HealthPlanMarkets 2017 Issue #2
An Independent View On Markets And Finance
Published By Interpro Publications Inc. In Washington D.C.

"The draft call letter came in better than expected, and provides further evidence that while President Trump throws grenades at Medicaid and ObamaCare, MA remains the only stable market in all of health insurance.." – John Gorman

hotspots...

HHS Ignored 30 Out Of 32 Blues Plan Fixit Suggestions

The new ACA repair regulation receiving praise from **AHIP** but nobody else totally ignores a January 30 list of demands given to top HHS/OMB officials by **Blue Cross Blue Shield Association**. Entitled "Moving Forward: A Health Insurance Market for 2017 and Beyond," the Blues lobbying list includes at least 10 major initiatives in current CMS policies that HHS has chosen not to adopt. Blues officials have been quoted publicly describing the new reg as "a good start," but a timeline given OMB by the Blues shows time has already run out.

New HHS Fixit Means Smaller 2018 ACA Enrollment

A new ACA repair regulation released by HHS will result in smaller enrollment for remaining plans starting in 2018 -- a tradeoff for improving profit per member. We estimate *one million fewer enrollees* a year from now due to the new reg, plus another million exiting due to insurer pullouts, unpaid premiums and reduced enrollment options. As a result we are predicting ACA non-Medicaid enrollment a year from now at 7.5 million or less versus our previous estimate of 9 million. Under the reg finalized today next year's enrollment period will be shortened, 100% of mid-year applicants will under extreme vetting, and insurers will be allowed to drop non-paying members sooner. Some 650,000 applicants will be subject to extreme vetting.

ACA Cost-Sharing Subsidies End Next Week

A U.S. Appeals Court temporary delay in ruling that ACA cost-sharing subsidies are illegal ends Feb. 21 with no sign that House leaders will request another delay. Yesterday House Speaker Ryan tried to sell a phased-in replacement plan to rank-and-file GOP members, but by all accounts it is going nowhere fast. House conservatives are adamantly opposed to any further efforts to "repair" the statute, and a long list of industry suggestions for fixing the current law has been almost totally ignored by the Committees in Congress. The cost-sharing subsidies were declared illegal by a lower court almost one year ago.

Medicare Advantage Letter Applauded As Solid Backing

The 2018 Draft Call Letter for next year's Medicare Part C and D programs is a breath of fresh air compared with the ACA, according to a new **Gorman Group** analysis. The net effect of changes this year is an expected increase in payment of 0.25%, but CMS estimates a total increase of 2.75% due to coding and other items. The seminal analysis discusses no fewer than 35 major areas of change in the CMS Letter. "The draft call letter came in better than expected, and provides further evidence that while President Trump throws grenades at Medicaid and ObamaCare, MA remains the only stable market in all of health insurance," explains John Gorman, GHG Executive Chairman.

Medicaid Expansion Funding Looks More Promising

A huge push by key Republicans and hospitals to maintain existing Medicaid enrollment levels is likely to pay off in a freeze but no reduction in Medicaid expansion enrollment and funding, HPM is now predicting. GOP leaders like Ryan are hitting a brick wall on reduced funding -- even though over 60% of new Medicaid 'expansion' members were already eligible at a lower state match, but are getting 90%.

A deal is still coming to allow all willing states total flexibility in re-engineering their programs in exchange for a Medicaid cap at existing levels. That would logically mean reducing state matching for already eligible new recipients, but negotiations are 'fluid' on Capitol Hill.

Other breaking news:

Part D formularies could be adopted by Medicaid in at least two state Medicaid demos expected to be approved pronto. States have become complacent about using private formularies due to a 30-year-old budget law forcing drug firms to grant sweet discounts. But in the past few weeks many states are putting Medicaid formularies on the list of items they could be willing to take on in exchange for an across-the-board reasonable federal Medicaid capitation check. In many states Part D-type savings will be bigger than the old rebate, and new money is badly-needed to retain the huge ACA Medicaid population.

Covering the uninsured would wipe out new tax cuts, even if the GOP 'replacement' model costs less per person. That's what we found out in a very-detailed spreadsheet that uses current data for the cost per member in all three individual markets: the ACA, individual-only and GOP refundable tax credits (RTFs). Our hunch is that when Trump delivers his tax cut plan in late February it marks the end of GOP support in the Senate for either replacement or repeal. Don't expect to hear anything about this from the media or politicians of either party: they both benefit from the controversy. Two topics carefully avoided during congressional hearings this month: how much "replace" costs and how many it actually covers. Don't hold your breath.

