

HRI as we see it

Weekly insights from the Health Research Institute

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Week of 3/3/2014

This week's regulatory and legislative news:

- **Post-acute, rural provider payments reduced under proposed HHS budget**
- **Off-exchange enrollments soaring**
- **Insurers move to equalize physician and hospital based payment rates**
- **Regulators, drugmakers take a second look at over-the-counter drugs**
- **New lab testing technology has the potential for significant savings in time, money**
- **Insurers may need more nuanced consumer strategies, HRI study finds**

Post-acute, rural provider payments reduced under proposed HHS budget

Ongoing ACA implementation efforts and initiatives to boost the primary care workforce emerged as clear winners in [President Obama's 2015 budget](#), while some rural hospitals and post-acute care providers would receive payment cuts. From the workforce front, the budget offers about \$5 billion over the next decade to support some 13,000 new doctors, including \$100 million for pediatric training in children's hospitals. Additionally, it extends through 2015 higher payment rates for primary care doctors treating Medicaid patients. All told, the budget outlines about \$71 billion in spending for HHS, fully funding ongoing ACA implementation efforts while only making surface changes to Medicare.

HRI impact analysis: Overall, the president's budget would reduce, over the next decade, Medicare payments by \$407 billion and Medicaid payments by \$7.3 billion. The budget would also wring \$97.9 billion in savings from home health providers, rehabilitation centers, and nursing homes, primarily by reducing the annual inflationary payment adjustments by 1.1% over ten years. Medicare would save about \$31 billion by reducing the amount it pays hospitals for their bad debt accounts. Other cuts would impact Critical Access Hospitals, which stand to lose close to \$1.7 billion, and physicians, who would receive lower reimbursement for Part B drugs. To be sure, the budget itself is simply a proposal and has little chance of being approved. Still, it shouldn't be entirely dismissed. As lawmakers search for ways to pay for priority legislation, [such as a bill that repeals Medicare's physician payment formula](#), measures that actually save money are fair game and could resurface as Congress hunts for reductions.

Off-exchange enrollments soaring

As open enrollment approaches its March 31 close, official exchange sign-ups have surpassed the [four million mark](#). Yet [at least 450,000 people](#) have enrolled in individual non-group plans outside of the public exchanges, turning to private exchanges such as eHealth or signing up directly through insurers. Individual off-exchange enrollees may be younger on average than public exchange enrollees; in the last quarter of 2013, [40% of eHealth applicants](#) were between 18 and 34, versus [24%](#) who signed up on public exchanges. Consumer purchases may also differ; only 1% of those on the exchanges selected a catastrophic plan—a limited benefits plan available to consumers under age 30—compared to [10% on eHealth](#).

HRI impact analysis: Individual off-exchange enrollment is likely a mix of consumers [unable to enroll through the public exchanges](#) and shoppers who don't qualify for federal premium subsidies. The enrollment numbers suggest young people are interested in buying insurance through channels other than just the public exchanges. This could influence how insurers invest resources in direct enrollment

and private exchanges. [Private exchanges are already gaining traction](#) among employers as an alternative to traditional group coverage.

Insurers move to equalize physician and hospital based payment rates

A decision by a [major Pennsylvania insurer](#) to reduce payments for cancer-related treatments performed in outpatient settings could have a ripple effect across the US, especially as more and more hospitals acquire physician groups. [Highmark Blue Cross Blue Shield last week said it would stop paying a higher price](#) for oncology-related services, including infusion chemotherapy drugs, performed in physician practices but billed at hospital outpatient rates. The move follows a growing national trend that sees health systems [buying physician practices and then billing them out at the higher hospital rate](#). Highmark executives say the billing change, which goes into effect April 1, will save \$200 million annually with no impact on the quality of care that is being delivered.

HRI impact analysis: Highmark's decision will be watched nationally, as other insurers study ways to lower costs. Already MedPAC, which advises Congress on Medicare payment rates, has [recommended that the federal government equalize payments](#) for certain medical services performed in outpatient clinics and physician offices. In 2011, for example, Medicare paid 80% more for a 15-minute office visit in an outpatient hospital department than in a freestanding doctor's office. The move by Highmark could encourage other private insurers to do the same. If that happens, the financial impact to hospitals could be significant. HRI research shows that [nearly three-fourths of physicians have some type of financial alignment](#) with a hospital or health system.

