

Health Care Outlook for 2011 and Beyond

The Legal, Policy and Political Landscape

Contact:

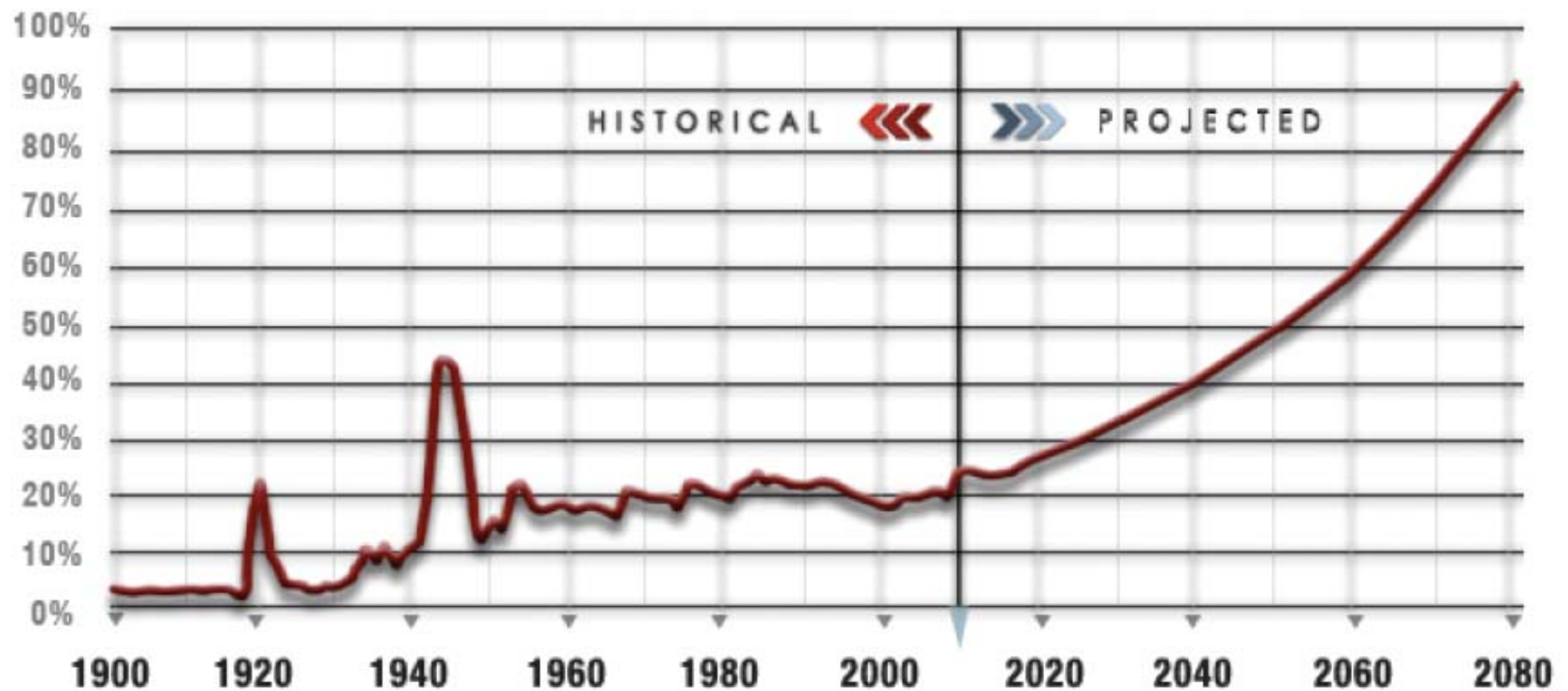
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Overview

- **Overview of Political Landscape**
- **Health Care**
 - Congress
 - Health Care Reform Revisited
 - Budget and the Debt Limit
 - Administration
 - States
 - Providers, Plans and Employers
 - Courts
 - Agenda Outlook



