Current State of Private Health Care in the United States Market

IACA Conference

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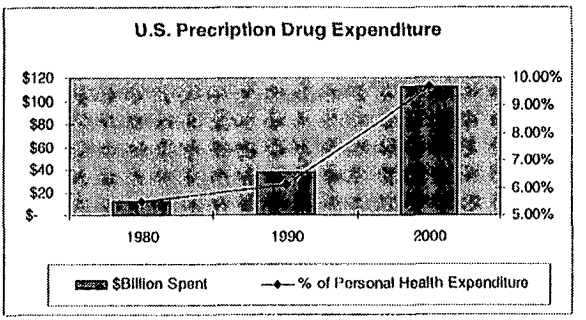
Current Issues

- Prescription drug expenditure
- HMOs' financial health
- Anti-Managed Care

Prescription Drug Expenditure



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Prescription Drugs

- Background
  - Integral part of employee health benefits
  - Not part of Medicare (65+) government funded benefits
  - Was a small component of health care expenditure
  - Use of drug cards remove the need to track and submit claims

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Prescription Drugs

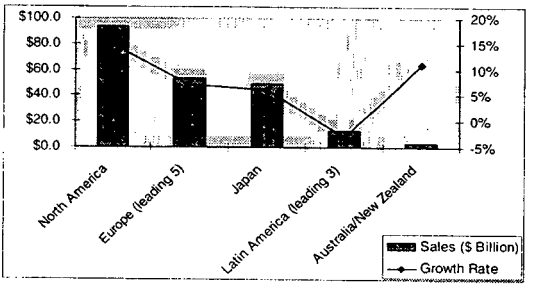
- Factors affecting prescription drug trends
  - Direct consumer advertising
  - Accelerated FDA approval process
  - Few incentives to manage cost & utilization
  - Use of drug therapy for disease management programs.
  - Aging population requires more and costlier drugs
  - U.S. could be subsidizing other countries

Prescription Drugs

- Worldwide Comparison
  - 9% growth to $211.3 billion in 12 global markets.
  - Overall growth driven by North America
  - 15% sales growth and $93.4 billion in sales in North America
  - 7% sales growth and $53.4 billion in sales in 5 European markets combined.

Prescription Drugs

- Worldwide Comparison (continued)



Prescription Drugs

- Employers' reaction
  - Increased out-of-pocket expense
  - Tiered benefit/copay structure
  - Mail order drugs
  - Use of PBM

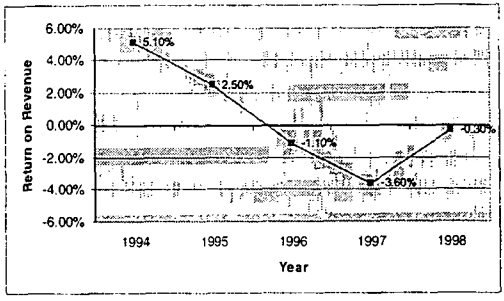
Prescription Drugs

- Regulatory Development
  - Price control
    - Maine Legislature approved a bill on drug price controls on drugs
    - Vermont State Senate passed a bill on fair pricing on drugs
    - Vermont State Senator introduced a bill to import drugs from Canada
    - New England states unified to contain drug price

Prescription Drugs

- Regulatory Development (continued)
  - Proposal on drug benefits for Medicare
  - Federal officials investigating several drug companies

HMOs' Financial Health



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HMOs' Financial Health

- How did HMOs fare in 1999?
  - 47% of the HMOs have negative income
  - Industry total made money but less than market expectation
    - 1Qtr - $275 million
    - 2 Qtr - $ 97.5 million
    - 3 Qtr – $ 68.6 million
  - 16 HMOs failed (versus 9 in 1998)

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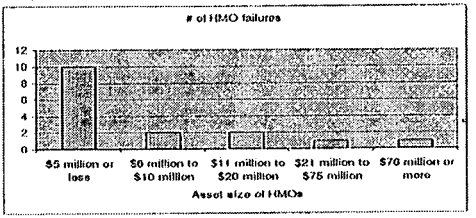
HMOs' Financial Health

- Drivers for HMOs' financial status
  - Underpricing to obtain market share
  - Smaller HMOs offering less restrictive benefits at competitive rates versus their cost infrastructure



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HMOs' Financial Health

- Drivers for HMOs' financial status (continued)
  - Failed to integrate in M&A
  - Raced to capture Medicare (65+) Risk business
  - Universal demand for quality measure and accountability
  - Publicly traded/Privately owned HMOs focus on short-term performance.

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HMOs' Financial Health

- What is happening now?
  - HMOs are seeking to restore financial health through increases in commercial premiums

Year	Average Premium Increase
1993 to 1997	- 0.5% to 3%
1998	8%
1999	9%

HMOs' Financial Health

- What is happening now? (continued)
  - Less consolidation and more effort to restore financial strength
  - Acquisitions are done to round out portfolio in target geographic areas.

HMOs' Financial Health

- Regulatory Development
  - Health Plans subject to greater scrutiny
  - Rating agencies investing more efforts to provide warning signs
  - Adoption of risk-based capital requirements
  - Creation of state guaranteed funds for HMOs
  - Development of liquidity models

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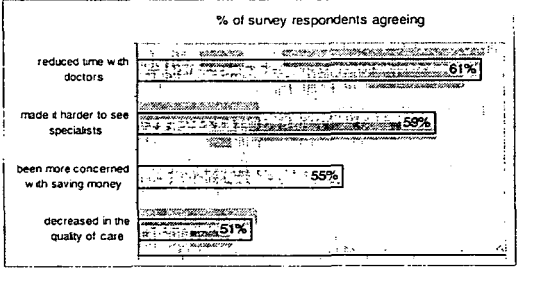
Anti-Managed Care Sentiment

- Americans' View on Managed Care

Managed care has



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Anti-Managed Care Sentiment

- Consumers' reactions
  - More freedom of choice plan options
  - Lawsuits against HMOs, e.g
    - A nationwide class action lawsuit again Prudential
    - A $120 million award against Aetna U.S. HealthCare
    - United HealthCare of Illiniois held liable for "Institutional negligence."

Anti-Managed Care Sentiment

- Health Care providers' Reactions
  - Physicians attempted to unionize power to negotiate with HMOs.
  - Physicians and Hospitals formed delivery system to negotiate and compete with HMOs
  - Class Action lawsuits, e.g.
    - Aetna USHC suited by New York area hospitals
    - California Medical Association filed a suit against 3 Insurers under RICO
    - Physicians boycott Merck & Co

Anti-Managed Care Sentiment

- Regulatory Development
  - Numerous managed care reform bills
  - Most states have consumer protection laws
  - Senate & House agree on right to appeal HMO's denial
  - Patient Bill of Rights

Implications

- Current issues will drive the health care expenditure up
- More restrictive health care options
- More cost sharing
- Risk quantification and contingency modeling beyond traditional data analysis