WASHINGTON UPDATE:
AN OVERVIEW OF REGULATORY AND MARKET EVENTS AND THEIR IMPLICATIONS FOR HEALTH SYSTEMS

Chad Mulvany, FHFMA
Director, Healthcare Finance Policy, Strategy and Development
HFMA
Overview

- Political Environment
- Coverage
- Payment Cuts
- Value
  - Employers
  - Public Payers
- Final Thoughts
Unproductive and Negative

"We have to cancel today's meeting—no one will sit next to the Congressman."
Mid-Term Elections

Political Environment

House

Current:

Project:

Senate

Current:

Project:

Legend:

Safe R
Likely R
Leans R
Toss-up
IND
Likely D
Leans D
Safe D

Source: http://www.centerforpolitics.org/crystalball/
It’s All Local

Changes in the Governors’ Mansions Will Have Likely Have Greater Impact in Some States
Overview

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- **Coverage**
- Payment Cuts
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New Medicaid Expansion

As of the July Report, 6.7 Million New Enrollees are Covered By Medicaid

NEW MEDICAID ENROLLMENT THROUGH MARCH 2014

NUMBER OF LIVES
- 100,000 or more (12)
- 40,000-99,999 (13)
- 1-39,999 (13 + DC)
- No Growth (7)
- No Data Reported (5)

Note: This analysis compares monthly Medicaid enrollment reported in March 2014 to the monthly enrollment reported from the July-September 2013 time period. Sources: CMS March Medicaid and CHIP Monthly Applications and Eligibility Determinations Report, released May 1, 2014. *March figures from FL include CHIP lives, but summer 2013 figures do not. As it is expected that much of the difference in March 2014 and summer 2013 data is due to CHIP, FL is noted here as not having reported data; however, FL’s enrollment growth is included in the 4.8 million figure. It is expected that both IL and AL’s new enrollee figures are understated – IL’s March figures do not include retroactive determinations, though its summer 2013 figures do, and AL’s March data is from its legacy system only and does not include enrollment in its new system. CHIP = Children’s Health Insurance Program.
**Location Matters**

*Expansion States Are Seeing Significant Decreases in Self-Pay*

Same Store Adj Admissions Growth: 1Q14 vs. 1Q13

<table>
<thead>
<tr>
<th>Expansion States</th>
<th>Non-Expansion States</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Medicaid</td>
<td>Self Pay</td>
</tr>
<tr>
<td>Community</td>
<td>7.7%</td>
<td>-29.8%</td>
</tr>
<tr>
<td>HCA</td>
<td>22.3%</td>
<td>-29.0%</td>
</tr>
<tr>
<td>Tenet</td>
<td>17.0%</td>
<td>-33.0%</td>
</tr>
</tbody>
</table>

Source: HC Reform: What we saw in Q1 and what we will see in Q2; Bank of America Merrill Lynch; June 17, 2014
Legal Sticking Point

D.C. Appeals Court Overturns Subsidies For Federal Exchange

States of Play | Management of health-insurance exchanges

Some states are running new health-insurance exchanges on their own. Others are leaving some or all of the task to the federal government.

- Federally run exchange
- State-run exchange
- Federal and state joint-run exchange

Source: WSJ analysis of state and news reports
While 8.1 M Have Enrolled, The Number of Newly Insured Is Likely Lower

Net Newly Insured Via Exchange Plans as of April 15th

Sources:
1) http://www.nytimes.com/2014/03/12/us/almost-a-million-more-sign-up-for-health-coverage-in-february.html
Results Vary

Results at the State Level Were Predicated on Politics, Outreach Efforts, Technology

PROJECTED EXCHANGE ENROLLMENT VS. ACTUAL EXCHANGE ENROLLMENT, ASSUMING 85% PREMIUM PAYMENT RATE

TOTAL ENROLLMENT AS % OF 2014 ESTIMATE
- 160% and above (4)
- 130-159% or above (7)
- 100-129% (11)
- 70-99% (20)
- 60% and below (9)

Reaching Out

Outreach Strategies for Hospitals and Other Organizations Are Driven by Local Factors

NY REGION

Hospitals Push Coverage

*Insured Patients Are Gold for Centers Hit by Federal Cuts in Charity-Care Funds*

By JOSH DAWSEY
Nov. 20, 2013 9:07 p.m. ET

Many of the city's financially strapped hospitals are scrambling to sign up people for health coverage through New York state's exchange or through Medicaid as they brace for federal cuts to providers of so-called charity care for the uninsured.

