



Health Care Reform and the Insurance Industry

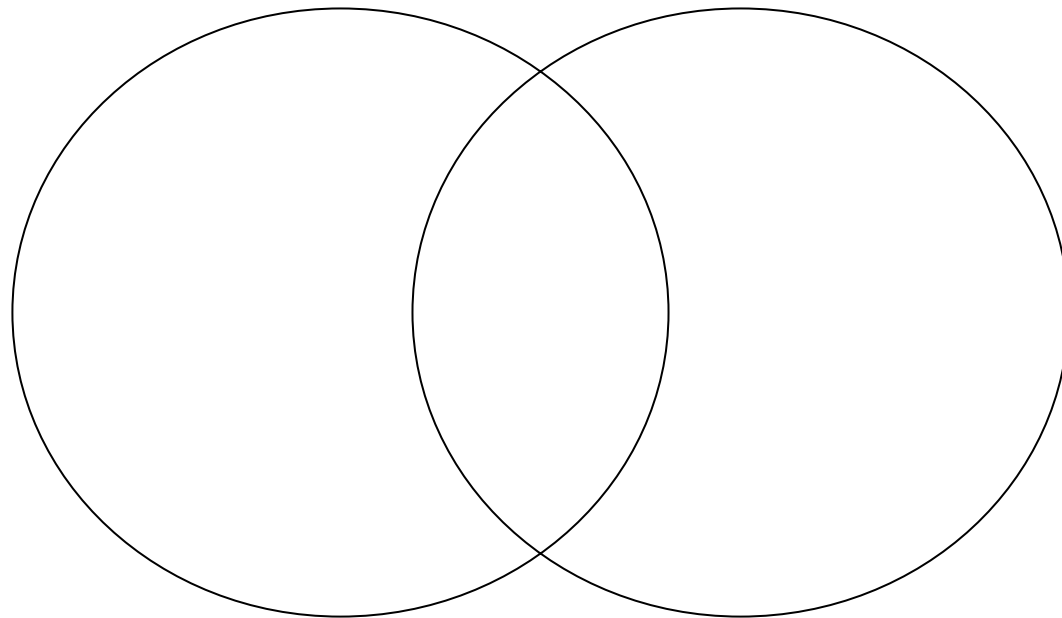
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Outline

- Reform and Insurance Markets
- Current Market Structure – Primary Impact
- Focus on the individual market
 - How does the market “work” today
 - Ingredients of reform
 - Industry concerns
- Other thoughts

Reform and Insurance Markets

**Market
Stability
And
Incentives**



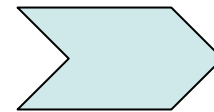
**Social
Goals
And
Values**

Market Segments

- National Employers
- Large Groups (more than 500 employees)
 - Businesses
 - Labor and Trust
 - Government and Schools

- Mid Market (50 to 500)
- Small Groups (less than 50)
- Individual Coverage
- State Governmental Programs
 - Medi-Cal
 - Healthy Families, etc.

- Medicare



Primary
Impact
Of
Reform

Individual Market: Status Quo

- Medically Screened
- Substantial Benefit Variation
- Risk Based Rating
- High Risk Pool with Limited Funding
- Voluntary Enrollment
- Primary Basis of Competition – managing risk and benefit design

Reform Elements

- Guaranteed Issue
- Individual Mandate
- Limitations on Rate Variation
- Subsidies and tax incentives for lower income individuals and families
- Mandated Benefits in Tiers
- Connector or Pools

Insurer Concerns

- Guaranteed Issue without an effective individual mandate
- Transition Issues
- Uncertainty
- Potential for Large Public Pools
- Impacts on the broker distribution system
- Price Regulation (e.g. Medical Loss Ratios) with little change in the underlying cost drivers

Transition Issues

- Interaction of:
 - Large existing blocks of business with preferred rates and “sub minimum benefits”
 - Current Enrollees in the high risk pool
 - Differential enrollment from the currently uninsured
- Policy Choices around closed blocks, implementation of rating rules and benefit mandates and limited funding of a high risk pool can create either large rate increases for existing members or high rates for new entrants.

So, what about the future?

- Will the basis of competition change?
- What will that mean for key competencies?
- With so many people covered, where will the providers come from?
- Will revenues for subsidies keep up with health care costs?