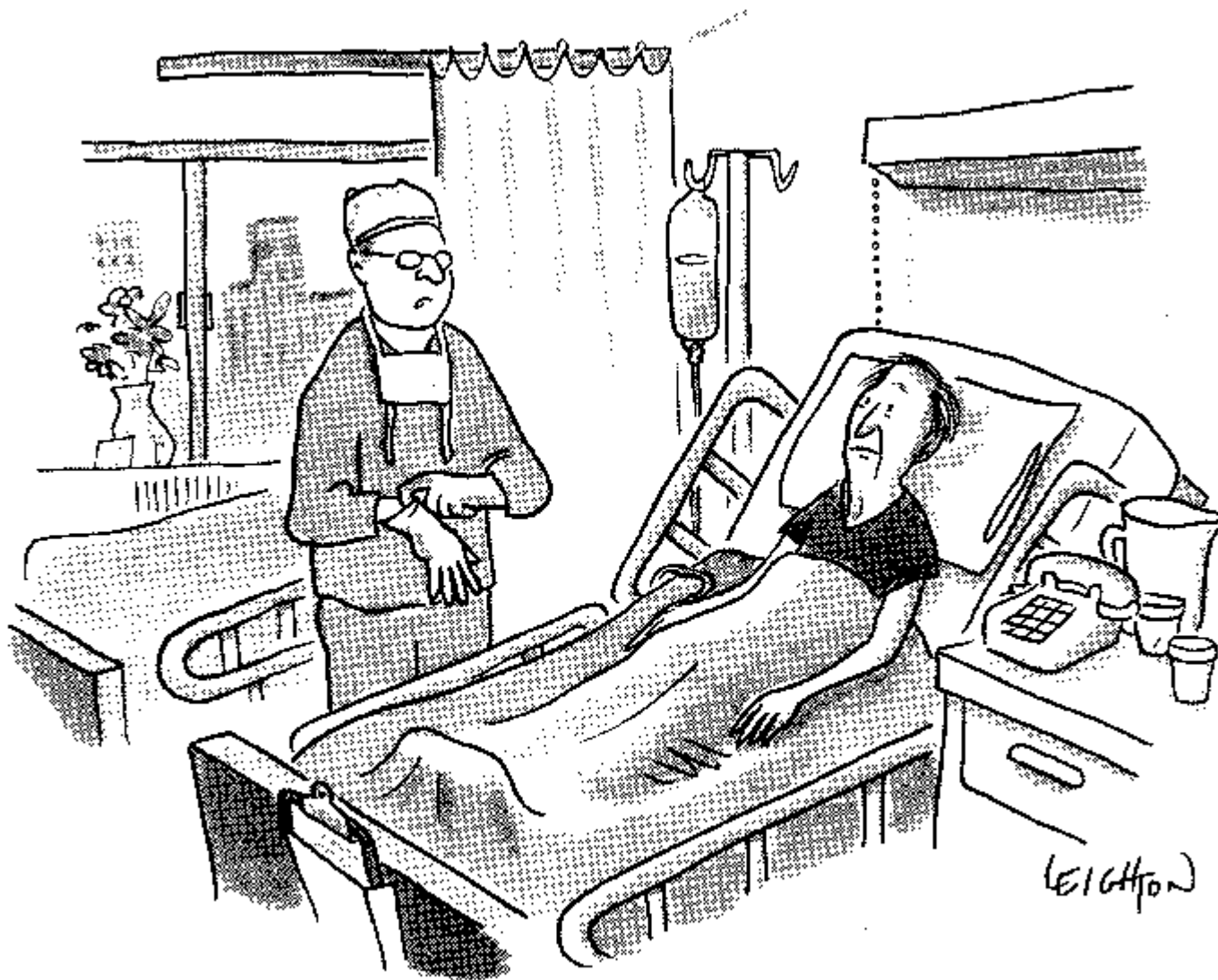




Class 7: Health Insurance





"I'll have someone come in and prep you for the bill."

Definition

- Insurance is a form of risk management where the risk of a financial loss is transferred from one entity to another in exchange for a premium
 - A hedge against unpredictable and/or financially catastrophic events

Anthem.   Aetna®

 UNICARE. HUMANA.

