CALIFORNIA AND THE ECONOMICS OF HEALTH CARE REFORM

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HEALTH INSURANCE REFORM IN A NUTSHELL

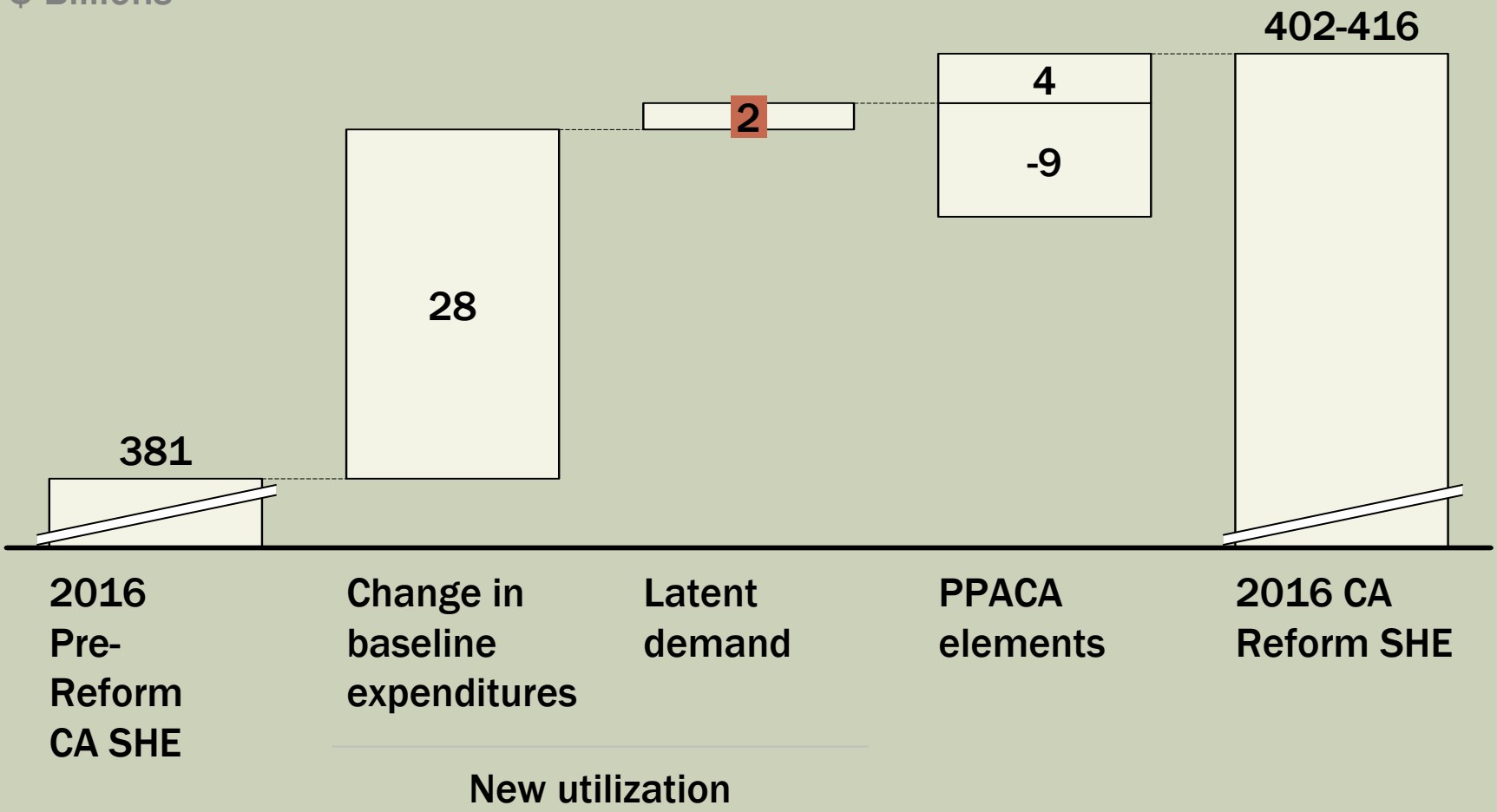
- Health insurance coverage for ~35 million additional people
- Insurance market regulation and reorganization
- Complicated financing challenges for both state and federal governments