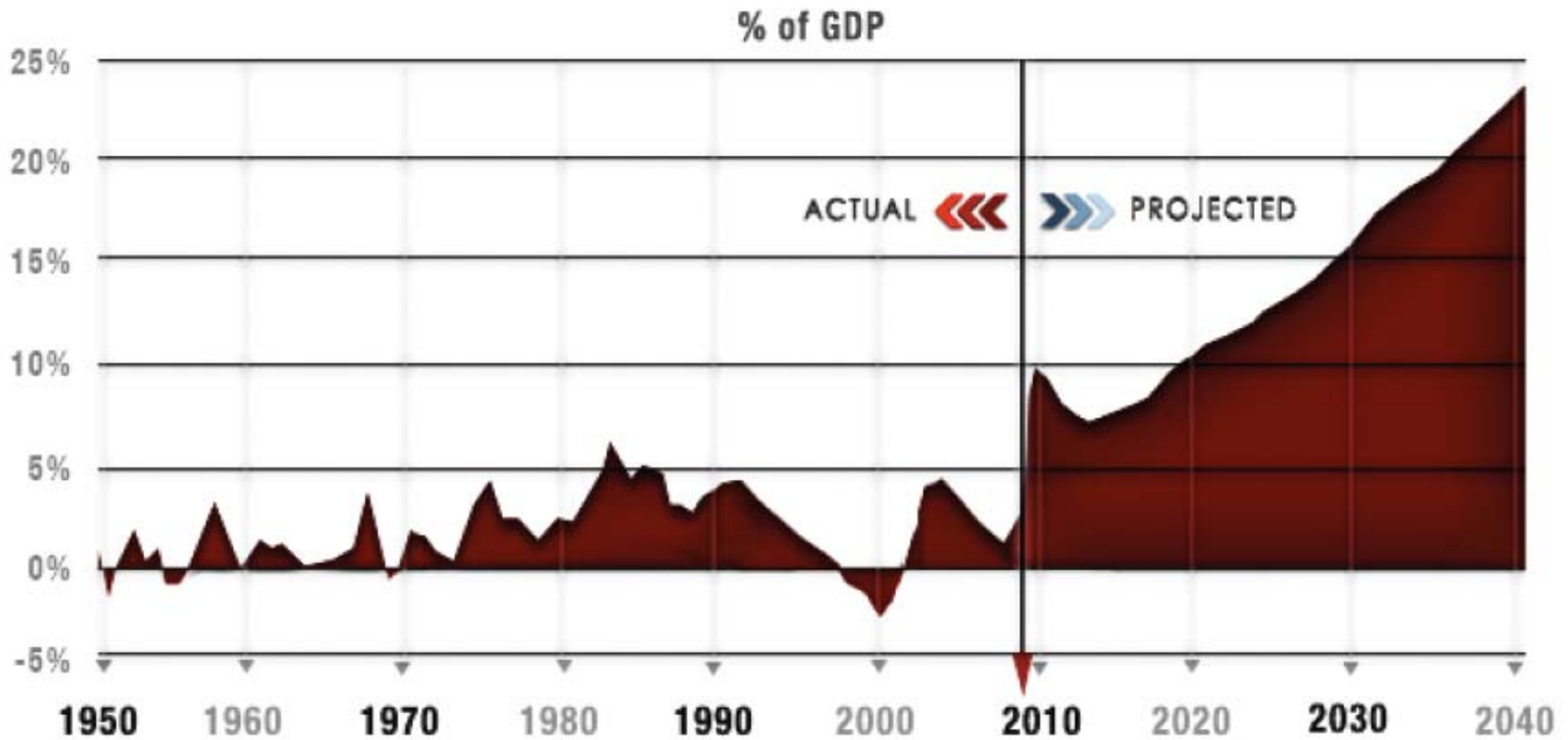
Federal Spending Growing



Source: Compiled by PGPF using data from the Office of Management and Budget, *The 2011 Budget Historical Tables*; the Government Accountability Office, *The Federal Government's Long-term Fiscal Outlook: January 2010*; and *the Historical Statistics of the United States, Millennial Edition On Line*, Cambridge 2006.