National Chains And Non-Profits Not Happy With Trade Groups

Blues Plans Scrambling To Protect Post-ACA Role

Blue Cross and Blue Shield Association lobbyists told top White House OMB and HHS officials in a meeting last week that they may be the only plans left in dozens of states when the smoke clears on ACA repeal. The vast majority of states will have only one or two plans next year, in most cases a dominant Blues plan and a local non-profit.

This fact has caused a major split between national carriers and the national trade associations on a unified lobbying position. And the smaller non-profits and regional plans are not on board with either.

A little-noticed Blues survival proposal to OMB for instance exempts surviving plans from most ACA mandates by re-classifying them as "grandfather" plans under the ACA statute. The law currently exempts only a class of individual and small group plans, but could be applied retroactively to all plans under common law and case law, Blues lobbyists argue in the public document.

ACA Individual Market Average Deductible Data

	2016		2017	
	Individual	Family	Individual	Family
Bronze	$ 5,731	$ 11,601	$ 6,062	$ 12,393
Silver	$ 3,117	$ 6,480	$ 3,572	$ 7,474
Gold	$ 1,165	$ 2,535	$ 1,197	$ 2,745
Platinum	$ 233	$ 468	$ 405	$ 809

*Source: HealthPocket.com; does not include state based marketplaces

Top Blues lobbyists were granted a meeting with a dozen top OMB/HHS officials last week, and presented the draft legal proposal to 'grandfather' in virtually all ACA plans, thus exempting them from most of the statute. Since most carriers and many regionals are dropping out, Blues plans would get a near-monopoly in ACA exchanges under the near-secret proposal to OMB that sources say was rejected by HHS in favor of the skimpy Fixit reg.

Missing from the meeting: all of the national carriers and regional or local non-profit plans like Aetna, Kaiser and Emblem Health. External sources say they are relying entirely on their own legal and legislative staff, and consider AHIP a worthless partner on this issue. For bigger issues like Medicare and Medicaid they view AHIP as having more value, but rely heavily on other lobbying resources.

"AHIP and the Blues have split far apart on lobbying the Trump White House and HHS, and now have separate priorities on how to replace the ACA," one health plan CEO told HPM on background. The only overlapping position that both share is stopping the end of cost-sharing subsidies and reinsurance, plus killing the excise taxes.

Doing Nothing Makes More Sense As The Weeks Go By

Executive Order Makes Hill Action Less Needed

The White House executive order requiring agencies including Treasury to delay and exempt administration of the ACA paves the way for achieving the GOP goals of 'repeal and replace' without legislation, HPM has concluded in our initial review. Even if Trump and the Hill never follow up with his own replace proposal, the biggest goals like Medicaid caps and killing the individual mandate are not that hard.

This fact was almost totally ignored by the media until last month when it became known that CMS wanted to eliminate all spending on promoting healthcare.gov and the the exchanges online. This week another ax fell when CMS 'revised' the healthcare.gov portal to get rid of any overly-positive messaging on the ACA enrollment. A whole series of followup cutbacks and staff reductions are next.

Maybe a bigger signpost this week was news that the IRS will no longer send back tax returns that do not indicate if the taxpayer has health insurance. This basically kills the individual mandate, and will no doubt be followed by allowing employers not to provide detailed data on employer coverage or income data. The list is long.

Another example of how the EO indirectly repeals the ACA is the Blues plan proposal to OMB (story). It supports the EO's mandate on HHS to delay all regulations and "burdensome" ACA requirements, in this case using the grandfather clause. The Blues proposal never even mentions the EO, but reading between the lines the proposal is aimed squarely at using the intent of the EO to delay the entire ACA.

Here's how we look at the Executive Order as a "replace" plan:

■ Since Medicaid recipients enrolled under the ACA represent over half of the exchange population, this order could solve half of the problem of keeping anybody now enrolled. HHS already has the authority to give most state Medicaid programs waivers. If a deal is cut with the states to grandfather in that population in, there's no need for legislation. The Senate HELP Committee chairman has already proposed a deal that would avoid Congress having to do anything.

