



Federal Health Legislation & Health Care Reform

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The Aetna Way

Why Aetna is Involved in the Legislative Process & The Health Care Reform Debate

We put the people who use our services at the center of everything we do, and we live by a core set of values



- Political and policy outcomes can have a profound impact on our customers
- We are committed to being a key part of the solution
- Doing well and doing good are not mutually exclusive

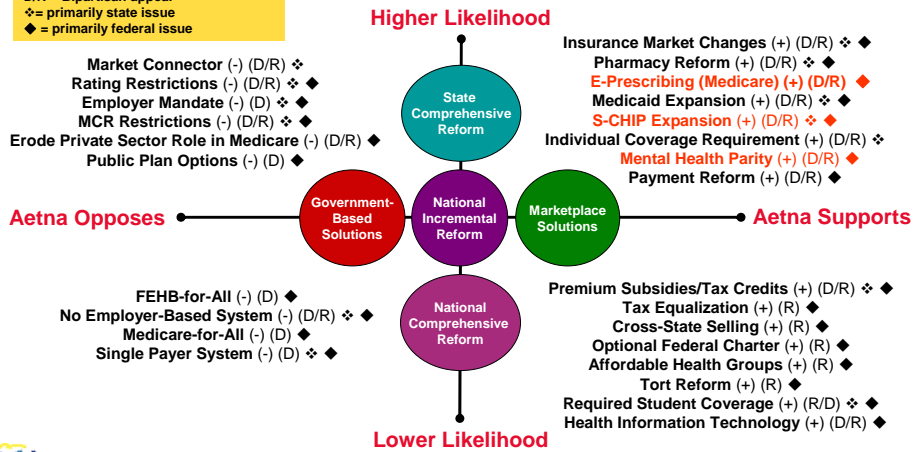


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Health Issues

Snapshot of Health Reform Proposals

(+) Aetna supports
 (-) Aetna opposes
 D = Democrat support
 R = Republican support
 D/R = Bipartisan appeal
 ⚡ = primarily state issue
 ♦ = primarily federal issue



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Legislative Scan - 2009

- Government funding for health care will be extremely tight due to national/global financial crisis
- Private sector increasingly viewed as source of funding for Health Care Reform (HCR), Medicare and SCHIP
- Push for more HIT to add value to the System
- Medicare (Doc Fix) must be addressed in 2009
- Pharmacy issues elevated by Democratic Congress
- Employer-Based System (ERISA) under attack
- Strong pressure to “do something” on Health Care



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Health Issues – 2009

- **SCHIP**
 - **Signed into Law (2/05/09)**
 - Extend *and* Expand SCHIP (4 ½ years)
 - \$32.8 Billion funded by tobacco tax (not MA)
 - Allows coverage up to 300 % of Poverty
 - Rescinded Bush rule barring State expansion
 - Outreach to enroll eligible but unenrolled children
 - Covers up to 4.1 million more children
 - Relaxed eligibility (e.g. no 5 year waiting)



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Health Issues – 2009

Stimulus Package - 2/17

Health Information Technology

- \$2B to Office of National Coordinator to support HIT infrastructure
- \$17B in financial incentives to physicians and hospitals for adopting EHRs
- Enhances federal security and privacy laws to protect identifiable health information from misuse or exempt

Wellness & Health Training

- Patients must be notified of disclosure of or access to identifiable health information (a "breach")
 - Inadvertent disclosure not
- \$1 Billion to HHS (including CDC) for health and wellness programs (e.g., immunization programs, infection reduction strategies)
- \$500 Million for health profession training programs, e.g., \$300M to National Health Service Corps, loans

Comparative Effectiveness Research

- Establishes the Federal Coordinating Council for CER
- \$1.1B overall
 - \$300M to AHRQ
 - \$400M to NIH
 - \$400M in discretionary funds to HHS Secretary
 - Does not include any industry or public membership
- Debate on role and impact of cost factor will continue between payers and providers (of technology, etc.)
- Does not direct or limit payment or coverage decisions for either private or public (e.g., Medicare) sectors
- Limited role for the private sector

Expanding Insurance Coverage

- COBRA
 - Provides 65% subsidy for premiums for unemployed workers (from 9/2008) for 9 months (\$24.7 Billion)
- FMAP
 - \$86.6 Billion in additional FMAP funds for 27 months.
 - Dropped "Buy-In" to Medicaid for non-poor unemployed.
 - Does not include the "wealthy" (\$125K/\$250K)
 - Dropped giving COBRA benefits to older (age 55) and tenured (employed 10 years plus) workers to fill the "gap" to Medicare
- Moratorium till 7/1/09 on Bush Medicaid Payment Regulations



