Election 2008: Impact on Health Care
<table>
<thead>
<tr>
<th>Market</th>
<th>2007 with trend Starting Cost All Benefits</th>
<th>Total Adjustment **</th>
<th>Estimated Medical Cost Per Person</th>
<th>Population (millions)*</th>
<th>Total Cost Before Admin. ($billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Group</td>
<td>$6,934</td>
<td>0.56</td>
<td>$3,864</td>
<td>125.23</td>
<td>$483.8</td>
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<td>Medicaid w/o LTC (65+ Consider under LG)</td>
<td>$6,934</td>
<td>0.70</td>
<td>$4,850</td>
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<td>Small Group</td>
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<td>0.67</td>
<td>$4,624</td>
<td>17.06</td>
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<td>Individual</td>
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<td>1.87</td>
<td>$12,947</td>
<td>43.63</td>
<td>$564.9</td>
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<td>Medicare</td>
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<td>0.92</td>
<td>$6,385</td>
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<td>Medicaid w/o LTC (under 65)</td>
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<td>$2,803</td>
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<tr>
<td>Uninsured</td>
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<td>$10,298</td>
<td>4.50</td>
<td>$46.3</td>
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<td>Miscellaneous</td>
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<td>$20.0</td>
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<td>Over the Counter Rx</td>
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<td>6.88</td>
<td>$47,706</td>
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<td>$95.4</td>
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<td>Medicaid LTC</td>
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<td>$71,745</td>
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<td>$43.0</td>
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<td>Private LTC (Including OOP)</td>
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<td>$27,760</td>
<td>1.00</td>
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<td>Home Health (Including OOP)</td>
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<td></td>
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<tr>
<td>Dental</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Other Government</td>
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<tr>
<td>Rx 65+</td>
<td>included in Medicare</td>
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<td>65+ Out-of-Pocket</td>
<td>included in Medicare</td>
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<td>Vision</td>
<td>$65</td>
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<td>253</td>
<td>$19.7</td>
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<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>302.63</td>
<td>2157.0</td>
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</tbody>
</table>

Population estimates are developed in 2005 EBRI data.xls
Trend assumption '06 to '07: 10%
**Double counting of population for Medicaid LTC, Private LTC, Home Health, Dental, and Vision
**Reflects age/sex, income, underwriting, adverse selection, defensive medicine, lifestyle, degree of managed care, utilization due to cost sharing and provider discounts
Summary of Collective Issues

- Uninsured
- SCHIP Medicaid funding and Coverage
- Pricing at Issue and Renewal
- Drugs (Orphans, importation, prices)
- Medicare
- Other government programs
- Cost shifting

(continued)
Summary of Collective Issues (continued)

- Litigation
- Providers (Any willing provider laws, uninsured charges, uncompensated care, etc.)
- Insurers (Pricing and underwriting limitations, mandates, etc.)
- Consumers (affordability, access to treatment, transparency, rights, etc.)
- Employers (affordability/competitiveness, productivity, tax incentive, etc.)
- Government (administration, cost, control)
- Government versus or with Private
Ideas

- Individual Mandate (guarantee issue)
- Employer Mandate (pay or play)
- Connector or FEBHP Type Concept
- Government Program expansion
- Risk Adjusters
- Anti-Trust Laws
- Pay for Performance
- Government negotiated drug pricing

(continued)
Ideas (continued)

- Tax Subsidies (credits or deductibility)
- Form of Insurance (HSAs, etc.)
- Reimbursement Modifications
- Restrictions on Type of Treatment or supplies
- Tort Reform
- Require more consumer information (quality of care, costs, etc.)
- More or less Mandates
The Candidates

Proposals for the remaining major candidates for president (McCain and Obama) based on available information and my judgment as to what they have said.
The Candidates -- CAVEATS

- Can anyone interpret what they said whether in person or on their websites?

- Even if they said it or it appears on their website, do they really mean it?

- Will they implement what they say, or even try to?
McCain’s Proposal

- Tax incentives (refundable credit) for low income people (Up to $2,500 per person / $5,000 per family)
- Allow people to buy across state lines (i.e. Shadegg)
- Limit SCHIP/Medicaid to low income
- Expand HSA availability (undefined)
- Incentives for purchasing pools and Association Health Plans (undefined)
- National Standards for measuring/recording treatments and outcomes
- Give states more flexibility in experimenting with health care reforms
- Malpractice reform (undefined)
- Unclear as to funding of programs or if plan is expected to be revenue neutral or save money
Obama’s Proposal

