

Health Insurance Exchanges: Will You Win or Lose on Volumes?

By Bradley Helfand, Sg2 Director

Health system CFOs are experiencing a condition usually seen among novelists and copywriters: writer's block. During the annual rite of producing the financial forecast, CFOs are being asked to size and describe the impact of health insurance exchanges (HIX) on utilization, payer mix and net revenues in their local markets starting in 2014. Yet, filling in the first year of institutional volumes and payments for a brand new financial class is somewhat akin to writing the first sentence of a book: an anxiety-evoking experience that requires a bit of inspiration.

At Sg2, we have been providing that spark of inspiration to our client organizations through our Sg2 Impact of exChange™ model—a forward-looking, financial framework that localizes the factors driving the shift in payer mix portfolios by institution and market. Since launching this model, the ink spilled on financial ledgers has been significant: Clients in more than 10 states involving more than 300 modeled hospitals have turned to Sg2 to assist them in moving beyond national reform coverage estimates to begin analyzing local scenarios. The customized results have helped our clients illuminate institutional stakes, upside potential and downside risk associated with the emerging HIX market.

Begin by Asking the Right Questions

The strategic questions that are often a prelude to any modeling project are top of mind for many organizations today:

- What will be the participation level and demographic composition of the exchange market?
- What percentage of employers will opt out of the insurance market?
- What payment rates will prevail?
- How will state decisions on Medicaid expansion influence exchange market size?
- What is the payer-provider balance of power?
- When does it make sense to trade price for share in a narrow network strategy?

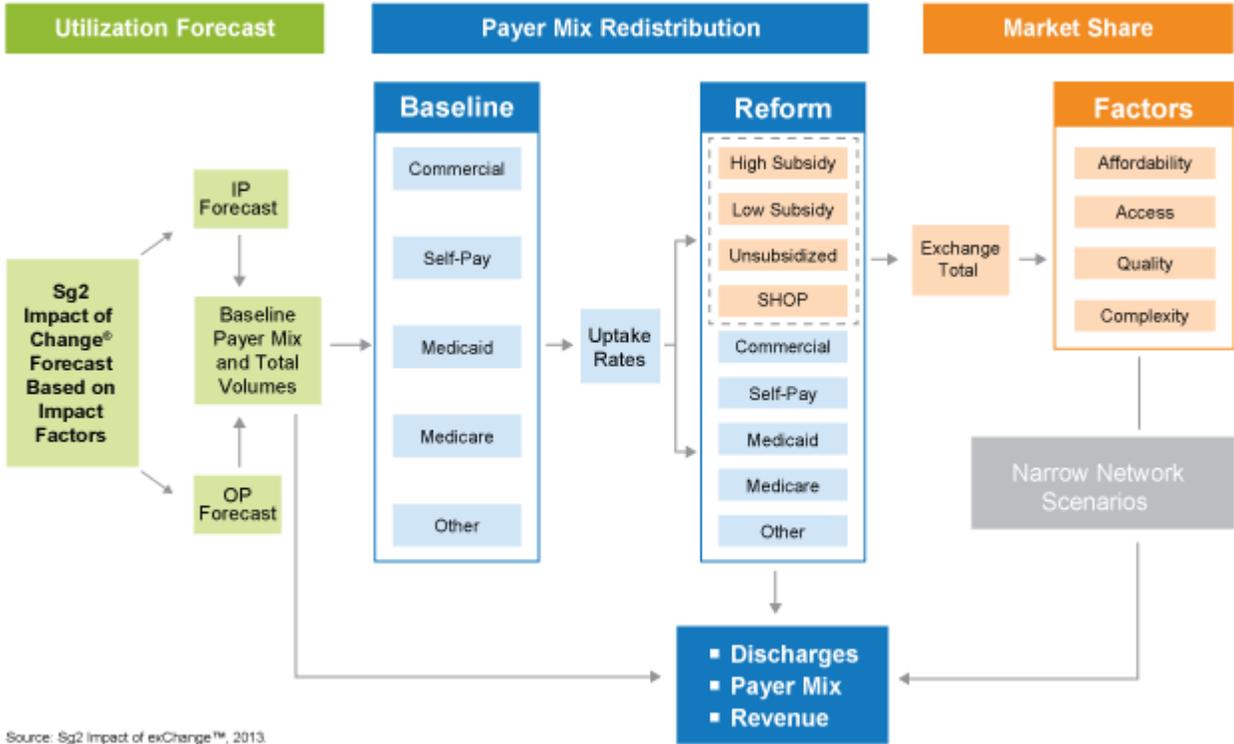
To answer these questions, your organization will need to assemble a multidisciplinary team with representatives from finance, managed care and strategic planning. This group will be charged with collectively analyzing the utilization, market share, demographic and financial drivers of the HIX market, and processing potential strategic scenarios that may alter your ability to execute, such as contracting strategies, marketing and outreach channels, points of access, and capacity to capture and serve the unique health needs of the newly insured patients.

