ECG MANAGEMENT CONSULTANTS

Executive Briefing

Are You Ready for Health Exchanges to Impact Your Revenue?

Looming behind the initial phase of reform initiatives is the introduction of state health exchanges. There are many public misconceptions about health exchanges, and some states were previously reluctant to develop them because of the uncertainty around the potential repeal of the Patient Protection and Affordable Care Act (PPACA). Health exchanges are intended to increase competition and choice by providing transparency on price, coverage, and quality-of-care information for small businesses and individuals who need to purchase insurance. Despite the potential advantages for patients, health exchanges can have negative consequences for providers. Many forward-thinking organizations are evaluating the introduction of health exchanges in their markets to understand the potential impact and prepare a suitable strategic response.

Your organization can successfully integrate health exchange-based patients into your managed care contracts through focused preparation and planning. Key considerations include the following:

- As mandated by the PPACA in 2010, health exchanges will become active on January 1, 2014.
- Health exchanges will fundamentally impact the way individuals, smalls groups, and some families obtain health insurance coverage.
- The introduction of health exchanges will coincide with several other federal statutes in the PPACA, including:
  - The federal mandate for coverage.
  - Individual fines and small business tax regulations related to health insurance.
  - The expansion of Medicaid eligibility (the Supreme Court of the United States ruling allows states to forgo expansion of Medicaid if they desire).
  - A change in the disproportionate share (DSH) payment calculation.
- Health exchanges will offer an array of plans with varying levels of coverage (bronze, silver, gold, and platinum) and benefits within the federally mandated parameters (10 categories of care benefits must be fulfilled).[1]

Implications

The introduction of health exchanges will have far-reaching implications from a financial, operational, and strategic perspective. Health plans are positioning themselves to improve their market share and profitability with lower reimbursement proposals to providers for the exchange population within their commercially insured business. The key to adequately preparing for health exchanges is to assess the potential vulnerabilities of your organization and take specific action to prevent negative consequences to both financial and operational performance. There are a number of specific areas where providers should focus to prevent or mitigate a potential reduction in managed care contract rates for health exchange patients.

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[1] Additional details regarding the requirements placed on health plans offered in health exchanges are located at *http://cciio.cms.gov/resources/files/Files2/02242012/Av-csr-bulletin.pdf* (plan value) and *http://cciio.cms.gov/resources/files/Files2/12162011/essential_health_benefits_bulletin.pdf* (essential benefits).

Health Exchange Implications

Financial Implications	Operational Implications	Strategic Implications
• A payor mix shift can impact your margins by: – Migrating patients from commercial insurance to coverage obtained through a health exchange with lower rates of reimbursement for hospitals and physicians (negative impact). – Reducing the number of uninsured and self-pay patients (positive impact). – Increasing the membership in Medicaid (positive or negative impact). • The expansion of coverage is also tied to a change in the DSH formula. The new DSH payment, to be phased in starting in 2014, will be based on the percentage of uncompensated care instead of the percentage of Medicaid patients.	• It will be important to educate patients on the availability of health exchange benefit plans to increase the number of patients with coverage. • The impact of health exchanges will need to be incorporated with respect to hospital service capacity planning. • With the increase in the insured population, consideration must be made regarding the number of primary care and specialist physicians available to provide care to these patients.	• Providers should be aware of upcoming health exchange products in their routine negotiations and carefully review new contract language or amendments that accommodate products being offered on health exchanges. • Timing and inclusion in exchange networks should be considered in conjunction with other network requests from commercial insurers. • Health plans will place pressure on providers to accept rates that are significantly lower than current HMO and PPO rates.

Payor Mix Change Example

As shown in the table below, the introduction of health exchanges to an example hospital's market is expected to significantly reduce the number of patients covered under commercial insurance. In addition, the number of Medicaid beneficiaries will go up, and the number of self-pay patients will go down. Ultimately, this hospital will shift from a profit of $2.1 million to a loss of approximately $1.3 million, a change of $3.4 million. Analyzing the potential financial impact for your organization within a likely range of both reimbursement rates and payor mix shift will be a key component of your strategic planning for health exchanges.

Financial Impact Example

(Dollars in Millions)

Payor Type	Profit Margin	Pre-Health Exchange			Post-Health Exchange			Profit Variance
		Revenue	Percentage of Total	Profit	Revenue	Percentage of Total	Profit	
Medicare	0.0%	$ 52.00	52.0%	$ 0.00	$ 52.00	53.6%	$ 0.00	$ 0.00
Medicaid	-45.0%	18.00	18.0%	(8.10)	19.00	19.6%	(8.55)	(0.45)
Commercial	40.0%	27.00	27.0%	10.80	20.00	20.6%	8.00	(2.80)
Self-Pay	-20.0%	3.00	3.0%	(0.60)	1.00	1.0%	(0.20)	0.40
Health Exchange	-10.0%	0.00	0.0%	0.00	5.00	5.2%	(0.50)	(0.50)
Total		$100.00	100.0%	$ 2.10	$97.00	100.0%	$(1.25)	$(3.35)

Be aware of the potential utilization and cost-of-care risks of health exchange-covered patients. You will need to determine if the care for any given patient population is manageable based upon likely rates of reimbursement. Preparing for health exchanges will require significant due diligence to analyze the potential impact and develop a proactive negotiation approach to secure network agreements that place your organization in a positive financial position.

This *Executive Briefing* was written by Mr. Jason C. Lee, Senior Manager, and Mr. Ken R. Steele, Senior Manager. To learn more about evaluating the impact of health exchanges to your organization, please contact a member of ECG's managed care contract team: Mr. Lee *(jlee@ecgmc.com)* or Mr. Steele *(ksteele@ecgmc.com)* at 415-692-6060, Ms. Terri L. Welter *(twelter@ecgmc.com)* or Mr. Charles A. Brown *(cbrown@ecgmc.com)* at 703-522-8450, or Mr. James P. Donohue *(jdonohue@ecgmc.com)* at 617-227-0100.

About ECG Management Consultants, Inc.

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