- Create a Federal FEHBP with a Connector for those without employer or Medicaid or SCHIP coverage
- Guarantee issue in all cases
- Mandate only for children to purchase insurance coverage
- Expand SCHIP and Medicaid
- Strengthens anti-trust laws
- Allow states to continue implementing separate initiatives
- Computerized record keeping, importation, emphasis on prevention not cure
- Pledge an open process (unlike Clinton Reform)
- Expand research /funding for stem cells
- Pays for plan by removing Bush tax cuts for those with $250,000+ incomes
Clinton’s Proposal

- Continuation of employer system with pay or play mechanism using automatic enrollment, including salary withhold
- Universal Coverage via Individual Mandate (guarantee issue), where employer not applicable
- Some tax subsidy for small business
- Some level of community rating (not specified)
- Require minimum loss ratios (unspecified)
- Expand Medicaid and SCHIP
- Tax credit for those who cannot afford insurance; may be limited to certain coverage, such as through FEHBP or Medicaid/Medicare
- Computerized/Standardized medical record keeping
- Allow Federal government to negotiate prices with drug companies
- Overhaul reimbursement system/ could impact MA negatively
- Spend more money on nursing enrollment
- Regulate business practices of long term care companies, while reducing costs
- More aid for HIV/AIDS overseas
- Emphasis on prevention rather than cure
- Pays for plan by removing Bush tax cuts for those with $250,000+ incomes (may need more)
Possible Impacts of McCain Proposal

1. Appears to reflect the least government involvement of the three; some deregulation may occur.

2. Likely to reduce government coverage and costs slightly versus status quo.

3. Likely has the least impact on number of uninsured.

4. May increase slightly the number of people covered by private coverage.

5. Likely produces the least immediate change to markets of the candidates.
Industry Sectors - McCain Presidency

1. Middlemen are not greatly affected (PBM’s, HMO’s, etc.). PBM’s will still benefit from increased use of generic medicines.

2. Pharmaceutical and Biotech Industry not as affected but still under pressure.

3. Medical device companies are under less threat but long term threat from transparency, bundling, and comparative effectiveness.

4. Health insurers will not be affected as much.
Possible Impacts of Obama Proposal

1. Less Federal government involvement than Clinton but more than McCain and current system.

2. Likely to drive up costs in system initially, but by less than Clinton.

3. Some expansion of people covered, but less than Clinton.

4. Directionally, same as Clinton but threats are more subdued.
Industry Sectors - Obama Presidency

1. Pressure on pharmaceutical and biotech industry will increase – pricing, importation
2. PBM’s and other middlemen could be targeted
3. Hospitals and nursing homes will probably do better than under McCain
4. Still thoughts are that changes will be incremental and not evolutionary
Possible Impacts of Clinton Proposal

1. Would have involved the most Federal government involvement of the three, and regulatory push.
2. Could have caused state reform or battles with Federal and State Government.
3. More cost shifting likely to have occurred which would drive up costs due to use by those with pent up demand.
4. If government reimbursements continue to fall relative to private reimbursements, this could have led to demise of some private insurance markets and MA program.
5. Expansion of people covered by government programs, at least initially or to some degree would have occurred.
6. Could have led to quicker threat to obtaining access to treatment, which may have led to expanded supplemental coverage.
What these Proposals Mean to Actuaries Short Term

If Democrats Win Across Board

- More government involvement, without eradicating private markets.
- Likely means more work for actuaries.

If McCain Wins – with Democratic Congress

- Less change in Federal law, more state control.
- Likely means more short term work for actuaries.
What these Proposals Mean

1. If more government control or greater interference occurs, consolidation in private markets may continue, eventually reducing insurer/provider opportunities.
2. If less government control or interference, expansion of insurers and providers likely.
3. Health care is one-sixth of economy and growing and needs are great. Under any proposal, our help is needed. Demand for new/upgraded tools.
4. Access to treatment likely to become a bigger problem, especially under heavier government control.
5. Increasing opportunities to work with governments, think tanks and others on solutions to problems, especially where states are given flexibility.
6. Entitlement programs will become of paramount importance in driving the direction of policy on health care over the next 10 years regardless of proposal, as pressures mount. This could eventually mean big changes.
1. Medicaid/Medicare accounted for approximately 23% of federal government expenditures for 2007. This is projected to increase to 26% by 2012 and over 30% by 2018.

2. Net outlays for Medicaid/Medicare are expected to increase at the same rate as total spending above. From 21% of federal government net expenditures in 2007 to 24% by 2012 and 28% by 2018.

3. Drug spending as a percent of Medicare expenditures is forecasted to be 11% for 2008. Drug spending as a percent of Medicare expenditures is forecasted to be 15% by 2017.

4. Projected U.S. drug spend overall is growing at 7% in 2007 (about the same as overall medical spending) but is expected to increase to a growth rate of 10% in 2017 (overall spending expected to remain at a 7% growth rate).

Source is CBO and CMS
Uninsured as of 2006 – 60% are under 35
47 million Americans or 15.8%

Source US Census Bureau