The Approaching Impact of Health “Reform”

Winners? Losers? Impact on Investors in the Health Sector

Columbia Business School

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The health care law won't kill jobs. Actually, it has created jobs.

We need more help. The continuing health care debate is making everyone sick.
Impact Overview

Acute Care Hospitals

Dialysis
Rehabs

Disease Management

MA Insurers

Device Manufacturers

Home Health

Taxpayers

Labs
LTACHs
PBM / Part D
DME
SNFs
Commercial Insurers

Medicaid HMOs
Hospice

Welsh, Carson, Anderson & Stowe
ALL FUN—for now. Despite whining, health sector is BIG winner. FOR NOW-- LOOK OUT IN 2013!!!!!

- GREAT expansions of coverage for the bulk of health care sector
- VERY few tough calls made on anything
- It is a UNIVERSAL COVERAGE bill, not “health reform”

- SHORT TERM Big Winners: Hospitals
- Big Losers: Insurance Agents and Brokers
  - TAXPAYERS with AGIs over $200,000
  - The long term structural deficit!!!
  - IT WON’T LAST! (I’ll get to that!)
Where is this New Market Going?

- Big program expansions in Medicaid (19 Million new beneficiaries!!!!)
- Longer term, but HUGE private plan expansions via Exchanges (2014) *If it lasts!*
- Much more state and federal regulation and oversight of commercial markets
- Likely a significant consolidation, by region, of insurance market players as the strong get bigger and stronger (see Part D consolidation). Smaller insurers get gobbled up— commercial and MA.
Summary and Impact by Sector

- Hard to find any BIG losers

- I will focus on services. Biotech and Rx isn’t really my venue.

Reminder:  
US Revenues 2011 = $4.5T
US Spending 2011 = $6.1 T

*The party can’t last forever!*
Acute Hospitals (Victory Lap)

HOSPITALS

- Are you kidding? What reform?
- Biggest direct source of Federal spending (40% of Medicare). Exempted from cuts and reforms (not in IPAB until 2019!)
  - Virtually no reductions (minor out yr prod. adj.)
  - $45 Billion a year now in “indigent care” payments via Medicare/Medicaid
    - Uninsured to go from 10% to 2-3%
    - $2-4 B/yr of existing subsidies reclaimed (out of $45B!)
- Deal of Century: Can you say “double dip”?
- Insane abdication of policy responsibility—but great for hospitals!
Post Acute Providers (more complex)


- **LTACHS** - 2 year extension of moratorium; small MB reductions. Looks stable.

- **HOSPICE** - most non-functional payment system in Medicare, in true need of reform. Amazingly almost no impact in bill. Looks clear for years. Real focus is on fraud/enforcement.

- **SNFs** – New payment system rolled out (RUGS IV) with accidental windfall in 2011. Either CMS or Congress will take most back? How fast—how much?? Still a net +. Bigger issue is getting Congress/MedPac to understand, longer term, the Medicaid–Medicare cost shifts. Medicaid is TOUGH.
**Post Acute Providers (complex)**

- **HOME HEALTH (Danger Zone)** - Fair or not, MedPac and CMS staff think margins are too high (14%). Probably incorrect—but high risk here in longer term?

  - 2014 “rebasing”.
  - Uncertainty this spring with “F 2 F” doc requirements
  - Everyone loves HH—it will continue to grow—but with what rates and margins? TARGET #1 for reimbursements pressures.
Other Providers

- **DME suppliers** - modest impact. More oversight; application fees; competitive bidding expands to 100 sites. Could have been worse—mixed bag.

- **DIALYSIS** - reform here was in 2008. CMS Bundling rule ADDED back 3.1% to base rate (which was already pretty good). ESRD sector has great relations with CMS—expect a fair bundling rule/rates. The low risk tortoise of healthcare.

- **LABS** - again dodged major bullets. Only Productivity Adjustment everyone takes. (No fees or taxes!). May be in play for “doc fix” in December.
Other Services

- **Disease Management** - Had problems with sloppy CMS demo. While DM image may have bruises, “chronic care management” and “accountable care” are in!! What is the difference?? (Ah—labels)

- **Devices/Suppliers** - Unclear on the fees, and who will pay? But lots of new customers coming—and not many cuts? FOR NOW
Health Insurers

**MA plans**: Reality is Fairly Modest

- MA plans will likely see a phase down to 95-115% of FFS over 3-4 years. Possible Part D like model thereafter (RYAN)? Squeeze on benefits and major reductions in overpaid counties. But MA WILL BE viable—Congress can’t raise senior premiums too quickly. MA always better deal than MedSupp.

- Private FFS. Will be phased out or into PPOs. But rural definitions are likely to allow it in wide array of counties. CMS PPO transition rules should allow many private FFS plans to retain members.

- Taxes on all plans are likely to stick—will be passes through. MLR limits? (85%) not huge in Medicare. Tighter oversight.
Health Insurers

**Commercial Insurance Reforms**

- Rough in small group plans

- “exchanges” are likely to happen—with major state variations. Major consolidation—but lots of *scrambled eggs*!

- Still VERY good for new market entrants in consolidated markets? New plans in AL, TN?

- Individual mandates and penalties not as strong as insurers wanted—but still MAJOR new markets via exchanges for indv/small groups

- New regulatory functions and “risk adjustment” will bring big change

- Agents—why do we need ‘em??
Health Exchanges—the NEW MARKET

- By 2014 likely to be 150 state exchanges and sub-exchanges. Run by states.