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Health Issues – 2009

President Obama's Budget

- The President's Budget reserves \$634 Billion over 10 years as a "down payment" on health reform
- About half (\$318 Billion) to be funded (over 10 years) by increased taxes (e.g., taxing income at/above \$250,000)
- The other half (\$316 Billion) is to be funded by proposed healthcare savings (over 10 years) to include:
 - \$177.2B from Medicare Advantage plans by establishing an undefined competitive bidding system
 - \$6.0B by establishing a pathway at FDA to approve generic forms of biopharmaceutical medicines
 - \$17.8B from bundling Medicare hospital payments
 - \$8.4B by reducing hospital readmission rates



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Health Issues – 2009

Congressional Budget

- House and Senate approved (4/29) a \$3.4 Trillion budget for FY 2010 (October 1, 2009-September 30, 2010).
- Includes "principles" (but not specifics) for health care reform such as more choice, reduce waste and costs
- Includes "deficit-neutral" Reserve Fund (no dollar amount) for health care (similar to Obama's Fund)
- Includes "Reconciliation Instructions" which allows Senate to pass health care with 51 votes
 - Takes effect October 15, 2009
 - Limits debate to scant 20 hours
 - Subject to "Byrd" Rule
 - Resulting legislation is time-limited
 - Chilling impact on compromise



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Health Issues – 2009

Medicare Advantage Payment Reform

- 2009 Doc Fix must be addressed in 2009
 - 21% physician cut set for 2010.
 - Two year “Doc Fix” would cost \$38 Billion
 - Obama's budget assumes the 21% Doctor cut set for 2010 will not occur and that the Reserve Fund will not be used to offset this cut
- Source of Funding Possibilities
 - Deficit Spending
 - Provider and physician cutbacks
 - Medicare Advantage payment cuts
 - Premium increase for seniors



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Health Issues – 2009

- Medicare Payment Reform Choices (and savings) from Obama and Senate Finance Committee:
 - Reduce benchmarks (1-2%) plus phase-down (to 120%) of rate spread among counties (\$20B)
 - Phase-in Competitive Bidding (\$35B) with possible quality bonus of 3-5% (\$25B)
 - President's Competitive Bidding (\$45B)
 - Blend the benchmark at 75% local/25% national (\$40B)
- Best approach to preserve private sector is:
 - Reduction in benchmark (1-2%) plus
 - Aggressive phase-in of a cap (115%?) on the rate spread among counties (\$35-\$38 B)



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Health Issues – 2009

- Add-On Possibilities to MA Payment Reform
 - ESRD (End Stage Renal Disease)
 - \$1.2B vs. \$2.9B cost shift (10 years)
 - Comparative Effectiveness Research Institute
 - Private Sector participation
 - Cost analysis component
 - Government Negotiation of drug prices
 - Government-Run Prescription Drug Plan
 - Fix “6 Classes” restrictions
 - Quality/Chronic Care Performance incentives



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Health Issues – 2009

Pharmaceutical Costs

- Importation (Obama Budget Item)
- Generic Biologicals (insulin, growth hormones)
 - \$9.24 B (10 years) savings for Fed (Obama)
 - \$25 B (10) for Private Sector (CBO)
 - \$67 to \$108 B (10) for all markets (Shapiro)
 - \$71B (10) savings for all markets (ESI Study)
 - \$236 to \$378 B (20) for all (Shapiro)
- Antitrust exemption for Pharmacists
 - Allows price-fixing/collusion
 - Cost \$29.6 Billion/5 years (Charles River Associates)



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Health Issues – 2009

Other Pharmacy Issues

- Funding for the Office of Generic Drugs (FDA)
- Use Federal law to negate State anti-generic laws (e.g., carve-out laws) that thwart the use of generics in Medicare and Medicaid (\$29 B/10 years; Visante)
- Generic “Settlements”
- Authorized Generics
- Advance use of Mail Order
- Transparency and Drug Safety



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Health Issues – 2009

ERISA Preemption

- ERISA preemption in court and Congress
 - 9th Circuit (Golden Gate case) vs. 4th Circuit (WalMart case) vs. US Supreme Court (Aetna case)
 - 9th Circuit Court rejected (3/9) full court rehearing
 - US Supreme Court denied a “stay” thereby allowing “play or pay” to continue
 - Full appeal to US Supreme Court is certain
 - Court loss weakens ERISA and encourages states
 - Court loss exposes ERISA in Congress (waivers)
 - Employer opposition opportunities
 - ABC, NCB, ERIC, CTW