Federal Deficits Climbing



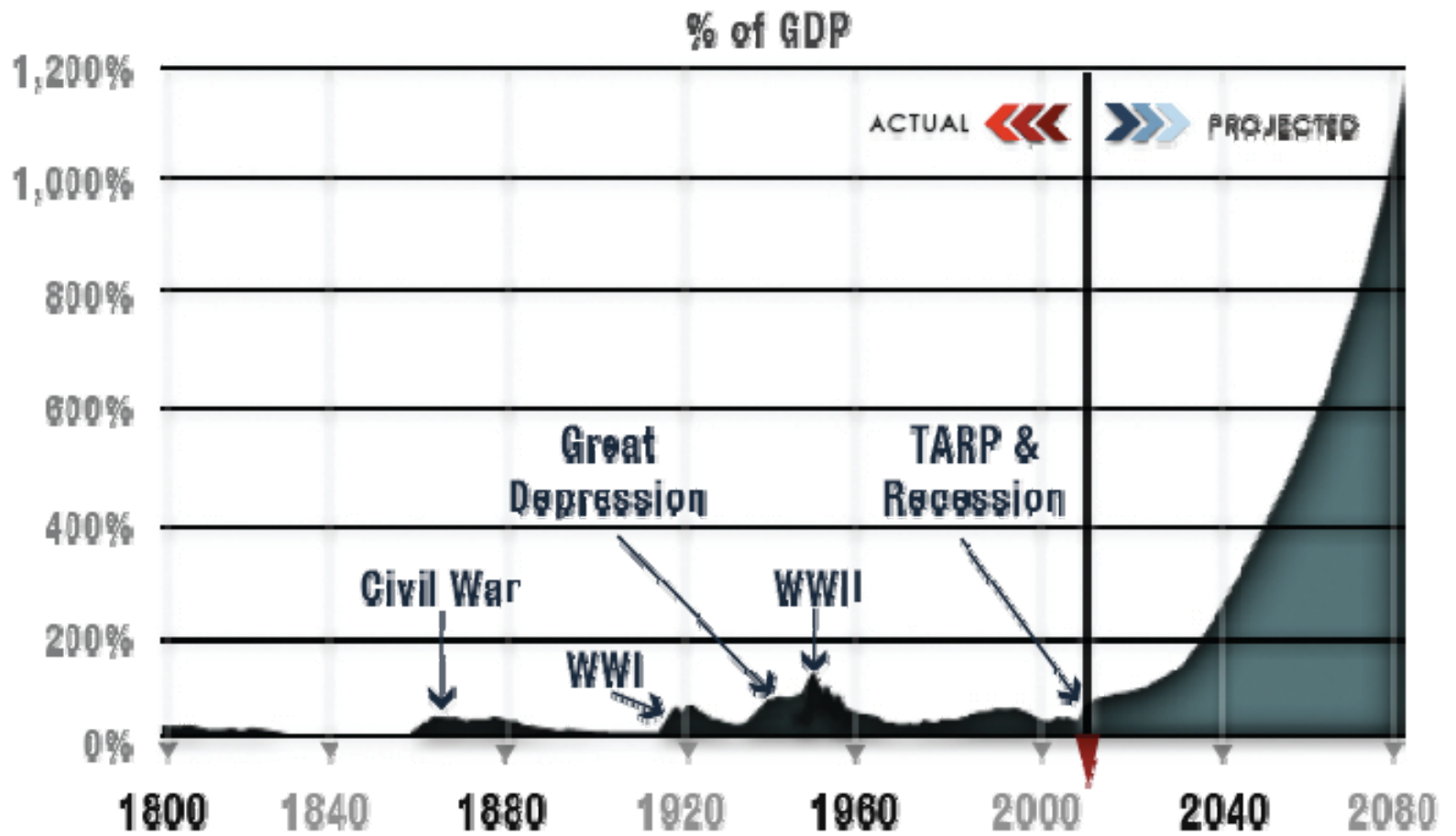
Source: Data the Office of Management and Budget, A New Era of Responsibility: The 2011 Budget, Historical Tables and the Government Accountability Office, The Federal Government's Long-Term Fiscal Outlook: January 2010 Update, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