Providers will have to adjust

PROJECTED EFFECT OF REFORM ON CALIFORNIA, 2016

Total California state health care expenditures, 2016

$ Billions



COVERAGE EXPANSION

- Employers mandates and individual mandates
- Penalty for non-compliance
  - $325 in 2015; $695 per person in 2016, indexed to inflation)

MEDICAID EXPANSION

- Medicaid expansion for families below 133% of federal poverty line (~$29k for family of 4)
- ~20 million more people insured through this mechanism by 2019
  - >2 million in California

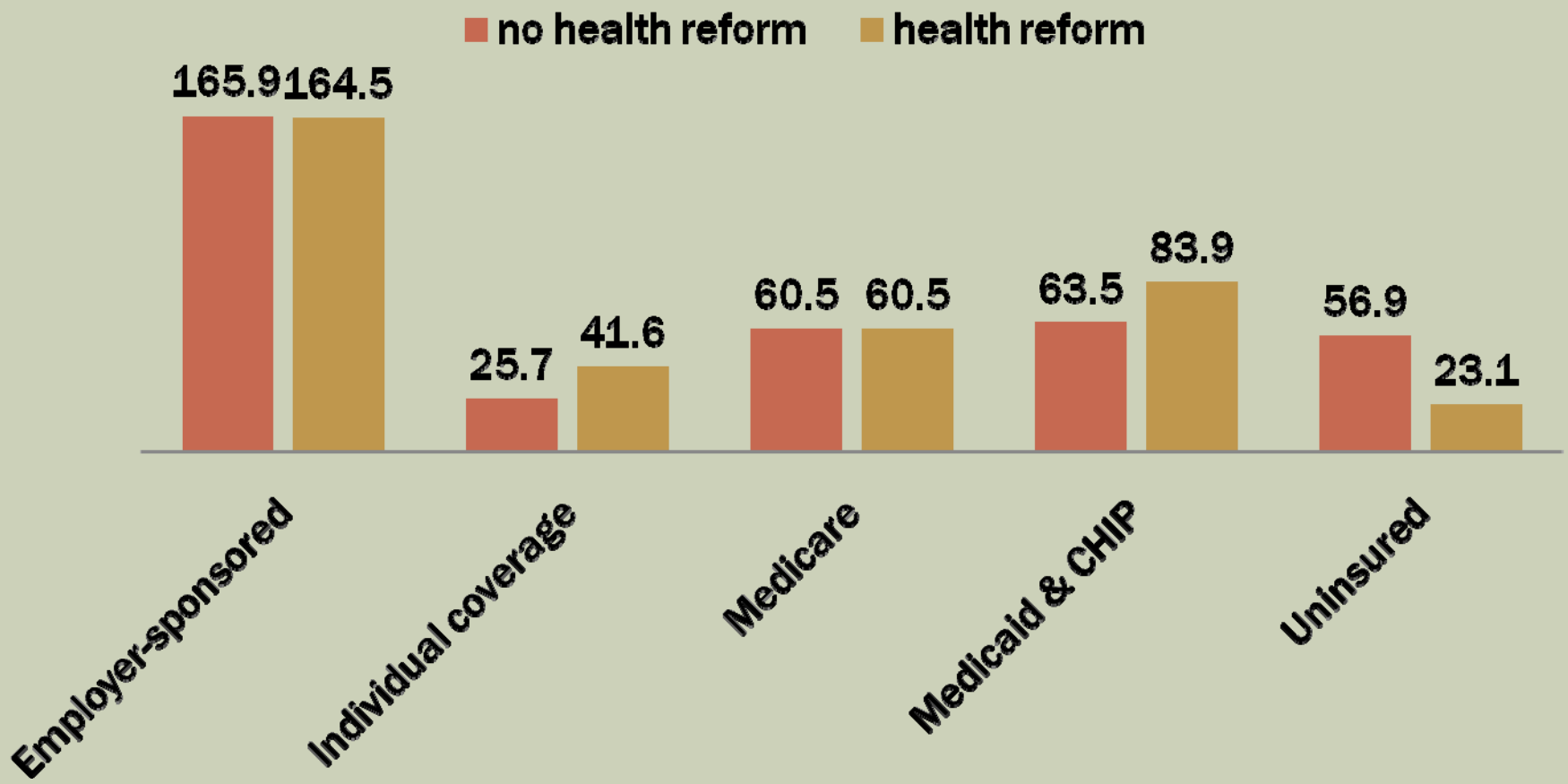
BENEFIT EXPANSIONS

- Medicaid programs will be mandated to cover many additional benefits, such as:
  - Free standing birth clinics
