

# Introduction to Payers

# Public and private entities provide insurance

## Three main payer constituents

### 1

#### Medicare

- Federally-funded insurance for seniors (65+) and disabled
- Part A funded through payroll deductions
  - No premium; \$1,100 deductible, copays only for extended inpatient stays
- Parts B, C, D have monthly premiums, deductibles, copays

### 2

#### Medicaid

- Nation's principal health care insurance safety net
- Federal-state partnership
- Federal government funds 57% of Medicaid costs overall
- Beyond cost-sharing, states design and administer programs within federal rules
- Cover primary care, acute hospital care, lab and x-ray, nursing home care, home health, family planning, immunizations

### 3

#### Commercial Insurance

- Can be employer-sponsored or self-funded
- With employer-sponsored insurance (ESI), employers purchase insurance for employees from commercial insurance companies (e.g., BlueCross, Aetna, etc.)
- With self-funded insurance, individuals purchase insurance for self and family
- Through the ACA<sup>1</sup>, individuals can also purchase insurance through federal or state-run exchanges

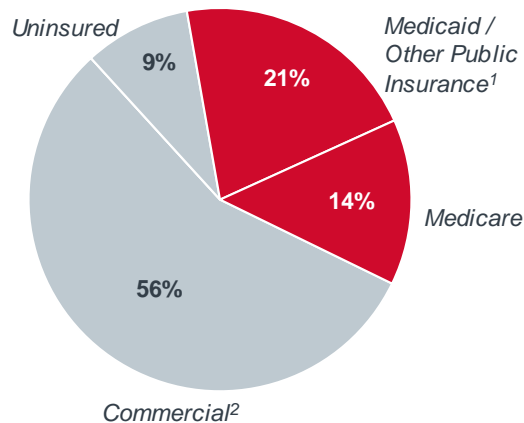
1) Affordable Care Act

# Majority of Americans have commercial insurance

But hospitals receive most revenue from public payers

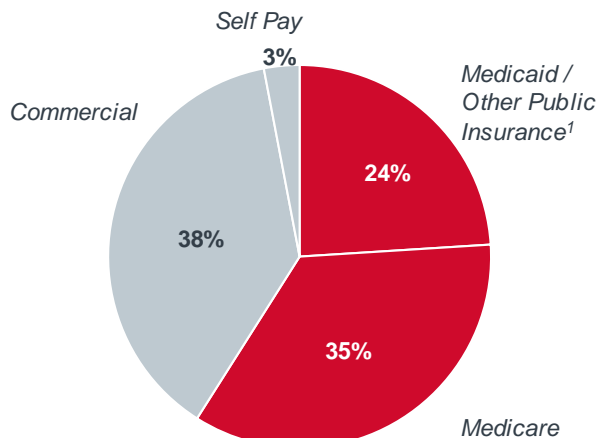
## Health insurance coverage

2016, % of patients covered



## Hospital payer mix

2014, % of total hospital payments



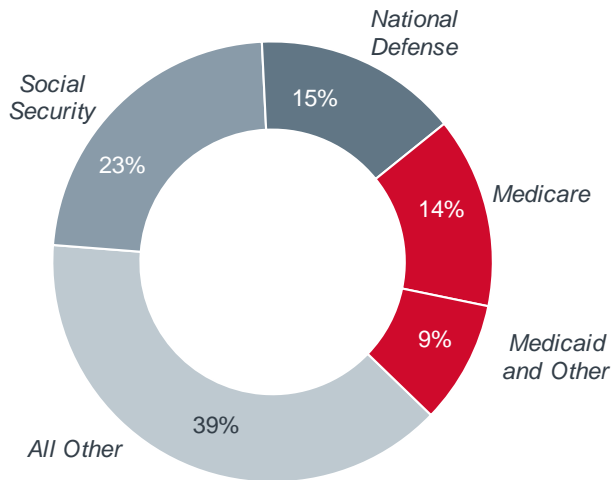
1) Includes Medicaid, Children's Health Insurance Program (CHIP), other state programs, military-related coverage (Tricare), and those enrolled in both Medicare and Medicaid (dual eligibles).

