

Insurers like that health law ruling sets their path

June 29 2012, By Tim Mullaney, USA Today

Insurance companies hailed the Supreme Court's ruling upholding the Affordable Care Act, saying it gives them certainty about the rules they'll face as they push to cut administrative costs and reward doctors who contain health care costs by emphasizing preventive care.

The law's requirement that most people buy insurance or pay a tax penalty if they fail to get coverage was the essential trade-off the industry sought in exchange for the law's requirement that coverage be offered to people with pre-existing health conditions. Now that the court has upheld the so-called individual mandate, the industry will move ahead quickly with new incentives to boost the quality of care, executives said.

"The good news is that more people will be covered," said Michael McCallister, chief executive of [health insurer](#) Humana. "Affordability is a complicated question that we'll have to work our way through."

While most people will keep insurance they already have, the way their insurance companies act will change under the new law, said David Jones, a Louisville venture capitalist. "You'll buy health insurance the way you buy an airline ticket now," he said. "There's way more efficiency on the administrative side, and there's lots more efficiency to come on the medical side."

Companies are spending hundreds of millions on technology already to cut administrative costs, he said. Instead of buying individual health

policies through agents who take up to 10% of the policy's cost in commissions, consumers will buy coverage online or on the phone, he said, to help meet the law's requirement that insurers spend 80% of premiums on health-care services.

The most important efficiencies will emerge as insurers rework payments to doctors and hospitals, giving them incentives to promote primary care, avoid hospitalizations and slash mistakes that lead to hospital readmissions and longer stays, Cigna Chief Executive David Cordani said. The idea is to emphasize [preventive care](#), especially for patients with chronic conditions such as diabetes or asthma, he said. In return, providers will be able to share savings with Medicare, which is implementing so-called Accountable Care Organizations of doctors and hospitals provided for under the law, and with private insurers.

Cigna is working with about 25 ACOs, which are responsible for managing the cost of their patients' care, Cordani said. The most effective groups have let Cigna cut premiums for the ACOs' patients by 8% to 10%, he said.

Over time, the law will lead insurers to freeze out doctors and hospitals that spend too much on care, said Arnold Milstein, director of Stanford University's Clinical Excellence Research Center.

One reason: The law's hefty tax on expensive "Cadillac plans" will force insurers to weed inefficient providers out of their networks to keep premiums below the taxable threshold, set initially at \$27,500 a year for a family policy. "The Cadillac tax is an underappreciated element of the [Affordable Care](#) Act," he said.

Some people who have insurance now may see lower premiums because of subsidies for universal coverage, said Les Funtleyder, a fund manager at New York hedge fund Poliwogg. Charges for uninsured people who

use emergency rooms and receive free care at hospitals won't be passed along as often to people with insurance, he said.

But Funtleyder was skeptical that ACOs, electronic claims processing and software-based medical records will deliver savings soon. Studies by the Congressional Budget Office have concluded that evidence for the claims is thin, he said.

The insurance industry wants some changes in the law, either by a new act of Congress or regulations interpreting the 2010 bill, said Karen Ignagni, president of America's Health Insurance Plans, a trade group. In particular, the industry wants to lower a 3% excise tax on health insurance premiums that doesn't apply to companies that self-insure, she said. That provision especially burdens customers of Medicare Advantage plans, McCallister said.

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