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The CASCO Bulletin

SEPTEMBER 2013

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Healthcare Reform Update

The Affordable Care Act (ACA) is bringing profound changes to the healthcare delivery landscape. Below are some notable developments and progress reports related to the act.

Health Insurance Rates

The ACA increased scrutiny on rate increases and also required insurers to provide premium rebates if minimum medical loss ratios (MLRs, which reflect the proportion of premium spent on care) are not met. A February 2013 [study](#) by the Department of Human Services suggests the ACA has contributed to a slowdown in rate increases for the individual market but that it has not slowed rate increases in the group market. A June 2013 Kaiser Family Foundation [study](#) found that MLRs have increased since the ACA for the individual market but have remained relatively stable for the group market.

Incentives Based Medicare Payments

As part of the ACA, Medicare instituted a value-based purchasing program to reward or penalize programs from FY2013 onwards based on the quality of care provided to Medicare patients. For FY2013, 1,557 providers were rewarded and 1,427 were penalized. In addition, Medicare began applying hospital readmissions penalties to reimbursements in October 2012. As of March 2013, 2,213 hospitals have received readmission penalties, with 276 of those receiving the maximum penalty of 1%.

Bundled Payments for Providers

The Bundled Payments for Care Improvement (BPCI) initiative will provide bundled Medicare payments for episodes

of care rather than individual services for selected providers. This pilot program will be implemented from 2013 to 2016 and could be expanded if successful. The ACA also created the Health Care Innovation Awards (HCIA) to test new payment and service delivery models for Medicare and Medicaid/CHIP that will lower costs (with actuarial certification required for cost savings estimates) and improve outcomes. The second round of awards is underway with up to \$1 billion available in total funding. Programs such as the BPCI initiative and the HCIA that promote bundling of payments could be a sign of things to come for Medicare and Medicaid/CHIP.

Employer Mandate

On April 29, 2013 the IRS issued proposed rules for determining if employer plans meet the affordability criteria set forth in the ACA for providing affordable health insurance. On July 2, 2013 the implementation of the employer mandate was delayed until 2015 with officials citing the need to simplify reporting requirements and give employers a chance to adjust their healthcare coverage.

Health Insurance Exchanges

18 states and DC have chosen to operate their own exchanges, 25 have chosen not to operate their own and are relying on "Federally-Facilitated Marketplaces" operated by the federal government, and 7 have opted for hybrid "State Partnership Exchanges" in which the state runs certain functions.

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Healthcare Reform Update (continued)

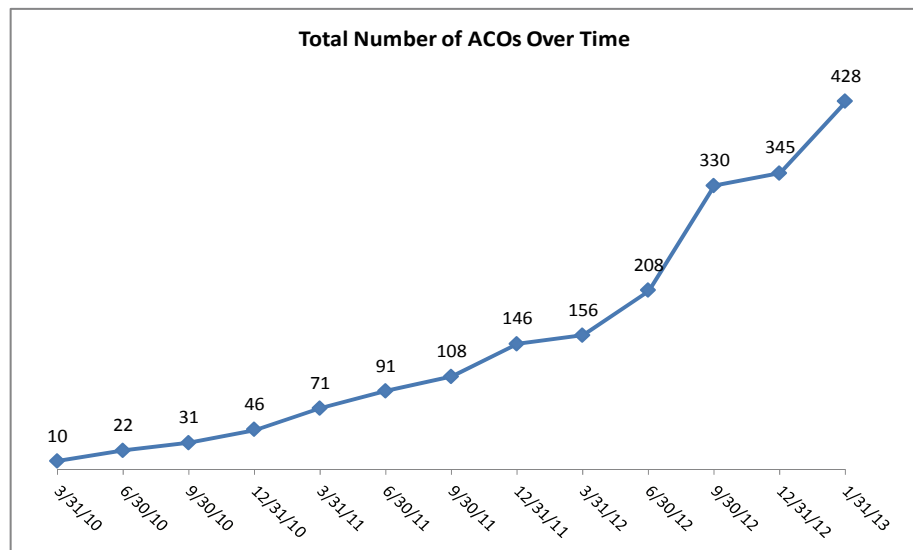
Medicaid Expansion

23 states and DC have chosen to expand Medicaid so far, with 21 electing not to and 6 still debating the option.

Accountable Care Organizations (ACOs)

The chart below shows the number of ACOs from March 2010 to January 2013. The number of new ACOs formed by year has accelerated, with 2012 seeing around 200 new formations. The number of formations in 2013 is expected to be higher than in 2012.

The number of new ACOs formed by year has accelerated, with around 200 formed in 2012 and an even higher number expected in 2013.



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