

# The Continuing Crisis in Healthcare and its Impact on Texas Business

*Breakfast Forum*



April 1, 2010

# Healthcare Reform

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# U.S. Health Reform: Crisis averted?

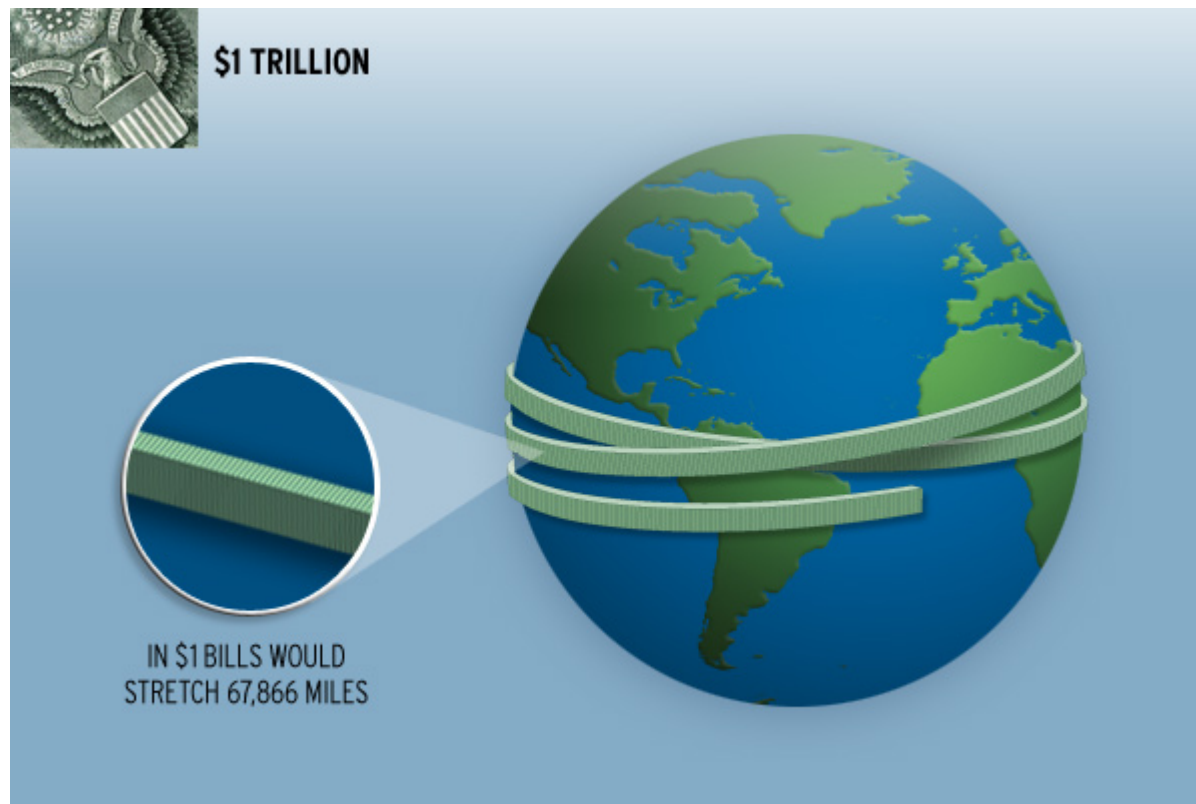


## Health reform



**As a matter of fact... it is a big deal.**

# Health reform – what does a trillion dollars look like?



This stack of cash - in \$1 bills - would measure 67,866 miles, stretching approximately 2.72 times around the Earth's equator.\*

\* [www.CNBC.com](http://www.CNBC.com)

# Health reform: how will we pay for it?

## The cost of the House reconciliation bill is \$940 billion over 10 years.

- Thirty-two million individuals now covered
- \$434 billion for expansion of Medicaid and Children's Health Insurance Plans enrollment
- \$466 billion for subsidies to fund insurance for individuals and families up to 400 percent of the federal poverty level
- \$40 billion for small employer tax credits

## Among the proposed sources of funding from the Congressional Budget Office's (CBO) preliminary analysis combining HR3590 and HR4872 are:

- \$60 billion penalties paid by individuals and employers that do not buy insurance
- \$196 billion in reduced Medicare scheduled payments
- \$36 billion in cuts to Medicare and Medicaid Disproportionate Share (DSH) payments
- \$70 billion from premiums for long-term care insurance (CLASS Act)
- \$132 billion in cuts to Medicare Advantage Plans
- \$32 billion from taxes on Cadillac health plans
- \$103 billion Medicare payroll tax increases
- \$57 billion excise taxes on insurance companies (2014-2018), plus \$14.3 billion per year plus adjustment thereafter
- \$31 billion excise taxes on brand name pharmaceutical companies (2010-2019), plus \$2.8 billion per year thereafter
- 2.3% sales tax on medical devices
- \$58 billion Pell Grant privatization (unrelated to health reform)

## Senate fixes:

The compromise package added more than \$60 billion to the overall plan's cost partly by expanding insurance subsidies for middle- and lower-income families. Specific provisions included\*:

- Increasing the fine on large companies failing to provide health coverage for workers from \$750 to \$2,000 per employee. Penalty applies to companies with 50+ employees; if you opt out, you pay penalty for employees 31 and above.
- Closing the Medicare prescription drug "doughnut hole" by 2020. Under current law, Medicare stops covering drug costs after a plan and beneficiary have spent more than \$2,830 on prescription drugs. It starts paying again after an individual's out-of-pocket expenses exceed \$4,550. Senior citizens stuck in the doughnut hole this year will receive a \$250 rebate.
- Raising the threshold for imposing the so-called "Cadillac" tax on expensive health insurance plans to coverage valued at more than \$10,200 for individuals and \$27,500 for families. The tax won't kick in until 2018.
- Imposing an additional 3.8 percent Medicare payroll tax on investment income for individuals making more than \$200,000 a year and couples making more than \$250,000 a year.
- Eliminating a special exemption for the state of Nebraska from all new Medicaid expenses -- known as the "Cornhusker Kickback." The federal government will instead assist every state by picking up 100 percent of the costs of expanded Medicaid coverage between 2014 and 2016, and 90 percent starting in 2020.
- Reducing the fine for individuals who do not purchase coverage from \$750 to \$695.