At Montefiore Medical Center in the Bronx, the staff is posting insurance information on social-networking websites and giving presentations at churches and mosques. At Maimonides Medical Center in Brooklyn, officials have met with the Brooklyn Chamber of Commerce to ensure small businesses know their insurance options. Some hospitals are recruiting patients for coverage plans in emergency-room lobbies.

Source:
1) http://m.us.wsj.com/articles/SB10001424052702304337404579209952497733862?mobile=y
Despite A Low Levels of Insurance Literacy…

Percentage of Primary Insured Who Could Accurately:

- Estimate Out of Pocket Amt: 11%
- Define Four Basic Insurance Terms: 14%

…Plans with Higher Cost Sharing Were Popular…

Product Enrollment and Actuarial Value After Cost-Sharing Subsidies

Sources:
1) Final Exchange Data, Updating Our Coverage Expansion Est; Bank of America Merrill Lynch; May 2, 2014
2) http://www.washingtonpost.com/blogs/wonkblog/wp/2013/08/08/do-you-understand-health-insurance-most-people-dont
## Diminishing Yields

Even at Higher Income Levels, Collection Yields on Balances After Insurance Drop Precipitously as Balances Increase

### Balance After Insurance - Balance Group Collection Rates by FPL

<table>
<thead>
<tr>
<th>FPL &lt; 200%</th>
<th>200- 400%</th>
<th>&gt; 400%</th>
<th>FPL &lt; 200%</th>
<th>200- 400%</th>
<th>&gt; 400%</th>
<th>FPL &lt; 200%</th>
<th>200- 400%</th>
<th>&gt; 400%</th>
</tr>
</thead>
<tbody>
<tr>
<td>60 Day</td>
<td>29.1%</td>
<td>38.0%</td>
<td>44.7%</td>
<td>22.9%</td>
<td>31.7%</td>
<td>38.9%</td>
<td>5.6%</td>
<td>9.6%</td>
</tr>
<tr>
<td>120 Day</td>
<td>37.2%</td>
<td>46.7%</td>
<td>54.1%</td>
<td>30.4%</td>
<td>40.4%</td>
<td>49.0%</td>
<td>7.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td>180 Day</td>
<td>39.8%</td>
<td>49.2%</td>
<td>56.6%</td>
<td>33.9%</td>
<td>43.8%</td>
<td>52.6%</td>
<td>8.6%</td>
<td>14.0%</td>
</tr>
<tr>
<td>360 Day</td>
<td>41.9%</td>
<td>51.4%</td>
<td>58.5%</td>
<td>37.5%</td>
<td>47.3%</td>
<td>56.2%</td>
<td>10.2%</td>
<td>16.0%</td>
</tr>
</tbody>
</table>

75% Decline

Source: David Franklin; Connance; Patient Pay Collectability Data Study Review; March 14, 2014
Regulatory Bodies Are Increasingly Interested in the Impact of Medical Debt on Consumers’ Access to Credit

MAY 20 2014

CFPB Study Finds Medical Debt Overly Penalizes Consumer Credit Scores

Study Finds Credit Scores Underestimate Creditworthiness for Consumers Who Owe and Repay Medical Debt

WASHINGTON, D.C. — Today the Consumer Financial Protection Bureau (CFPB) released a research report that found consumers’ credit scores may be overly penalized for medical debt that goes into collections and shows up on their credit report. According to the study, credit scoring models may underestimate the creditworthiness of consumers who owe medical debt in collections. The scoring models also may not be crediting consumers who repay medical debt that has gone to collections.
Implications: Proactive Patient Engagement

Be Upfront

Historical State

Gather info before & at time of service. Patients notified of financial obligations after insurance is billed & paid.

At Service

Most billing processes are post-service, amounts due based on data gathered after service, calculated retrospectively.

Post-service: Retrospective Data Gathering and Processing

Future State

Gather info before & at time of service. Prospectively calculate expected out-of-pocket costs.

Pre-Service: Prospective Data Gathering and Processing

At Service

Providers bill at or right after time of service. Many times, patients know in advance what they owe & agree on terms.

