

THOMSON REUTERS ON HEALTHCARE REFORM



PREDICTING LOCAL CHANGES IN COVERAGE AND UTILIZATION

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The Patient Protection and Affordable Care Act (PPACA) will bring large volumes of newly insured into the market, and reduce the number of uninsured Americans by as many as 28 million by 2019. The pace, magnitude, and redistribution of this population among care delivery sites will simultaneously challenge both the top and bottom line for hospitals and health systems by posing complicated changes in demand, utilization, and payment.

The impact on individual markets will vary significantly based on factors including differences in implementation of state Medicaid programs, local demographics, current distribution across payers, and the services currently offered in an area. Healthcare providers must anticipate how all of these factors will come together in their markets.

Read this issue to learn some of the key national projections, reasons why coverage and utilization vary by market, and when it's important to seek local market insights and sophisticated approaches that consider the complicated myriad of factors that will change utilization.

ESTIMATING INSURANCE COVERAGE SHIFTS FOR THE U.S.

Reform legislation will decrease the number of uninsured Americans and increase the number of Medicaid enrollees. Estimates of coverage changes from the Congressional Budget Office, the Centers for Medicare & Medicaid Statistics (CMS) Office of the Actuary, and The RAND Corporation are thought to be the most reliable. These sources all use a micro-simulation approach to create models of how individual plan purchasing decisions are affected by economic factors such as subsidies, copayments, premiums, and penalties. These models are based on data from the Survey of Income and Program Participation, a longitudinal survey that is the instrument of choice for studying enrollment changes over time. These organizations estimate that the number of Medicaid enrollees will increase by 11 to 25 million, and the number of uninsured will decrease by 24 to 28 million, by 2019.

Reform will also impact private insurance coverage. To estimate these changes, it is useful to understand the choices Americans have been making over the last several years. With premiums rising and unemployment at high levels, we might conclude that the number of people who individually purchase their own private insurance is declining across the board. However, a CMS analysis of private insurance purchased by individuals from 2007 to 2008 shows that change in membership varies greatly by region. For example, Oklahoma showed a 90% increase and Alabama showed a 49% decrease in private insurance over the same time¹. Analyzing such data teaches us that local trends are often contrary to national trends.

THE IMPACT OF LEGISLATION ON UTILIZATION

Healthcare reform will certainly influence utilization of hospital services and payments for these services. Some of

RESOURCES

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these effects will flow from coverage changes; as more people are insured, more will seek services. Conversely, some changes in coverage and payments will decrease service demands. The impacts on utilization require expert insight to estimate.

After devising some general principles to guide utilization estimations, our Center for Healthcare Improvement reviewed specific elements of the reform law to propose the directional effect on overall utilization. Of all the reforms, the requirement for all citizens to have insurance by 2014 will have the greatest impact—an increase in utilization. That is, as out-of-pocket healthcare costs decline for newly insured individuals, their utilization will increase. Other elements of the law that are expected to prompt increases in utilization include: creating Medicaid medical homes for patients with multiple conditions, funding of \$11 billion for community health centers and other community clinics, increasing Medicaid payments to PCPs in 2013 and 2014, and establishing minimum coverage for all plans. Several elements of the legislation are expected to decrease utilization, primarily those items around pay for performance, including the reduction in annual Medicare market basket payments; reduced Medicare payments for preventable hospital readmissions; financial rewards for efficient quality care provided by Medicare Accountable Care Organizations (ACOs); and, the proposed hospital value-based purchasing program that links payments to outcomes.

PLAN FOR CHANGING DEMAND IN YOUR MARKET

National estimates are useful for federal policy makers, but changes in healthcare begin locally. Consider the PPACA legislation that will extend Medicaid eligibility to all adults younger than 65 with incomes below 133 percent of the federal poverty level. This provision alone is expected to bring health insurance to more than 16 million people, yet this expansion will not affect every state the same way. Although Medicaid is primarily a federally funded program, it is administered by state agencies. To qualify for federal funds, state Medicaid plans must provide certain minimal services and must cover several mandatory populations. Health reform will operate differently in each state because:

- All programs will be state based
- All states have different uninsured populations
- Current Medicaid program policies and rates of participation are different throughout the states
- Many states have already extended Medicaid coverage

Variation in state implementation, local demographics, and what is currently offered in an area will lead to very different trends by market. Thomson Reuters has devised strategies for localizing the coverage and utilization trends that take into consideration: 1) before and after adoption rates of insurance exchanges and Medicaid programs in Massachusetts, 2) state-by-state Medicaid eligibility rules, 3) relative aggressiveness of each state in fostering participation, and 4) application of adoption rates to those currently uninsured in each locality. See the white paper for more details.

Based on the Massachusetts experience, we expect increases in all areas, particularly in preventive and diagnostic services. Hospital executives will need to understand potential stress points where demand may exceed current capacity. You can use a simple set of calculations to create an initial estimate of market-specific volumes for a particular procedure, as follows:

1. Calculate the current payer mix for the market area
2. Calculate procedure volumes by insurance source
3. Calculate procedure rates, by insurance source, by dividing payer-specific volumes by enrollment totals
4. Distribute the uninsured population to private insurance and Medicaid
5. Apply the adjusted population from the steps above to understand the possible future increase in rates

We feel that it is important to begin with a pure model of the full potential impact of enrollment changes. It is essential for hospital executives to understand the magnitude of the challenge facing local delivery systems, because these systems will bear the burden of managing utilization. Read more details on our new white paper: [*The Influence of Reform on Local Coverage and Utilization*](#).

GET THE FACTS

Project the impact in your local market with market intelligence and sound methodologies that capture the unique characteristics, local variations, and complex changes. See our resources and related research, and contact us to learn more about how Thomson Reuters can provide you with intelligent information to help support decisions with facts.

¹ Memo, Estimated Financial Effects of the Patient Protection and Affordable Care Act
<http://www.cbo.gov/ftpdocs/113xx/doc11379/AmendReconProp.pdf>