 CIGNA

PacifiCare®

UnitedHealthcare*

 Health Net*

Premiums

- Through a process known as **%underwriting+**, the insurance company assesses the risks of the insured and decides the appropriate premium
- By spreading risk through **%risk pools+**, the **%law of large numbers+** makes the probability of losses and payments (by the insurance company) more predictable

Types of insurance

- Auto
- Life
- Property
- Casualty
- Liability
- Health

Most health insurance in the U.S. is comprehensive...

- Hospitalization
- Emergency care
- Major medical
- Pharmaceuticals and durable medical equipment
- Maternity
- Mental health

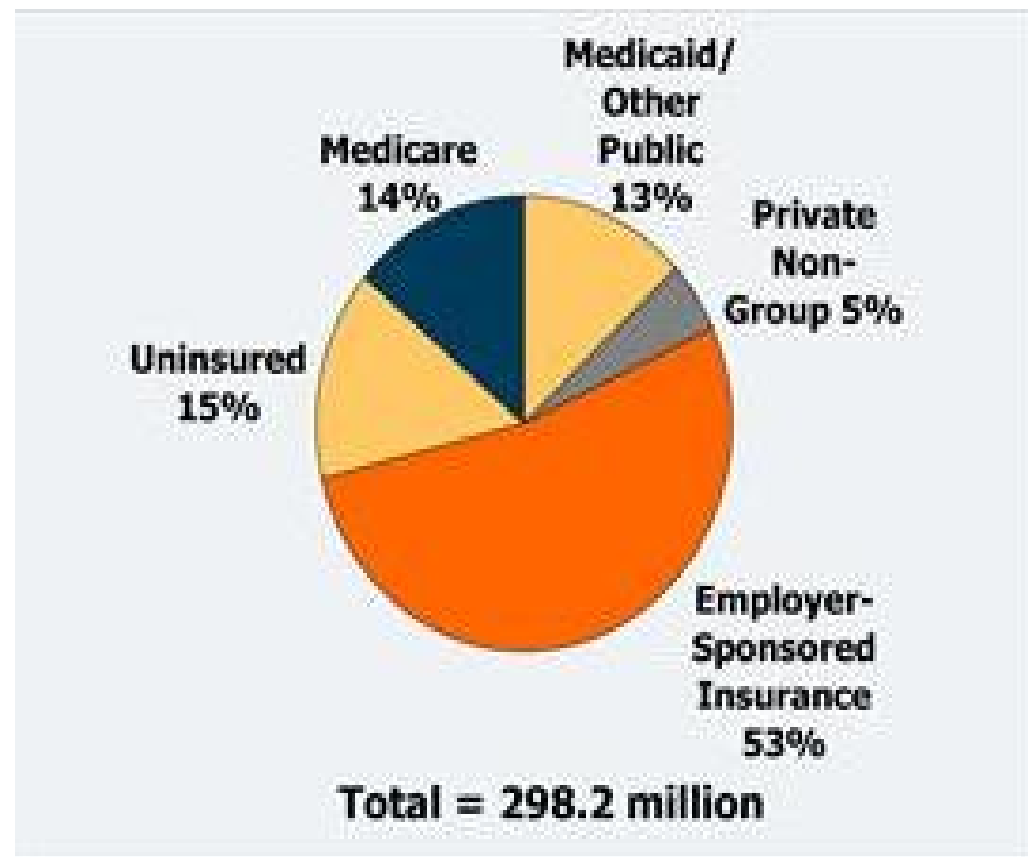
Key terms

- **Deductible**
 - The amount you must pay out-of-pocket until insurance kicks in
- **Co-payment**
 - The amount that the insured person must pay out of pocket before the health insurer pays for a particular visit or service. A copayment must be paid each time a particular service is obtained.
- **Co-insurance**
 - Instead of, or in addition to, paying a fixed amount up front (a copayment), the co-insurance is a percentage of the total cost that insured person may also pay.
- **Coverage limits**
 - The maximum amount an insurance company will pay for a particular service, annually, and/or for the lifetime of the policyholder
- **Out-of-pocket maximums**
 - The maximum amount the insured will pay, usually annually, before the plan pays 100% of any further costs (up to any coverage limits)
- **Community rating**
 - Requires health insurance providers to offer health insurance policies within a given territory at the same price to all persons regardless of their health status

“True” health insurance protects against catastrophic (but relatively rare) events...