Post-Service

Insurance bill verifies what the patient already expects.
Implications: Proactive Patient Engagement

Price Transparency Taskforce
What the Taskforce Did

- Agree on definitions of terms
- Develop guiding principles for price transparency
- Recommend price transparency frameworks for different care purchaser groups
- Identify transparency-related policy considerations
- Chart the way to achievement of a more transparent healthcare pricing system
New Resource for Consumers

- Understand pricing terminology
- Get a price estimate—step by step
- Navigate in-network and out-of-network pricing
- Tap into price information available through providers, payers, and employers

Available as a PDF to other organizations as a public service.
Contact Scott Kenemore, skenemore@hfma.org, for permission to post.
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• Payment Cuts
• Value
  – Employers
  – Public Payers
• Final Thoughts
Estimated Reductions

85% of Projected $460 B in Hospital Federal Cuts Are ACA Related

Estimated Federal Payment Reductions: Hospitals

2014 - 2022

Sources:
1) HFMA Analysis
2) https://www.cbo.gov/sites/default/files/cbofiles/attachments/43471-hr6079.pdf
3) 2-Year Budget and 3-Month Doc Fix Legislation, Bank of America, December 12, 2013
4) http://www.fas.org/sgp/crs/misc/R42865.pdf
6) www.aha.org/content/.../cumulative-cuts.pdf

ACA Cuts = $390B Over 10
A Significant Budget Deal Continues to Elude Congress and the Administration
On the Menu

The Most Recent Bowles-Simpson Plan Suggests $585 Billion in Healthcare Savings

10 Year Projected Healthcare Savings: Bowles-Simpson Plan

- Beneficiary: $60B
- Delivery System: $190B
- Fraud Abuse: $130B
- Hospital: $60B
- Malpractice: $35B
- Pharma: $20B
- Post Acute Care: $10B

Anticipated Payment Cuts

Delivery System:
- Penalties for complications and readmits
- Payment bundling
- Increase transparency
- Strengthen IPAB

Beneficiaries:
- Reform cost sharing - $90B
- Increase eligibility age - $65B
- Income relate part B & D deductible - $65B

Hospitals:
- Medicaid Provider Tax - $65B
- Phase Out Bad Debts - $35B
- Reduce IME/GME - $20
- Reduce CAH - $10B

Source: A Bipartisan Path Forward to Securing America’s Future; April 2013
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Health Insurance Costs Have Grown at an Unsustainable Rate and Eaten into Employee Wages

Exponential Growth

Starting in 2018 the Cadillac Tax Will Impact Organizations with High Cost Health Benefits…

The New York Times

May 27, 2013

High-End Health Plans Scale Back to Avoid ‘Cadillac Tax’

By REED ABELSON

Say goodbye to that $500 deductible insurance plan and the $20 co-payment for a doctor’s office visit. They are likely to become luxuries of the past.

Get ready to enroll in a program to manage your diabetes. Or prepare for a health screening to determine your odds of developing a costly health condition.
However the Number of Organizations Providing “High Cost” Benefits Rapidly Expands Unless Cost Growth Abates

Percentage of Employer Plans Impacted by the Cadillac Tax Under Two Growth Scenarios

- Historical Growth - 6%
- Slowed Growth - 4.5%
Shifting Cost

**HDHP Enrollment Has Grown an Average of 23 Percent Per Year**

Percentage of Employees Enrolled Plans with A Deductible of $1,000 or More

![Graph showing the percentage of employees enrolled in HDHP plans from 2006 to 2012, increasing from 10% to 34%.](#)

Source:
Transparency Tools

Commercial Transparency Tools Are Widely Available…

Percentage of Commercial Plans that Offer:

- Cost Calculator
- Hospital Choice Tool w/ Cost Calc
- MD Choice Tool w/ Cost Calc
- Provides Info Relative to Benefit Design

…Few Members Use Them

Use of Transparency Tools Among Those Who Have Access

- 2% Use Transparency Tools
- 98% Don't Use Transparency Tools

Providers Estimate Limited Exposure to Transparency Tools… …But Anticipate Greater Impact in the Near Term

Percent of Respondent’s Current Commercial Revenue Exposure to Transparency Tools

How Long Until 40% of Your Commercial Revenue Be Exposed to Transparency Tools?

Source: HFMA Convenience Poll of CFO and Payment and Reimbursement Forums Members; Spring 2014
Driving Towards Value

Employers Are Using Multiple Strategies to Achieve Value

Percentage of Employers Pursuing Select Value-Based Plan Design Tactics

- Value Based Benefit Design
- Lower CS For Use of High Performance Network
- Reference Pricing
- Performance Based Pmts
- Implement Episodic Pmts
- Direct Contracting with MDs, Hospitals, and/or ACO

Source:
Less than 12% of All Commercial Payments Are Currently Value Based...
CalPERS Program Has Moved Volume to “Value” Hospitals...

