

Health Reform Impact For Puerto Rico



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The new healthcare reform law provides significant benefits to Puerto Rico while also creating the possibility of unintended adverse consequences on the healthcare market. The successful implementation of reform in Puerto Rico will rely upon an understanding of all of the consequences and cost implications.

We will begin by providing a summary of the bill's Puerto Rico-specific considerations as well as a summary of the Puerto Rican market. The paper will then examine strategic issues that should be given special consideration by all stakeholders.

BILL SUMMARY

The reconciliation bill included important positive developments for Puerto Rico. The bill provides for a significant increase in Medicaid funding from 2011 to 2019, amounting to \$5.447 billion over the current funding estimates. Starting in 2014, the reconciliation bill also provides Puerto Rico a block grant of \$925 million either for the establishment of an insurance exchange or as additional Medicaid funding.

Although there is some confusion regarding which sections apply to Puerto Rico and other territories, there is a general consensus that many of the consumer protections and health insurance reforms enacted will also apply to Puerto Rico. This includes the extension of coverage to dependents until age 26, the prohibition against imposing annual or lifetime limits, the ban on preexisting conditions exclusions, and the introduction of premium rates requirements, among others. On the other hand, the individual tax penalty for not having qualified healthcare and the employer group penalty fees do not apply.¹

PUERTO RICO MARKET

The Puerto Rico health insurance industry is highly dependent on government funding. The local and federal governments provide direct funding for half the population and for over 65% of the health insurance industry funding through Medicaid (referred to locally as "Reforma"), Medicare Advantage, and Medicare. The government is also an important contributor to the commercial market through the insurance provided to its employees (about 300,000 territorial and federal employees). The current distribution of the Puerto Rico market by membership and revenue equivalence is shown in the table in Figure 1.²

FIGURE 1: ESTIMATED 2008 PUERTO RICO HEALTHCARE MARKET

SEGMENT	MEMBERSHIP (IN THOUSANDS)	DOLLARS (IN MILLIONS)
REFORMA (MEDICAID)	1,500	\$1,750
COMMERCIAL	1,500	\$2,750
MEDICARE ADVANTAGE	380	\$3,500
MEDICARE	200	\$633
UNINSURED	400	\$0
TOTAL	3,980	\$8,633

MILLIMAN'S KEY STRATEGIC CONSIDERATIONS

Reforma Market

Reforma is the name given to the government health insurance program, which is partially funded by Medicaid funds. The potential of the significant increase in funding to expand coverage is significantly reduced by the current Reforma deficit, estimated at about \$500 million.³ In addition, the economic situation and recent reduction in the government labor force may lead to an increase in the pool of eligible members, even under current eligibility standards. Puerto Rico also has a significant dual-eligible population, so the revenue reductions for the Medicare Advantage program, as described below, will also be a source of additional strain on the Reforma budget in the near future. Finally, an additional federal requirement related to quality, benefits, and infrastructure could also affect the cost of services.

A careful balance must be struck between the expansion of the Reforma program and the foreseeable fiscal needs of the Reforma program. For the time being, it may be prudent for the government to develop good estimates of projected funding sources and costs, taking all of these issues into account.

Medicare Advantage

Medicare Advantage (MA) rates are capped at current levels and expected to be reduced starting in 2012. Given Puerto Rico's high MA penetration rate—at over 65%, the highest in the United States—the MA cuts will have a significant effect not only on the MA market but also on the overall healthcare system. A significant number of MA members are dual-eligible. Therefore, any reduction of MA funding would likely need to be covered by the Reforma Platino program (MA wraparound coverage provided by the local government).

The MA cuts have been anticipated by Puerto Rico carriers since early 2009, when initial estimates emerged of the overall impact topping \$1 billion per year. The resulting reductions are not as significant as initially feared. More recent estimates of the impact of the MA cuts are \$300 million to \$400 million a year.⁴ Additional opportunities exist to reduce the impact, including the bonus payment system and the additional funding provided to reduce member cost sharing in the coverage gap.

Small Group Market

The private managed care market is a very competitive segment of the market. Even though the segment is dominated by a few carriers, employer groups have options available with as many as 16 health insurance carriers and health service organizations (which are similar to HMOs) active in the market. Currently, the regulatory market has no rating restrictions applicable to small group rating.

According to the American Academy of Actuaries, the tightening of rating restrictions is expected to result in more groups experiencing premium increases than groups experiencing premium decreases.⁵ Other factors seem to provide upward pressure on the insurance rates as well, including additional expenses to implement significant modifications to current policy forms and benefit structures, followed by the additional technical and compliance processes that need to be established to address issues resulting from the insurance exchange and risk adjustment process.

On the other hand, the proper implementation of the insurance reform provisions could also provide downward pressure on rates. The increased competition generated by the establishment of a

robust insurance exchange, administrative efficiencies generated by the simplification provisions, reduced distribution costs, and a well structured risk adjustment process could all prove to be effective in providing such downward pressure on the premium rates for the overall market. Also, the effective establishment of the exchange could prove very beneficial in increasing the participation of insured in commercial programs.

FINAL THOUGHTS

All in all, the reform provides a significant increase in the funding available to provide services. At the same time, many of the same challenges will remain and could actually be exacerbated if the various stakeholders do not successfully develop a Puerto Rico-based solution to healthcare needs.

ENDNOTES

- ¹ Marino, John & Santana, Mario (April 29, 2010). The Senate's master plan to reform the Reform. *Caribbean Business* Vol. 38 No. 16: 3, 28-32.
- ² Data compiled from the Office of the Commissioner of Insurance (available at http://www.tendenciaspr.com/Agencias_Gobierno/Comisionado_Seguros.html), various articles, and internal data.
- ³ Marino & Santana, *ibid.*
- ⁴ Marino, John (April 1, 2010). Acodese chief says U.S. health reform 'great for P.R.' *Caribbean Business* Vol. 38 No. 12: 26-27.
- ⁵ American Academy of Actuaries (Nov. 2009). Critical issues in health reform: State-level impacts.

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