\* [www.CNN.com](http://www.CNN.com)

# Health reform: what's next?

## The 2010-2011 changes most noticeable to consumers will be:

- **Tax credits for small businesses:** Businesses with 25 or fewer employees and average wages of less than \$50,000 can qualify for a tax credit of up to 35 percent of the cost of their premiums
- **Dependent coverage:** Parents are allowed to keep children on their health insurance until age 26 if the child is ineligible for coverage through an employer
- **High-risk pools:** In the next 90 days, individuals with pre-existing conditions that left them uninsurable for the last six months may enroll in a new high-risk insurance program subsidized by the federal government and administered by the states
- **Insurance industry regulatory changes:** Lifetime caps eliminated, rescission of coverage for other than fraud eliminated, mandatory reporting of medical loss ratios, and elimination of pre-existing condition as a basis for coverage for children under two years of age (begins for adults in 2014)
- **Drug, medical device industry fees:** \$2.5 billion/year on drug companies (annual increases to \$4.2B in 2018, then \$2.8B/year 2019 and after)
- **Medicaid expansion:** States may increase eligibility threshold to 133 percent of the federal poverty level (mandated by 2014)
- **Donut hole in Part D:** Seniors enrolled in Part D will receive a rebate for up to \$250 and in 2011 will start seeing discounts up to 50 percent for brand name medications (donut hole eliminated by 2020)
- **Risk assessments and preventive health plans for seniors:** Effective 2011, Medicare enrollees will be provided a comprehensive risk assessments and personalized prevention plans as part of the program
- **Physician bonuses:** Primary care and general surgeons who practice in underserved areas will be eligible for 10 percent bonuses
- **Federal subsidies for retiree health costs:** Through 2013, the federal government covers 80 percent of retiree medical claims of more than \$15,000 capped at \$90,000 — at which point the employer's plan will pay the rest
- **Long-term care:** In 2011, the provisions of the CLASS act funding long-term care services through voluntary premiums (w/o a federal subsidy) begins; includes provisions for individuals with disabilities and cognitive impairment to receive coverage.

# Health reform: Texas

## How health reform will impact the Lone Star State

• **Medicaid new dollars** - Because Texas ranks first in the percentage of un-insured, Texas stands to gain the most from national health care reform. Thus, while HHSC projects an increase of \$20.4 billion over 10 years from 2014-2023 in Medicaid costs, the very same HHSC analysis also shows Texas benefiting from a net gain of \$124 billion in increased federal funds over the same 10 year period.<sup>4</sup> In other words, spending one state dollar would bring Texas six federal dollars. According to Texas economist Ray Perryman, federal Medicaid and CHIP dollars spent on health services have a short-term economic multiplier of 3.25, meaning that the new \$124 billion in federal health care spending would generate a total of \$402.8 billion in economic activity in term, as those health care dollars are spent in local Texas economies.\*

• **Challenging the 10<sup>th</sup> Amendment:**

Alabama	Nebraska
Colorado	Pennsylvania
Florida	South Carolina
Idaho	South Dakota
Indiana	Utah
Louisiana	Virginia
TEXAS	Washington

• **Companies can no longer deduct the tax-free subsidies they receive for retiree prescription drugs:**

AT&T	Verizon
3M	Lockheed Martin
Deere & Co.	Qwest Communications Inc.
Caterpillar	

\* [www.CPPP.org](http://www.CPPP.org)

# John R. Boettiger Jr., ASA, CFA, CMC



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## Profile

John is a Principal with Deloitte Financial Advisory Services LLP. John has served clients, their Boards, Officers and legal advisors in the following segments of the U.S. Life Science & Health Care industry: providers, payors, and life sciences.

John's consulting work includes: business valuation & purchase price allocation, litigation support & dispute resolution, capital raising, business & tax planning. Additionally, John has been engaged by attorneys as a consulting and testifying expert in a number of cases.

John is a frequent speaker on a broad range of healthcare topics including valuation, general industry trends and outlook, and the impact of FASB rules and regulations on the healthcare industry. He has also authored several industry pieces for medical journals and newspapers.

John holds a BBA and MBA from the McCombs School of Business at The University of Texas. His professional affiliations include the American Society of Appraisers, the Institute of Management Consultants, and the CFA Institute.

John is the former Chairman of The Texas Lyceum, the states premier leadership organization. He was also selected by the Houston Junior Chamber as one of Five Outstanding Young Houstonians and the Texas Jaycees as one of Five Outstanding Young Texans for 2008. The *Houston Business Journal* has honored John in the inaugural class of 40 Under 40 (Forty remarkable individuals under 40 years of age).

# Deloitte.

## Center for Health Solutions



March 29, 2010



Monday memo

Health reform update

[This week's headlines \(click to jump to article\):](#)

- Health reform bills pass: What's ahead?
- Deloitte Tax analysis
- Berwick named CMS head
- Physician fix in limbo
- Food and Drug Administration (FDA) looking at device approval process
- Quotable
- Fact file
- My take
- Subscribe to the Health Care Reform Memo
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For more information on the Center's view of health care in the new administration,  
please visit: [www.deloitte.com/us/healthreform](http://www.deloitte.com/us/healthreform)

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# A Texas Perspective

**James G. Springfield, FACHE**

**JGS Advisory Services**

*President & CEO*

# Texas: First Team, All Uninsured

- \* 28% of Texans (6 MM) are Uninsured
- \* 30% of Harris County is Uninsured
- \* 26% of State Spending is on Healthcare for the Poor
- \* Small Businesses dominate the economy, but only 32% of those with 50 or fewer employees offer insurance in Texas, compared with 43% nationally. As a result, 48% of Texans are covered by employers, compared to 53% nationally.

# Texas: Demographic Realities

- \* Biggest Problem in Texas is a Surging Population: 24.3MM in 2008, up 14.3% from 2000, fueled by Immigrants who cross the Nation's longest border with Mexico.
- \* 56% of the births in Texas are covered by Medicaid
- \* 25.4% Anglo, 11.1% Black, 59.5% Hispanic

# Texas: Demographic Realities

- \* Percent of Population Growth by Race/Ethnicity from 2000-2014
  - 6.03% Anglo
  - 23.46% Black
  - 71.6% Hispanic

# Texas: Where the Uninsured Go

- \* ER Visits increased by 18% Nationally
- \* ER Visits increased by 33% in Texas
- \* ER Visits increased by 33% in Harris County
- \* Half of the ER Visits in Houston are Primary Care

# Texas: Impact of Reform

- \* **Virtually all Texans will have Coverage by 2014**
  - 1MM New Medicaid Enrollees to bring the Total to 4.2MM
  - 5MM added to Commercial Rolls
- \* **Total Federal Costs for 10 Years is \$120BB!**
- \* **Medicaid Eligibility Shift for Parents from 26% of FPL to 133%**
- \* **State of Texas 10 Year Budget Impact: \$1.4BB**

# Texas: Impact of Reform

- \* DSH Reduction of \$1.2BB
- \* Texas HHSC estimates Texas Costs to be much Higher at \$24BB from 2010-2023
- \* Legislation requires Reauthorization after 10 Years
- \* Feds pay all of New Costs until 2017 and then Gradually Shift 10% to States by 2020.

