

The Health Care Reform in the United States



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Summary

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Main features of the current US health system

2

Changes brought by the Obama reform

3

Effects on the Insurance market

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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)...

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Background

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	Japan	Average Fr. / It. / Ger.	US
Expenditure on health, \$ per capita	3 352	4 719	7 878
Healthcare costs (% of GDP)	8,1	10	16

Source : OECD Health Data

Main features of the current US health system

...Yet :

- A low life expectancy and a high infant mortality rate

	Japan	Average Fr. / It. / Ger.	US
Infant mortality (‰ births)	2,6	3,8	6,7
Life expectancy	82,4 years	81 years	78,1 years

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

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Main features of the current US health system

Private vs. Public insurance

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Public funding (co-paid by Federal and states) :

■ Medicare 
65 years old+ and disabled

■ Medicaid 
People with low income
completed by :
- SCHIP
- Veterans ...

Private insurance

- HMOs (Health Maintenance Organizations)
 - provided by companies
 - use of a specific practitioners network
- PPOs (Preferred Provider Organizations)
more expensive but patients not tied to any specific network

Main features of the current US health system

The Price of Health in the US

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- Prices of drugs and medical services are not regulated

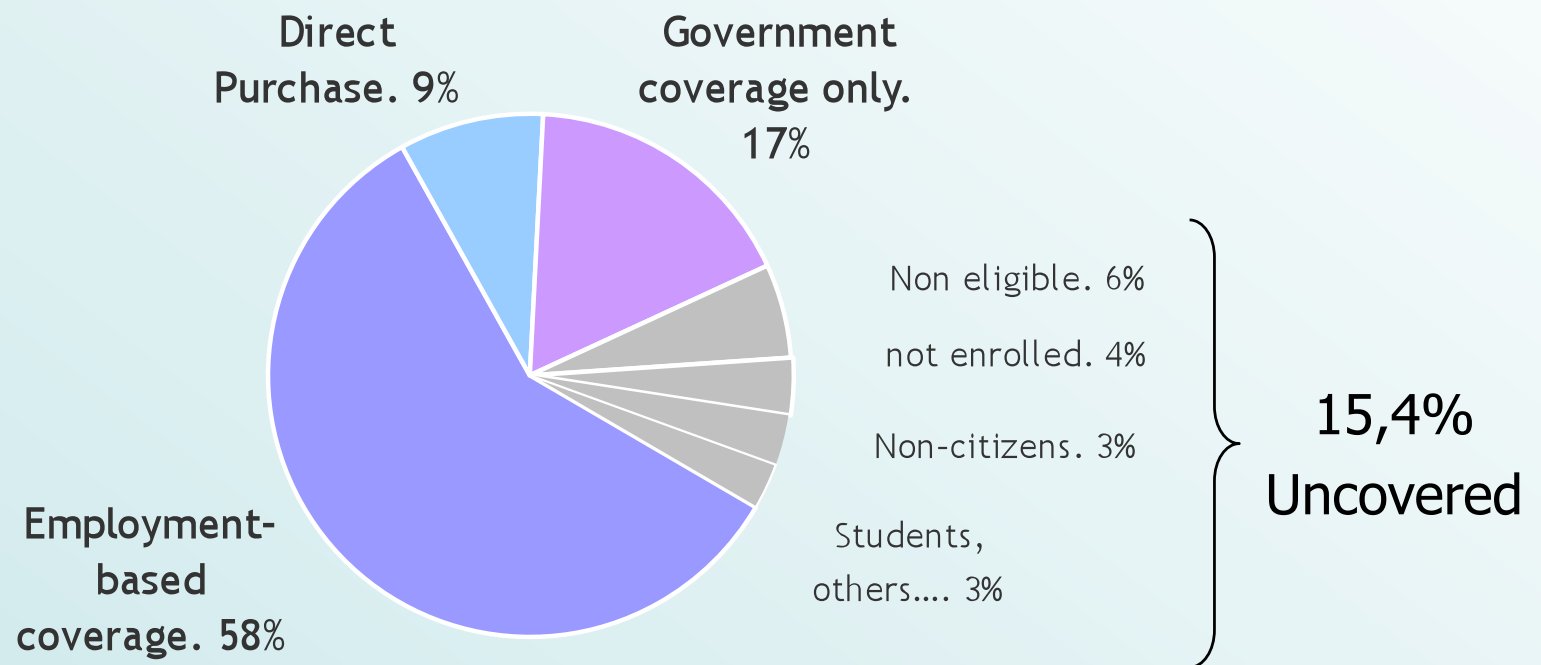
A visit to a physician : \$ 200 to 250 (ex. in Boston)