  - Tobacco cessation services for pregnant women
  - Selected prescription drugs classes, including barbiturates and benzodiazepines.
- Optional benefit expansion:
  - Preventive services for adults
  - Health centers for people with chronic disease
  - Expanded home health services

HEALTH INSURANCE EXCHANGE

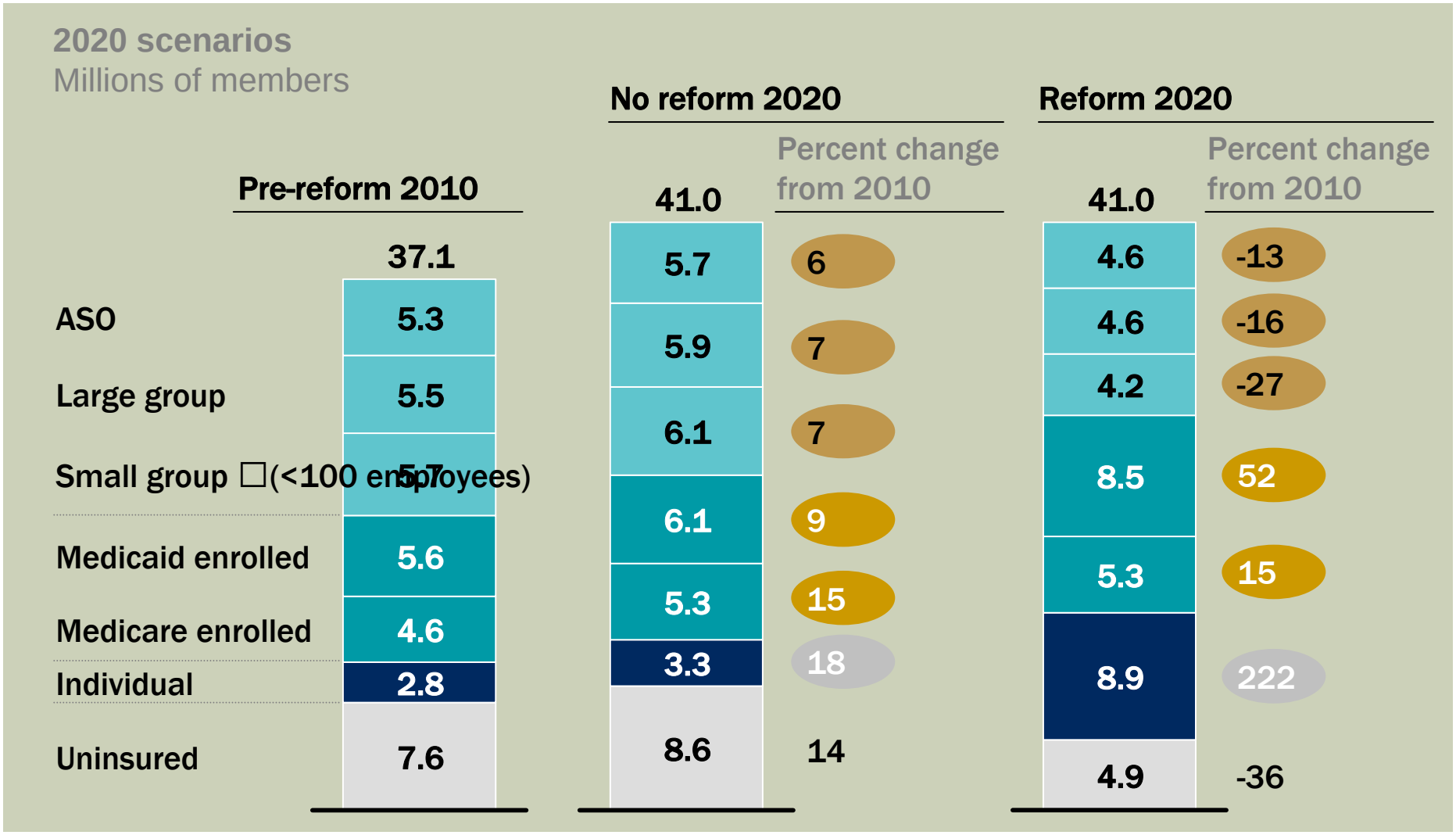
- Clearinghouse run by states for the individual health insurance market
  - Greatly expanded individual market by mandated purchase requirement
- Four classes of coverage
  - Plans rated on cost and quality
  - Minimum benefit standards
- Subsidies for families between 133% and 400% of federal poverty line (~$87k for family of 4)