# Texas: Reform Implications

- \* The Only Sure Thing is that the Numbers and Outcomes will be Different!
- \* Cost Shift Reduction in Insurance Premiums (40%)  
Long Term, Expect Increases in Near Term
- \* Huge Pressure on Providers with 6MM New Covered Lives-Shortages will be Exacerbated!
- \* On Balance Positive: \$3.25:\$1

# Texas: Reform Implications

- \* Doomsday vs. Nirvana Rhetoric to Continue- Clearly, Both sides are Wrong!
- \* Significant Pressure on other State Expenditures, otherwise Tax Increases Likely
- \* Intergovernmental Cost Shifting

# A Non-Healthcare Perspective on Healthcare

**Michael A. Sicuro**

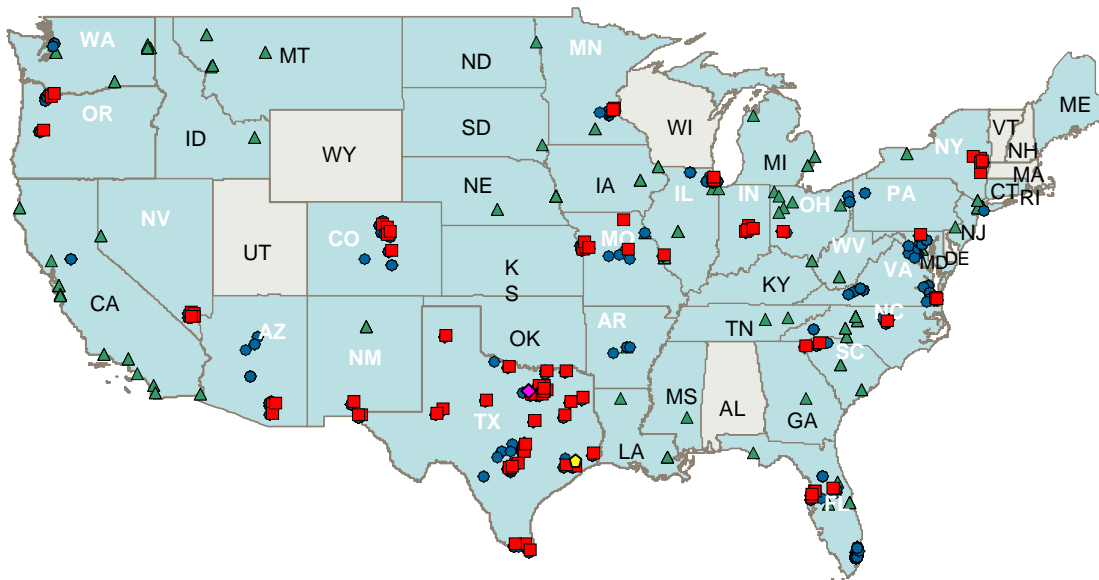
**US Oncology**

*Executive Vice President & CFO*



# US Oncology is . . . . .

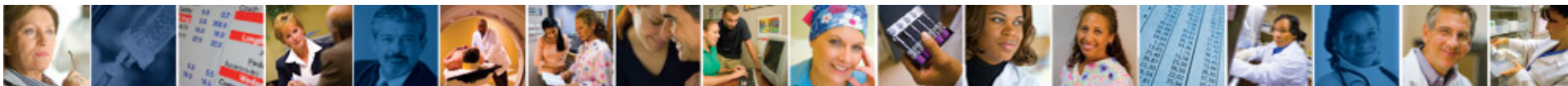
**496 sites of service in 38 states**



- Managed Practices
- ▲ OPS/TPS Practices
- Cancer Centers
- ⬠ Headquarters
- ◆ Distribution Center
- US Oncology Presence
- No US Oncology Presence

- **Nation's Largest Healthcare Network Devoted Exclusively to Cancer Care and Research**

- 496 Sites of Service in 38 States
- 1,310 Affiliated Physicians
- 100 Cancer and Radiation Centers
- Approximately 10,000 Employees
- 720,000 Patients
- Approximately \$3.5 billion in Revenue



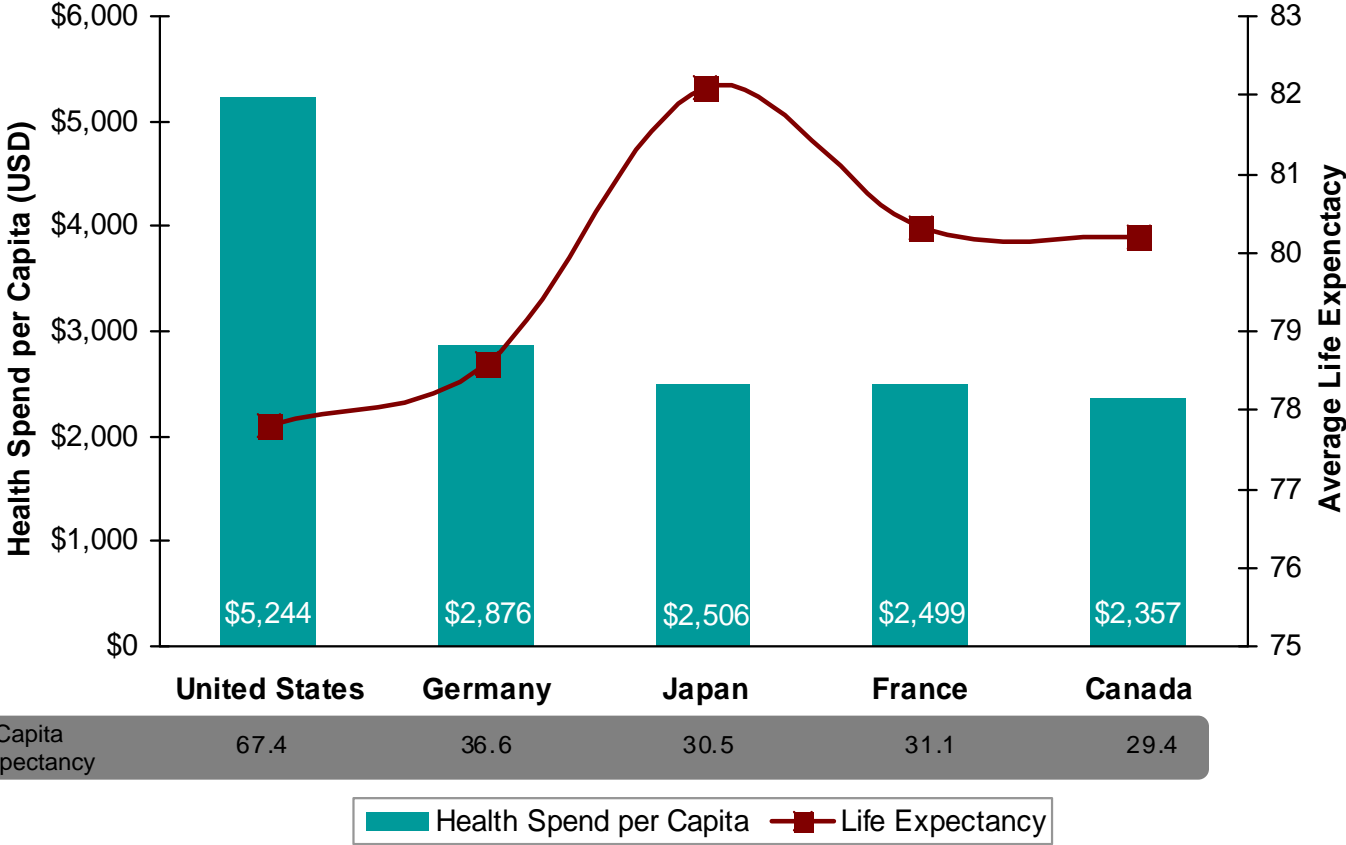
## A broad perspective across industries with a common theme . . .

