Overview of Commercial Insurance

1. Major Trends Impacting Commercial Insurance Plans
2. Key Advisory Board Resources for Commercial Insurance Plans
Commercial Insurers Sell to Employers, Individuals

Two Ways for Individuals to Secure Commercial Health Insurance

Employer-Sponsored Insurance

Fully-Funded Small Employer Group¹

Fully-Funded Large Employer Group¹

Self-Funded Employers

Individual Private Insurance

Employers purchase insurance for their employees from commercial insurance companies

**Employers:** Health insurance expenditures tax-deductible

**Individuals:** Reduces personal costs

**Employers:** High-cost benefit

**Individuals:** Limited choice of plans

Pros

**Employers:** No costs

**Individuals:** Additional plan choices

Cons

**Employers:** Reduced benefits competitiveness

**Individuals:** Personally costly

---

¹) The small group definition was originally legislated to change to up to 100 employees for coverage in 2016, but the Protecting Affordable Coverage for Employees (PACE) Act of 2015 amended this change and leaves definition determination to the discretion of state regulators. For 2018, only California, Colorado, New York, and Vermont have expanded the definition of small group to up to 100 employees.

Source: Advisory Board research and insights.
Understanding Self Funding for Employers

Employer considerations for self-funding

Advantages:
- Exclusively finances employee population
- Control and flexibility
- National consistency
- Access to data
- Cash flow management

Risks:
- Unpredictable spending
- Administrative work
- Stop-loss coverage not guaranteed
- Variability in economic benefit

Insurer nomenclature

Third-Party Administrator (TPA)
- Legal term
- Typically independent organization
- Rents networks, enabling flexible design and payments
- Personalization, flexibility

Administrative Services Only (ASO) division
- Typically division of parent carrier company
- Modeled from existing networks and products
- Stability, efficiency

Percentage of covered workers in self-funded plans

By employer size, 2018

4% 58% 39%

- Below 200 employees
- 200+ employees
- Not self-funded

Health Insurance Exchanges an Evolving Market

A New Marketplace for Individual Insurance

Characteristics of Health Plans in ACA Marketplaces

- No denial due to pre-existing conditions ("guaranteed issue")
- Premiums can only vary by age, tobacco use, family status, benefit design, and geography ("adjusted community rating")
- Four metal tiers: bronze, silver, gold, and platinum
- Essential Health Benefits and free preventive services
- Subsidies available up to 400% of FPL

State Decisions on Marketplace Participation, 2018

- State-based marketplace (11 states and DC): 23%
- Federally-facilitated marketplace (28 states): 55%
- State-partnership marketplace (6 states): 12%
- State-based marketplace, federal platform (5 states): 10%

Not to be confused with private exchanges!

Challenges in the Face of New Market Realities

Key Commercial Payer Challenges

**Employers seeking new ways to control expenses**
As health benefits costs continue to rise with little inflection from member cost sharing, employers are putting more pressure on plans and exploring new ways to actively manage costs themselves.

**New era of marketplace competition and uncertainty**
Acquired plan and consumer experience along with continued regulatory supports contribute to a more stable and competitive marketplace, but new policies may alter the enrollment mix.

**Consumers are demanding hands-on support**
Partly due to increased cost sharing, consumers have greater incentive to choose cost-effective health services but expect plans to guide them through this.
1. Overview of Commercial Insurance

2. Major Trends Impacting Commercial Insurance Plans

3. Key Advisory Board Resources for Commercial Insurance Plans
Challenges in the Face of New Market Realities

Key Commercial Payer Challenges

Employers seeking new ways to control expenses
As health benefits costs continue to rise with little inflection from member cost sharing, employers are putting more pressure on plans and exploring new ways to actively manage costs themselves.

New era of marketplace competition and uncertainty
Acquired plan and consumer experience along with continued regulatory supports contribute to a more stable and competitive marketplace, but new policies may alter the enrollment mix.

Consumers are demanding hands-on support
Partly due to increased cost sharing, consumers have greater incentive to choose cost-effective health services but expect plans to guide them through this.
A clear cross-subsidy threat

Employers carrying the reimbursement growth burden

Cumulative hospital price growth by payer segment (June 2014–February 2019)

Employers shoulder an outsized share of health care costs

241%

Percentage that private health insurance pays hospitals compared to Medicare on average

Adding New Layers of Control

Embracing Activation in Addition to Delegation

Spectrum of Options for Controlling Health Benefits Expense

Emerging era of employer strategy

Recent era of employer strategy

Abdication

Drop Coverage

- Shift employees to public exchange
- Trade Cadillac tax for employer mandate penalty

Delegation

Shift Risk

- Encourage employee uptake of HDHPs
- Outsource administrative burden to third party such as a private exchange

Activation

Manage Proactively

- Curate network design to influence employee choice
- Active episodic-specific steerage

Source: Health Care Advisory Board interviews and analysis.
Pick the best surgeons for new employer contract

Employers contracting with systems for the best physicians’ capacity

Six best Mount Sinai surgeons chosen for COE\(^1\) program with 32BJ\(^2\)

Health system contracts with local union, 32BJ

Surgeons follow standardized care pathway, deliver $12,000 savings per case to employer

System selects six highest-quality surgeons

10% ➔ 60%

Shift in market share for lower-extremity joint replacements

In the past, we were always reliant on surgeons to bring cases to the system. Now, the system is also bringing cases to the physicians.