Divisive Environment in 2010

RUBES[®] by Leigh Rubin



Public Debt Growing



Foreign Holdings of U.S. Debt

46%



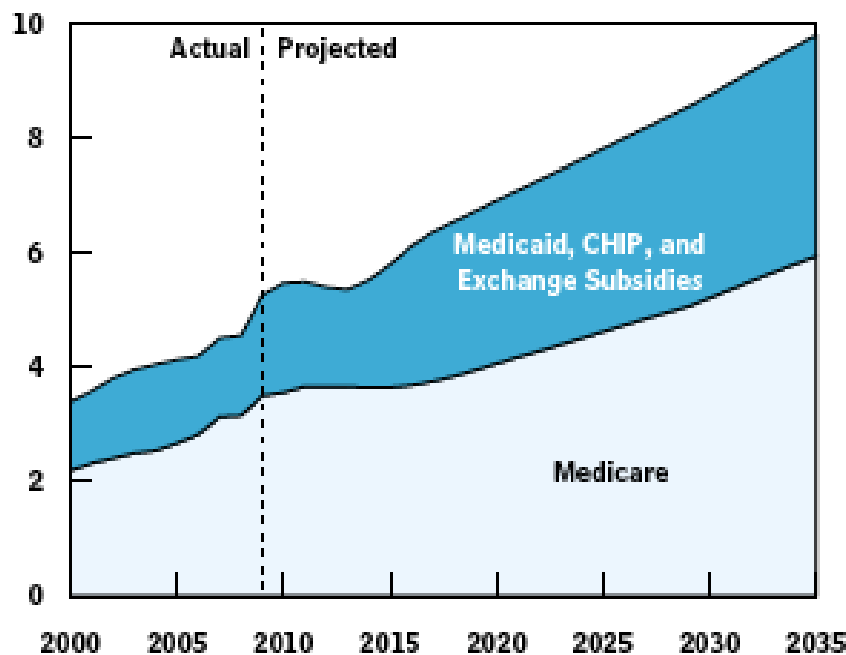
Source: Data from The United States Treasury, Treasury International Capital System, *Major Holders of Treasury Securities*, June 30, 2010; Compiled by PQPF.

Federal Health Spending Growing

Figure 2-2.

Mandatory Federal Spending on Health Care, by Category, Under CBO's Extended-Baseline Scenario

(Percentage of gross domestic product)



