The Health Care Reform in the United States
Summary

1. Main features of the current US health system
2. Changes brought by the Obama reform
3. Effects on the Insurance market
4. Challenges ahead
Main features of the current US health system

A paradoxical situation:

- Very generous national health budget
- Significant increase over the past 40 years (x3 between 1960-2007)
- Expected to continue (19.5% of GDP in 2017)...

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>Average Fr. / It. / Ger.</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure on health, $ per capita</td>
<td>3 352</td>
<td>4 719</td>
<td>7 878</td>
</tr>
<tr>
<td>Healthcare costs (% of GDP)</td>
<td>8,1</td>
<td>10</td>
<td>16</td>
</tr>
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</table>

Source: OECD Health Data
Main features of the current US health system

...Yet:

- A low life expectancy and a high infant mortality rate

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<tbody>
<tr>
<td>Infant mortality (‰ births)</td>
<td>2,6</td>
<td>3,8</td>
<td>6,7</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>82,4 years</td>
<td>81 years</td>
<td>78,1 years</td>
</tr>
</tbody>
</table>

Source: OECD Health Data

- Poor quality of medical services
- 30-40,000 US deaths associated with lack of insurance
- 62% of personal bankruptcies attributable to cost of medical care
# Main features of the current US health system

## Background

- **Public funding** (co-paid by Federal and states):
  - Medicare: 65 years old+ and disabled
  - Medicaid: People with low income
  - SCHIP
  - Veterans ...

<table>
<thead>
<tr>
<th>Public funding (co-paid by Federal and states)</th>
<th>Private insurance</th>
</tr>
</thead>
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<tr>
<td>- Medicare: 65 years old+ and disabled</td>
<td>▪ HMOs (Health Maintenance Organizations)</td>
</tr>
<tr>
<td>- Medicaid: People with low income</td>
<td>- provided by companies</td>
</tr>
<tr>
<td></td>
<td>- use of a specific practitioners network</td>
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<tr>
<td></td>
<td>▪ PPOs (Preferred Provider Organizations)</td>
</tr>
<tr>
<td></td>
<td>more expensive but patients not tied to any specific network</td>
</tr>
</tbody>
</table>

- Private insurance:
  - HMOs (Health Maintenance Organizations)
  - PPOs (Preferred Provider Organizations)
Main features of the current US health system

The Price of Health in the US

- Prices of drugs and medical services are not regulated
  - A visit to a physician: $200 to 250 (ex. in Boston)
- Prices are constantly escalating
- Insurance premiums up by 78% between 2001-2007 vs. wages up only 19%
- Insured’s contribution to costs also increasing (higher deductibles / co-payment/ limits)
Main features of the current US health system

- 46 million Americans uninsured

Source: Benico Ltd.
Main features of the current US health system

- Uninsured population recently tends to increase again

- Companies underwrite less health insurance for their employees

- 35% Americans underinsured

Source: Bureau of the Census
Prior attempts to reform the system

1854: “Bill for the Benefit of the Indigent Insane” proposed by Dorothea Dix

1912: Efforts to achieve universal coverage promoted by Theodore Roosevelt

1933: Franklin D. Roosevelt hoped to include some kind of national health insurance program in Social Security in 1935

1948: Harry Truman proposed a national health care program
Prior attempts to reform the system

- **1993**: President Bill Clinton’s proposed *Health Security Act* headed by First Lady Hillary Clinton.
Prior attempts to reform the system

- 2004: both the George W. Bush and John Kerry campaigns for the presidential elections included health care proposals
Why did such attempts fail?

- Health care and solidarity are perceived as matters for individuals not the State
- Insureds paying high premiums not prepared to pay more in order for uninsureds to have (better) protection
- No support for “socialized medicine”/universal system
- Half of the public funding towards medical expenses goes to 5% of the population
- Intolerable further increased health deficits: federal/states can’t even afford the existing entitlement programs
- Americans want no higher/additional taxes
Why is now a good time to reform?

- After the crisis, many Americans realized that the reform could assist them if they lost their job/insurance.
- Obama enjoys a high level of popularity.
- Democrat majorities in both the Senate and the House of Representatives.
- Poorer countries such as Cuba have proven to have better health systems; the US need to react if they want to confirm the supremacy of the capitalistic model.
Key goals of the Obama health care reform

- Provide affordable, quality and more accessible health care to 32m uninsured Americans
- Spark competition in order to reduce the cost of private health insurance
- Fight fraud to Medicare/Medicaid
- Reduce the federal deficit (unsustainable increase in health-related expenses)
The Patient Protection and Affordable Care Act of 23 March 2010

Key changes

- Expands Medicaid eligibility and offers new preventive services
- Subsidizes insurance premium for low/middle income people
- Businesses with 50 + employees must procure insurance
- Establishes state-run health insurance “Exchanges” offering competitively-priced insurance
- New prohibitions and new obligations imposed on insurers
The reform

