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**BEGINNING JAN. 1, 2014**

<table>
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<tr>
<td>Annual Rate with ACA in Effect</td>
<td>$11,819.59</td>
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<tr>
<td>Subsidy</td>
<td>$2,984.59</td>
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<td>$ Annual Increase After Subsidy</td>
<td>$400.81</td>
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<td>Net Increase</td>
<td>5%</td>
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</table>
Group 4: Small/No Subsidies

+ About 18% of current individual market customers
+ Lowest subsidy impact; will pay high monthly premiums
+ Generally younger and healthier customers with incomes that exceed 400% FPL

ACA RATE IMPACT: > 15% to < 70%
Christopher, 26 years old (Male)

**BEFORE JAN. 1, 2014**

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<tr>
<th>Personal Information</th>
<th>Healthy</th>
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<tr>
<td>Annual Household Income</td>
<td>$33,000</td>
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<td>Current Annual Premium</td>
<td>$1,881.22</td>
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<td>Percent of Federal Poverty Level*</td>
<td>287%</td>
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**BEGINNING JAN. 1, 2014**

| Annual Rate with ACA in Effect | $3,088.27 |
| Subsidy                       | $75.37    |
| $ Annual Increase After Subsidy | $1,131.68 |
| Net Increase                  | 60%       |
Group 5: Small/No Subsidies; Value Plans; Very High Increases

- A very small group of customers will see very high increases

- They must be migrated from our lowest-cost plans

- New plans have richer benefits and higher costs

ACA RATE IMPACT: > 70%
Group 5: Small/No Subsidies; Value Plans; Very High Increases

The Carters
Young couple
Both age 32

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<thead>
<tr>
<th>BEFORE JAN. 1, 2014</th>
<th>BEGINNING JAN. 1, 2014</th>
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</thead>
<tbody>
<tr>
<td>Personal Information</td>
<td>Healthy; have hospital-only plan</td>
</tr>
<tr>
<td>Annual Household Income</td>
<td>$63,000</td>
</tr>
<tr>
<td>Current Annual Premium</td>
<td>$2,784.04</td>
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<tr>
<td>Percent of Federal Poverty Level</td>
<td>406%</td>
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<tr>
<td>Annual Rate with ACA in Effect</td>
<td>$8,661.20</td>
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<tr>
<td>Subsidy</td>
<td>—</td>
</tr>
<tr>
<td>$ Annual Increase After Subsidy</td>
<td>$5,877.15</td>
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<tr>
<td>Net Increase</td>
<td>211%</td>
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Conclusion: How the ACA Will Change What Louisianians Pay for Insurance

**New taxes and fees.** Eight new taxes and fees will drive rates up for many people.

**New benefits, new costs.** The new law says insurers must offer a standard package of essential benefits. Richer benefits come at a cost.

**New ways to decide premiums.** The ACA changes many of the ways insurers have determined rates in the past—such as by gender or health status.

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Q&A

When called on, please type your question in the box below “Send to: Everyone”
Q&A

Email your additional questions to: Corporate.Communications@bcbsla.com

Visit our microsite: www.bcbsla.com/reform
For Further Reading

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Speaker Bios
Mike Reitz, President & CEO

Mike Reitz oversees all aspects of Blue Cross’ operations, including its eight regional offices and more than 2,000 employees. He is also responsible for setting corporate goals and developing corporate strategy with the Board of Directors and senior management.

A seasoned marketing and business leader, Reitz has more than 35 years of insurance and healthcare industry experience. Under his guidance, Blue Cross helped its members through the challenges of the Affordable Care Act (ACA) debate and implementation. The company has taken a proactive role in improving the quality and affordability of healthcare while meeting the requirements of the ACA.

A Louisiana native, Reitz received his undergraduate degree from Louisiana State University.
Mike Bertaut, Senior Healthcare Economist and Exchange Coordinator

Michael Bertaut is a Certified Health Consultant and Professional of the Academy of Healthcare Management, with 25 years of analytical experience in the healthcare, telecom and retail sectors. He sits on the advisory board of the National Healthcare Reform Conference and Magazine and was a recent keynote speaker at the International Medical Tourism Conference in Los Angeles.

Sought out for his knowledge on healthcare reform and the Affordable Care Act, Bertaut has participated in more than 500 public discussions on *Healthcare Costs and the Impact of Healthcare Reform* with stakeholder groups ranging from healthcare policy makers in Washington, D.C., to chambers of commerce and local public service clubs.

He earned his M.B.A. and B.A. from Louisiana State University and just celebrated his 30th year as a cancer survivor.
Brian Small joined Blue Cross as an actuarial student in 1990 and worked his way up to be director of Actuarial Services, then vice president of Provider Reimbursement, where he provided analysis to support provider negotiations and developed provider reimbursement methodologies.

Small was promoted to senior vice president and chief actuary in 2006, with responsibilities for the Actuarial, Actuarial Systems and Group Underwriting departments. In 2007, he assumed responsibility for individual underwriting. One of his current priorities is modeling the impact of healthcare reform on BCBSLA.

Brian has a B.S. in Mathematics Education at the University of Iowa. He is Fellow of the Society of Actuaries and Member of the American Academy of Actuaries.
John Maginnis, Vice President, Corporate Communications

John Maginnis, vice president of Corporate Communications, joined Blue Cross in 1994. He is a seasoned communications professional with 40 years experience in journalism, advertising, public relations and corporate communications.

At Blue Cross, Maginnis’ duties include overseeing corporate advertising created and administered by an in-house agency, public relations, media relations, internal communications, marketing communications, direct marketing, speech-writing and e-communications.

A graduate of the University of Virginia, he has worked in communications all of his professional life.