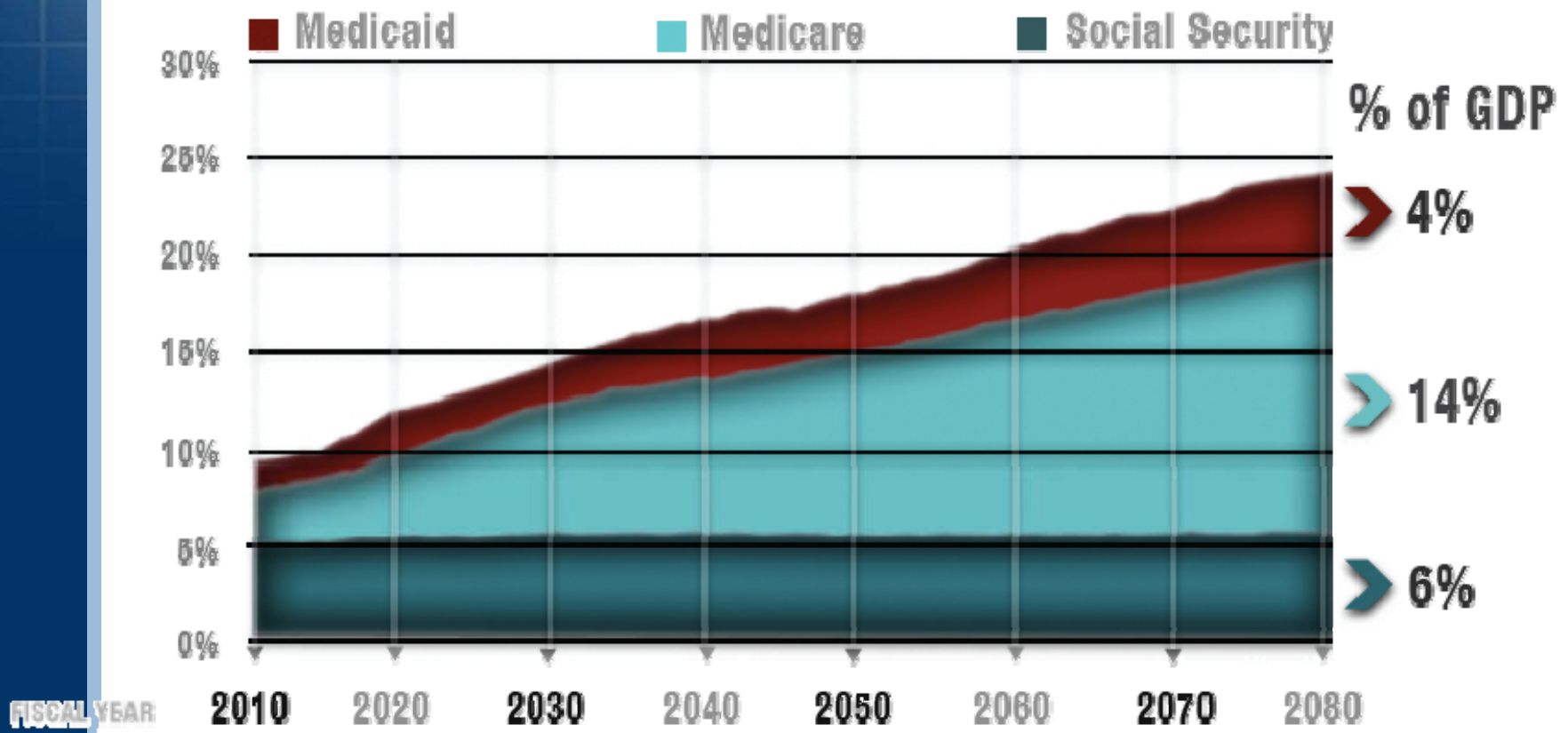
2035: 10% of GDP Total

- ⑩ Medicare: 6% of GDP
- ⑩ Medicaid, CHIP and Exchange Subsidies: 4% of GDP

2080: 17% of GDP Total

- ⑩ Medicare: 11-12% of GDP
- ⑩ Medicaid, CHIP and Exchange Subsidies: 5-6% of GDP

Entitlements Growing



Landscape



Congress



State

S



Executive Branch



Private Market



Courts

Congress

The forecasted focus
for 2011:

- The Economy
- Deficit Reduction and the Budget
- Health Care Reform



Congress

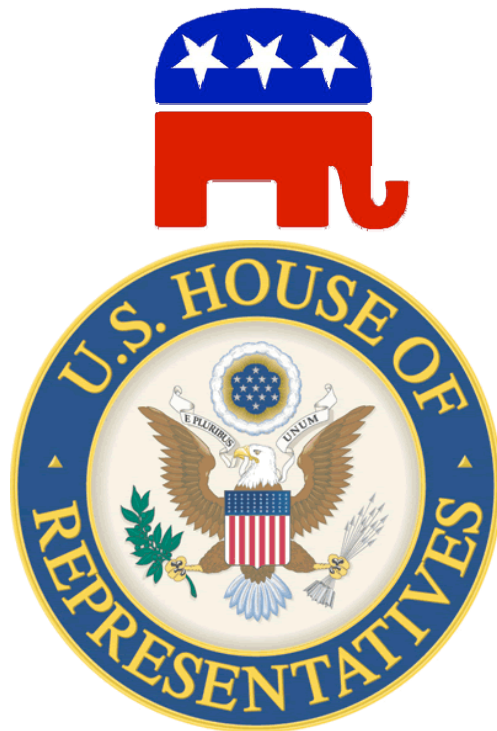
Actual Focus:

- Deficit Reduction and the Budget
- Deficit Reduction and the Budget
- Deficit Reduction and the Budget



For Health Care Reform

(1) House voted to repeal, but...



Then What...

- **(2) Attempt to repeal pieces such as**
 - 1099 reporting requirement (now repealed)
 - FSA limitations
 - CLASS Act
 - Insurance taxes and "medicine" taxes
 - Resolutions of Disapproval
 - As interim final rules become final rules and other final rules are issued, they are subject to the CRA
 - Grandfathered plans

But...

- Congressional Budget Office and budget realities (e.g. repeal scored as a \$230B cost)
- Investments in implementation are being made
- And, a dilemma -
 - If efforts to repeal the most objectionable elements are successful...
 - Strategically, some will say this makes it harder for full repeal later.

