

Insurers Gearing for Adult Dependents, Less Medicare Funding, No Cover Caps

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Health insurers will cover adult dependents to age 26. They will set no caps on annual or lifetime medical costs. And they will see much of the funding for Medicare Advantage dry up.

These are just a few of the many new truths of health care reforms, and insurers are already racing to adapt to the new system -- even before formal rules are announced. The components that might have caught the most attention during the national debates have been changes such as the individual mandate and the elimination of pre-existing condition exemptions, but a number of areas that received less attention have major impacts on insurers -- and some of them start very soon.

"Right now, we're all trying to wrap our brains around all of those and trying to implement them," said Kris Haltmeyer, executive director of legislative and regulatory policy for the Blue Cross Blue Shield Association. "We want to do things right the first time."

As bans on caps hit insurers, "they're going to have to really re-look at their risk pools and their pricing," said Maureen Fahey, a partner in the health care practice at professional service firm KPMG.

Organizations like America's Health Insurance Plans are switching gears from lobbying against pieces of the legislation to helping members implement the reforms. Though AHIP had been among the chief opponents of these reforms, because the group said these changes don't make a dent in medical costs, it acknowledges the changes can do some good. "Getting people access to coverage is a step forward," said Robert Zirkelbach, AHIP's chief spokesman.

Experts and industry insiders talked to BestWeek about some of the pending changes bearing down on health insurers. In less than a year, the reforms to dependent coverage, spending caps and Medicare Advantage are a few of the transformations insurance companies must prepare for.

MEDICARE ADVANTAGE REDUCED

WHAT: The program spending will be cut by an estimated \$202 billion over the next 10 years.

WHEN: Payment rates will be affected in 2011.

WHO: Health insurers who participate in this partial privatization effort of Medicare.

Medicare Advantage, the seven-year-old program that allows private insurers to run Medicare services, was hit hard in the overall Medicare cost cuts.

The program's payment rates will be frozen in 2011 at current rates before starting a subsequent decline. The changes will come with new sets of benchmarks and quality control, and the participating plans will have to conform to medical loss ratio limits of 85% by 2014.

The popular Medicare Advantage plans typically offer seniors expanded benefits in comparison with basic Medicare. But going private, which was initially meant to save money, has cost the federal government more than expected, so proponents of reform saw an opportunity to cut costs.

"It seems like the government really has a love-hate relationship with insurers in the Medicare market," said Mark Holloway, director of compliance services for Lockton Benefit Group, dredging the disappointing history of the Medicare Plus Choice program. In this case, he said, "the insurers are going to run the numbers to see if it makes financial sense to participate."

In the final days of the legislative debate, AHIP declared that cuts this deep -- estimated by the trade group at \$202 billion over 10 years -- could spell the end of the program. But others aren't so sure.

In the end, Holloway thinks companies will stay in. "I don't think, initially, we're going to see a huge exit from the Medicare Advantage market," he said.

But the program will be less enticing for customers, said BCBSA's Haltmeyer. Companies "likely will have to increase costs and reduce benefits going forward," he said. "The trend is to higher consumer cost for Medicare Advantage products."

Improving efficiency will be an answer for many insurers, said Joel Michaels, partner in charge of the health industry advisory practice at McDermott Will & Emery. "Plans who are able to manage the costs fairly well will do OK," he said.

COVERING ADULT CHILDREN

WHAT: Plans will have to raise age cut-offs for child coverage to at least 26.

WHEN: Starts in September, ramping up to less-restrictive coverage in 2014.

WHO: Coverage has to initially extend to those up to age 26 without access to insurance.

In what has been interpreted as an element of relatively positive news within the health reforms, the plans will likely see an influx of young enrollees, because they will be required to cover adult dependent children up to age 26.

"Usually, 26 year olds are pretty darn healthy," said Lockton's Holloway.

And KPMG's Fahey echoed that, saying "it should have more of a positive affect, somewhat."

By September, plans that cover dependents will have to pick up the tab for all adult children until their 26th birthday, if they don't have other access to health care. But by 2014, the coverage applies to that age group even if they do have insurance options offered by their own employers.

The provision leaves other details up to the Department of Health and Human Services, which is designing the regulations. That puts insurers in the position of waiting for answers to many questions, such as what level the dependents must be covered at, when they can join the plan and what can be charged for that portion of the policy. Insurers hope answers come soon.

"If the regulations come out right before the compliance date, it will mean a lot of retooling," said

BCBSA's Haltmeyer.

This provision establishes a federal standard where there has been -- until now -- a wide variety of ages from state to state. The new rule may not have a monumental impact on risk pools, though, because some states already extend coverage to that age group -- or even older. A number of states, however, cut off the requirement at age 24 or younger.

"It's not that huge a change from what a lot of health plans allow today," Haltmeyer said, though it does mean insurers will have a new form of eligibility to keep tabs on.

The law doesn't require that young adults be attending school, which is an element of many state regulations.

BANNING COVERAGE CAPS

WHAT: Reforms do away with annual and lifetime limits on health coverage.

WHEN: In September, lifetime limits are banned, and annual limits are restricted; in 2014, annual limits are banned.

WHO: All plans in all markets.

The prohibition against the use of coverage caps is a simple math problem, though one that could give insurers premium challenges in the future. Tossing these dollar limits on benefits will make the risk cost more. But it's unclear whether insurers will be able to raise premiums to make up for it.

In September, all lifetime dollar caps are prohibited. But annual limits are still allowed -- in restricted form -- until 2014. The restriction in the next few years says that insurers can only apply annual limits to "essential health benefits," which will be defined by the Department of Health and Human Services.

"What I don't think people are taking into account is the way insurance companies price insurance," said Jason Beans, chief executive officer of Rising Medical Solutions. "When you remove the cap ... that's going to jack the base costs up dramatically for everyone. It just has to."

Peter Lee, executive director of national health policy for the Pacific Business Group on Health, agrees. "There are actuarial implications," he said. "The overall coverage is going to be more expensive. These are coverage mandates that are going to spread over the entire population covered."

"Some of the definitions (of caps) are so vague," said Janet Trautwein, CEO of the National Association of Health Underwriters. "The employers are just nervous about knowing what to do, because they don't want to be fined for being out of compliance."

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