■ The only real question mark in our view is what happens to the millions in ACA but *not* Medicaid. Without the individual mandate maybe half might drop out or not pay premiums. That leaves perhaps as few as 5 million needing something to replace lost coverage. If it wants to HHS can probably find some way to keep paying subsidies for such a small population without Congress passing a big new replacement bill for everybody. If the GOP Congress does pass such a bill it is certainly more expensive, with bigger impact on the federal budget.

■ **Medicare Advantage** should remain mostly untouched under the executive order, and the latest Draft Call Letter provides optimism this will happen. Incoming HHS Secretary Price for instance was an author of the MACRA law, Trump has said he won't touch Medicare, and last week Vice President Pence testified that only individual and ACA markets will be targeted for repeal. No need to do Medicare vouchers.

■ **Cross-border sales of health insurance** is being cited as a big target of the executive order by the media. That's a separate issue from the ACA and is not on the same wavelength legally under an executive order. The actuarial issues involved could even result in a negative impact on consumers, so this could end up a dud.

HSA Bank:	HSA Accounts:	HSA Assets:
OptumBank	2,896,000	$6,776,000,000
HealthEquity	2,700,000	$5,000,000,000
HSA Bank	2,091,000	$5,400,000,000
UMB Bank	970,000	$1,760,000,000
Bank of America	729,000	$1,743,000,000
Fidelity	600,000	$1,490,000,000
BNY Mellon	490,000	$771,000,000

Health Savings Accounts figure heavily into all of the GOP proposals to replace the ACA. But the top seven banks that specialize in HSA accounts are feeling no pain today. The biggest 'HSA Bank' in the U.S. is owned by **UnitedHealth** called *OptumBank*. Next biggest are **HealthEquity** and **HSA Bank**, both publicly-traded firms that sell nothing but HSAs and in recent years have dominated the space. HSA banks have added over two million accounts per year for almost a decade, and the biggest players are rising over 25% per year on average.

Expensive Ryan Plan Was Designed in 2016 To Attract Dems

GOP Replacement Model May Cost $500 Billion+

The GOP model for replacing Obamacare would cost at least a half trillion dollars more in federal spending than keeping the existing ACA statute, Interpro Publications has calculated in a new analysis. That makes keeping the ACA alive a lower-risk political option since its budget cost is known, has peaked, and may even decline.

Both the ACA and Medicaid programs have just reported data that shows the cost of keeping Obamacare in place is flattening. Medicaid spending growth in 2016 is down slightly, including ACA Medicaid expansion, and enrollment in the exchanges is slowing.

But the cost of replacing the ACA with "something better" is not being discussed and indeed is being kept hidden from view.

The reason: the plan was developed a year ago when the GOP was under attack for having no reform plan going into the election. The

economists who wrote the plan were under pressure to come up with a model that would attract both Dems and Republicans, i.e. something that covers a bigger population than Obamacare did at the time. That backfired when Trump won the election.

So far the cost estimates of replacement (or repair) have remained hidden even a year later. Only the pure repeal proposals from last year have received official numbers. But once the House Committees meet their budget deadlines next month, the CBO and JCT will have to make a wake-up call with the bottom line. It's going to be ugly.

In our opinion this is the primary reason the GOP repeal movement has stalled: the hidden budget cost. The actual design of a replacement is non-controversial and very predictable -- but extremely expensive. The most obvious and smartest move for both parties is thus to keep studying the issue, but *don't do anything* to fix it. Right now that means talking "principles" and not legislative language.

Keeping the current law in place is not cheap and requires some big tax revenue. But that amount has fallen sharply in every year since 2010, and the price tag of say keeping the Cadillac Tax is down to around $40 billion a year versus original estimates of over $200B. And if both Medicaid expansion and the ACA flatten or shrink over time, tax reform is not threatened by the cost of doing nothing.

Adding in a new GOP entitlement for the uninsured, by contrast, would require doubling the Cadillac Tax or worse. The per capita cost of health plan premiums for individuals on exchanges is probably in the range of $7,000, and the latest study of Medicaid program per capita costs is a little over $6,700 per recipient. The new GOP plan will have to at least match this level, and probably come in at under $6,000 since the population covered will be twice as large.