Regulators, drugmakers take a second look at over-the-counter drugs

The FDA wants to modernize the way it regulates over-the-counter (OTC) drugs, such as cold remedies and pain relievers. [In a recent Federal Register notice](#), the agency announced a two-day public hearing to solicit ideas on how to improve or completely replace its regulatory framework for OTC medicines—a system that was established more than 40 years ago. According to the FDA, the current process “presents challenges to FDA's ability to respond to emerging safety issues, keep pace with evolving science, and ensure the consistent safety and effectiveness of varying formulations.” For example, critics have argued that FDA is often unable to quickly require a product's label be updated when new safety information becomes available, though they do have that authority for prescription drugs.

HRI impact analysis: FDA's interest in changing its review process comes as more drugmakers are considering the OTC market for products that have lost patent protection. [Earlier this week the FDA approved](#) generic versions of emergency contraception to be sold over-the-counter to women 17 and older. And Pfizer has sought to [make its blockbuster cholesterol drug, Lipitor](#), an OTC drug. But first they must demonstrate to the FDA that patients understand how to use the drug properly without a prescription. That may be less of a challenge as consumers become more engaged in their own healthcare with the aid of new technology and greater transparency. To learn more about how the role of the healthcare consumer is changing, see HRI's [Top Health Industry Issues of 2014](#).

New lab testing technology has the potential for significant savings in time, money

An emerging laboratory has developed the ability to [perform dozens of lab tests on a single drop of blood](#) by using technology that scans and measures DNA strands. [Theranos](#), the California-based company, has [partnered with two Walgreens locations](#) at which micro-samples of blood will be drawn and analyzed for consumers in lieu of traditional phlebotomy. They eventually plan to expand to Walgreens locations nationwide.

HRI impact analysis: Replacing traditional lab testing with this new DNA based technology may mean significant cost savings. Consumers could also see lower prices and increased price transparency; for example, the Theranos website offers a \$2.99 cholesterol test and a \$35 fertility test. Currently, only [37% of consumers](#) feel they have enough information on the price of lab tests.

Insurers may need more nuanced consumer strategies, HRI study finds

In a new brief released this week, HRI found that insurers may be missing the mark with some consumers. Ninety-one percent of insurers thought premiums would be the most important cost concern

for exchange customers, but a majority of consumers – 69% – ranked total out-of-pocket costs as a primary issue. For more on this topic, as well as findings on mobile use, see HRI's newly redesigned [exchange website](#).

Upcoming events & deadlines

- **March 13** – Extended comment period deadline for the [proposed rule](#) on labeling changes for approved drugs and biologics.
- **March 25** – Start of FDA's two-day [public hearing](#) to solicit ideas on improving or replacing the regulatory framework for OTC medication.
- **March 31** – [Extended deadline](#) for those in the Pre-Existing Condition Insurance Plan to gain coverage through exchanges.
- **March 31** – Open enrollment in health insurance exchanges scheduled to end for 2014.
- **May 31** – 2015 exchange premium rate filing deadline for health insurers.

Quote of the week

"[W]e have seen a notable and significant decline in [healthcare spending growth](#) over the last few years, in part due to the Affordable Care Act," remarked President Obama during his [2015 budget announcement](#). The budget, which is subject to Congressional approval, proposes \$71 billion in HHS spending.

In the news

The expansion of Medicaid in rural areas, coupled with cuts in reimbursement, have left many physicians deciding whether to remain in private practice under accountable care ventures, or join larger hospital networks to help mitigate their risk, the [New York Times](#) reports. According to the [American Medical Association](#), less than 40% of primary care physicians are in private practice, a number projected to shrink in the coming years due to increased overhead, lower reimbursements, and added compliance concerns.

Factually correct

66% - The percentage of American consumers who don't believe expensive medical treatment means better quality, according to HRI's [Consumer Survey](#).

Contacts

Benjamin Isgur

Director
benjamin.isgur@us.pwc.com
(214) 754-5091

Bobby Clark

Senior Manager - Pharma/Life Sciences
robert.j.clark@us.pwc.com
(202) 312-7947

Matthew DoBias

Senior Manager - Provider
matthew.r.dobias@us.pwc.com
(202) 312-7946

Caitlin Sweany

Senior Manager - Payer
caitlin.sweany@us.pwc.com
(202) 346-5241

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