So therefore, focus is on...

- (3) Targeted Efforts
 - Investigations
 - Subpoenas
 - Block or Limit funding for implementation
 - Hearings

DUE TO BUDGET CUTS, THE
LIGHT AT THE END OF THE
TUNNEL HAS BEEN TURNED OFF

Interest on the Debt

- Interest payments on the federal debt will quadruple in the next decade.
- In 2014, interest payments will surpass federal spending for education, transportation, energy, and all other non-defense discretionary spending.
- In 2018, spending for interest on the debt will exceed Medicare spending

The Debt Ceiling

- Has to be increased by late June
- Tea Party Conservatives insisting on budget reforms and spending reductions as a condition of raising the debt ceiling
- A series of small increases in the debt ceiling is possible
 - Down payments on deficit reduction will be necessary
 - Would buy more time for negotiations

Timeline for Budget Issues

- April: Pass Measure to Fund Government Through FY2011
- April-June: Congressional Budget Debate
- May-June: Debate to Raise Federal Debt Ceiling
- June-December: FY2012 Appropriations
 - Omnibus?
- December: Medicare and Medicaid Must-Pass Bill

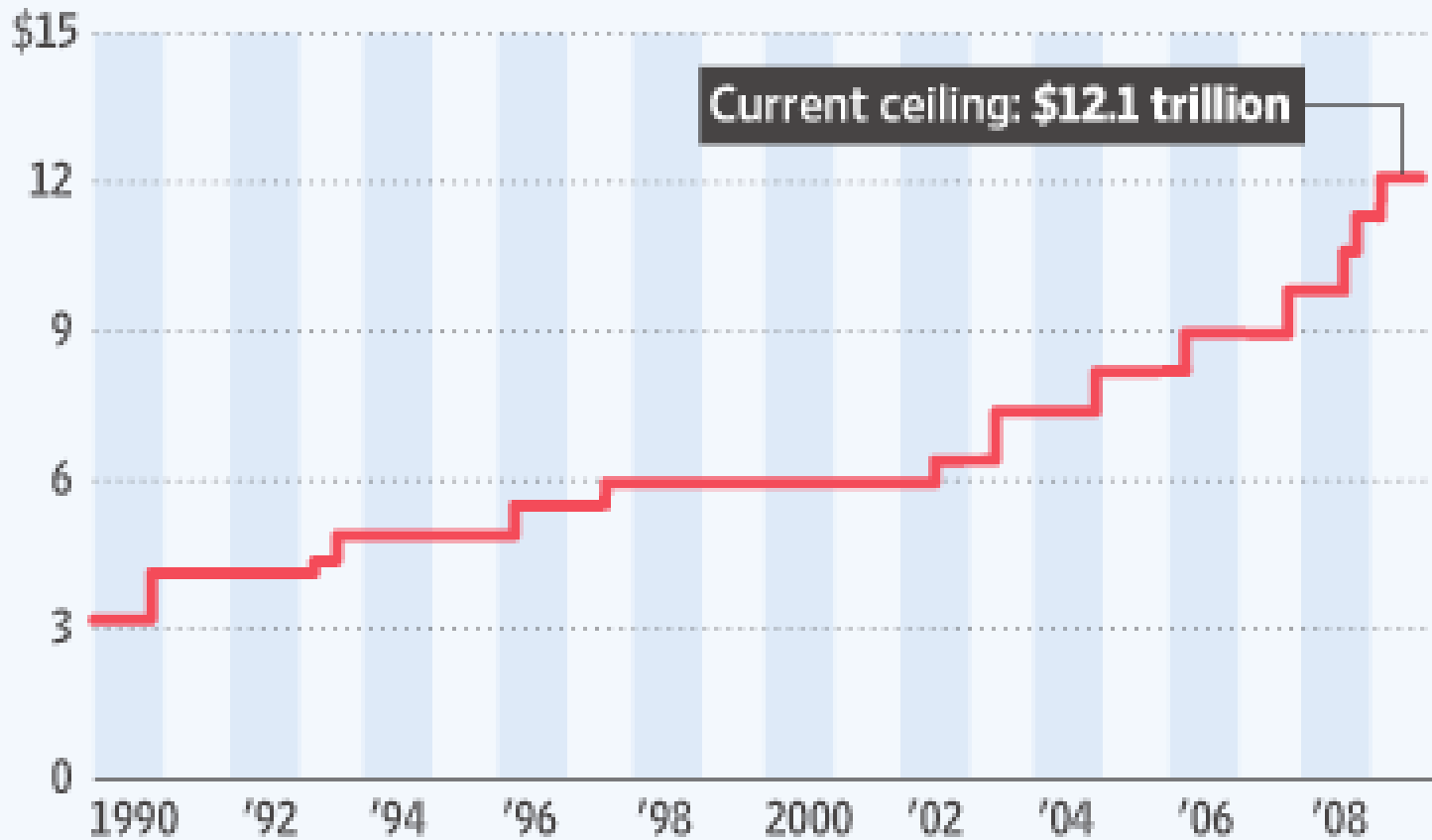


Merge

The Debt Ceiling

Pushing the Limit

The federal debt ceiling, in trillions



