

In Focus

Welcome to the Reform-atory

They Said It?

One online dictionary defines “reform” as *the improvement of that which is unsatisfactory, wrong or corrupt*. Among the readers of *In Focus*, the majority would no doubt describe the state of America’s healthcare and insurance systems as “unsatisfactory”; some (perhaps the devotees of a universal coverage/single payer system) might be happier labeling it as “wrong”. And, when thinking about Big Pharma’s influence on drug trials and academic research, the term “corrupt” may even come to mind. The American healthcare system meets all of the dictionary requirements for being ripe for reform.

However we characterize our healthcare system, change is on the way, perhaps in some eventual version of the just-passed Senate Finance Committee’s bill. As much as has been written, said (and shouted) about healthcare and health insurance “reform”, even casual D.C. observers know that the legislative process is now getting very serious. It is expected that over the next several weeks the future shape of American healthcare delivery will be sliced, diced, and gradually cobbled together in that lobbyists’ playpen otherwise known as the U.S. Congress.

The legislative process still has several steps to go, and each of those steps presents the opportunity for important changes to be inserted into the evolving (and in many cases, conflicting) Senate and House bills. A fearful insurance industry and other special interests are increasing the intensity of their lobbying. At the same time, House and Senate members who must stand for re-election in 2010 are carefully calculating and recalculating the risks of their decisions. (Remember “follow the money”?)

We now believe change is coming and it is time for benefit managers to get ready. Even at this stage of the legislative process, benefit managers can concentrate on several subjects where the nature of eventual “reform” seems likely to survive.

The changes surviving the process are likely to include:

Individual and employer mandates, together with the expansion of Medicaid and the elimination of pre-existing condition limitations. These probably will be the main drivers to expand coverage to the uninsured. For employers currently providing coverage, the mandates will set minimum coverage levels and establish employee eligibility criteria. Employers with large part-time, contract or seasonal work forces will have to watch the evolving legislation very closely.

“Pay or Play” rules are imbedded in these mandates. These provisions will likely apply tax penalties or fees based on the employer’s medical cost and employee wage bands. For example, healthcare benefits may receive different tax treatment for high paid senior management when compared to low paid, low skilled positions.

State based insurance exchanges or co-ops also appear just over the horizon. The exchanges and co-ops are intended to provide (needed?) competition to the oligopolistic insurance industry. Also, a public plan option isn’t completely out of the question.

ERISA pre-emption is in jeopardy. For multi-state employers dilution of ERISA pre-emption may mean dramatically increased compliance burdens. Federal design requirements (coverage mandates) are likely to exist and they may be further complicated with an expansion of state-level mandates. Also looming in the fine print of competing bills is a densely complicated claims appeal process. At the very least, internal and outsourced administrative processes and reporting systems will require substantial modifications.

Changes to Medicare and retiree medical coverage obligations will impact existing employer-sponsored retiree medical programs and likely create new ones. At a minimum, FAS 106/158 liabilities will have to be re-evaluated. Beyond the accounting changes, and new communication requirements and administration changes (remember the Medicare Part D warm-up of a few years ago?), these changes may fundamentally change workforce retirement patterns.

Now that the Senate Finance Committee has passed its bill, and received at least a small measure of Republican support, it is likely that some version of healthcare legislation will in fact make it to the President’s desk before year-end. Reform of today’s American healthcare and health insurance systems operate is sorely needed. If reform means change, we’ve got a lot coming. If reform means expansion, we even have some of that coming. If reform means improvement, the jury will be out for decades.

Nonetheless, we believe 2010 will need to be a year of assessment and preparation. If you haven’t put extra dollars in your budget for next year, now is the time to do it. The implications of healthcare reform will be far and wide on most large businesses. It will not only impact what you do and how you do it. It will impact employment relationships, shareholder value, vendor service agreements and more.


“Imposing new taxes and fees on health care services and on insurance flies in the face of the goal of reducing health care costs,” Karen Ignagni, president and CEO of America’s Health Insurance Plans, said on a conference call with reporters on September 12.

Olympia Snowe, Republican Senator from Vermont: “It is surprising that the insurance industry would issue that kind of condemnation when you are trying to create a constructive approach potentially worth billions of dollars to those private companies.”

Besides strengthening your budget, you may want to strengthen your departmental and vendor relationships and sharpen your executive presentation skills. At least in the near-term, a lot of people will be looking to you for answers and direction.

Our advice at this end-of-the-beginning stage is the same as we all told our children just before climbing onto their first roller coaster ride at Cedar Point, "Grab the bar and hold on tight". The healthcare reform coaster has almost climbed its way to the top and the real ride is about to begin.

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