- **Example**: In PA, likely 3 exchanges: Philly, Pittsburgh and “the rest”?
  - Expect 5-10 Connector Plans; 1-2 likely to be “quasi public” like TriCare or FEHBP
  - Standardized plans with rate bands
  - Connector will have to Risk Adjust and transfer cash among plans. Complex “referee” (150 mini CMS functions)
  - Agents? What agents?
MEDICAID HMOs (and support)

Medicaid plans

- Expansion up to 133% of poverty 19 M newly covered.
- Full federal funding for expansion populations for 2014, 2015, and 2016
- BIG population expansions. Many states are hitting Medicaid HMOs with short term cuts now. But future **cash**, mostly federal, looks very good for Medicaid plans and Medicaid contractors.
- Even with BIG reforms and BIG cuts in 2013 --low margin Medicaid HMOs are the only options for states.
Part D/PBM Impacts Also Modest

**Part D:**

“closing the donut hole” was insane policy—but modest positive impact on plans. Will simply raise the cost, but will also help revenue.

- Applying Medicaid rebates to Part D plans a pass through cost that won’t slow plan growth.

- Shrinking the Retiree Drug Subsidy (RDS) will likely drive MORE retirees into MA and PDPs

**Commercial PBMs:**

Greater volume from more insured lives. Exchanges may nudge mix to more fully insured?
Medical Devices and HIT

**Medical Devices**
- Fees hit all— but modest impact
  - Fight over exemptions and who pays?
  - Low tech want out—high tech want broader base?

**HIT**
- Develops data collection standards; more grants to states for data collection.
- $ in stimulus. Regs on “meaningful use” were very open and will drive HER spending and tech sales.
- All good for HIT—only risk is sloooow regulatory action
THE BIG PICTURE:
Federal Deficit

FISCAL YEAR TOTALS
(Billions of dollars)

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<th>Year</th>
<th>Receipts</th>
<th>Outlays</th>
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<td>2004</td>
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<td>2006</td>
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<td>2008</td>
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<td>2009</td>
<td>2,105</td>
<td>3,522</td>
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RECEIPTS AND OUTLAYS AS A PERCENTAGE OF GDP

YIKES! Where’s The Money!

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<td>Individual Income</td>
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<td>Social Insurance</td>
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<tr>
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<td>160</td>
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<tr>
<td>Total</td>
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<td>2,524</td>
<td>2,105</td>
<td>-16.6</td>
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<tr>
<td>Percentage of GDP</td>
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<td>17.5</td>
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Note: n.a. = not applicable.

Entitlement Reform/Deficit Reduction
Who Will Lead?

- House GOP/Ryan; Now is POTUS finally moving?
- The Power of 87 Freshman? - GANG of 6? Is anyone crazy enough?
Reform—a MASSIVE new entitlement cost
Coverage Expansion Under Health Reform Law

- **32 Million More Insured (net)**
  - decline of 3 million from employers
  - decline of 5 million from non-group

![Pie chart showing 24 million new insured, divided into private and public insurance categories](image-url)
Cost of Reform

- **Total Cost:** $940 billion in first ten years

- **Net Impact on Deficit:**
  
  –$124 Billion in net reductions in the deficit first ten years—via CUTS and TAXES

SPENDING CAN’T HAPPEN—NO DOUGH!

--so: keep the money!

delay the spending?
Probable President Obama and 240 GOP in House; 53 GOP in Senate

- $1.6 T per year deficit; 11% of GDP or more

**Recipe for a BIG BUDGET DEAL:**

- “reform taxes” (shhh!!! Raise revenue—and flatten rates)
- cut defense
- delay health reform (coverage delayed from 2014 to 2017?). GOP gets to delay spending—Obama gets to preserve the “promise”- (it will never happen! )
  - delaying promised but undelivered services ALWAYS easier than real cuts to real beneficiaries??
- cut everything in Medicare and Medicaid (just a bit, like 1997 because that is all they can pass?)
- an the BIG missing ingredient: raise SS and Medicare to 69 gradually over 48 yrs
Health Investing looks GREAT and SOLID -- for now

- This is a COVERAGE EXPANSION BILL—not a Reform Bill
- A BIG deficit will drive big reform—after the 2012 election
- FEAR of those reforms will spook lots of health investors until then

- There will be lots of uncertainty— but seniors vote (see 2010) – local providers have power, and there are limits to how far DC can go
- Delaying 2014 spending TOO easy—and saves big $
- REFORM is raising retirement age— and more bundles
- -- Much more regulation --More Health spending (AS ALWAYS)

MAY BE SCARY FOR 2 YEARS—BUT HEALTH $ WILL RISE -- AND
HEALTH INVESTING IS AS SAFE AS IT COMES!

very rough on taxpayers!
It’s Magic, Really!

WHY ARE YOU CALLING IT A MEDICARE TOASTER?
BECAUSE IT DOESN’T WORK RIGHT.

WATCH! I’LL PUT IN FOUR SLICES OF BREAD, PUSH THE LEVER DOWN...

AND VOILA! I GET ONE SLICE OF TOAST.

AND THE OTHER THREE SLICES KEEP GOING TO MY GRANDPA.