Impact of exChange Considers Payer Mix and Market Share

There are several levels to the Impact of exChange™ model: utilization forecasting, market share prognostication, payer mix shifts and revenue analysis. If building the model were like writing a book, the demand forecast would be the plot and setting, around which the characters are added. Leveraging the Sg2 Impact of Change® demand forecast as a baseline input, the Impact of exChange™ model is built on potential

future inpatient and outpatient volumes for the institution and market, given both payer mix redistribution due to reform and several factors influencing market share. (See diagram below.)

Impact of exChange Model



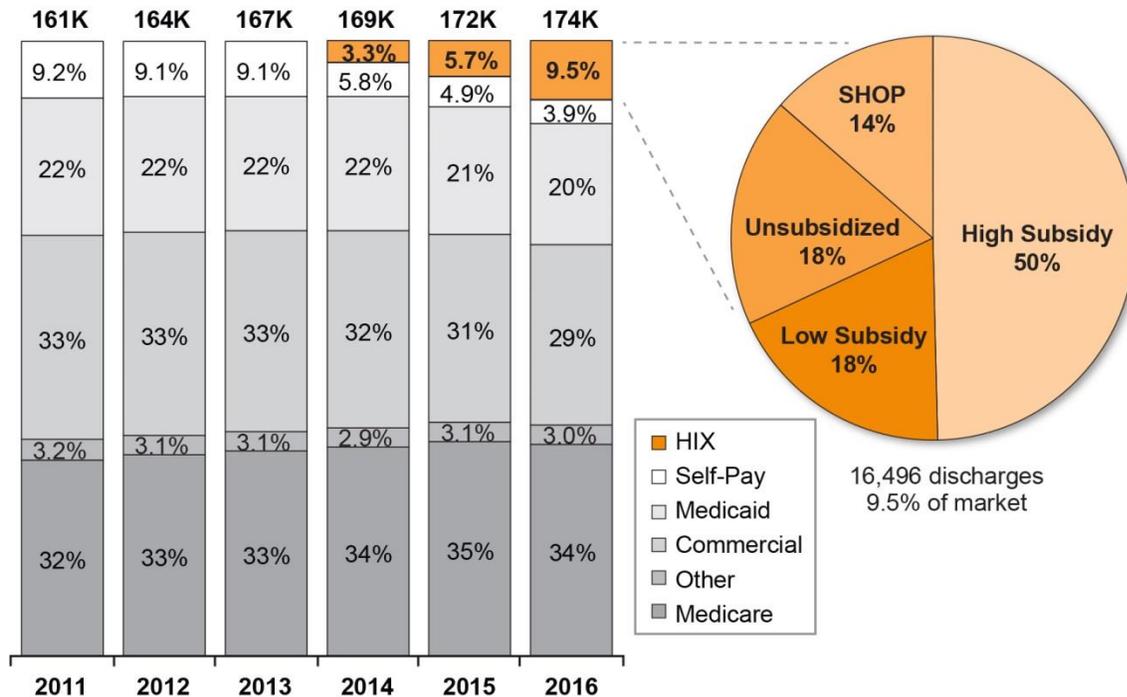
Shift to HIX Discharges Will Vary by Market and Institution

