



Access Viewpoint

November 2016

The New Healthcare Era:
THE BATTLE BEGINS



*Then you better start swimmin'
or you'll sink like a stone
For the times they are a-changin'*

-Bob Dylan, 1963.

With the election of the new administration, **the US healthcare system may experience the most significant upheavals since the creation of Medicare in 1965.**

While it is not possible to accurately predict where the administration will ultimately land, the focus at this point is on more retail-oriented approaches designed to increase competition and consumer choice.¹



Conversion of federal funding of Medicaid to block grants

The Federal government currently covers **~60%** of the cost of Medicaid, in return for guarantees that certain groups are covered (eg, children, pregnant women who meet specific income criteria, parents with dependent children) and specific benefits provided.² Giving complete control to states risks the loss of healthcare coverage for millions of people who are poor, sick, or old.



“Repeal and replace” the Affordable Care Act (ACA)

Despite increases in premiums for 2017, 100,000 people rushed to sign up the day after the election.³ This is one signal of the intense demand for the kinds of offerings available at Healthcare.gov. And it indicates that consumers will be watching very closely as they weigh benefits vs cost.



Drug and medical provider price transparency

Consumer and legislative stakeholders have been pushing for greater transparency in pricing for quite a while. And many insurance plans have responded with price comparison search features on their websites. Look for this trend to continue across party lines.



Allowing insurance plan sales across state lines

Today, consumers can buy health insurance policies only from insurers licensed by the states in which they reside.⁴ The incoming administration has promoted the idea that allowing sales across state lines will make coverage more affordable and available. The risk is that it will start a “race to the bottom” by allowing companies to choose their regulator. (Remember, allowing banks to choose their own regulator was a major cause of the financial crisis.) Insurers will look for regulators that let them aggressively seek the healthiest members; everyone else could face substantial premium hikes if they could get coverage at all.⁵



Expanded use of health savings accounts (HSAs)

The new administration supports the use of tax-advantaged HSAs that can be handed down from family to family member. 62% of employers already offer HSAs, and 21% are considering offering them. Continued growth in the use of HSAs should be anticipated.⁶



Reimportation of prescription drugs

Consumers have long been attracted to lower drug prices in Canada and Mexico. Although the incoming administration will be re-evaluating international trade agreements and tariffs, we expect legislation to allow limited re-importation from specified countries.¹

Additionally, while the president-elect has pledged not to dismantle Medicare, Congressional Republicans have the stated goal of privatizing Medicare.⁷ We are monitoring this closely and will provide updates as information becomes available.

CHANGE WILL BRING OPPORTUNITIES *as well as pitfalls*

Approaches under consideration will impact the healthcare sector to varying degrees. The charts below describe the potential positive and negative effects of specific changes to US healthcare from the perspectives of the key stakeholders.

Pharmaceutical Manufacturer Perspective

Repeal/replace ACA



- All ACA fees repealed (\$27 billion 2011-20218)
- "Donut hole" and Medicaid drug rebate requirements repealed



- Fewer people insured will reduce spending on drugs

Re-importation of drugs

No positive impact



- Possible safety issues related to counterfeit products
- Potential loss of revenue

Pricing transparency



Greater credibility with consumers



- May lead to price controls

Insurer Perspective

Repeal/replace ACA



All ACA taxes and fees go away



- Loss of enrollees

Sales across state lines



Less regulatory pressure



- Harder to establish provider networks
- Lower margins

Provider pricing transparency



Consumer price-shopping drives costs down



- If extended to payers, opens up the business to unwanted scrutiny

Provider Perspective

Repeal/replace ACA



- ACA provider fees go away
- Lower payment rates repealed



- Loss of 20MM people reduces revenue, increases uncompensated care
- Reduced demand for services
- Increase in bad debt

Sales across state lines



- Potential for increased patient volume



- Increased administrative burden
- Lower-cost policies may reduce reimbursement

Provider pricing transparency



- Providers invested in transparency will attract patients



- Loss of revenue for many providers

Consumer Perspective

Insurance sales across state lines



- Potential for lower-cost alternatives
- Penalties for lack of coverage go away



- Millions will lose coverage
- Defunded subsidies to buy insurance
- May compromise shift to value-based care

Insurance sales across state lines



- Potential for lower-cost options



- Potential for exclusion from coverage or higher out-of-pocket costs
- Loss of consumer protections

Re-importation of drugs



- Drug shopping can lead to lower pricing



- Potential safety risks

Pricing transparency



- Patients can shop for lower-cost services



- Plans may steer policy holders to lower-cost providers and services, regardless of quality

Additionally, with repeal and replace of the ACA, employers will once again have to deal with the administrative costs of a new system.

On the positive side, innovators and new entrants may find that few regulations reduce the barriers that currently make it hard to compete with larger, entrenched manufacturers. Conversely, established manufacturers will have a tougher time maintaining dominance.

A new mindset may signal the need to change the way we do business

While there are multiple theories and explanations for the results of the presidential election, three key insights stand out that have implications for how we move forward:



Data: We must remember that healthcare is profoundly personal. Over-reliance on models and predictive analytics at the expense of social listening can be counterproductive.



Media: Focus on sensationalism vs information and policy may be a pervasive new direction.



Facts: Are now discretionary. False reporting on various websites and a fragmented electorate have combined to create a climate in which facts are selectively ignored in favor of emotional appeals that strike at the heart of consumer dissatisfaction.

It pays to be prepared for an uncertain future

Whichever way the wind blows, pharmaceutical and medical device manufacturers and their agencies need to initiate in-depth scenario planning right now to ensure viable pathways going forward. Manufacturers and payers will need to partner more effectively than ever in order to address legislation that may well disrupt their business in fundamental ways. And consumers and employers, as the ultimate payers in the system, can no longer be treated as afterthoughts in the health delivery paradigm.

As an industry, we need to help legislators understand the complex way dollars flow within the healthcare system, so they can make well-informed decisions for the benefit of all stakeholders.

To learn more about how Entrée Health can help your organization think through the pitfalls and opportunities of the New Healthcare Era,
Contact Andrew Gottfried at agottfried@entreehealth.com or 212-896-8026.



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