- Accidents
- Acute illnesses requiring hospitalization
- Relatively rare but expensive diseases (e.g., cancer)
- Was the primary form of insurance prior to the 1970s

In the U.S., most insurance is employee-based



Medicare and Medicaid

- Medicare: primarily for 65 and older
 - . Administered by federal government
 - . Covers hospitalization, outpatient care, and prescription drugs
- Medicaid: Primarily for low-income individuals or families not covered by employer insurance
 - . Means-tested
 - . Joint federal-state administration

Insurance is heavily regulated by the states* ...

- Each state has an Insurance Commission that:
 - . Mandates certain types of coverage
 - . Regulates premium rates
 - . Affects small businesses and individual policies
 - . Makes buying insurance %across state lines+next to impossible (reduces choices)
- *Large companies covered by ERISA (Employment Retirement Income Security Act of 1974)
 - . Regulates pensions and health benefits under federal law
 - . Often used by large companies with employees in several states to offer one plan that can be used by everyone (avoids many state mandates)

Types of employee coverage

- Fee-for-service
 - . Most common
 - . Often regulated by negotiation with provider groups (Preferred Provider Organizations, or PPOs)
- Capitation
 - . A fixed fee is paid to a provider (per capita) to provide care (and control costs)
 - . Was popular in the 1980s in Health Maintenance Organizations (HMOs)

Capitation became a nightmare in the non-integrated HMO...

- Average tenure in any plan was short (3 yrs. or less) ã discouraged spending on wellness care
- Restricted freedom of choice
- Gatekeeper+physicians had to play a zero-sum game ã referring patients to specialists took money out of their pockets and put it into others
- These plans mostly abandoned by 1998

Health insurance costs have skyrocketed over the years...

- Physician visits, pharmaceuticals, and other services that are NOT unpredictable and/or rare occurrences, are covered
- Reimbursement is %fee-for-service+; activity is rewarded, not outcomes
- Because actual costs are %hidden+, a tendency to overuse care
- Rates for reimbursement are not set competitively, but administratively
- The cost of treating chronic diseases has increased dramatically
- Because many services are covered, new, more expensive technologies are developed
- Due to political and other considerations, most employee-based insurance plan premiums are community-rated
 - All of the above drive the costs of insurance up

Why is it so hard for disruptive innovations to occur in healthcare insurance?

- Since prices are not competitively set, hard to disrupt based on price
 - . ESRD program covers dialysis in dialysis centers
 - . Home dialysis possible, and may be better, but no way to get reimbursement
 - . Preserves expensive delivery method
- Because reimbursement is ~~%fee~~ for service+, hard to disrupt on ~~%fee~~ for outcome+
 - . New CPT codes almost impossible to get

Two possible solutions...

- High deductible insurance (HDI) with health savings accounts (HSA)
- Capitation in INTEGRATED provider entities

Between 1928 and 2002...

- 20% account for 80% of healthcare costs, and 5% account for 50% of costs
 - . But can't easily predict WHO, therefore insurance is recommended for the UNPREDICTABLE events
 - . Insurance makes NO sense for high probability events that are NOT financially devastating
 - . Comprehensive insurance needs to be unbundled

HDI-HSA: How it will work...

- Today, \$13,000 per year needed to cover a family
 - . Employer may pay \$10,000
 - . Employee pays \$3,000
- With HDI-HSA
 - . Employer pays \$5,000 for ~~blue~~ insurance with high deductibles
 - . Puts \$5,000 into HSA (like a 401K)

Employee will be more careful how he/she spends HSA money...

- Since routine expenses will be paid out-of-pocket, HSA exists to reimburse those expenses
- To preserve HSAs, employees will be more price sensitive+
 - . Transparency by providers over costs
 - . Increased price competition by providers
 - . Costs will stabilize, and may decrease

Integrated models will also help reduce cost and increase care...

- Capitation in this model will increase wellness care
 - Reduces need/amount of future care
- ~~%~~ Fee-for-service+not the primary incentive (every one salaried)
- Only works when both the insurance and the care are controlled by the integrated entity (Kaiser model)

These options exist now, why aren't they taking off?

- Hangover from 80\$ capitation
- HDI-HSAs often offered next to comprehensive plans
- Regulatory reforms (state or national) may be needed
- For the poor or underinsured, other things must align
 - Must avoid % coverage without care+

Next week

- Exam #2 Answer Sheet due
- Pharmaceuticals, Medical Devices and Diagnostics