Source: Office of Management and Budget

What to Watch

- **House Budget Chairman Paul Ryan's proposals:**
 - Block grant Medicaid for LTC
 - Change acute care Medicaid into an HSA-like model
 - Premium support model for Medicare
- **Senate Bipartisan Group: Durbin, Conrad, Coburn, Crapo, Warner, Chambliss**
- **How will President Obama engage**
- **To what extent will this be a vehicle for changes to the ACA**



What does this mean for health care reform implementation?

Implementation Outlook

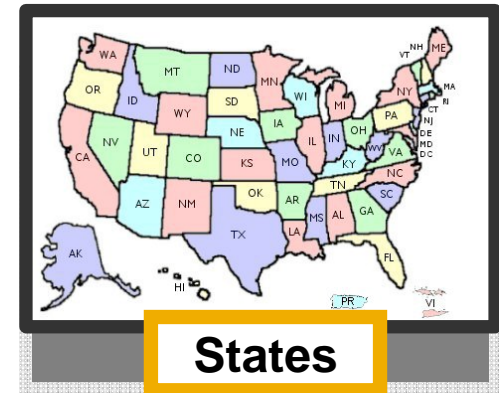
The Administration

- Continued and feverish work on implementation
- Will keep working to mitigate problems with groups adversely affected (e.g. mini-med plan waivers)
- Expect more open door forums, RFIs on implementation issues



The States

- Exchange implementation
- Conforming state law and regulations (NAIC model law)
- Making decisions on approach - regulatory vs. free-market or hybrid
- Forge ahead with own reforms
- Medicaid reforms



Providers, Plans and Employers

- Plans determining whether to enter new markets
- Employers determining what to do with their health coverage
 - Defined benefit vs. defined contribution
- Providers adjusting for impact of reforms and testing new payment models through CMMI