- Banking/Financial Services
- Mortgage Banking
- Real Estate
- Technology
- Gaming
- Commercial Payer





# US Health Care Costs . . . Are We Effective . . . ???



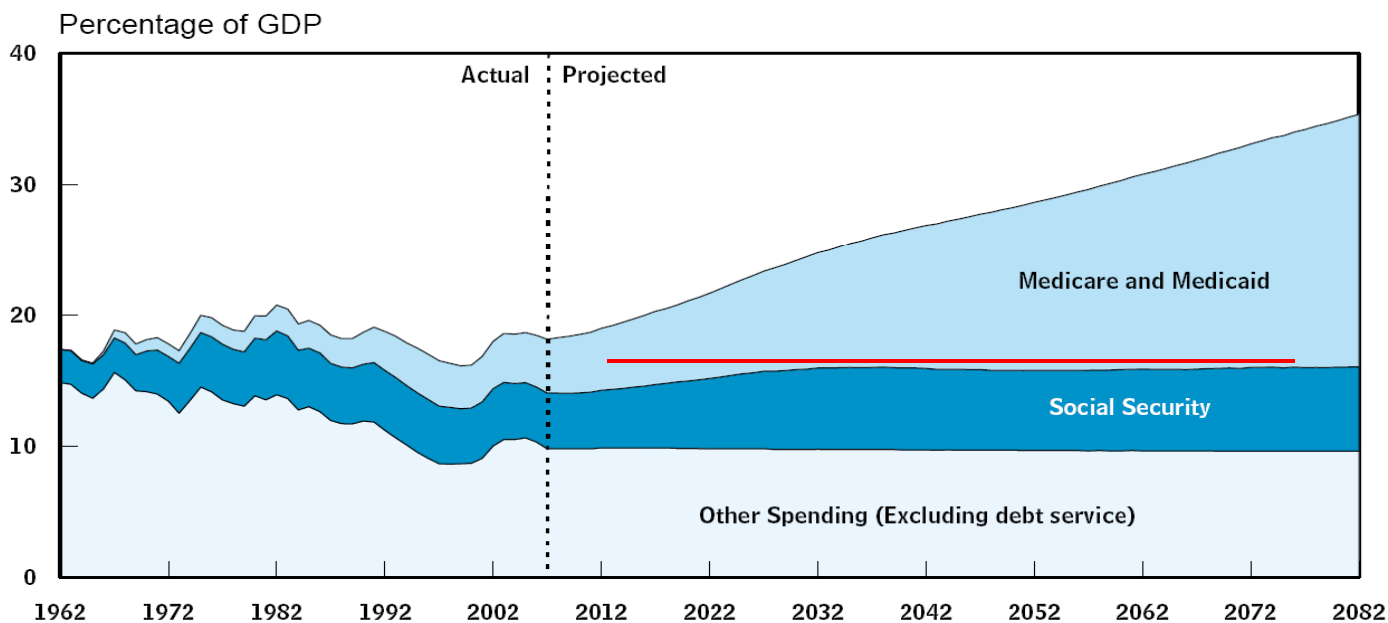
Source: OECD Factbook, 2006 & 2008



# Wayne Gretzky . . . Where The Puck is Going . . .



## Federal Spending Under CBO's Alternative Fiscal Scenario





## Our Challenges... Early Progress...

- High level utilization of paper
- High level utilization of administrative personnel
- Low level alignment with clinical outcomes
- Low level coordination of providers, specialists, etc.
- Low level utilization of available technology
- Low level patient satisfaction

# Opportunity!!!



# Cost Trajectory Unsustainable – What Should We Do . . . ?

- Follow the leaders – Banking, Retail, Transportation, Technology
- Innovation through technology and process improvement
- Care Model Integration
- Quality of care vs. volume/units of care