HEALTH INSURANCE ENROLLMENT IN 2019
(MILLIONS OF PEOPLE)



Source: Medicare Office of the Actuary, April 2010

COVERAGE SHIFTS IN CALIFORNIA



FINANCING THE REFORM

- Increase federal expenditures by ~$950 billion between 2010 and 2019
- Cut Medicare expenditures by ~$575 billion
- Higher payroll taxes and capital gains taxes on high income earners (~$550 billion)
- Increased taxes on medical devices, brand-name drugs, and high cost insurance plans

MEDICARE REVISIONS AND REFORMS

- ~$140 billion in cuts to Medicare Advantage between 2010 and 2019
- Changes in Medicare payments to doctors and hospitals
  - Increased payments for low cost doctors and hospitals; decreased payments for high cost doctors and hospitals
  - Payments tied to measured quality
- Expansion of prescription drug coverage
- Much of the remainder of $575 billion cut not yet determined

PRIVATE INSURANCE HAS OFFSET MEDICARE REIMBURSEMENT

FINANCING MEDICAID EXPANSION

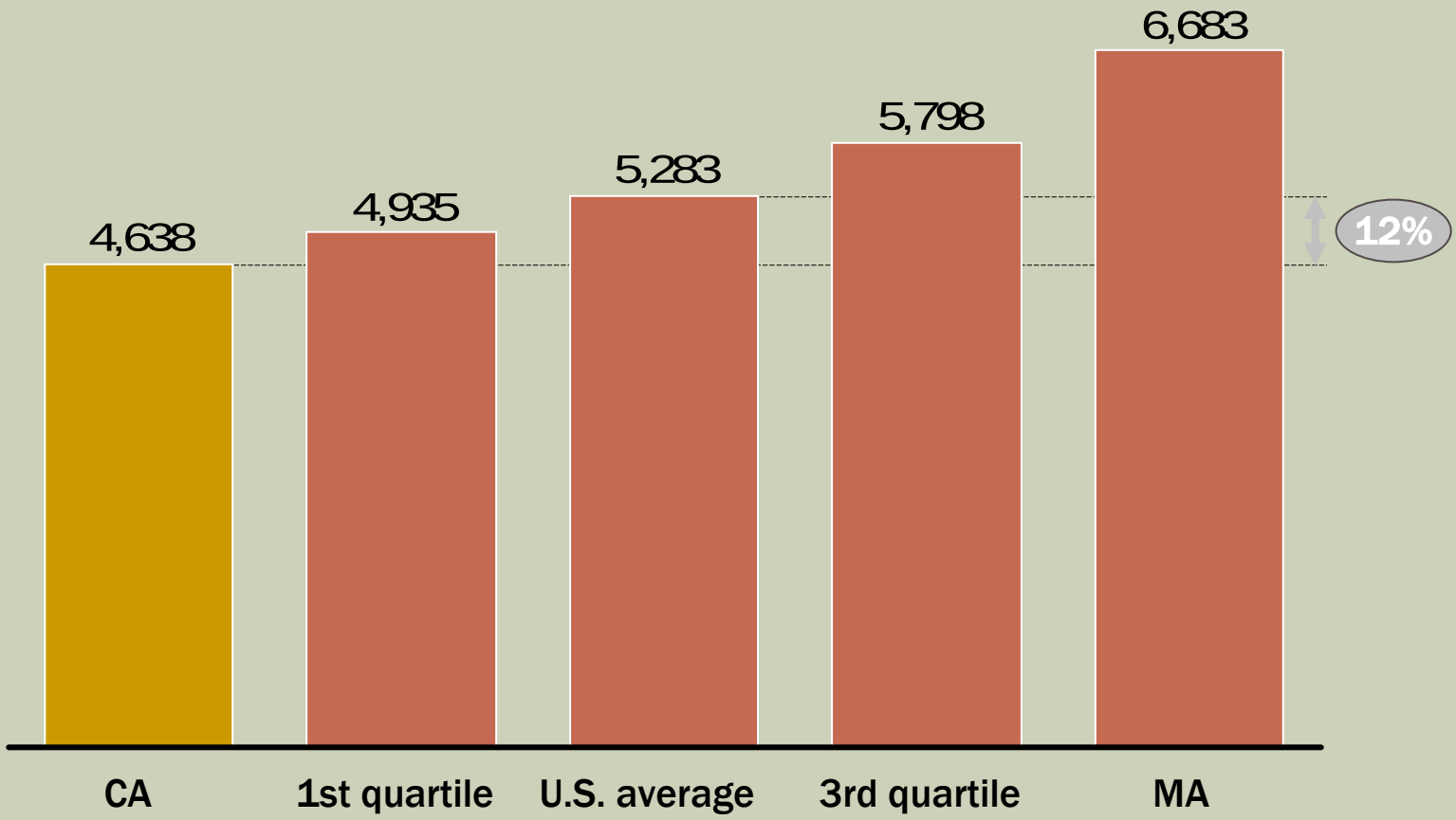
- Between 2014 and 2016, Federal government will pay 100% of Medicaid costs for newly eligible
- Between 2017 and 2020, the state share of Medicaid costs for the newly eligible will increase to 10%
- After 2020, the state share will stay at 10%
- Reductions in Medicaid disproportionate share hospital (DSH) payments
  - Aggregate reductions range from $500 million in 2014 up to $4 billion in 2020