The degree of shift from current payer mix into exchange utilization will vary widely by market. According to Sg2’s model, by 2016 the percentage of inpatient discharges originating from HIX will range from the low single digits to the mid-teens. To figure out this equation for a single market, it requires a unique formulate, measuring the following factors:

- Impact of demographic and income mix
- Employer composition and levels of opt out
- Impact of Medicaid expansion on exchange eligibility levels
- Regulatory implementation of a state, federal or partnership exchange

The bar chart below is a sample output of the Sg2 Impact of exChange, showing an example market’s breakdown of IP discharges by payer mix, including HIX discharges starting in 2014. The pie chart illustrates a breakdown of the exchange market utilization by individual vs small group (SHOP, or Small Business Health Options Program) in 2016, the final year of the modeling. Reflecting local demographics of the uninsured, the individual exchange market is further subdivided by expected level of federal subsidies (eg, high subsidy, low subsidy and unsubsidized), a key leading indicator of the type of network plans that may be preferred by the consumers in this market’s exchange.

Sample Payer Mix Distribution by IP Discharges, 2011–2016, and HIX Distribution, 2016



Note: Values are rounded to the nearest percentage and may not add up to 100%. Exchange definitions are as follows: High Subsidy = Medicaid–250% FPL; Low Subsidy = 251%–400% FPL; Unsubsidized = >400% FPL. Market is defined by primary service area.
Sources: Sg2 Impact of exChange™, 2013; Sg2 Analysis, 2013.

Hospitals will differ greatly in their ability to capitalize on HIX volumes—there will be winners and losers within a single market. Quantifying this potential requires more than measuring the starting self-pay/uninsured market share for each player. It necessitates distilling the effects of retail shifts as consumers vote with their feet and choose new providers based on affordability, access, complexity and quality. It also requires determining the wholesale shifts in the market, as payers form narrow networks and drive volumes to preferred providers.

Future payer mix shifts will not be easily understood by examining historical financial trends. Any organization building a financial forecast has an imperative to achieve consensus around key assumptions, understand the magnitude and direction of these shifts, and translate them into a revenue story framed around potential upside and downside risks. Forward-thinking leadership teams will estimate the portion of their future institutional revenue that will be incremental revenue compared to pre-reform sources of payment, as well as evaluate different HIX pricing scenarios related to discounts and narrow networks.

Accurately Size Your HIX Market Before Jumping In

CFOs who consider entering HIX volumes and revenues into their 2014 projections and beyond can ease their writer's block with the following strategic prompts:

- Understand the interplay between the demographic dynamic of their markets and anticipated changes in insurance coverage/payer mix in the future.
- Analyze scenarios around the upside and downside drivers of the HIX market, such as market share capture; employer opt out; individual and small group opt in; and contracting strategies regarding price optimization and narrow network affiliations.

- Calculate the incremental revenue opportunity for their organizations—understand what portion of HIX utilization will be new to the organization vs a reallocation from existing payer classes.

Sizing up HIX markets will result in different story lines for different clients. Resolutions range from nonparticipation to selective participation to aggressive participation in narrow networks and HIX-oriented offerings. Analyzing the upside potential and downside risk for your organization in this emerging retail market will shape important decisions going forward. The time to start outlining your story is now.

Sg2 Resources

For additional information on the Sg2 Impact of exChange model and consulting offerings, email learnmore@sg2.com or contact your account team.

- Sg2 Webinar: Anticipate the Impact of exChange
- Sg2 Letter August 2012: Reform's Sleeper Issue—The Impact of Exchanges
- Sg2 Webinar: The Supreme Court Has Ruled...Now What?
- Sg2 Letter July 2012: The Supreme Court Has Ruled: the Markets Will Sort Out the Rest
- Sg2 Expert Insight: Supreme Court Ruling News Flash: Full Speed Ahead—Sort Of

Sg2 is the health care industry's premier provider of market data and information. Our analytics and expertise help hospitals and health systems understand market dynamics and capitalize on opportunities for growth.