## Consolidation???



# Winning Through Innovation, Quality and Customer Service



# An Employer Perspective: Impact on Access and Cost

**Richard Rawson**  
**Administaff**  
*President*

# Who We are and What We do

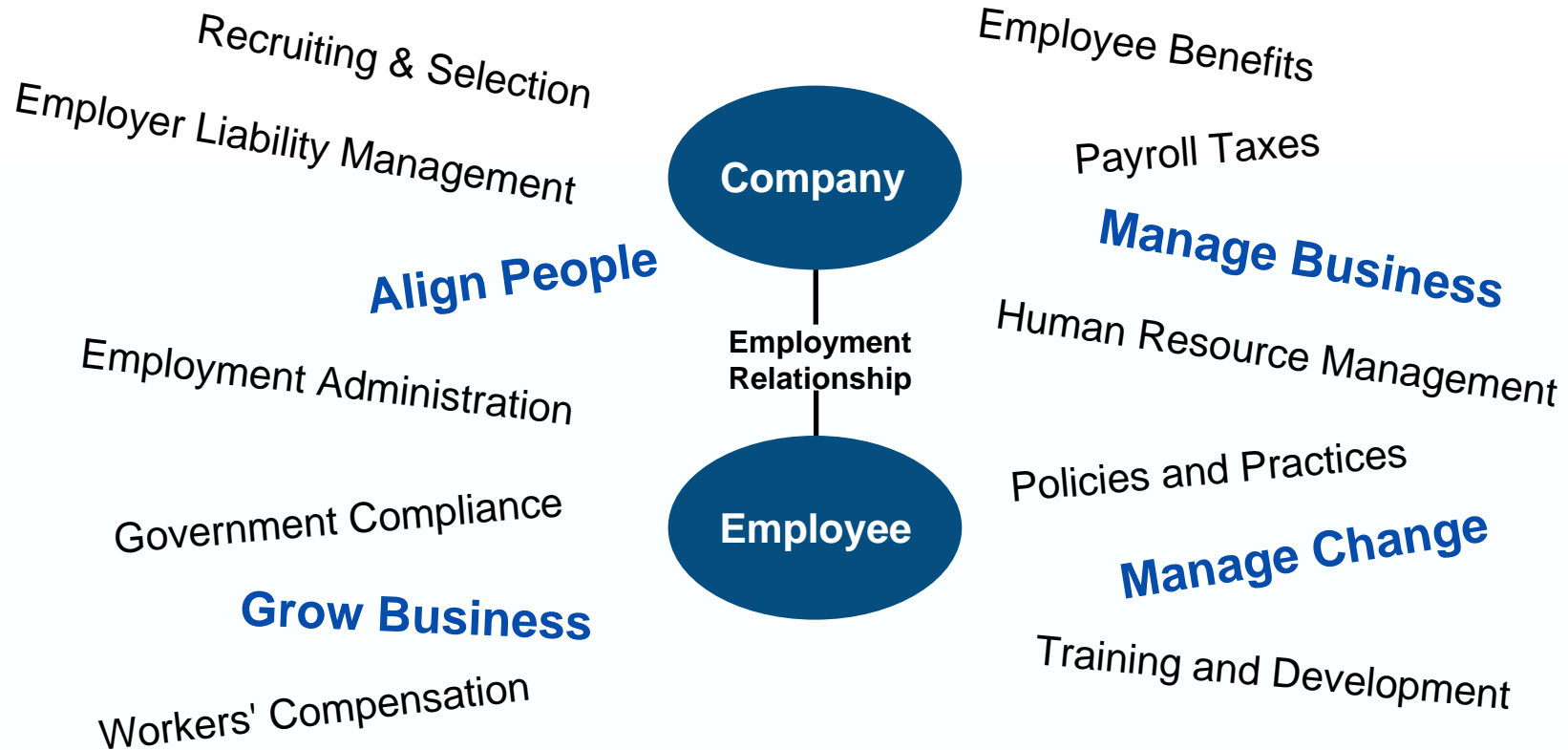


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# The HR Department for Small Business

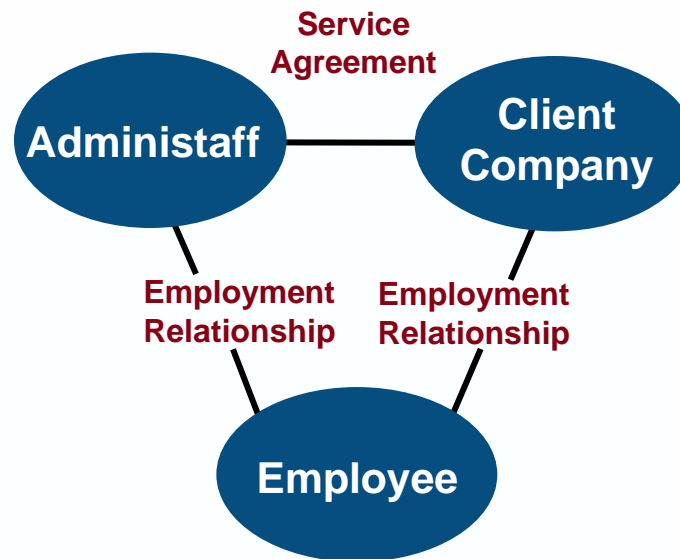