To prepare our study we projected out to 2027 the latest numbers on ACA enrollment in Medicaid and the subsidized population, the ones which have a direct federal budget cost, and also project the unsubsidized individual population which is not covered by the ACA but which will enroll in whole or in part in the GOP plan:

■ The population enrolling through ACA will grow by at most only one million during the entire 10 year period. All of the growth will come from Medicaid expansion -- the Medicaid population will grow by 500,000 recipients per year ending at 16.5 versus 12 million. The ACA subsidized population -- now at 5 million -- will shrink even more over the next three years, then stay flat in our opinion.

10 Year Federal Cost: $1.27 trillion or less.

■ The **GOP replacement model** starts out at 12 million enrolled in 2018 by adding the Medicaid expansion to those converting out of the exchanges, both subsidized and not. To cover 48 million uninsured it needs to add 3 million a year after that until it covers 32 million in RTCs and 16.5 million still in the Medicaid expansion. To cover half the uninsured (or half the states) it must add 1.5 million a year.

10 Year Federal Cost: $2.1 trillion ($1.6 trillion for half the states)

The bottom line: the GOP plan greatly expands federal spending by offering refundable tax credits (i.e. subsidies) to a dramatically larger population, even if average premiums are lower and Medicaid stays flat. The GOP full blown replacement would subsidize over twice as many taxpayers and cost over half a trillion dollars more than the ACA. To keep the same cost, the GOP plan could only cover a few million more than the ACA.

ACA Enrollment Falls To Less Than 5% Of All Health Insurance

Final results for 2017 enrollment in ACA will show that less than 20 million Americans got covered using an ACA health exchange and more than half were placed into a state Medicaid program. The rest totals approximately 8 million covered lives, or *4.9% of the under-65 private health insurance market*. The latest report from **NCHS** this week finds that the percentage of uninsured in the U.S. dropped to 8.8% versus 9.1% before the ACA was enacted. The latest **CDC** report last year found that 28 million Americans were uninsured in 2015, meaning ACA plans covered only 32% of the total uninsured, and 21 million remain uninsured despite the ACA law.

■ The individual market which would be offered GOP subsidies is double the ACA subsidized group, at least 19 million versus 9 million or fewer individuals using the ACA.

■ The current subsidized ACA population and its tax credits would be folded entirely into the new GOP replacement plan. For 2017 this amounts to approximately 6 million.

■ All of the unsubsidized ACA population will also enroll in the GOP replacement plan. Current totals are around 5 million who now voluntarily enroll in the ACA and would to the same under a GOP replacement.

■ We assume that Medicaid expansion will be kept intact and cost the same either way, so the federal budget impact is assumed to be the same under either a replacement plan or the ACA.

policy notes...

First State Health Exchange Exit Saves $5M

Colorado is about to become the first state-run health exchange to voluntarily pull the plug and convert to the federal exchange purely in order to save money. A key state senate committee approved the measure this week with expected annual savings of $5 million a year offset in the first 3 years by $4 million in transfer costs, mostly the expense of linking Medicaid to the federal system. Along with the repeal of Connect for Health Colorado the bill also repeals the legislative oversight committee for the health exchange, and the premium tax credit for contributions made to Connect for Health Colorado by insurance carriers for their "donations."

Rocky Mountain Sale To United Clears AG Okay

Colorado's attorney general has given her blessing to the proposed sale of Rocky Mountain Health Plans to UnitedHealthcare. In an opinion issued Thursday, Attorney General Cynthia Coffman wrote that she had concluded the sale can proceed legally. Rocky Mountain Health Plans is a nonprofit, and the sale will require it to convert to a for-profit company and leave the proceeds of the sale — some $36 million, according to Coffman's opinion — to the Rocky Mountain Health Plans Foundation, which will use that money for charitable projects. Coffman's analysis found that the sale amount represents a fair market value for the insurer. It also concludes that Rocky Mountain Health Plans likely couldn't survive without the sale — noting that the company has been losing money for three years.