2) Includes employer-sponsored insurance and those covered by non-group insurance

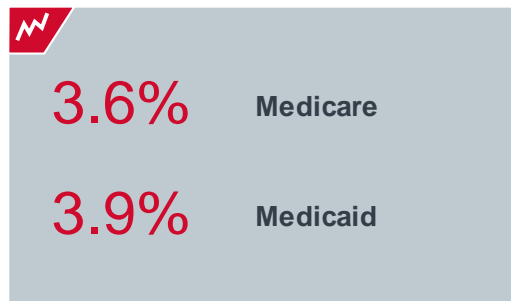
Source: "Health Insurance Coverage of the Total Population," Kaiser Family Foundation, 2016, available at <http://kff.org/other/state-indicator/total-population/>; "Forecasting: Hospital Payer Mix 2014 and 2024, US," American Hospital Association, May 2, 2016, available at <https://aharesourcecenter.wordpress.com/tag/hospital-payer-mix/>; Advisory Board research and analysis.

# Government health care expenditures expected to rise

Share of federal spending allocated to health care  
2017

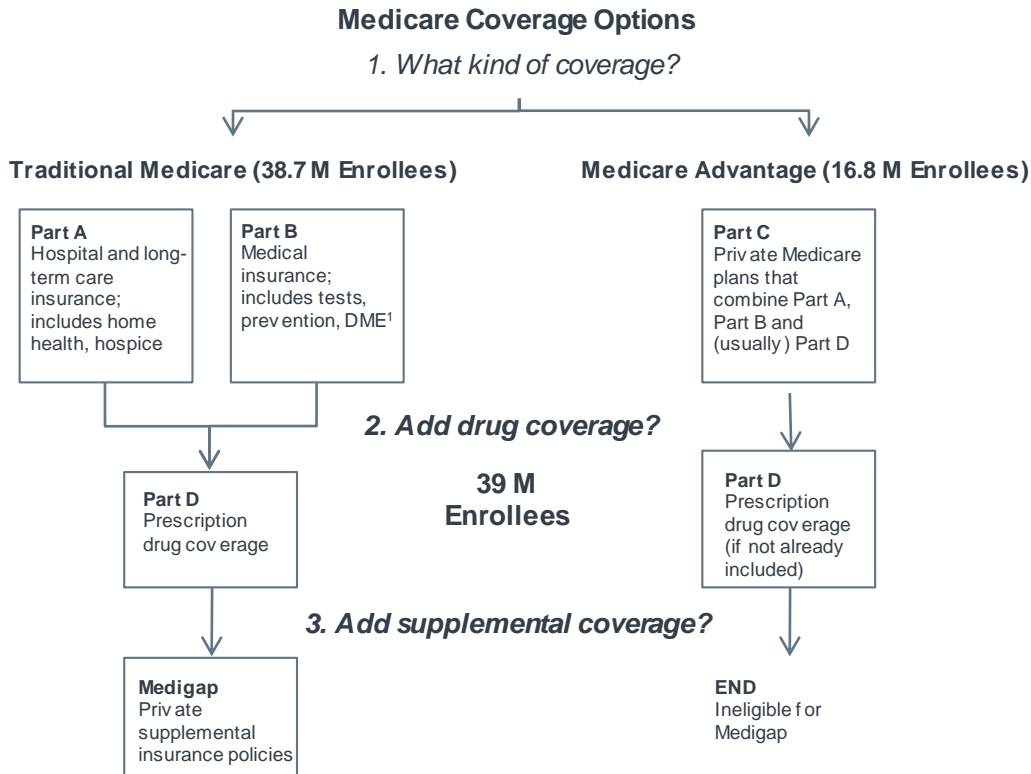


Cost growth for government insurance  
2015-2016



Source: "Fiscal Year 2017 Budget of the U.S. Government," Office of Management and Budget, 2017, available at <https://www.govinfo.gov/content/pkg/BUDGET-2017-BUD/pdf/BUDGET-2017-BUD.pdf>; "NHE Fact Sheet, 2016," Centers for Medicare and Medicaid Services, 2018, available at: <https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nhe-fact-sheet.html>; Advisory Board research and analysis.