# Employment Relationship Without Administaff



# Employment Relationship With Administaff

- Human Resource Management
- Recruiting and Selection
- Policies and Practices
- Payroll Administration
- Payroll Taxes
- Employee Benefits
- Workers' Compensation
- Employer Liability Management
- Government Compliance
- Training and Development



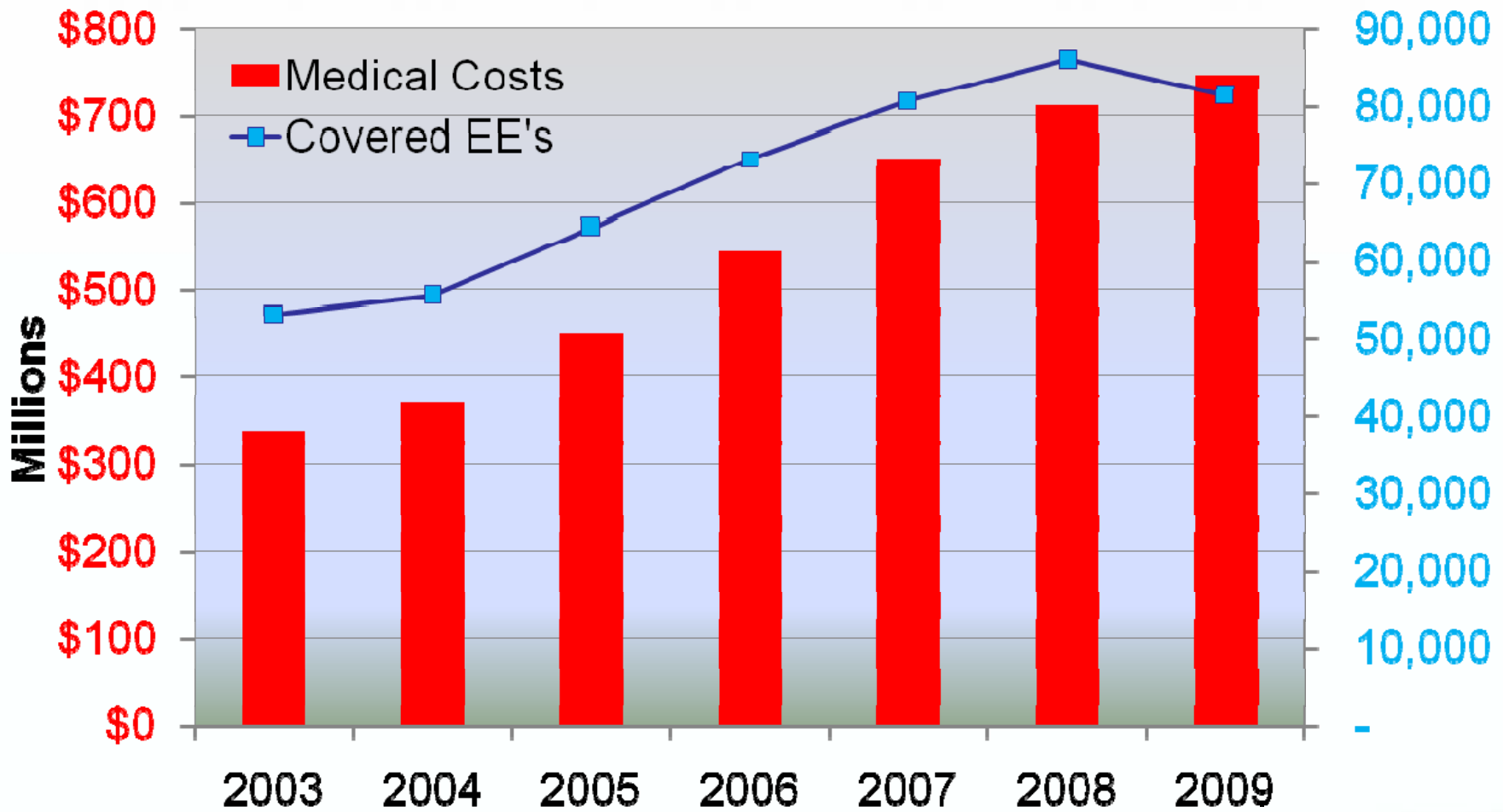
- Manage Business
- Grow Business
- Manage Change
- Align People