Failure Of Mergers Could Mean Wave Of New Deals

Anthem has already announced it will appeal the anti-trust decision, but top analysts are not optimistic. Anthem or Cigna could also still try to buy Humana, but that would require them to sell off hundreds of thousands of Medicare Advantage members to achieve divestiture. A more likely outcome: more smaller acquisitions. Anthem and Cigna both freed up a major capital infusion under their merger failure, meaning they will have to either buy back hundreds of millions of their own shares or start to buy up other health plans. ANTM will have over $3 billion left over. CI expects to have between $7-14 BB of available capital in 2017 depending on its deployment strategy (share repurchase, dividend, or M&A), and admits it is hunting around.

Star Ratings Feared A Target For New HHS Secretary

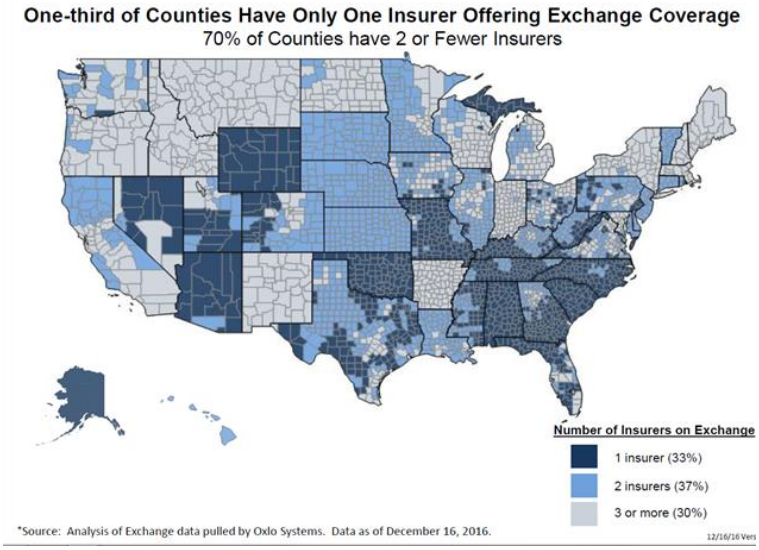
The calm before the storm is about to end following this week's arrival of new HHS Secretary Tom Price MD, who has received a blanket order to shake up the bureaucracy and a long list of HHS regulations. One place that the new Price team could find fertile ground is the 2018 Star Ratings where CMS has already proposed several changes affecting doctors and patients. This includes removing the 'easy' performance indicators like diabetes-kidney care measures, and a heavier emphasis on holistic care for members with advanced illnesses. Numerous changes are also proposed for the 2019 Star Ratings to make them more 'person-centered.' Experts are nervous that the new focus at the top will be on something different -- how much paperwork can be reduced, and the old concept of cost-benefit analysis. Price is no extremist, but will be looking to cut the provider workload first.

Medicaid Part D Formularies May Replace Drug Rebates

Medicaid health plans are endorsing a plan to allow state Medicaid programs to ditch the national Medicaid rebate system and negotiate their own drug formularies, akin to the Part D law. Right now a 30-year-old budget law provision mandates that most drug firms give discounts to states using a national price scheme, caps and self-reported data for outpatient drugs. States receive many billions each year in discounts. But now two states and probably more will be allowed by the new Trump Administration to opt out, part of a coming widespread approva kl6bjkm [l of state demos and waivers in Medicaid.

The new pending CMS Administrator **Seema Verma**, a respected national expert on Medicaid demos, was grilled in the Senate this week and may provide more direction. Scrapping the old system in favor of a private-plan based drug benefit that follows the Part D private formulary model is also being pushed by the **Medicaid Health Plans of America**, the lobbying shop for Medicaid managed care plans. The plans argue that states can save more money by having greater flexibility to exclude drugs, even if they can no longer count on "best price" and inflation-recouping rebates. Trump has backed much more negotiation in drug prices, along with new HHS Secretary Price.

The GOP task force and the Ryan *Better Way* white paper both strong endorse Medicaid reform. "Put simply, the status quo of today's Medicaid program is unsustainable. According to CBO, the federal share of Medicaid outlays are expected roughly to double over the coming decade, increasing from $350 billion in 2015, to more than $624 billion in 2026. Based on current trends, by 2025, each year Medicaid will cost federal and state taxpayers nearly $1 trillion and will cover more than 109 million Americans at some point that year.



HealthPlanMarkets
P.O. Box 6226 / Northwest Station
Washington D.C. 20015

ipropubs@gmail.com
(202) 277-1994