FINANCING CHANGES AFFECTING PROVIDERS

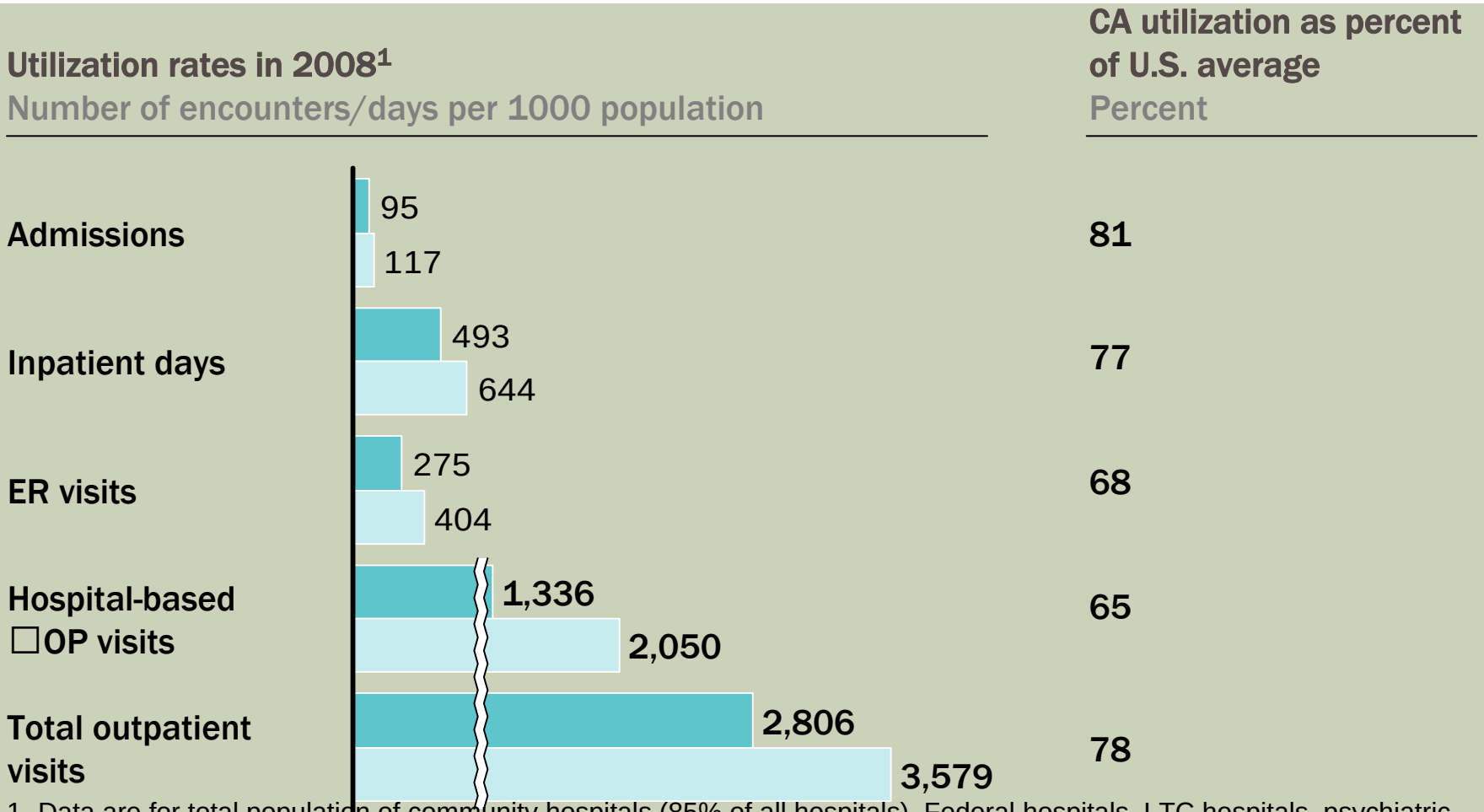
- Reductions in Medicaid reimbursements for prescription drugs
  - Accomplished via a redefinition of the average manufacturer's price for prescription drugs
- Reductions in payments to hospitals for iatrogenic conditions
- Increased payments to primary care doctors in selected specialties