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Health Care Reform – The Drivers

Uninsured/Insured Numbers-2007

Total US Population – 299.1M

Insured Lives – 253.4 Million – 84.7% of U.S.								
Private Coverage* 201.9 Million						Government* Coverage 83.1M		
Employment-Based Coverage 177.3M – 59.3%			Direct Purchase 26.6M – 8.9%					
Uninsured – 45.7M – 15.3% of U.S.								
11.0M eligible but not enrolled in SCHIP/ or Medicaid			17.6M at or above \$50K+			9.7M Non-citizens		17.5M Total Students
5.9M kids	2.0M adults	3.1M Parents	13.5M <\$25K	14.5M \$25-\$50K	8.5M \$50K+	9.1M \$75+	~7.5M undocumented	4.1 to 4.7M Uninsured Students

*Numbers don't add up because (1) some coverage (Medicare) "counted" as both Government and Private Coverage and (2) possibility of more than one type of coverage in single year (no mutual exclusivity).

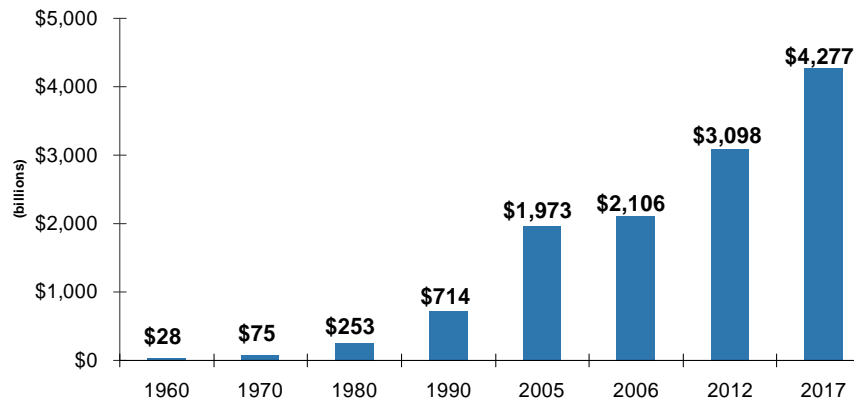


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Health Care Reform – The Drivers

Health Care Spending Trend



Source: National Health Statistics Group

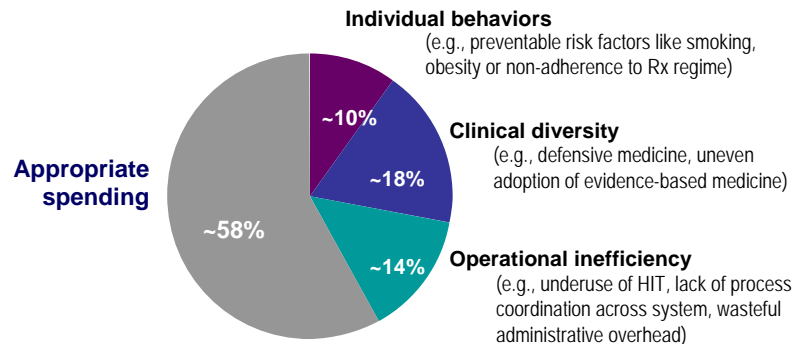


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Health Care Reform – The Drivers

“Waste” accounted for 34% to 50% of the \$2.2 trillion spent nationally on health care in 2007*



* The estimated range for waste is between 34 and 50 percent of total health spending.

Source: PWC, The Factors Fueling Rising Healthcare Costs, 2008



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Health Care Reform-The Drivers

Where does the health insurance dollar go? (2008)



87¢ Benefits

- 33¢ Physician Services
- 20¢ Inpatient Costs
- 15¢ Outpatient Costs
- 14¢ Drugs
- 5¢ Other (e.g., services not performed by physicians or dentists, such as chiropractors, optometrists, etc.)