- 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

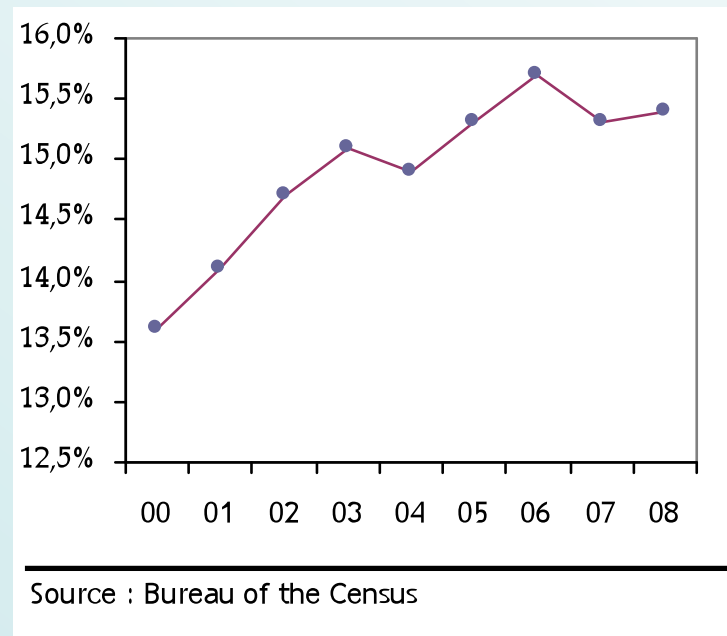
- 1 Background
- 2
- 3
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Source :Benico Ltd.

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

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Prior attempts to reform the system



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

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Background

1912 : Efforts to achieve universal coverage promoted by Theodore Roosevelt



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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

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- **1993**: President *Bill Clinton*'s proposed *Health Security Act* headed by First Lady *Hillary Clinton*.

Bill Clinton
Hillary R. Clinton
(William Jefferson Clinton)
(1947)
(1946)

Prior attempts to reform the system

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- **2004** : both the *George W. Bush* and *John Kerry* campaigns for the presidential elections included health care proposals

Why did such attempts fail ?

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- 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 ?

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Background

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- 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

The reform

Key goals of the Obama health care reform

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■ Provide affordable, quality and more accessible health care to 32m uninsured Americans

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■ Spark competition in order to reduce the cost of private health insurance

The Reform

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■ Fight fraud to Medicare/Medicaid

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■ Reduce the federal deficit (unsustainable increase in health-related expenses)

The reform

The Patient Protection and Affordable Care Act of 23 March 2010

Key changes

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- Expands Medicaid eligibility and offers new preventive services

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- Subsidizes insurance premium for low/middle income people

The Reform

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- Businesses with 50 + employees must procure insurance

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- 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)

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The Reform

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How will the reform affect the private health insurance industry ?

[Obama's Speech](#)

- 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)

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Insurance
Market

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How will the reform affect the private health insurance industry ?

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)

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Insurance
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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)

How will the reform affect the private health insurance industry ?

■ 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)

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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

