Lessons in Healthcare

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Innovation Consulting Community Research Project
Figure 1

Concentration of Health Care Spending in U.S. Population

Source: Kaiser Family Foundation analysis of Medical Expenditure Panel Survey, Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services
Do low-risk and high-risk individuals affect each other?
# Health Care Cost Analysis and Comparison

<table>
<thead>
<tr>
<th>Low-Risk</th>
<th>50</th>
</tr>
</thead>
<tbody>
<tr>
<td># of people</td>
<td></td>
</tr>
<tr>
<td>Freq. of claims</td>
<td>0.29</td>
</tr>
<tr>
<td>Severity/claim</td>
<td>1100</td>
</tr>
<tr>
<td>Premium</td>
<td>$16,000</td>
</tr>
</tbody>
</table>

*Premium/Person: $320.00*
# Health Care Cost Analysis and Comparison

<table>
<thead>
<tr>
<th></th>
<th>Low-Risk</th>
<th>High-Risk</th>
</tr>
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<tbody>
<tr>
<td><strong># of people</strong></td>
<td>50</td>
<td>15</td>
</tr>
<tr>
<td><strong>Freq. of claims</strong></td>
<td>0.29</td>
<td>0.47</td>
</tr>
<tr>
<td><strong>Severity/claim</strong></td>
<td>1100</td>
<td>2800</td>
</tr>
<tr>
<td><strong>Premium</strong></td>
<td>$16,000</td>
<td>$20,000</td>
</tr>
<tr>
<td><strong>Total Premium</strong></td>
<td>$36,000</td>
<td></td>
</tr>
<tr>
<td><strong>Premium/Person</strong></td>
<td>$480.00</td>
<td></td>
</tr>
</tbody>
</table>
## Health Care Cost Analysis and Comparison

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<thead>
<tr>
<th></th>
<th>Low-Risk</th>
<th>High-Risk</th>
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<tbody>
<tr>
<td># of people</td>
<td>35</td>
<td>15</td>
</tr>
<tr>
<td>Freq. of claims</td>
<td>0.29</td>
<td>0.47</td>
</tr>
<tr>
<td>Severity/claim</td>
<td>1100</td>
<td>2800</td>
</tr>
<tr>
<td>Premium</td>
<td>$11,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Total Premium</td>
<td>$31,000</td>
<td></td>
</tr>
<tr>
<td>Premium/Person</td>
<td>$615.00</td>
<td></td>
</tr>
</tbody>
</table>
Two Big Issues with U.S. Healthcare System

1. Cost Containment
2. Improved Access
1. Healthy (Low-Risk)
2. Payer (Government)
3. Sick (High-Risk)

Low-Risk Pool

High-Risk Pool
What does the payer have to do to incentivize the young low-risk people to enter the pool?
Insurance Goals

**Low-Risk**
- Appealing to younger/healthier people
- Flexibility for affordability
- Help *subsidize* the older/sick people

**High-Risk**
- Limited to keep in the pool
- Freedom to choose doctor
- Pay more to get more benefits
Low-Risk Insurance Plan

• Offer a flexible benefit program
• Lower **premiums** and **out-of-pocket costs**
• **Gatekeeper**
• Preventative care provider
High-Risk Insurance Plan

• Contains **pre-existing condition** waiting periods to prevent **adverse selection**

• Higher premiums
  • **Copay** charges

• Can see doctors outside of plan

• If you go outside of the network- you have to meet the **deductible** and pay **coinsurance** based on higher charges
The Sick (High-Risk)

- People with pre-existing conditions
- Sometimes seen as medically uninsurable
- Our high risk pool will be similar to a traditional high risk pool.
- The demographics of individuals in a high risk pool is older individuals. Across all HRPs, members of high risk pools in 2008:

<table>
<thead>
<tr>
<th>HRP</th>
<th>Average Age</th>
<th>Percent Employed</th>
<th>Percent Unemployed</th>
<th>percent Retired</th>
<th>Average household income of new enrollees</th>
<th>Percent male</th>
<th>Average length of enrollment (in months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Across all</td>
<td>49</td>
<td>47</td>
<td>32</td>
<td>9</td>
<td>$41,136</td>
<td>47</td>
<td>36</td>
</tr>
</tbody>
</table>

Traditional High Risk Pool: enrolles are moved into a separately run insurance pool.

Every state had a way to fund high risk individuals through high risk pools. These numbers are based on total data from those pools.

