

## Six months (and counting) of health reform: Lessons learned for health plans



The Patient Protection and Affordable Care Act (ACA) and its companion, the Health Care and Education Reconciliation Act of 2010 (HCERA), became law in March 2010. Referred to collectively as “health reform,” the acts and the detailed regulations that will support them will leave little in the health care industry unchanged. Among the key focus areas of reform were the expansion of health insurance coverage and changes to the commercial health insurance market. (Others include changes to Medicare and Medicaid, delivery system reforms, fraud, waste and abuse provisions, workforce planning, public health, etc.) As a result of this focus, health plans face some of the most significant changes included in the legislation. With substantial alterations to products, pricing, distribution channels and administrative requirements, all of health plans’ lines of business and functional operations will be affected.

The health reform clock started ticking on March 23, 2010, and statutory and regulatory changes will continue through 2018 and beyond, with various provisions becoming effective at different times. Throughout this

period, health plans will need to respond to imminent requirements as well as make important strategic choices, and plan for and implement substantial changes to their businesses.

For most health plans, the first 180 days were a sprint to comply with the more than 16 provisions with immediate and early effective dates.<sup>1,2</sup> Major activities included:

- Identifying and confirming the provisions and time lines in the health reform legislation that applied to them
- Setting up a project management office to respond to reform and track compliance
- Gathering and understanding the implications of the statute and new regulations as they were published
- Defining and implementing the changes necessary to comply with the immediate and early effective date provisions

These activities required a significant coordinated effort and communications across every functional area of plan operations.

<sup>1</sup> This paper defines early effective date as those provisions requiring compliance by 9/23/10.

<sup>2</sup> Deloitte Consulting analysis of The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010

### Lessons learned

As the initial implementation flurry has slowed, health plans are now focused on the next set of requirements as well as on the critical longer-term strategic planning efforts required to be effective post-reform. At a high level, plans will spend the next few years focused on the following:

- **2011:** Reporting and implementing Medical Loss Ratio (MLR) rebate requirements, implementing additional product changes and responding to Medicare Advantage program payment changes
- **2012:** Determining how to leverage the delivery system changes (e.g. value-based purchasing, episode-based care, and accountable care organization [ACO] pilot programs)
- **2013:** Transitioning to ICD-10 and implementing standardized eligibility and claims status transactions (the first transactions covered by administrative simplification)
- **2014:** Responding to the expansion of the individual/small group and Medicaid markets and the launch of exchanges, and complying with rating restrictions, essential benefits, actuarially equivalent plan designs and other product changes

Health plans can learn five key lessons from the initial phase of health reform legislation. These should be considered as health plans move to address these changes as well as the more strategic questions that will ultimately define their value proposition and future competitive positioning.

### Early effective provisions (2010 plan year)

- Coverage & Benefits
  - Dependent coverage up to age 26
  - No lifetime benefit maximums
  - Limits on annual benefit maximums
  - Preventative health coverage
  - No pre-existing condition for <19
  - Definition of Grandfathered plans
  - No discrimination in favor of highly compensated individuals
  - Temporary high-risk pools
- Pricing
  - Review of unreasonable premiums
  - Minimum Medical Loss Ratio (MLR) reporting
  - Administrative adherence
  - Prohibition on rescissions
  - Patient protection (choice of primary care physician, pediatrician or ob/gyn, coverage for emergency services)
  - Website of insurance options available by state
  - Internal and external appeals process
  - Uniform explanations of coverage documents and standardized definitions
- Retirees
  - Early retiree re-insurance coverage

### Lesson 1: It takes a village

Responding to health reform is not an individual sport. Organizations will need to:

- **Understand the full impact of each reform provision:** Reform provisions and their resulting regulations can have wide-ranging effects and impact all products, segments, and operational areas within a health plan
- **Bring the A-team:** Responding to reform is complex and requires comprehensive thinking about the organization, the market and the health care system. Having a full-time, dedicated team populated with strong leaders and top performers can help the organization put its best foot forward and consider all potential implications
- **Coordinate:** Reform has far-reaching impacts. Engaging the entire enterprise can help to achieve a comprehensive and consistent result – and help to determine that no product segments or operational areas have been overlooked in the process



- **Accept help:** Leverage the right internal and external specialists to inform and push their thinking
- **Rethink governance:** In implementing reform, decisions need to be made and coordinated at every level – from the board down to the front lines – often under tight timelines. Traditional operational silos and hierarchical chains of command can impede effective decision making, and complicate compliance

### Lesson 2: See the forest and the trees

Looking at what is right in front of the health plan is helpful, but the organization also needs to understand the broader context and long-term requirements. Health plan leaders can develop better strategies if they:

- **Pick a target destination:** Determine directionally where the organization is heading and align immediate and long-term priorities with that strategy
- **Think ahead:** Start planning for provisions with later effective dates that will take more time to implement
- **Keep one eye on the rearview mirror:** Understand that their organizations' responses to the early effective dates did not end on September 23, 2010, and will require continued management, compliance efforts, and solution integration
- **Pay attention:** Remember that new rules, regulations, and even legislation continue to develop at both the federal and state levels and they need to be aware of those developments



- **Look around:** Investigate, understand and monitor how the rest of the health care industry is responding to the Affordable Care Act – these observations can affect future success
- **Referee:** Develop a plan to balance all of their investment requirements – particularly the very large ones (e.g. ICD-10 and administrative simplification)

