

# Understanding Health Care Cost Under ObamaCare



Joe Torella

By Joe Torella

It isn't difficult math to project that insurance costs have to increase to cover the expansive changes coming our way and to extend coverage to the citizens expected to be newly covered under the new law. And, without any change in utilization patterns or unit cost, double digit average increases in medical inflation are likely. Only those employers with a younger/healthier-than-average population or one that is driving its disease management and wellness initiatives can expect to beat the average.

For the Tri-State area, given our many mandates, we already have very expansive coverage; meaning our insurance costs are already higher and impacted slightly less by the Patient Protection and Affordable Care Act (PPACA) than other areas of the country.

In addition to the mandate factor, Insured v. Self-Insured models will vary in impact as well, with self insured plans likely seeing a larger impact due to their typical structure. A self insured approach is chosen for two main reasons:

1. To maintain control over claims and administrative expense in a predictable enough way that gains remain with the client (not the carrier) – and
2. That benefit limitations, not typically introduced in an insured contract, are utilized to mitigate cost.

It's this latter category that has the potential of impacting claims cost and stop-loss insurance premiums. Lifetime maximums, clinical trials, dependents to 26, no pre-ex to 19 and other benefit expansions will likely add as much 6% – 8% to the claim projections while stop loss vendors have been circumspect in linking their projections directly to PPACA. I've noticed that even when loss ratios on the renewal have been quite low, we're still seeing increases that mirror medical trend plus margin (actuarial insensibility or PPACA anticipation?).

On the insured side of the equation, the projections are similar except that, due to the larger number of mandates, the direct impact of PPACA is likely to be more moderate. In general, projections are in the 5% - 7% range, but that number is likely lower in the tri-state region due to the weight of the mandates encumbering the existing plans. In our region, it is possible that 3.5% to 5.5 % is more reasonable, but existing plans with lower lifetime maximums are subject to greater impact.

During the late 80's this would have been a non-impact issue, but the higher cost of claims means that replacing a \$500,000 or \$1 million maximum with unlimited is approximately 3% and 1% respectively. They are truly limiting factors and removing them may be expensive – depending on the group's complete inventory of risk characteristics.

For dependents to age 26, depending on the group's current plan design and dependent coverage status, cost could be impacted as much as 2%. In the northeast, we believe that due to the existence of coverage to 29/30/31, (by state), the impact is likely to be less. Eliminating cost sharing for preventive services is another variable cost area. Given the same footnotes above, claims (or insured projections) are not expected to exceed 2%.

In all of these projections, current plan design and client risk factors must be taken into close consideration. Administrative costs are loosely included in my estimates, but the overall impact on systems/people is quite high when you consider the total impact of PPACA (for another article).

As for minimizing cost (aside from a continued focus on wellness and chronic disease management), some have pointed to grandfathering. However, grandfathering is unlikely to play a major role especially for smaller insured groups because benefit reductions will likely offset any savings. It appears that avoidance of clinical trials – especially for larger insured and self insured plans – may have impact.

Perhaps the most interesting question will come with non-grandfathered plans that find Medical Executive Reimbursement Plans (MERPs) subject to nondiscrimination rules. Modifying plans or widening the net for participation will certainly create a new set of cost considerations. We are certain to observe a number of areas where unintended consequences emerge. On the cost side, it's as simple as recognizing that despite all the hype that Obamacare will reduce healthcare expense, certainly in the short term, that isn't the case.

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