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What's Next? A Brokers Survival Guide

Health insurance brokers had a tough 2009. The recession made life miserable. Everyone was looking for ways to cut costs, and insurance premiums were a fat target. The suspense of healthcare reform components (would it include a public option; a cap on commissions; an individual mandate with teeth?) and the 2000-plus-page briar patch that moved from House to Senate to House and back again kept us all guessing.

Now it's 2010, and the suspense is over. The bleak economy is still with us. Nothing has slowed the ever-rising healthcare costs that insurance carriers must cover. But the new Patient Protection and Affordable Care Act has become law, and we are beginning to understand where the insurance industry fits in the new structure for American healthcare.

The good news is that reform is not as bad as it might have been. In fact, there are opportunities in a number of market segments, both new and old. As participants in the healthcare industry, where we go from here is up to each one of us.

The strong will survive and flourish – but only if they stay sharp, keep up with developments and get creative. What follows is a Brokers Survival Guide designed to help you do just that. It begins with the basics of the new law, segues to who wins and who loses, and then ends with some ideas for pursuing new business.

The Big Picture

One of the first things agents should do is understand the moving parts of the new law – or at least the outlines of what federal bureaucrats are now trying to flesh out with regulations.

Your business customers can read the headlines on their own, and they may remember vague promises by politicians about matters that are important to them. But they will look to their agent for answers about the details and sound advice on what to do next. Here are some major points you can share with them:

- **Employer mandates.** Companies with more than 50 employees (and construction companies with payrolls exceeding \$250,000 that have more than five workers) may provide health insurance that meets federal requirements for value and affordability. If the company chooses not to and any of their employees receives a federal subsidy to purchase individual insurance, the company will be fined \$2,000 per person for its entire workforce.
- **Insurer mandates.** Insurers must provide coverage without regard to pre-existing conditions – for children this year, for adults beginning in 2014. Carriers may not rescind coverage or impose lifetime limits on benefits; by 2014, annual limits are also banned. The law also imposes mandatory loss ratios, effective in 2011: Individual and small group plans must spend 80 percent of premiums on medical services; the rate is 85 percent for the large group market.
- **Medicare changes.** Between now and 2014, the federal government will provide up to \$5 billion in reinsurance coverage for companies that provide health insurance for early retirees. In addition, the "donut hole" in the Medicare Part D program will gradually phase out by 2020.

What Happens Next?

As healthcare reform is implemented, there will be winners and losers, shifts in the market and unintended consequences. These consequences are likely to include higher premiums for everyone. The employer market may deteriorate as businesses find it more economical to pay the fine and avoid the responsibility of an unlimited insurance mandate. More companies are also likely to eliminate retiree coverage, as the drug subsidy becomes less valuable and there will be a large shift towards self funding health plans.

Emerging Opportunities

Where does this leave agents? There are a number of emerging opportunities:

1. Retiree Drug Subsidy.

When Medicare Part D first began, many companies automatically took the 28 percent subsidy to keep pharmaceutical benefits in place for their retirees. However, the stringent annual actuarial requirements have made the subsidy less attractive as companies became more familiar with the administrative burden.

Now, with the reduction in the value of the subsidy because of the change in tax treatment, companies are ready to hear about alternatives that can get them out of the drug benefit business. A particularly compelling option is the Employer Group Waiver Plan or EGWP (pronounced Egg Whip). An EGWP allows an employer to contract with the federal government as a Prescription Drug Plan (PDP) sponsor, receiving a capitation fee directly from the government.

EGWP pencils out as more valuable for companies than the subsidy. In fact, experts have estimated that under EGWP the federal government covers 35 percent or more of a company's prescription drug costs – a much better deal than the average 20 percent yield of the subsidy.

An even more attractive option is the 800 Series EGWP. In this version, the employer contracts with a third-party PDP sponsor that shoulders the entire administrative burden. The sponsor receives the government payment, but passes through the bulk of it in the form of lower premiums or direct payments to the employer.

As healthcare reform phases in, more and more employers will be looking for ways to exit the complicated benefits business. Agents who understand the EGWP option will be ready to help them.

2. ERISA plans.

Today, nearly half of working Americans receive their health benefits in employer-based, self-funded plans – about 70 million people. Under healthcare reform, more companies can be expected to move to self-funding because of the flexibility they will have to customize benefits and avoid the anticipated jump in insurance rates. However, they will be looking for ways to minimize risks – and brokers will have several options to offer.

First, stop-loss coverage is going to become critical. We already know that the incidence of million-dollar claims increased by a factor of 10 between 2000 and 2005. Now with no lifetime maximum caps, providers may very well modify their treatment plans in ways that may make costs soar even higher. Finding the right stop-loss carrier, making sure the coverage is seamless and negotiating for the best rate possible are all services employers will look to their agents to handle.

Second, employers should consider carving out specific risks, such as organ transplantation, and purchasing an insurance product that will cover those costs. The number of transplants has doubled over the past 10 years, with an average cost of more than half a million dollars for a single transplant.

Third, dialysis is another rapidly growing claim trend, with costs as high as \$50,000 per month. This market totals more than \$27 billion today and is expected to grow by more than a third by 2012. An agent can help his or her customers the most in this area by encouraging them to follow three strategies:

- UCR review: With the proper plan language, administrators can re-price claims for patients with end-stage renal disease to "usual, customary and reasonable" charges without member balance billing.
- Home dialysis: The quality of life for patients can be enhanced while costs are lowered through home dialysis. In fact, studies have shown that patients who receive dialysis at home have a statistically longer life expectancy, generally experience fewer complications and have reduced secondary healthcare costs.
- Epogen carve-out: Epogen charges alone, when provided through a physician, can reach \$70,000 per year. In most states, the patient owns the prescription – not the doctor or dialysis center – and using a carve-out can achieve dramatic savings.

Finally, employers should contract for periodic audits of the administrative processes within self-funded plans. The savings can be eye-opening.

3. Supplemental plans.

As the funding for Medicare Advantage declines, insurers are expected to cut back on the rich benefits that have enticed so many seniors to choose Advantage. As they do, these plans will become less attractive to seniors. Instead, they may return to seeking out supplemental coverage to fill in the gaps.

In addition, once the state-based exchanges put together their menu of plans, the least-expensive, low-level options may fit consumers' pocketbooks best – but may leave them unhappy with restrictions or quality of care. They, too, may soon be in the market for supplemental coverage.

4. Co-Ops.

Healthcare reform included funding for the establishment of nonprofit insurance pools run by members. Industry groups, chambers of commerce and other organizations are expected to take advantage of this co-op mechanism, self-funding medical claims and picking up grants from the federal government to cover costs.

Here the opportunity is for brokers who arrange for third parties to provide administrative processing for co-ops. This allows for small to medium sized employers to take advantage of the benefits of self insurance while eliminating the volatility by participating in the economic results of a group captive structure.

We can look back and remember 2009 as a tough year, largely because of factors beyond anyone's control. Now with healthcare reform in place, 2010 can be whatever kind of year we want to make it. Agents who try to conduct business as usual will be left behind. But those who get creative, try new things and continue to focus on bringing value to their customers can turn 2011 into a new beginning for an opportunity-filled future.

Samuel H. Fleet is President of AmWINS Group Benefits of Warwick, RI, a leading wholesale broker of comprehensive group insurance programs and administrative services. Sam can be reached at sam.fleet@amwins.com