# Medicare includes four programs for elderly Americans



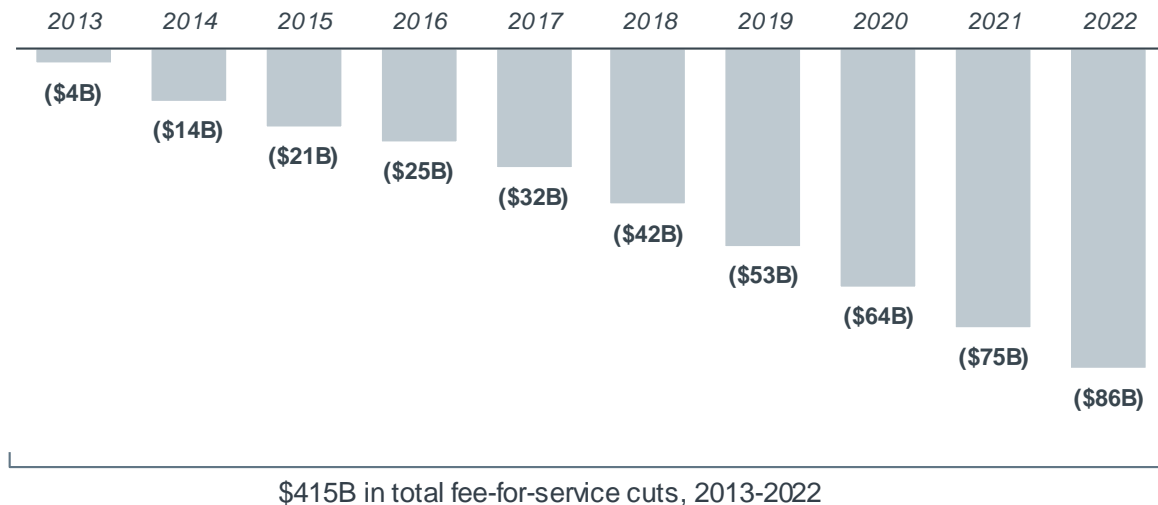
1) Durable medical equipment

# Medicare on the chopping block

## Payment cuts threaten hospitals with large Medicare patient cohorts

### ACA's Medicare fee-for-service payment cuts

*Reductions to annual payment rate increases*

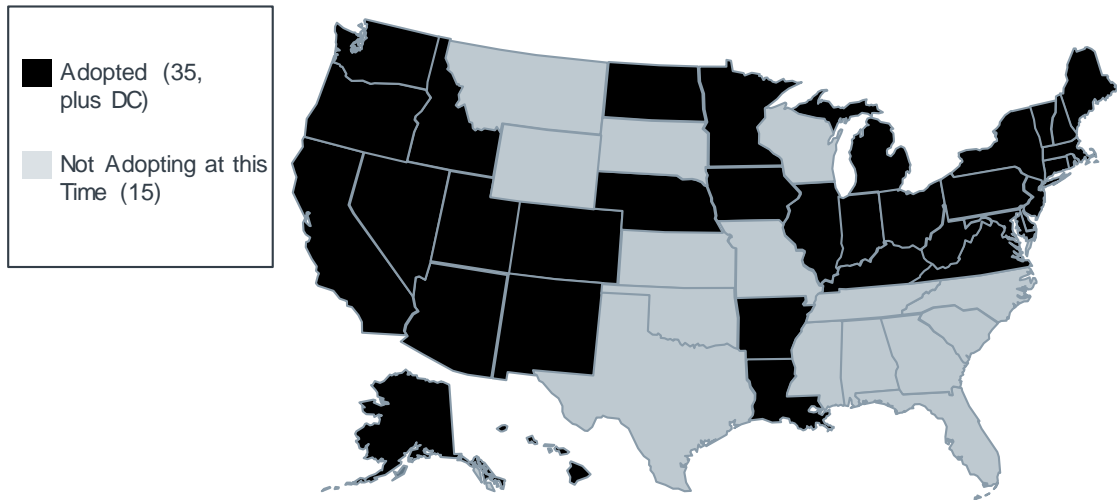


Source: "Letter to the Honorable John Boehner Providing an Estimate for H.R. 6079, The Repeal of Obamacare Act," Congressional Budget Office, July 24, 2012, available at: [www.cbo.gov](http://www.cbo.gov); Advisory Board research and analysis.

## More than half of all states have expanded Medicaid

## Where the states stand on Medicaid expansion

(as of November 2018)



Source: Advisory Board, "where the states stand on Medicaid expansion," 2018, available at: <https://www.advisory.com/daily-briefing/resources/primer/medicaidmap>; Advisory Board research and analysis.

# Two ways to secure commercial health insurance

Individuals receive insurance from employers or purchase own policies

1

## Employer-Sponsored



- Employers purchase insurance for employees from commercial insurance companies