# Historical View of Our Medical Costs

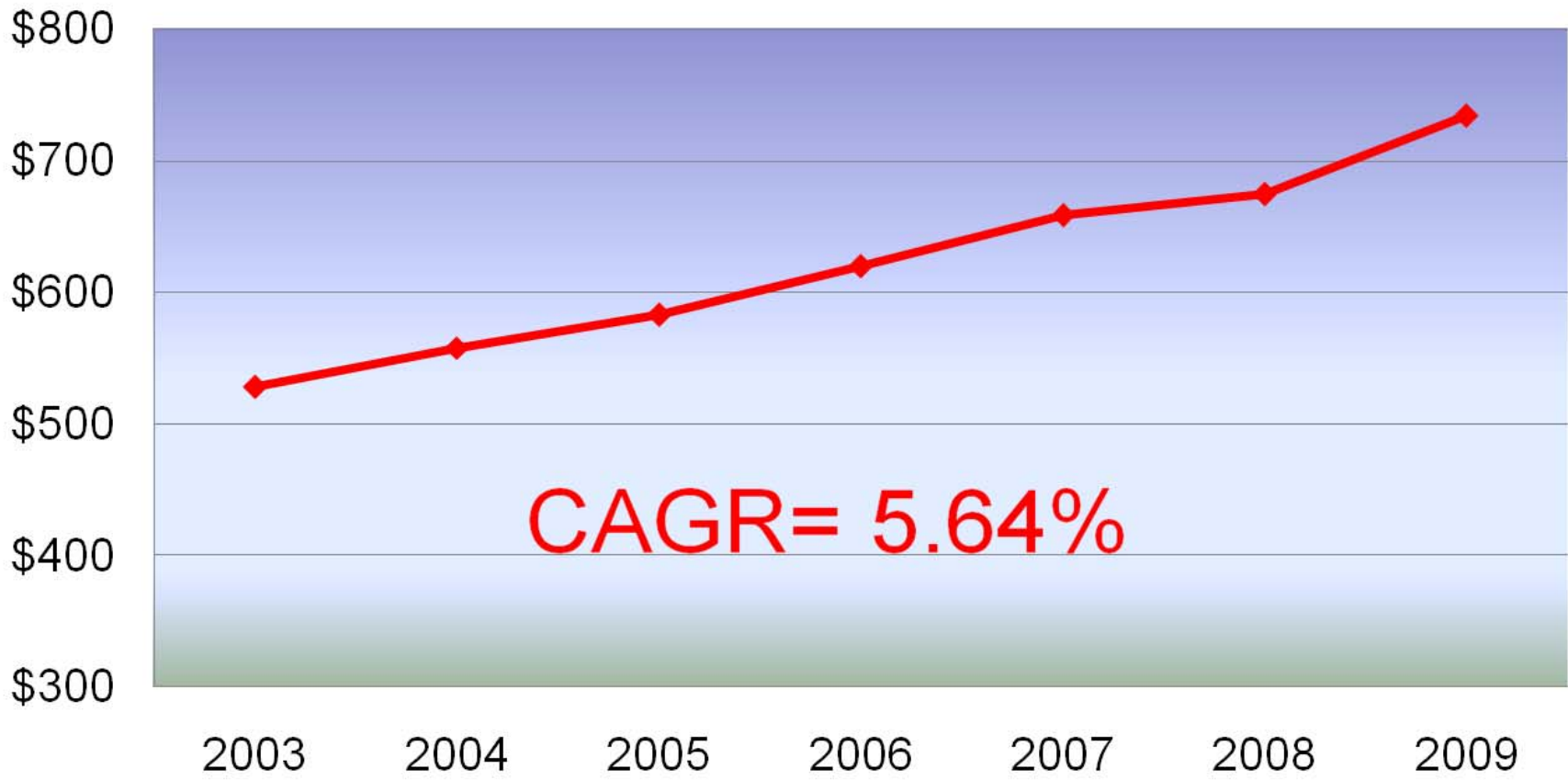


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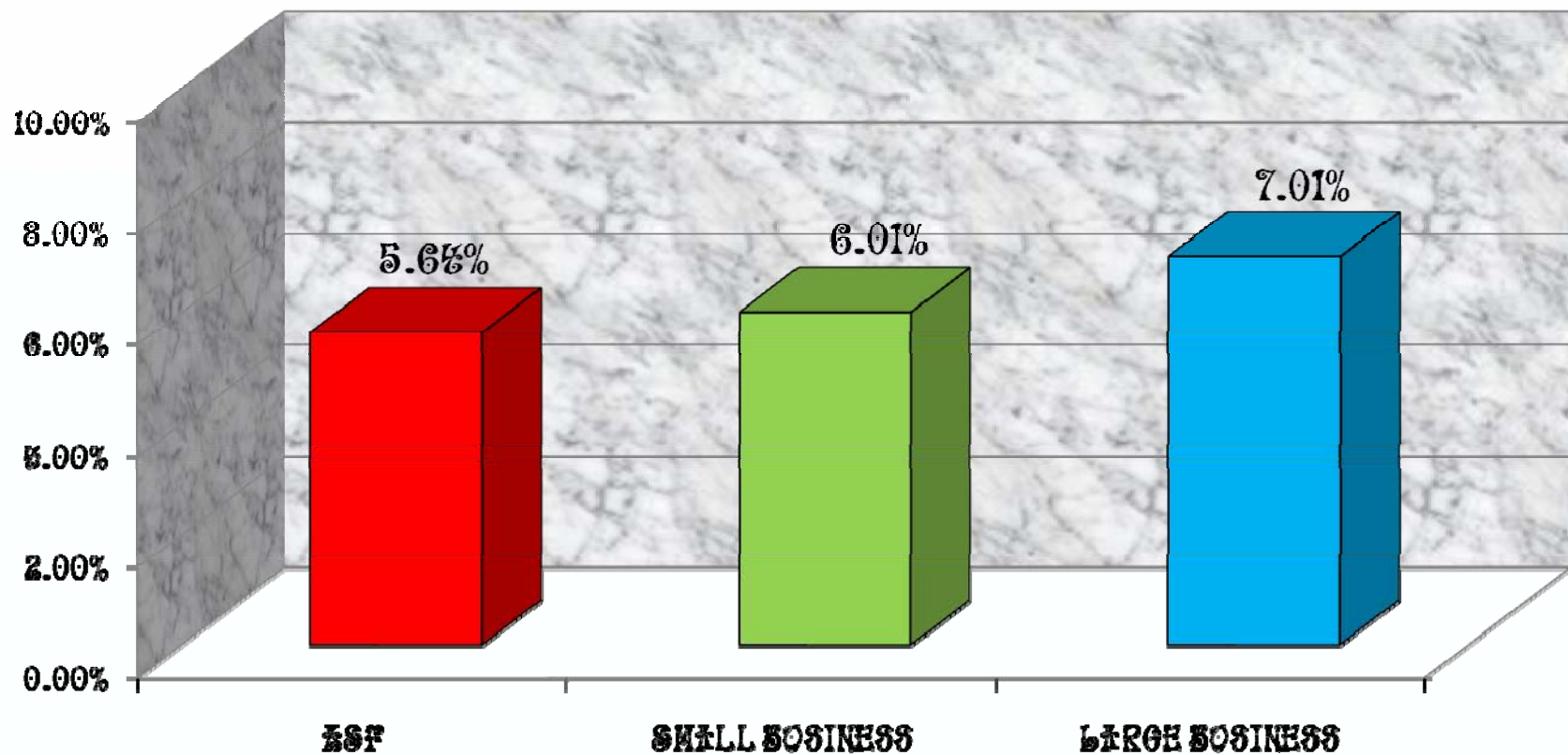
# Medical, Dental and Vision



# Medical, Dental and Vision Costs per covered Worksite Employee



# 6 Year Compound Annual Growth Rate in Healthcare Costs



Source: Kaiser Family Foundation Survey

# Why our costs are lower

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# Comparison of Healthcare Costs

## THE MARKETPLACE

- Cost of Claims
- Administration
- Agent Commissions
- Underwriting
- Profit Load Included
- Trend

## ADMINISTAFF

- Cost of Claims
- Lower Administration
- No Agent Commissions
- None
- Lower Profit to Carrier
- Trend Management

# Managing Cost Trend

## Plan Design Features

- Deductibles
- Out of Pocket Maximums
- Co-Insurance Levels
- Lifetime Benefit Maximums
- Hospital Co-pays
- Office Visit Co-pays
- Prescription Drug Co-pays