### Lesson 3: Make sure everyone is singing from the same songbook

Internal alignment is more important than ever – misunderstandings and working at cross-purposes may sabotage a health plan's ultimate success if the organization doesn't:

- **Communicate:** Provide consistent and rapid communication internally and externally
- **Educate:** Make sure that the organization and all of its people understand reform and its implications
- **Participate:** Constructive participation in the legislative and regulatory process helps inform those processes and make them successful. Understand and respond to requests for participation and input and take leadership where required
- **Harmonize:** Coordinate how questions and solutions are addressed – adopt some standardized approaches when



possible and clearly identify leaders with clear lines of authority and accountability

- **Agree on the "Facts:"** Develop common assumptions for modeling and use them consistently
- **Document, document, document:** Document and disseminate interpretations and decisions – create a paper trail that allows for reviews and audits – both internally and by potential external parties

### Lesson 4: Be as flexible as gummy

The next four to five years in health care will contain a lot of uncertainty. Between regulations that haven't been written and unknown market responses from providers, life sciences companies, states, employers, and other health plans, there is no way of accurately predicting the future and devising a full-proof strategic response. Health plans need to build the capabilities to:

- **Revisit and revise:** Create working hypotheses that can evolve as regulatory clarity and other stakeholders' responses emerge
- **Develop scenarios:** Use modeling to shape strategic choices and understand potential implications
- **Estimate impacts:** Estimate impacts to budgets and portfolio projects (don't forget a common "fact" base)



### Lesson 5: We are not in Kansas anymore

The one thing we know is that health care as we have known it has changed. Yesterday's health care industry is long gone, and with it went the rules of the game that have defined health plans' strategic and operational choices for decades. Fighting this change isn't a productive option – instead, health plans should embrace these changes and be proactive in shaping the “new normal” that will emerge. This will require a health plan to:

- **Start fresh:** Transform its culture to support the change, innovation, and collaboration that will be needed to survive
- **Break down walls:** Break down the silos that separate the organization and its leadership from one another. This will be required so that the health plan can apply consistent rules across product and customer segments and to make better decisions
- **Collaborate creatively:** Collaborate in a whole new way, with new partners (inside and outside the industry) and in new and different structures

### What next?

Reform's first compliance deadline of September 23, 2010, has passed, but this is not a time for health plan leaders to rest. Rather, health plans can now take advantage of this time to analyze the real impacts of health reform on their business and deliberately and aggressively plan for their future. A structured and comprehensive strategic process is now required to determine a health plan's go-forward market position.

Health plans should leverage scenario modeling and focused strategic analysis to now determine:

- Who their customers and competitors will be
- What products and services they will offer
- Where they should invest and innovate
- Whether focus, diversification or some combination of the two is the best go-forward strategy



- **Know its consumers:** Exchanges and other reforms will increase the role of the consumer in health care decision making - understanding the needs and behaviors of consumers will become critically important
- **Innovate:** Seize the opportunities presented by industry disruption to create new products and/or diversify into new areas. Reform will create opportunities for those organizations who can identify and seize them

- What their physician and hospital alignment strategy should look like and how to respond to new care delivery models and demonstrations
- Whom they should buy, or sell, and with whom they should collaborate,
- How to constructively work with federal, state, and local regulators and legislators as reform continues to unfold.

A health plan's response to reform will continue to evolve as more is known about how the legislation will be implemented and how competitors and other market stakeholders will react. What is certain is that health plans will need to balance implementation of newly effective provisions with longer-term strategic decisions about where they want to focus and what roles they want to play. Those health plans who can effectively apply the lessons of the past six months to their strategic and tactical health reform-related planning going forward will be a step ahead.

## Contacts

### Jeffrey Bowman

Director  
Deloitte Consulting LLP  
[jbowman@deloitte.com](mailto:jbowman@deloitte.com)

### Mark Hopkins

Principal  
Deloitte Consulting LLP  
[mahopkins@deloitte.com](mailto:mahopkins@deloitte.com)

### John Keith

Principal  
Deloitte Consulting LLP  
[jkeith@deloitte.com](mailto:jkeith@deloitte.com)

### Sarah Wiley

Senior Manager  
Deloitte Consulting LLP  
[sawiley@deloitte.com](mailto:sawiley@deloitte.com)

### Julia Goldberg

Manager  
Deloitte Consulting LLP  
[juligoldberg@deloitte.com](mailto:juligoldberg@deloitte.com)

## About Health Sciences at Deloitte LLP

The mission of Deloitte's Health Sciences practice is to work with our clients — health plans, health care providers and life sciences companies — to help shape the new health economy and the roles they play within it. Working together, we can help our clients in their efforts to bring discoveries to life and improve the quality of care while creating and sustaining long-term, bottom-line success. Drawing on more than 70 years of Health Sciences experience with the innovation, knowledge and commitment of more than 3,300 professionals focused on the industry, we have access to a complete range of audit, tax, consulting, and financial advisory services across all sectors of the industry. We offer wide-ranging, customized services and solutions designed to help our clients in their efforts to capitalize on opportunities and tackle their most pressing and complex challenges.

For more information about our national practice, please call (800) 877-1298, send an email to [healthplans@deloitte.com](mailto:healthplans@deloitte.com) or visit our web site at <http://www.deloitte.com/us/healthplans>.

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.