- Workers can typically choose among several options, trading off choice vs. cost
- Expenditures are tax-deductible for employers
- Largest non-wage component of total compensation in US

2

## Self-Insured



- Individuals purchase insurance for self and family
- More expensive, on average, than employer-sponsored options
- Current models expose individuals to significant annual price increases
- ACA<sup>1</sup> restricts insurers from denying coverage or raising premiums based on health status
- To keep coverage affordable, the government offers a range of subsidies

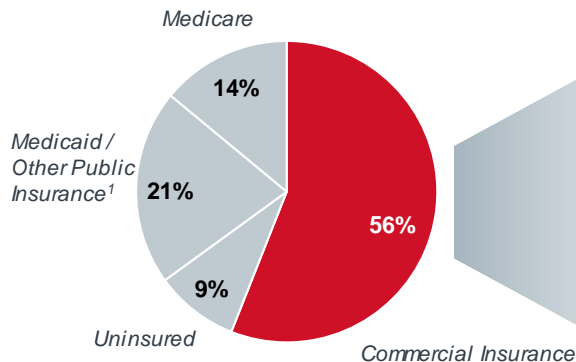
1) Affordable Care Act



# Most commercial insurance is employer-sponsored

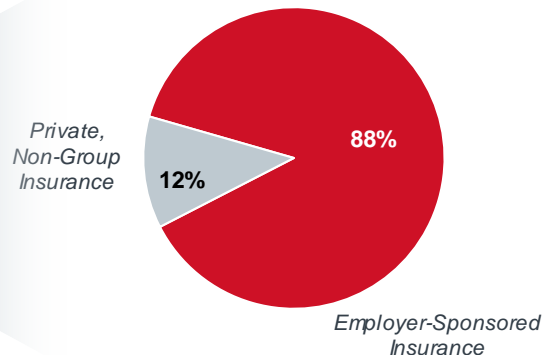
## More than half of Americans covered through commercial carriers

2016



## Majority of commercial coverage through employers

2016



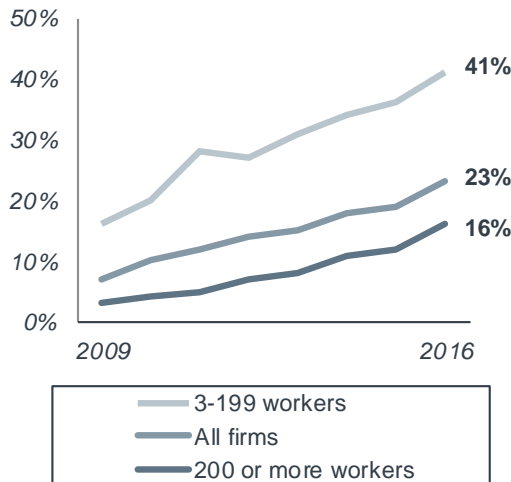
<sup>1</sup>) Includes Medicaid, Children's Health Insurance Program (CHIP), other state programs, military-related coverage (Tricare), and those enrolled in both Medicare and Medicaid (dual eligibles).