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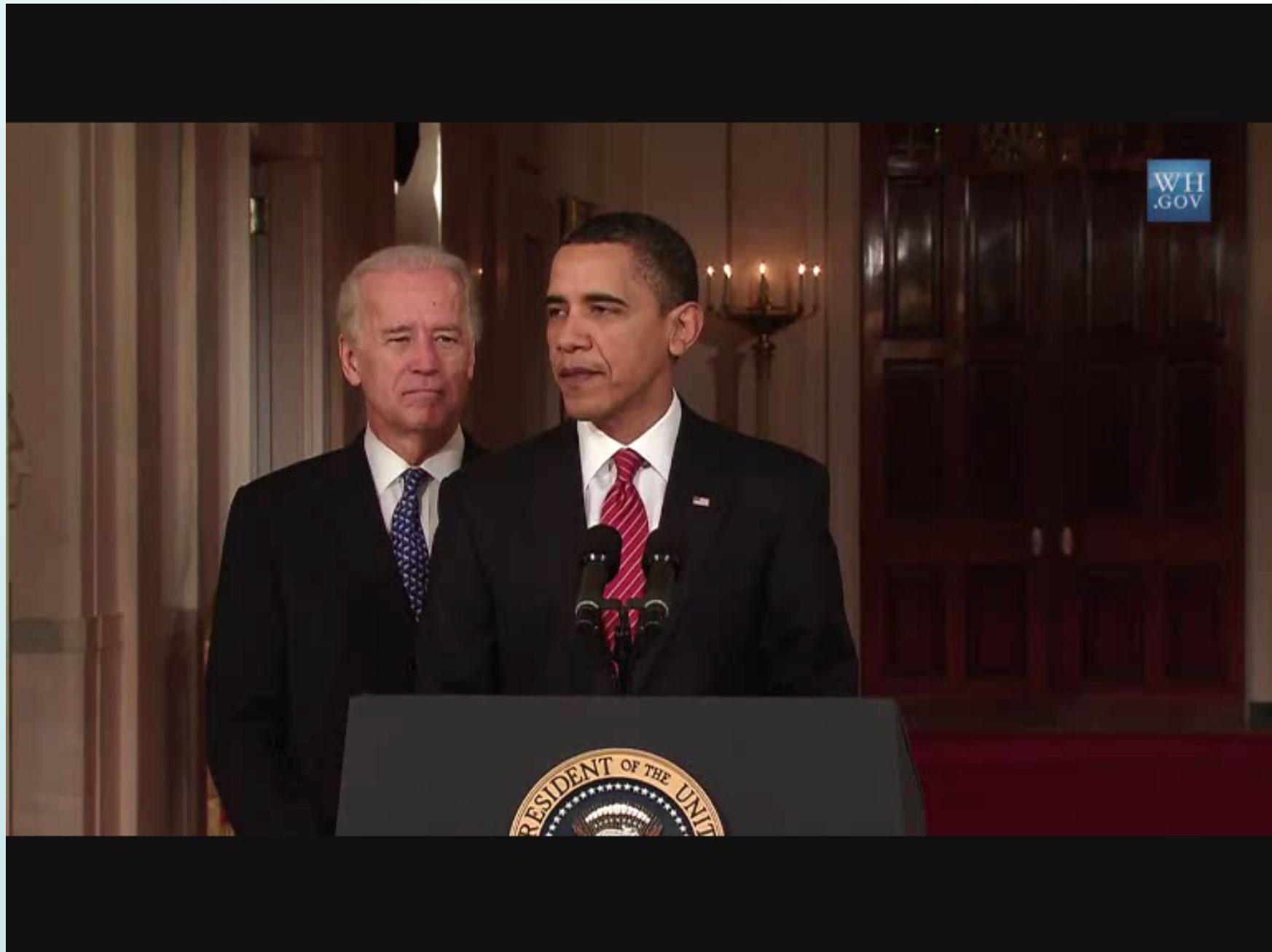
Challenges

Appendix

Provision	Effective
No lifetime limits on essential benefits. Restricted annual limits allowed prior to 2014 on essential benefits, as determined by Secretary.	6 months after enactment
Rescissions only for fraud or intentional misrepresentation of material fact.	6 months after enactment
Coverage of preventive health services	6 months after enactment
Extension of adult dependent coverage to age 26	6 months after enactment
Uniform explanation of coverage documents and standardized definitions	Standards developed within 12 months Uniform documents implemented within 24 months
Additional information-compliance with sec,	
Fully-insured group health plans may not discriminate in favor of more highly compensated employees	6 months after enactment
Annual reports of quality improvement benefits and reimbursement structures	2 years after enactment

Appendix

Provision	Effective
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%.	01/01/11
Internal and external review	6 months after enactment
Coverage of emergency services and direct access to providers	6 months after enactment
Health insurance consumer assistance offices and ombudsmen	Date of enactment
Rate review	Date of enactment
Temporary high risk pool program	90 days after enactment
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.	90 days after enactment
Web portal to identify affordable coverage options	07/01/10



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