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Press Release

Milliman Identifies Strategic Considerations for the Post-Healthcare Reform Environment

For many stakeholders, effective implementation relies on ability to measure, improve, and innovate

Seattle – March 27, 2010 – Milliman, Inc., a premier global consulting and actuarial firm, today announced an initiative focused on providing meaningful insight that can help healthcare stakeholders effectively navigate healthcare reform.

“This week the president signed into law the most sweeping social legislation in decades,” said Clark Slipher, Milliman health practice leader. “Milliman’s healthcare experts have closely followed healthcare reform as it has progressed through the legislative process. The health system faces major changes in individual, small group, and potentially even large group insurance; Medicare and Medicaid will also be greatly affected. While the full implications of this legislation cannot be immediately known, we do know that several strategic considerations will be of vital importance and that the market will undergo unprecedented flux.”

Milliman’s key strategic considerations include:

- **The health insurance industry will face intense regulatory scrutiny at both the state and federal level.** While new regulation does not necessarily go into effect immediately, it is clear that health insurers now face increased scrutiny and a new layer of regulatory complexity. Health plans will have to focus on minimum loss ratios and administrative efficiency and will have to balance challenging cost dynamics against the need for affordable policies.
- **State exchanges will change competition.** The creation of state exchanges will have different effects in each state, reducing distribution costs and potentially tempering rate increases in the individual and small group insurance markets.
- **While not explicitly in the law, cost effectiveness will be central.** Health plans are revisiting provider risk-sharing methods as a way to help control costs and to create quality incentives. These efforts may be different from those attempted in the past due to better technology and improved risk adjustment. Accountable care organizations are one example of this risk sharing. Evidence-based medicine may also play a role in reducing waste and inefficiency, since certain clinical best practices offer the opportunity to simultaneously manage cost and improve quality. A new emphasis on prevention has uncertain cost implications.
- **Risk adjustment introduces a new variable.** One of the least developed parts of the reform bill is the idea of risk adjustment, which is essential to the operation of the new state exchanges. Risk adjusters quantify the health status of individuals and thereby help to pay health plans commensurate with the risks they assume.



- **Medicaid will strain state budgets and stretch managed care plans.** With many states already facing budget shortfalls, Medicaid will continue to influence deficits. Pent-up demand for care among uninsured populations has significant cost and access-to-care implications. The sudden influx of new enrollees will create administrative challenges.
- **Medicare Advantage plans will become less attractive to consumers and carriers.** An effort to reduce Medicare Advantage payments will have a significant effect on the MA market, with plans facing difficult questions over efficiency and benefit mix.
- **New benefit requirements will affect plan design.** The imposition of minimum benefit provisions may challenge certain benefit designs. Meanwhile, the enforcement of the “Cadillac tax” beginning in 2018 may result in a ceiling on benefits that carriers will have to take into account.
- **Administrative expenses will be under the microscope.** For various reasons, administrative expense will be under increased scrutiny in political, regulatory, and consumer circles. Minimum medical loss ratios will likely put more pressure on payors to manage administrative expense, though standardization initiatives may offer advantages to early movers.
- **An influx of enrollees will create new market dynamics.** Insurers should prepare for an estimated 30+ million new people entering the insurance and Medicaid market. Insurers will face unique pricing and risk-mix challenges, with the reinsurance provision also creating short-term consequences.
- **As a result of these changes, enterprise risk management will become essential.** Health insurers have not pursued ERM as extensively as life and casualty insurers, but that may change in the reform environment. How should insurers manage their surplus going forward? How can insurers forecast changes to their business? How should insurers model these changes?

To add additional complexity, each of these strategic considerations will be influenced by local dynamics, including the existing regulatory environments in each state and geographic cost variation.

Many of these concepts have been explored in more depth over the course of the last 18 months. Visit www.milliman.com/hcr to see this ongoing analysis. For the remainder of 2010, Milliman will issue periodic analyses of reform and will host regular updates for clients and other interested parties. If you are interested in receiving this information, contact your Milliman healthcare consultant, call 646.473.3021, or register at <http://www.milliman.com/perspective/healthreform/email-sign-up/registration.php>.

About Milliman

Milliman is among the world’s largest independent actuarial and consulting firms. Founded in Seattle in 1947 as Milliman & Robertson, the company currently has 52 offices in key locations worldwide. Milliman employs more than 2,400 people. The firm has consulting practices in healthcare, employee benefits, property & casualty insurance, life insurance, and financial services. Milliman serves the full spectrum of business, financial, government, union, education, and nonprofit organizations. For further information, visit www.milliman.com.

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