13¢ Administrative costs

- 6¢ Government Payment, Compliance, Claims Processing and Other Admin. Costs
- 4¢ Consumer Services, Provider Support and Marketing
- 3¢ Insurer Profits

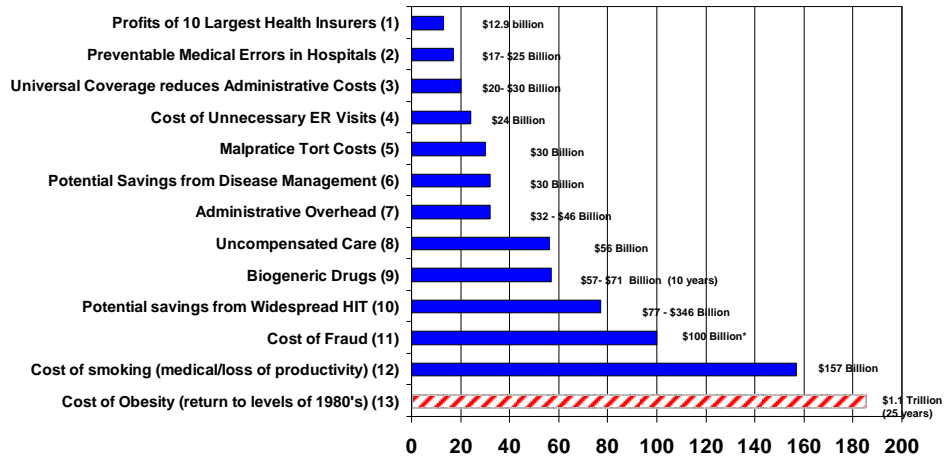
Source: PWC, The Factors Fueling Rising Healthcare Costs, 2008



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Health Care Reform – The Drivers



* The estimate ranges from \$100B to \$500B in annual fraud.



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Notes/sources (Putting health plan profits into perspective)

- 1) All profit information publicly available at YahooFinance.com; accessed December 31, 2007.
- 2) Reduction of preventable medical errors in hospitals could save \$17-25B; Elliot S. Fisher, "More Medicine Is Not Better Medicine," *The New York Times*, December 1, 2003.
- 3) Hillary Clinton. "Senator Clinton's 7-Step Strategy to Reduce health Costs While Increasing Affordability, Accountability and Quality," May 24, 2007.
- 4) Avoiding unnecessary ER visits could have saved ~\$24B in 2003; Mercer, "Addressing the Problem of Low Acuity Non-Emergent ER Visits," Marsh & McClellan Companies, January 2006, available at: <http://mercergohsc.com/knowledgecenter/reports/summary.html/dynamic/idContent/1209555;jsessionid=3GD2GCP20G5DQCTGOUFC1IQ>
- 5) Malpractice tort costs totaled ~\$30B in 2007; Towers-Perrin Tillinghast, "2008 Update on U.S. Tort Cost Trends," December 2008.
- 6) Disease management could save nearly \$30B/year; R. Hillestad et al., "Can Electronic Medical Record Systems Transform Health Care? Potential Health Benefits," *Health Affairs*, 2005.
- 7) Karen Davis, Cathey Schoen, Stuart Guterman, Tony Shih, Stephen C. Shiebaum, and Ilana Weinbaum. "Slowing the Growth U.S. Health Expenditures: What are the Options?" Commonwealth Fund, January 2007.
- 8) People uninsured for all or any part of 2008 received ~ \$56 billion in uncompensated care; Hadley, Jack et al, "Covering the Uninsured in 2008: A Detailed Examination of Current Costs and Source of Payment, and Incremental Costs of Expanding Coverage," Kaiser Commission on Medicaid and the Uninsured, August 2008.
- 9) Steve Miller MD and Jonah Houts, "Potential Savings of Biogenerics in the United States," *Express Scripts*, February 2007.
- 10) Annual net savings from HIT could be approximately \$77-346B; R. Hillestad et al. (2005). "Can Electronic Medical Record Systems Transform Health Care? Potential Health Benefits," *Health Affairs*. 24: 1103-1117.
- 11) Annual losses to government and insurers total at least \$100B/year; Center for Medicare and Medicaid Services, "Fraud and Abuse for Consumers: Overview," March 1, 2006. Available at: <http://www.cms.hhs.gov/FraudAbuseforConsumers/>
- 12) US Department of Health and Human Services. "The Health Consequences of Smoking: A Report of the Surgeon General," 2004.
- 13) D. Goldman et al.. (2006) "The Value of Elderly Disease Prevention," *Forum for Health Economics and Policy*.