# To control costs, employers raise deductibles

## Cost sharing has not had the intended impact

### Percentage of workers by annual deductible of \$2,000 or more

By firm size, 2009-2016



### Not quite the silver bullet employers were hoping for

#### *The New York Times*

"The Big Problem with High Health Care Deductibles"

#### *Modern Healthcare*

"Why consumerism is no panacea for our healthcare problems"

### Two commonly cited shortfalls

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

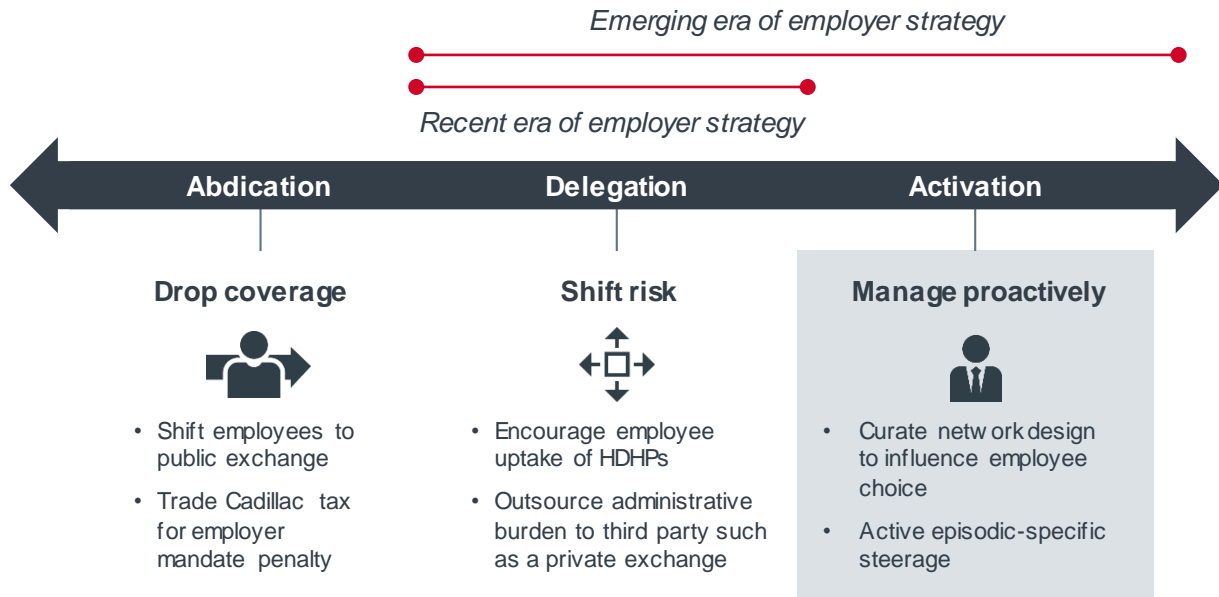
<sup>1</sup>) Health savings account or health reimbursement account.

Source: Gaba C, "Healthcare Coverage Breakout for the Entire U.S. Population in 1 Chart," *ACASingups.net*, March 28, 2016; Katz-Sangor M, "The Big Problem with High Health Care Deductibles," *The New York Times*, February 5, 2016; Meyer H, "Blog: Why Consumerism is No Panacea for Our Healthcare Problems," *Modern Healthcare*, March 8, 2016; Health Care Advisory Board interviews and analysis.