Percentage of Patients Choosing A Given Provider for Hip or Knee Surgery

...Putting Significant Pressure on Rates at Other Providers

Prices Paid for Hip and Knee Replacement Surgery to A Given Provider

Value: Employers
Private Exchanges

Some Large Employer Have Already Started Shifting Their Early Retirees into Private Exchanges and Could Migrate Current Employees

Public vs. Private Exchange Annual Enrollment

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Exchange</th>
<th>Private Exchange</th>
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</thead>
<tbody>
<tr>
<td>2014</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>2015</td>
<td>15</td>
<td>9</td>
</tr>
<tr>
<td>2016</td>
<td>27</td>
<td>19</td>
</tr>
<tr>
<td>2017</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>2018</td>
<td>31</td>
<td>40</td>
</tr>
</tbody>
</table>


Public Exchange: Congressional Budget Office 2013 Estimate of the Effects of the Affordable Care Act on Health Insurance Coverage, CBO's February 2013 Baseline, depicts average monthly enrollment, including spouses and dependents for individual and SHOP.

Sources:
70% of Public Exchange Products Are Narrow Network…

…Selling at A Discount to Broad Plans…

Hospital Network Configuration

- **Ultra-Narrow:** Excludes >70% of Top 20 Hospitals
- **Narrow:** Excludes 30 - 69% of Top 20 Hospitals
- **Broad:** Excludes <30% of Top 20 Hospitals

Broad vs. Narrow Pricing

- Broad
- Narrow

-26%

…Making Up the Majority of Lowest Price Silver Products

Mix Reactions

However, Uptake of Private Exchanges Isn’t Guaranteed

- **35%** of employers said they have begun evaluating private exchanges
- **49%** said they were either not confident or did not know if exchanges were a viable option for their group benefit plans
- **50%** of employers are not planning to move their group healthcare benefits for active employees into a private exchange
- **4%** said they currently use a private exchange to provide healthcare benefits to their active employees
- **45%** of employers have implemented or plan to consider utilizing a private exchange for their full-time active employees before 2018
- **69%** of employers agree that it is very important that their advisor is independent of any exchange they are considering
- **31%** of employers agree that public exchanges will be viable options within 5 years
- **13%** of employers have already adopted or are very likely to adopt a defined contribution approach in the next 2 years

*Source: State Marketplaces Challenged with Sustainability; Movement Matures; Leavitt Partners; July 2014*

*Survey by Chicago-based Pacific Resources Benefits Advisors L.L.C*

*Private Exchange Evaluation Collaborative Executive Summary Dec. 2013*

*Array Health Survey on Private Exchanges October 2013*

*Mercer’s 2013 National Survey of Employer-Sponsored Health Plans*
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In 2015 the “Value-Modifier” Will Applies to Practices of 100 or More

Key Provisions of Value Modifier in 2015

Eligible Professionals

- Includes MDs, PAs, NPs, CRNAs, certified midwives, CSWs, clinical psychologists, dietitians, PT or OT, or audiologist or speech pathologist
- ACO or participants in similar Innovation Center programs excluded
- TIN used to ID eligible groups based on a query of the PECOS on 10/15/13

Measures

- Uses measures collected in 2013 from one of the PQRS reporting options to develop the 2015 value modifier
- Not using a standard set of PQRS measures, instead allows physicians to report relevant measures.
- Includes outcome measures collected administratively
- Uses same attribution method to assign beneficiaries as MSSP
Physician Value-Based Payment

While Participating in Payment Adjustment or “Quality Tiering” Is Optional in 2015, It’s Mandatory in 2016

Potential Financial Impacts Based on Participation

Groups w/ min of 100 EP’s on 10/15/13

- Didn’t satisfactorily submit data
  -1% Adj.

- Satisfactory reporters

- No Election
  0.0% Adj.