Pre-existing Condition: a medical condition that started before a person’s health insurance went into effect.
Traditional High Risk Pool Components

• Premiums above standard non-group market rates
• Pre-existing condition exclusions for up to 12 months
• Lifetime and annual limits
• High deductibles and premiums
• Tend to be very restrictive to control costs
Stay In The Pool

- They need it because high risk individuals are typically very sick
- If they were not a part of the plan their deductible would be even higher than before
- **Subsidized costs**

**Subsidized costs:** pooling risks together allows the cost of those at higher risk of high medical costs to be subsidized by those at a lower risk
Leave The Pool

• High out of pocket costs and capped coverage
• In some states only eligible when you’ve been turned down by other companies
• Waiting period to keep costs down that often delay treatment of preexisting condition
• High costs for prescriptions and medications are difficult to afford

Why so expensive? They concentrate people with a myriad of health conditions into a single pool.

Why is this important? This pool didn’t have any healthy low risk individuals to offset the costs of the sick.

Ours will be different!!!
High risk pools are operated at a net loss.

### Total expenses by pool - 2011:

<table>
<thead>
<tr>
<th>State</th>
<th>Paid Claims</th>
<th>Admins</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>$212,989,927</td>
<td>$11,006,503</td>
<td>$223,996,430</td>
</tr>
<tr>
<td>Indiana</td>
<td>$129,559,528</td>
<td>$4,662,119</td>
<td>$134,221,647</td>
</tr>
<tr>
<td>Missouri</td>
<td>$45,611,791</td>
<td>$3,662,323</td>
<td>$49,274,114</td>
</tr>
</tbody>
</table>

### Total revenue by pool - 2011:

<table>
<thead>
<tr>
<th>State</th>
<th>Premiums</th>
<th>Assessments</th>
<th>Other</th>
<th>Total revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>$118,904,474</td>
<td>$59,593,600</td>
<td>$35,248,882</td>
<td>$213,746,953</td>
</tr>
<tr>
<td>Indiana</td>
<td>$64,207,997</td>
<td>$68,529,556</td>
<td>$1,754,098</td>
<td>$134,491,651</td>
</tr>
<tr>
<td>Missouri</td>
<td>$33,867,828</td>
<td>$16,901,675</td>
<td>$2,406,458</td>
<td>$53,175,961</td>
</tr>
</tbody>
</table>

High risk has more claims and there going to be more severe.
Leave The Pool

• The risk pool must be restrictive in order to maintain a healthy equilibrium composed of low risk individuals and high risk individuals.
• Therefore many high risk individuals with pre-existing conditions will be excluded
• Many of the components of a high risk pool act as barriers that can depress the amount of high individuals enrolling.

<table>
<thead>
<tr>
<th>HRP</th>
<th>Total HRP Enrollees</th>
<th>Total HRP Enrollees and Dependents</th>
<th>Estimated number of individuals potentially eligible for HRP enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>IL</td>
<td>16,063</td>
<td>16,063</td>
<td>218,610</td>
</tr>
<tr>
<td>Across all HRP</td>
<td>186,643</td>
<td>199,418</td>
<td>3,968,748</td>
</tr>
</tbody>
</table>
The Healthy (Low-Risk)

• The primary parameters for a low-risk person can be seen within the millennial demographic
  • Born within the age of 1980 and 1996 at about 76.6 million
  • Purchasing power of about 1.68 trillion
  • 1 in 4 have a college degree
  • An average household income is about 60,000
Stay In The Pool

- Lower premium rates for insurance
- The mandate reduces premium costs and taxes
- Tax plan (insurance premium and medical cost)
Stay In The Pool

• Offsets the risk of the elderly and ill
Say In The Pool

• Better Quality of Life
• Preventative health care
  • Decreases chronic illness
  • Relieves the emergency room services for actual emergencies
Leave The Pool

- Charged/Fined
  - If said person refuses to have minimum essential coverage then they will be dealt a penalty fine.

Table 1. Annual Individual Mandate Penalty

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of Applicable Income</th>
<th>Flat Dollar Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1.0%</td>
<td>$95</td>
</tr>
<tr>
<td>2015</td>
<td>2.0%</td>
<td>$325</td>
</tr>
<tr>
<td>2016</td>
<td>2.5%</td>
<td>$695</td>
</tr>
<tr>
<td>2017 and Beyond</td>
<td>2.5%</td>
<td>$695 adjusted for inflation</td>
</tr>
</tbody>
</table>

Source: IRC §5000A.
Leave The Pool

• Increases overall premiums for insurance companies
  • “Death Spiral”
• Higher taxes
  • Subsidies
  • Medicare/Medicaid
Take Away

• Looking back
  • High risk plan
  • Low risk plan

• Rules governing health insurance attempt to balance the tradeoffs between access to coverage and premium affordability

• Proposals to implement alternative risk pooling arrangements need to maximize the enrollment of healthy risks, while not pricing the unhealthy risks out of that market
“Nobody knew healthcare could be so complicated”

-Donald Trump
Sources