# Employers switching to more proactive approach

Embracing activation in addition to delegation

## Spectrum of options for controlling health benefits expense



# Employers trying out private exchanges

## Private exchange characteristics



*Customized  
Networks*

Offers customized provider networks designed to save employers five percent of medical plan cost



*More Employee  
Options*

Offers more health, dental, vision benefit options than traditional employer-sponsored plan



*Decision Tools  
and Guidance*

Provides access to benefits advisors, including support team to provide guidance during enrollment process

## Factors influencing move to private exchange models

- 1 Logistical difficulty of benefit renegotiations
- 2 Internal politics of benefit changes
- 3 Attractiveness of other options

# Commercial payers insure exchange enrollees

## Exchange enrollees present care challenges

### Profile of Exchange Enrollees, as of 2016

1

#### Non-Disabled Adults



Adults age 19-64 account for 84% of exchange enrollees, compared to 70% in the current non-group market

2

#### No Usual Source of Care



Nearly 40% lack formal source of care; more than 25% received no health care in the past year

3

#### Undiagnosed Chronic Disease



Self-reported health status may miss undiagnosed chronic conditions, requiring extra care

4

#### Less Educated, Language Barriers



Over 75% do not hold a college degree, nearly 20% have limited English proficiency

### Exchange enrollment, 2018

No premium  
subsidy

20%

80%

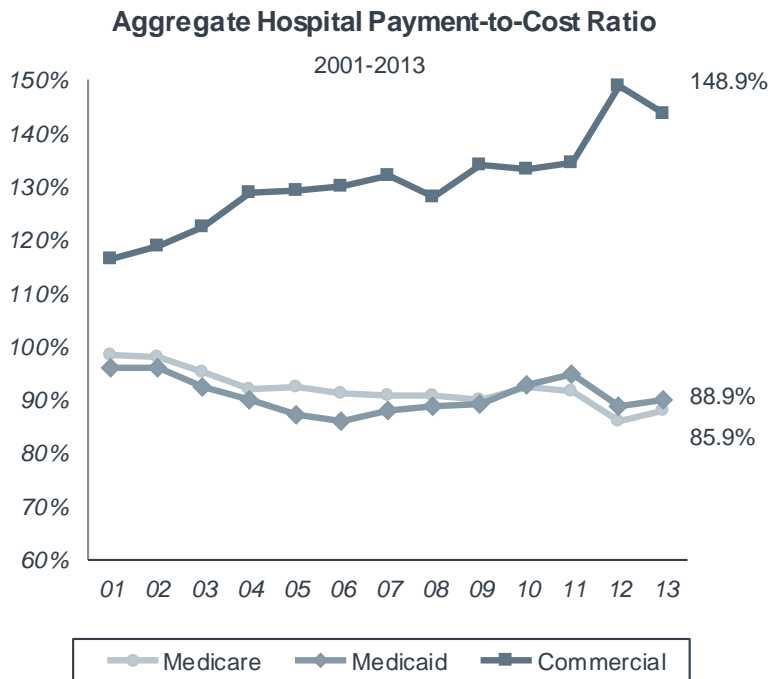
Receive premium  
subsidy

11.8M

Enrollment on federally  
facilitated and state-run  
exchanges, 2018

Source: "Baseline Projections for Selected Programs – Federal Subsidies for Health Insurance," Congressional Budget Office, 2016, available at <https://www.cbo.gov/about/products/baseline-projections-selected-programs#6>; ; Livingston, Shelby, "Final 2018 ACA exchange enrollment comes up slightly short of 2017," Modern Healthcare 2018; Kaiser Family Foundation, <https://www.kff.org/health-reform/state-indicator/mark-etplace-enrollees-eligible-for-financial-assistance-as-a-share-of-subsidy-eligible-population/?currentTimeframe=0&sortModel=%7B%22column%22%22Location%22%22sort%22%22asc%22%22%7D>; Advisory Board research and analysis.

# Providers utilize private payers to cross-subsidize public payers



## 12.3%

Decline in per case  
revenue due to  
worsening payer mix

Source: "Trendwatch Chartbook 2015," American Hospital Association, 2015, available at <http://www.aha.org/research/reports/tw/chartbook/2015/15c/chartbook.pdf>; Advisory Board research and analysis.



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