Niyum Gandhi, Chief Population Health Officer, Mount Sinai

---

1) Center of excellence.
2) Labor union in New York City.

Source: Health Care Advisory Board research and analysis.
Chart the future one surgeon at a time

Delivering on employers’ demands for the best of the best

Carrum Health’s selective provider contracting process

All facilities and surgeons in a market for a bundled surgery

Find most efficient facilities and surgeons in a market using:

1. Recommendations for surgery appropriateness from high-quality specialist advisors
2. Public quality and claims data
3. Confidential data provided by system or group

Statistics on Carrum Health’s surgeons

- 57% Fewer complications
- 45% Fewer readmissions
- 25% Avoided surgeries

1) Compared to the national average.

Source: Carrum Health, San Francisco, CA; Health Plan Advisory Council research and analysis.
Challenges in the Face of New Market Realities

Key Commercial Payer Challenges

Employers seeking new ways to control expenses
As health benefits costs continue to rise with little inflection from member cost sharing, employers are putting more pressure on plans and exploring new ways to actively manage costs themselves.

New era of marketplace competition and uncertainty
Acquired plan and consumer experience along with continued regulatory supports contribute to a more stable and competitive marketplace, but new policies may alter the enrollment mix.

Consumers are demanding hands-on support
Partly due to increased cost sharing, consumers have greater incentive to choose cost-effective health services but expect plans to guide them through this.
A hyperactive regulatory environment

Regulatory actions regarding ACA marketplaces

Potential destabilization

Negated individual mandate penalty
Effectively eliminates requirement for individuals to have insurance coverage

Short-Term Health Plans (STHPs)
Lengthens duration of plans with more coverage flexibility and eligibility barriers

Association Health Plans (AHPs)
Easier access to plans with more premium rating and coverage flexibility

Potential stabilization

More insurers win lawsuits seeking CSR¹ payments
• Common Ground Healthcare Cooperative (+91 insurers), Maine Community health Options, L.A. Care, Community Health Choice, Montana Health Co-op

State reinsurance programs through innovation waivers
• Approved: AK, HI, MD, ME, MN, NJ, OR, WI
• Pending: CO, MT, ND

Continued uncertainty and future changes to watch

Expanded HRAs²:
Employers can offer employees HRA funds to purchase individual market coverage

Texas v. United States (pending):
Challenges constitutionality of individual mandate without associated penalty


¹) Cost Sharing Reductions.
²) Health Reimbursement Arrangements.

© 2019 Advisory Board • All rights reserved • advisory.com
Despite policy shifts, enrollment relatively stable

Consumers see smaller premium hikes and more plan options in 2019

Plan selections in the marketplaces, 2015-2019

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal marketplace</td>
<td>11.7M</td>
<td>12.7M</td>
<td>12.2M</td>
<td>11.8M</td>
<td>11.4M</td>
</tr>
<tr>
<td>State-based</td>
<td>2.8M</td>
<td>3.1M</td>
<td>3.0M</td>
<td>3.0M</td>
<td>3.0M</td>
</tr>
<tr>
<td></td>
<td>8.8M</td>
<td>9.6M</td>
<td>9.2M</td>
<td>8.7M</td>
<td>8.4M</td>
</tr>
</tbody>
</table>

3.4% decline in enrollees between 2018 and 2019 OEP

Marketplace competition

- **1.5%**
  - Average decline in premiums for silver plans between 2018 and 2019 (compared to 37% increase from 2017-2018)

- **4.0**
  - Insurers per state on average in 2019 (up from 3.5 in 2018)

---


© 2019 Advisory Board • All rights reserved • advisory.com

---

1) Open enrollment period.
2) Second Lowest Cost Silver Plans.
Majority of consumers actively shop, switch products

Consumer price sensitivity met by access to more low-cost options

More than half on ACA are active shoppers

Percentage of plan selections by enrollment type

n=11.8M in 2017, n=11.4M in 2018

Active shoppers

2017

24% Automatic re-enrollment

47% Active re-enrollment

27% New consumers

2018

30% Automatic re-enrollment

47% Active re-enrollment

24% New consumers

Active re-enrollees pay lowest premiums

Average monthly premiums after APTCs\(^2\), 2019

- Automatic re-enrollees: $245
- Active re-enrollees: $145
- New consumers: $155

87% Enrollees received APTC in 2019 compared to 85% in 2018

2019 Individual market growth outlook:

Key trends on provider networks—and their impact on enrollment

Wednesday, August 14, 2019 at 1:00 PM ET


UPCOMING WEBCONFERENCE

1) Switchers are consumers who enroll in a different product with the same or different insurer than the year prior.
2) Advance Premium Tax Credit.
Bipartisan agreement: Surprise bills must go