# Managing Cost Trend

## Carrier Accountability

- Claims Monitoring
- Claims Audit
- Performance Standards

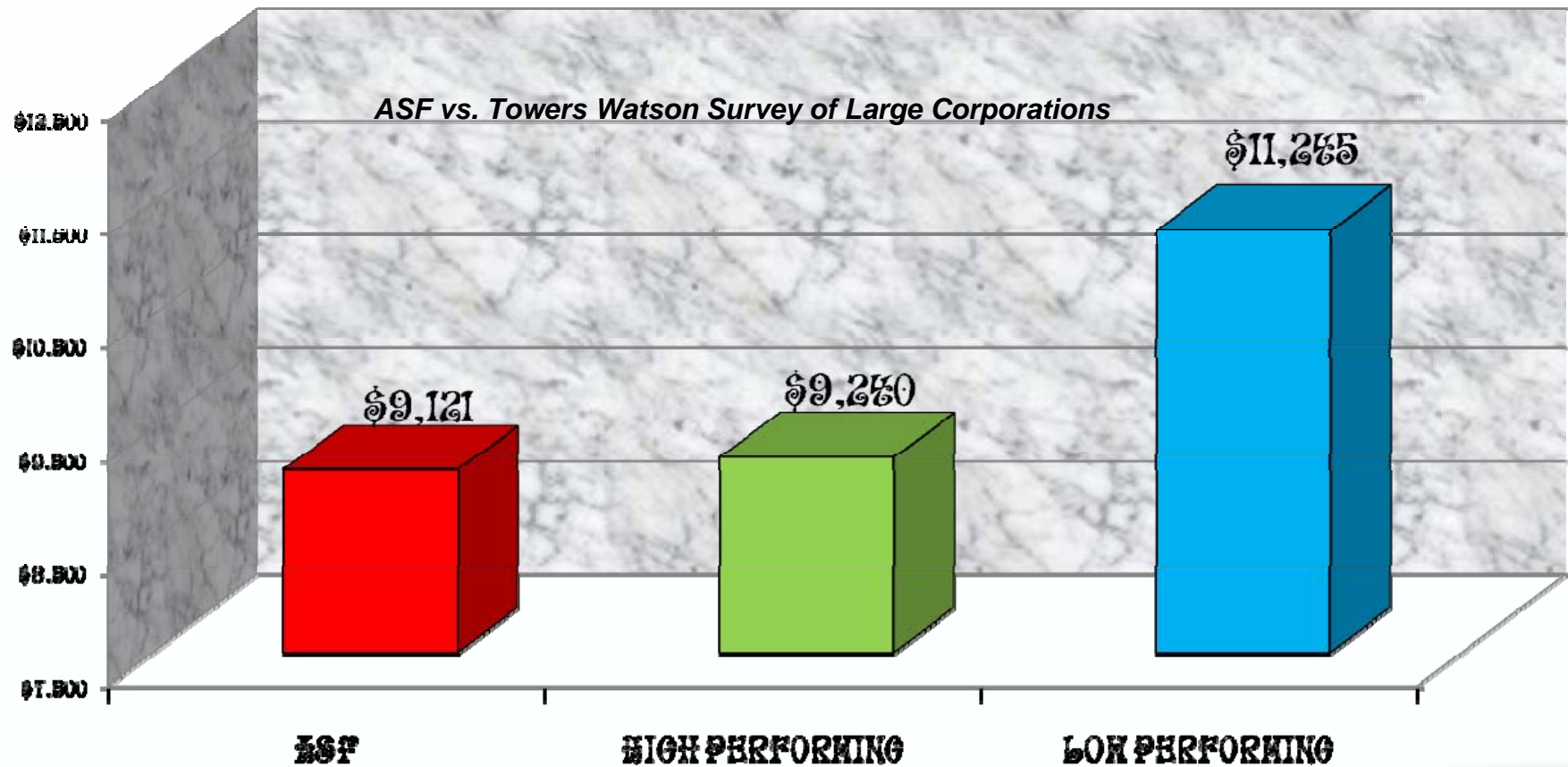
# The Future of Health Insurance

For Employers and Employees

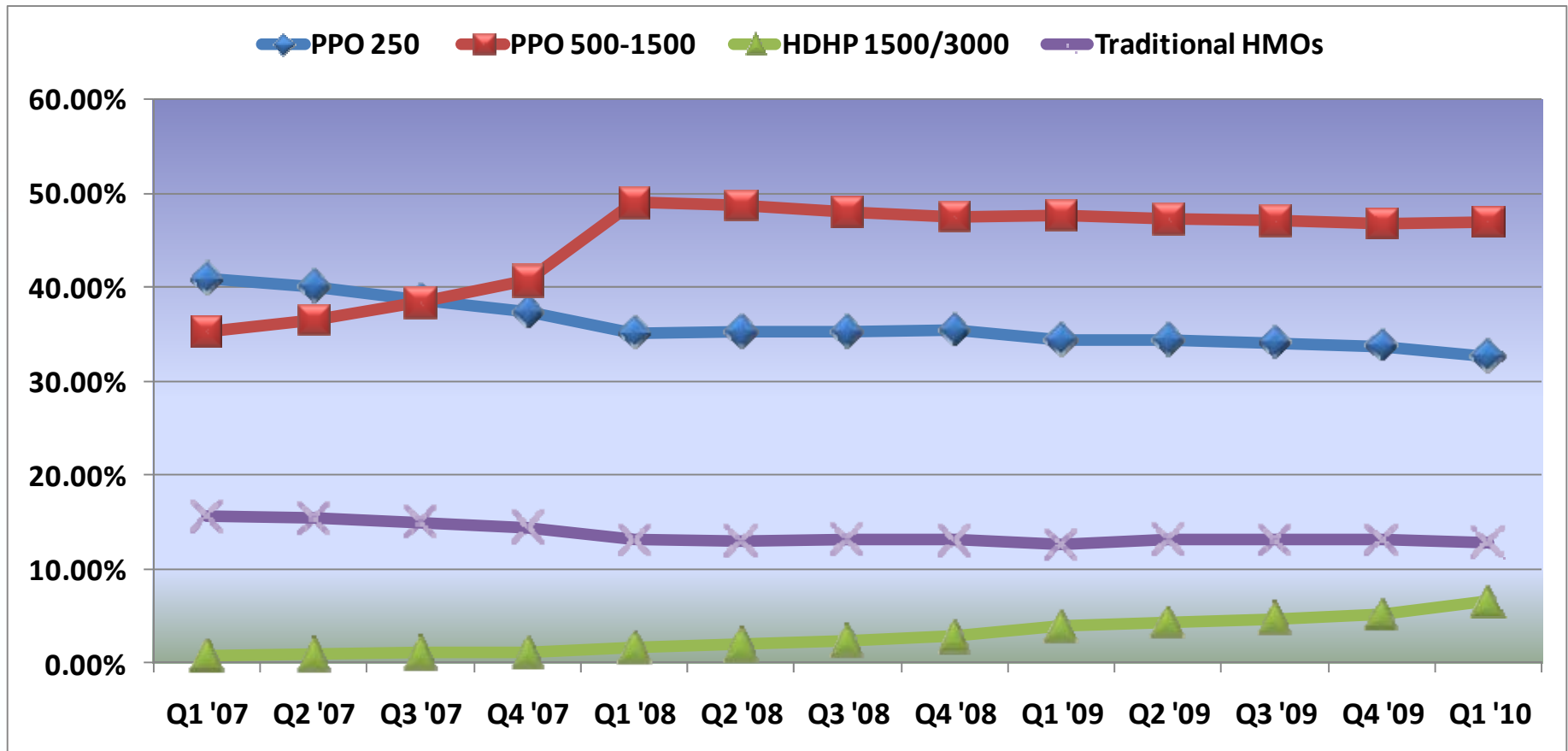
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# 2010 Projected Medical Costs per Employee per Year



# Plan Enrollment Trends



# Employer Impact of Patient Protection & Affordable Care Act (PPACA)

- Signed into law on March 23, 2010
- Staggered effective dates through 2018
- 2010-2011 Provisions
  - Small business tax credit for employers that purchase health insurance for employees
  - Increase dependent coverage to age 26
  - Elimination of lifetime medical plan limits
  - Elimination of Pre Ex for dependents under age 19
  - W-2 reporting of aggregate value of health coverage
  - Recognize elimination of employer tax deduction for retiree drug subsidy
  - Partial reimbursement may be available for retiree claims

# Employer Impact of PPACA cont'd.

- 2013 Provisions
  - Increase in Medicare tax rate on high wage employees
  - FSAs capped at \$2,500
- 2014 Provisions
  - “Pay or Play” provisions for employers
    - Must offer qualifying health coverage to full-time employees (30+ hours week)
    - Qualifying coverage must be affordable
    - Employer penalties for failure to comply
  - States to establish Health Benefit Exchanges for individual and small markets
  - Elimination of annual limits on benefits
  - No waiting period over 90 days; employer penalty of \$400-\$600 per employee if entry requirement exceeds 30 days
- 2018 Provisions
  - 40% excise tax on high cost medical plans

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# Questions & Answers