The Patient Protection and Affordable Care Act of 23 March 2010

Procedural and budgetary aspects

- Key stakeholders involved in the reform
- A complex legislative process based on compromise ("public option" dropped)
- Unresolved questions
- Overall cost estimate $940b over next 10 years (Congressional Budget Office)
- Cost offset by a variety of taxes and cost-saving measures
- Reduction of the federal deficit by $138-143b over the next 10 years/$1,200bio over the following decade (CBO)
Insurers are one of the targets of the reform

Strong lobbying against the reform

The reform is an attempt to reduce the distortion on the insurance markets; it does not fundamentally change the existing health care system

32 million potential new clients to insurers

More competition (insurance exchanges, subsidies to non-profit insurance organizations)
New prohibitions

- No denial of coverage/claims based on pre-existing conditions
- No lifetime/annual benefit limits
- No arbitrary cancellation or reduction of an insurance policy when an insured gets sick (save for fraud)

New obligations

- Free coverage for preventive health/vaccination services
- Provide an independent appeals process in the event insured dispute an insurer’s decision
- Children up to 26 can stay on family policies
- 80-85% premiums must be spent on care (not profit/operating expenses)
- Transparency and compliance requirements (underwriting, claims and financial results)
Implementation of the reform will be a costly effort for insurance companies:
- staff training
- internal processes
- compliance

Timeline is aggressive: some major changes as early as 2010
- $67 billion in new taxes over a 10-years period
- Strict control on premium increases and compliance (non-compliance can bar access to the Exchanges and give rise to penalties)
Future will tell...

- How the new prohibitions, obligations and associated costs will affect health insurance pricing
- To what extent premium increases and non-compliance with new requirements will be controlled and penalized by the authorities
- How dependent premiums are on the prices of drugs/medical services
- Whether the Republicans will succeed in challenging the reform (mid-term elections in November 2010)
- What actual savings will be achieved vs. health deficits
## Appendix

<table>
<thead>
<tr>
<th>Provision</th>
<th>Effective</th>
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<tbody>
<tr>
<td>No lifetime limits on essential benefits. Restricted annual limits allowed prior to 2014 on essential benefits, as determined by Secretary.</td>
<td>6 months after enactment</td>
</tr>
<tr>
<td>Rescissions only for fraud or intentional misrepresentation of material fact.</td>
<td>6 months after enactment</td>
</tr>
<tr>
<td>Coverage of preventive health services</td>
<td>6 months after enactment</td>
</tr>
<tr>
<td>Extension of adult dependent coverage to age 26</td>
<td>6 months after enactment</td>
</tr>
<tr>
<td>Uniform explanation of coverage documents and standardized definitions</td>
<td>Standards developed within 12 months Uniform documents implemented within 24 months</td>
</tr>
<tr>
<td>Additional information-compliance with sec,</td>
<td></td>
</tr>
<tr>
<td>Fully-insured group health plans may not discriminate in favor of more highly compensated employees</td>
<td>6 months after enactment</td>
</tr>
<tr>
<td>Annual reports of quality improvement benefits and reimbursement structures</td>
<td>2 years after enactment</td>
</tr>
<tr>
<td>Provision</td>
<td>Effective</td>
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<tr>
<td>Reporting of loss ratios and rebates by large group plans with loss ratios below 85% and small group and individual market plans with loss ratios below 80%.</td>
<td>01/01/11</td>
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<tr>
<td>Internal and external review</td>
<td>6 months after enactment</td>
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<tr>
<td>Coverage of emergency services and direct access to providers</td>
<td>6 months after enactment</td>
</tr>
<tr>
<td>Health insurance consumer assistance offices and ombudsmen</td>
<td>Date of enactment</td>
</tr>
<tr>
<td>Rate review</td>
<td>Date of enactment</td>
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<tr>
<td>Temporary high risk pool program</td>
<td>90 days after enactment</td>
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<tr>
<td>Temporary reinsurance program for early retirees. Employment-based plans providing coverage to retirees between 55 and 64 may submit claims to the reinsurance program. Program will reimburse 80% of claims between $15,000 and $90,000 for a retiree in a year.</td>
<td>90 days after enactment</td>
</tr>
<tr>
<td>Web portal to identify affordable coverage options</td>
<td>07/01/10</td>
</tr>
</tbody>
</table>
- CIGNA CDHP Experience Study Findings, December, 2009
- PricewaterhouseCoopers for America’s Health Insurance Plans. « Healthcare Costs 2006 ». February 2006
- Health Care Reform – Where is it headed? John P. Garven, CLU, RHU President, Benico, Ltd. March 22, 2010
- Flash Economie n°151 - Natixis - Réforme de la santé aux Etats-Unis – mieux vaut tard que jamais ! - 08 avril 2010
Sources

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- http://www.whitehouse.gov/issues/health-care
- http://www.healthreform.gov/about/answers.html