Implications for network design, contract negotiations could be drastic

<table>
<thead>
<tr>
<th>Narrow networks common in marketplace</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products offered on marketplaces with networks that include less than 60% of providers in market, 2017</td>
</tr>
<tr>
<td>68%</td>
</tr>
</tbody>
</table>

Several different legislative solutions proposed to address payment for surprise medical bills

- **Price mandates**: Plan pays median in-network negotiated rate
- **Price indexing**: Price indexed to Medicare rates
- **Arbitration**: Third party resolves payment dispute
- **Network matching**: Physicians and hospitals required to be in same payer network

Potential implications

Shifts negotiating leverage toward payers by decreasing incentive to include providers in-network

Could increase receptivity to price indexing or price mandates in other scenarios

Challenges in the Face of New Market Realities

Key Commercial Payer Challenges

Employers seeking new ways to control expenses
As health benefits costs continue to rise with little inflection from member cost sharing, employers are putting more pressure on plans and exploring new ways to actively manage costs themselves.

New era of marketplace competition and uncertainty
Acquired plan and consumer experience along with continued regulatory supports contribute to a more stable and competitive marketplace, but new policies may alter the enrollment mix.

Consumers are demanding hands-on support
Partly due to increased cost sharing, consumers have greater incentive to choose cost-effective health services but expect plans to guide them through this.
Consumers are demanding hands-on support

The Crusade for Active Consumers

Cost Sharing Here to Stay—But Not Sufficient

Changes in Insurer and Member Spending

*Percentage Increases, Indexed at 100% in 2006*

n = 1.05 million to 15.3 million commercial enrollees’ claims and encounter data sampled per year

![Graph showing percentage increases in claims and deductibles from 2006 to 2016.](image)

More members enrolled in HDHPs

48%

Workers with deductible over $1,000, 2018

Two Commonly Cited Shortfalls

1. Decreases utilization, but insufficient to drive price shopping
2. Window of impact above HSA/HRA and below deductible too limited

Cost sharing targets wrong members and services

Members faced with extreme cost sharing blindly reduce care

**Members with high cost sharing reduce care spending**

*Workers with annual deductible of $1,000 or more*

- **13.8%** Reduction in health care services
- **25%** Reduction in physician office spending
- **18%** Reduction in ED spending

But not always in cost-efficient ways

**Reduction in overall spending by HDHP members**

- 12-14%
- 18-22%

**Change in hospitalizations for male HDHP members compared to Year 0**

- Year 1: -24%
- Year 2: 30%

Tools Mismatched to Consumer Needs

Industry Largely Struggling to Create Self-Service Options

Member Tool Use and Preferences

<table>
<thead>
<tr>
<th>Use mobile apps</th>
<th>Use online portals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>10-25%</td>
</tr>
</tbody>
</table>

Members

**Want:**
- Right answer “pushed” to them
- Advice from their doctor or family
- A single price point

**Don’t Want:**
- To spend time “pulling” information
- Health plan advice
- A cost range or price estimate

Majority Report Difficulty Finding Cost Information

*Consumer Assessment of Difficulty Locating Pricing Information for Doctors and Hospitals*

<table>
<thead>
<tr>
<th>Difficulty Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Easy</td>
<td>3%</td>
</tr>
<tr>
<td>Somewhat Easy</td>
<td>23%</td>
</tr>
<tr>
<td>Somewhat Difficult</td>
<td>35%</td>
</tr>
<tr>
<td>Very Difficult</td>
<td>29%</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>10%</td>
</tr>
</tbody>
</table>

Stepping Up to Serve Members

Feature Members’ Priorities to Lead Them to Plan Priorities

**Oscar’s A|B Test for Member Priorities**

- App features tools that:
  - Relate directly to receiving care
  - Impact care costs
  - Solve complex problems

- App features step tracker
- Preferred by member testers

---

**Oscar’s App Utilization Results**

**Monthly Active App Users, 2017**

- **Industry wide**: 7%
- **Oscar members**: 41%

**Telehealth Utilization Rates, 2017**

- **Industry wide**: 3%
- **Oscar members**: 25%

1. Overview of Commercial Insurance

2. Major Trends Impacting Commercial Insurance Plans

3. Key Advisory Board Resources for Commercial Insurance Plans
Other Health Plan Advisory Council Resources

The Member-Centric Virtual Service Model
A white paper detailing hallmarks of virtual customer service models that prioritize personal needs

COMING SOON
2019 Consumer Survey: *What consumers hate about their health care experience*
Survey results from 3,000 consumers correlating health care experience frictions with costly care outcomes

Shattering the Member Engagement Myth
Four strategies for engaging with the new health care consumer to understand what they value in order to retain business

Services Preference Portal
Tool that allows plans to see what consumers want from their plan, provider, and third party to help them lead healthy lives

Contact us at hpac@advisory.com for access to more resources on Commercial Insurance needs and priorities