Courts

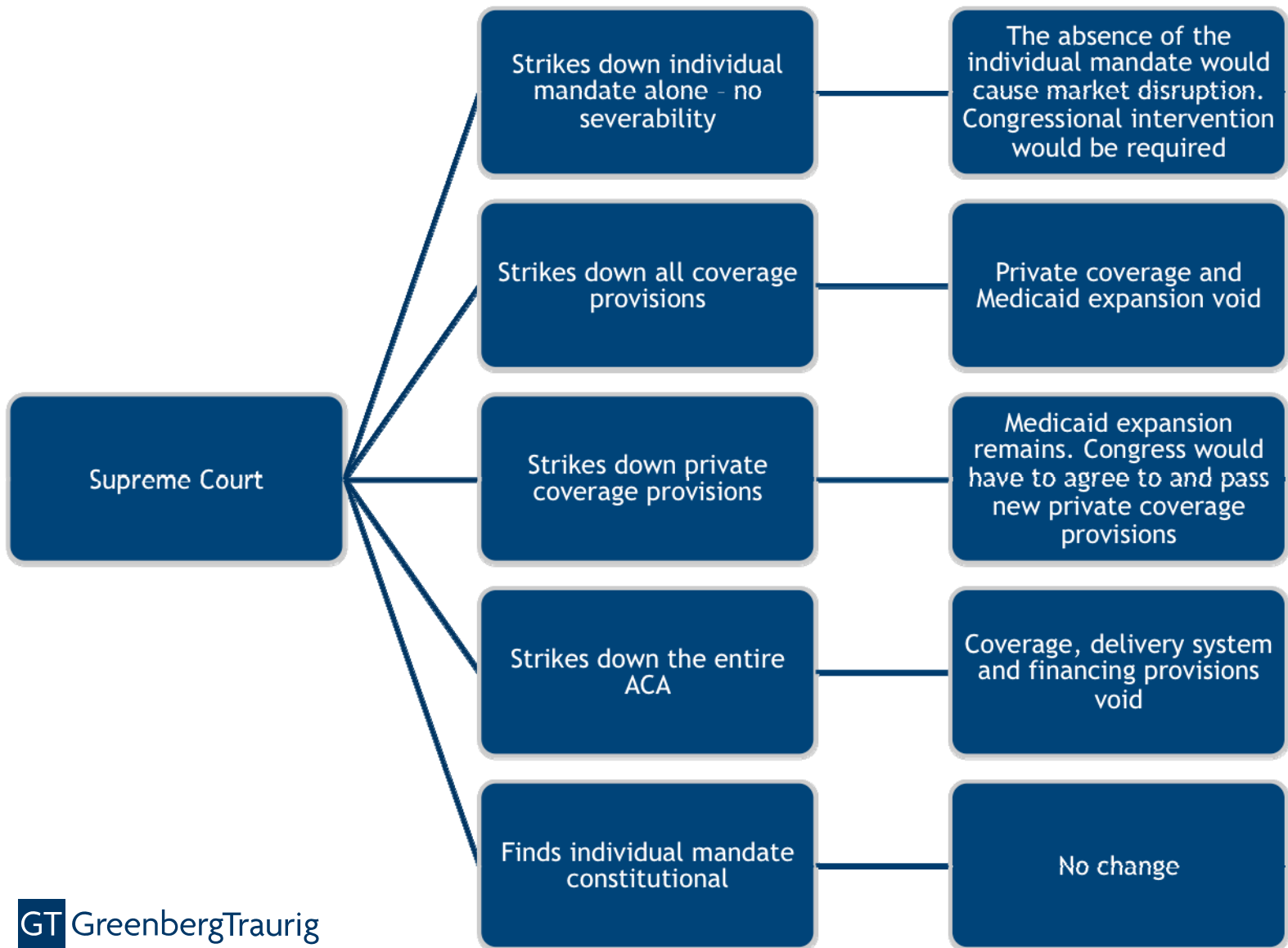
- Will the Supreme Court find the individual mandate unconstitutional?
- What result from the lack of a severability clause?
- And if this happens, what happens after that?



Legal Analysis



Potential Scenarios



Agenda Outlook

- General rule: Gridlock
- Budget negotiations - something has to happen to enable raising the debt ceiling
- Must-pass end-of-year bill



Questions



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Provisions that we'll likely be hearing about.

A Laundry List

Laundry List - Coverage

- Repeal individual mandate and substitute alternative risk spreading mechanisms
- Broaden the grandfather plan provisions - allow employers that offer coverage to continue to offer it without changes
- Loosen the standards for plans in the Exchange
- Expand HSAs - repeal limitations
- MLR repeal or changes

Laundry List - Taxes

- Repeal health care related tax increases:
- Three health insurance taxes:
 - to fund comparative effectiveness research (CER)
 - to fund reinsurance
 - to provide general revenues
- Excise tax on medical devices
- 1099 changes (repealed)

Laundry List - Medicare

- Delay cuts to Medicare Advantage- substitute fixed benchmarks to benchmarks set by competitive bidding
- IPAB repeal
- Reinstate full retiree drug subsidy
- Longer term doc fix?

Laundry List - State Flexibility

- Increased state flexibility generally
- Expanded state waiver process (Wyden)
- Domicile-based regulation of insurance to permit interstate sale
- Exchange reforms - eliminate regulatory powers, actuarial equivalence standard only for qualified health plan

2012

- How will voters view health reform in 2012?
- How will deficit reduction efforts impact election outlook?
- To be successful, GOP needs a viable, workable set of policies that could be enacted in place of the ACA