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Health Care Reform – Lessons (1993-94) & Obama’s Report Card

- Strike right away (in the first year after the election)
 - A +
- Do your work in the open; no “secret” task force
 - A +
- Involve Congress right up front
 - A +
- Don’t “deliver” 1300+ page bill (even to friends)
 - A +
- Be prepared for pushback
 - Incomplete Grade
- Be willing to deal...a lot
 - Incomplete Grade
- Reform this big must be Number One priority
 - Incomplete Grade



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Health Care Reform – The Signs

- In Cycle
- Baby Boomers
- Congressional Activity-Key Congressional Leaders
 - Baucus effort (Health Summit, Hearings, “White Paper” to set the stage, Roundtables)
 - Kennedy stakeholder (“Workhorse”) meetings
 - Other players stirring: Wyden, Stark, et al.
 - Will Republicans find their “voice”?
 - Blunt Health Task Force in House
 - Senate Republicans coalescing (Kyl, Gregg)
 - New downtown alliances
 - Last Hurrah (for Aging staffers.....and Lobbyists)
 - White House Summit on Health Care (Political Capital)



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Health Care Reform-The Debate

- Government Control vs. Personal Responsibility
- Federal Program Buy-In vs. Private Coverage
- Mandatory vs. Voluntary Coverage
- Public Plan Option vs. Private Sector
- Increased insurer Regulation vs. De-Regulation
- Federal vs. State Control



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Health Care Reform – The Issues

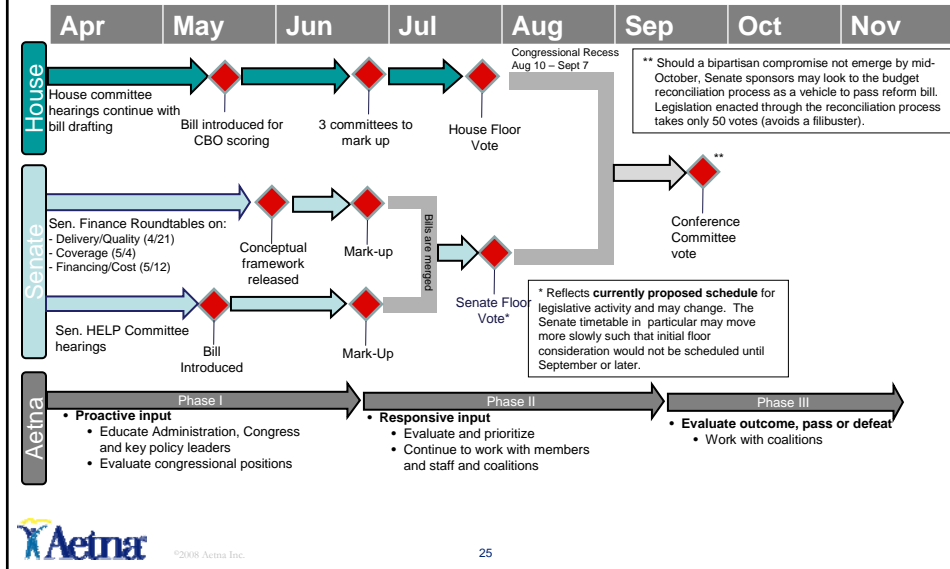
Access	Cost/Affordability	Quality
<ul style="list-style-type: none"> • Individual mandate • Employer Responsibility (Mandate and Play/Pay) • Public program safety nets • Connectors/exchanges • Medicare Advantage • Portability • Buy-In to FEHBP or Medicare • Public Plan Option • Uniform Standards & Rules • Subsidies 	<ul style="list-style-type: none"> • Administrative costs & profits • Insurance Reform (GI, CR) • Risk Adjustment/Reinsurance • Minimum medical cost ratios • Tax equalization/Exclusion • AHGs/Cross-state selling • Optional federal charter • Payment Reform • Biogenics/Generics • Benefit Plan Design 	<ul style="list-style-type: none"> • Prevention & wellness • Health information technology • Genetic testing • Medical liability reform • Pay-for-performance • Racial and ethnic disparities • Comparative effectiveness • Transparency • Evidence-based medicine • Lifestyle choices



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Health Care Reform-The Timetable



Health Care Reform – The Roadblocks

- Economy
- Legislative priorities
- Congressional Control
 - 1993 (House-258 to 177; Senate-57 to 43)
 - 2009 (House-257 to 178; Senate-59 to 41)
- Competing Congressional Plans
- Political will
- 2010 almost too late (Election Year)

Health Care Reform – The Choices & Prospects

- Defer for now
 - Pursue Regulations & Task Force
- Possibly just “Down Payment” reforms (e.g., SCHIP and Stimulus: COBRA, CER, Medicaid, HIT, wellness)
- Cost reductions and quality improvements first
- Structure and financing changes down the road
- Turn to the States (ERISA waivers)
- Comprehensive Health Care Reform
 - Enact pieces in stages (4 years)
 - Enact all at once but phase-in effective dates and/or “trigger” controversial items (e.g., public plan, connector)



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