- Quality Tiering
  +/- Adj. Based on Score

Potential Bonus/Penalty Opportunities from Selecting Quality Tiering

<table>
<thead>
<tr>
<th>Quality Tiering</th>
<th>Low Cost</th>
<th>Average Cost</th>
<th>High Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Quality</td>
<td>2.0x</td>
<td>1.0x</td>
<td>0.0x</td>
</tr>
<tr>
<td>Average Quality</td>
<td>1.0x</td>
<td>0.0x</td>
<td>-0.5x</td>
</tr>
<tr>
<td>Low Quality</td>
<td>0.0x</td>
<td>-0.5x</td>
<td>-1.0x</td>
</tr>
</tbody>
</table>
Physician Payments Patched Again

Even Though the House Passed a Comprehensive Physician Payment
Overall, Congress Has Struggled to Finalize Legislation

THE WALL STREET JOURNAL.

March 31, 2014, 8:07 p.m. ET

Senate Passes Bill Preventing Medicare-
Payment Cuts for 12 Months

By Kristina Peterson
WASHINGTON--The Senate on Monday passed a bill preventing Medicare-payment cuts to physicians for 12 months, sending the measure to the White House for President Barack Obama’s expected signature.

The “doc fix” legislation, already passed by the House last week, cleared the Senate on a 64-35 vote, with 46 Democrats, 16 Republicans and two Independents supporting the plan.

The bill averts for one year a 24% pay cut to physicians treating elderly patients through the federal Medicare program. It will be the 17th time Congress has prevented the cuts with a short-term measure.

Earlier this year, a bipartisan group of lawmakers from both the House and Senate had reached a deal to increase the amount Medicare pays physicians by 0.5% annually for the next five years, but lawmakers so far haven’t agreed on how to advance it.

Source:
1) http://online.wsj.com/article/BT-CO-20140331-713803.html
Based on MedPAC and Other Recommendations the Latest SGR Patch Includes an All-Cause SNF Readmission Penalty

TIMELINE

FY 2014-2016
Secretary specifies an all-cause, all-condition readmission measure
10/1/15

FY 2017
- Secretary specifies an all-condition, risk-adjusted potentially preventable readmission rate measure
- Confidential feedback reports to SNFs
10/1/16

FY 2018
Public reporting of readmission measure on Nursing Home Compare
10/1/17

FY 2019
The SNF VBP begins and incentives and penalties are applied
10/1/18

Value: Public Payers
Overview

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Key Take Aways

1. Exchange plans and Employers Will Continue to Shift More Cost to More Beneficiaries Via High Cost Sharing Products.

2. Exchange Plans and Employers Will Aggressively Use Steerage Mechanisms (e.g. Narrow Networks, Benefit Design, Reference Pricing) to Reduce Cost and Improve Outcomes.

3. The Amount of Revenue (both Public and Private) Exposed to Value-Based Payment Will Continue to Grow.

4. Public and Private Payers Will Continue to Exert Downward Pressure on Per Unit Payment Growth Rates.
## Focus Areas

### Many of the Focus Areas Are Mutually Reinforcing

<table>
<thead>
<tr>
<th>Pressure on Per Unit Pmt</th>
<th>Value-Based Pmt/ Steerage</th>
<th>High Cost Sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reduce overhead</td>
<td>• Reduce PMPM</td>
<td>• Price Transparency</td>
</tr>
<tr>
<td>• Reduce cost of care delivery</td>
<td>• Improve quality/satisfaction</td>
<td>• Communicate with Patients</td>
</tr>
<tr>
<td>• Leverage economies of scale to spread fixed cost</td>
<td>• Demonstrate superior outcomes</td>
<td>• Upfront collections</td>
</tr>
<tr>
<td></td>
<td>• Negotiate contracts that support value</td>
<td>• Prospective charity screening</td>
</tr>
</tbody>
</table>

**HFMA Value Project**

**Patient Friendly Billing**
Opportunity Knocks

We know we can do better. The U.S. healthcare system wastes 30 cents on every dollar spent. While troubling, it represents opportunities for organizations that can provide higher-value care.

Joseph J. Fifer, FHFMA, CPA
President and Chief Executive Officer, HFMA
Questions?

Chad Mulvany  
Director, Healthcare Finance Policy,  
Strategy and Development  
HFMA  

1825 K St NW  
Suite 900  
Washington, DC 20006  
Office: 202.238.3453  
Email: dmulvany@hfma.org
Successful Organizations Will Use Quality Improvement Efforts to Reduce the Cost of Care Delivery for All Stakeholders

http://www hfma.org/Content.aspx?id=1135
Knowledge Is Power

Providers Need to Help Both the Insured and Uninsured Understand and Resolve Their Balances

http://www.hfma.org/communications/
http://www.hfma.org/transparency/
http://www.hfma.org/medicaldebt/