CALIFORNIA STATE EXPENDITURES ARE HISTORICALLY LOW

Per capita health expenditures, 2004
Dollars



CALIFORNIA UTILIZATION RATES ARE ALSO LOW



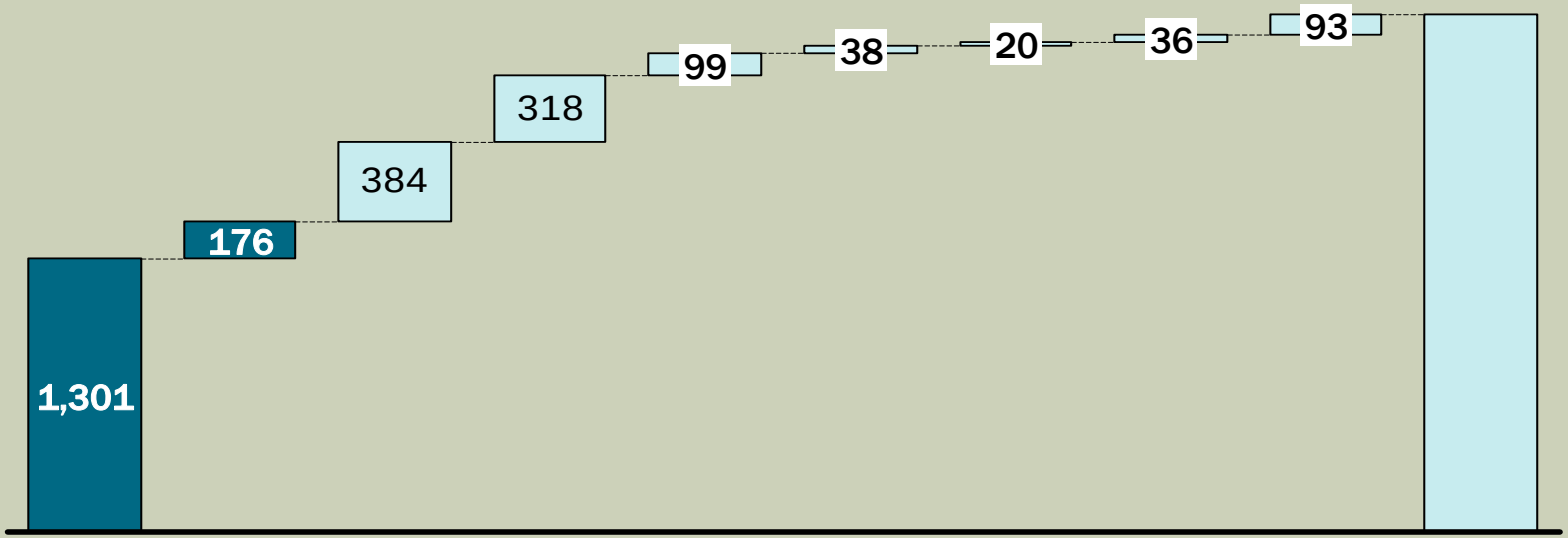
1 Data are for total population of community hospitals (85% of all hospitals). Federal hospitals, LTC hospitals, psychiatric hospitals, institutions for the mentally retarded, and alcoholism and other chemical dependency hospitals are not included.

SOURCE: Kaiser State Health Facts

HOSPITAL LABOR COSTS ARE THE KEY SOURCE OF HOSPITAL COST GROWTH

California hospital costs by expense category, 2008[1]

$ per adjusted patient day



	Salaries, wages, and benefits	Profess-ional fees	Supplies	Services	Deprec-iation	Leases & Rentals	Insurance	Interest	All Other Expenses	Total
CAGR 2002-08 Percent	7.9	6.2	6.2	5.9	4.3	6.9	4.1	3,9	3.8	6.8

1 Excludes Kaiser, State, Shriners, LTC Emphasis, and PHFs

SOURCE: 2008 OSHPD Hospital Annual Financial Data Profile

PROSPECTS FOR THE FUTURE

- PPACA will lead to insurance coverage for millions
- Providers will face the prospect of rate cuts from all payers:
  - Medicare cuts
  - Medicaid rates will remain low, even as the covered population expands
  - Limited ability to “pass on” losses from public sources with higher rates for privately insured
    - Effective rate regulation will prevent this