

# Health Insurance:

# Policy, Trends, Consolidation & Market Outlook

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August 15, 2024

**CAPITOL STREET**

Markets. Policy. Impact.

# Health Insurance Coverage (US): Medicare Advantage expected to swell

Coverage	Breakdown	2024 enrollment	2030 E
Medicare	Medicare Advantage	33 M	43 M
	Medicare FFS	<u>28 M</u>	<u>27 M</u>
	Total	61 M	70 M
Medicaid/CHIP	Total	79 M	79 M
Employment-based coverage	Total	164 M	168 M
Non-group coverage	Non-group: Marketplaces	22 M	15 M
	Non-group: outside of Marketplaces	3 M	4 M
Uninsured	Total	26 M	32 M

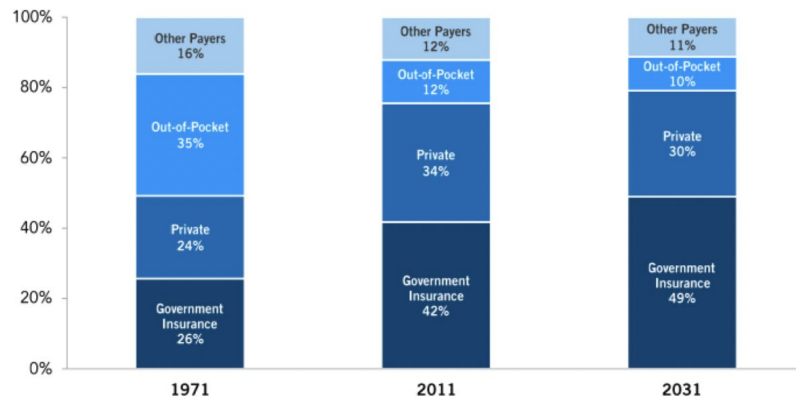
Source: Capitol Street, CBO, KFF, CMS

# Health Insurance: Gov't Outpaces Private



Growth in government spending on healthcare will outpace that of private insurance

Source of Payment (% of National Health Consumption)



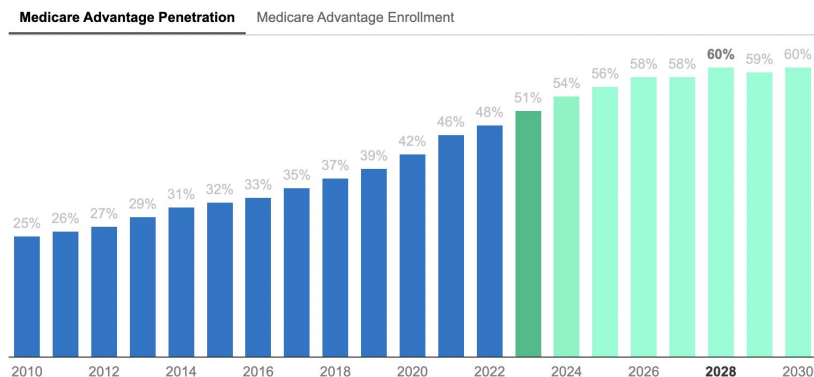
SOURCE: Centers for Medicare & Medicaid Services, *National Health Expenditures*, December 2023.  
NOTES: Government Insurance includes Medicare, Medicaid, CHIP, and healthcare provided by the Department of Defense and the Department of Veterans' Affairs. Other Payers include other third party payers and programs and public health activity (includes COVID-19 Paycheck Protection Program loans and the Provider Relief Fund).  
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# Medicare Advantage Grows to 60% 2028

Figure 1

## Medicare Advantage Enrollment and Projections

Medicare Advantage Enrollment 2010-2023 & Projected Enrollment 2024-2030  
(As a share of the eligible Medicare population)



NOTE: Includes Medicare Advantage plans: HMOs, PPOs (local and regional), PFFS, and MSAs. About 60.0 million people are enrolled in Medicare Parts A and B in 2023. Using the CBO baseline, Medicare enrollment is based on individuals who are enrolled in Part B, which is designed to include only individuals who are eligible for Medicare Advantage and exclude those who have Part A only and cannot enroll in Medicare Advantage. However, it may include some individuals who have Part B only and also are not eligible for Medicare Advantage.  
SOURCE: KFF analysis of CMS Medicare Advantage Enrollment Files, 2010-2023; Medicare Chronic Conditions (CCW) Data Warehouse from 5 percent of beneficiaries, 2010-2016; CCW data from 20 percent of beneficiaries, 2017-2020; and Medicare Enrollment Dashboard 2021-2023. Enrollment numbers from March of the respective year. Projections for 2024 to 2030 are from the May CBO Medicare Baseline for 2023. • PNG

KFF

### MA plans provide:

- Vision, dental & hearing
- Exercise programs
- Transportation (Uber, Lyft)
- Fresh food

MA plans are under the gun from policymakers due to (1) upcoding / risk adjustment (2) prior auth (3) agent & broker practices (4) and other network issues ... This continues with **Harris** or **Trump** White House (though GOP incrementally more industry friendly)

# High-Deductible Health Plan (HDHP)

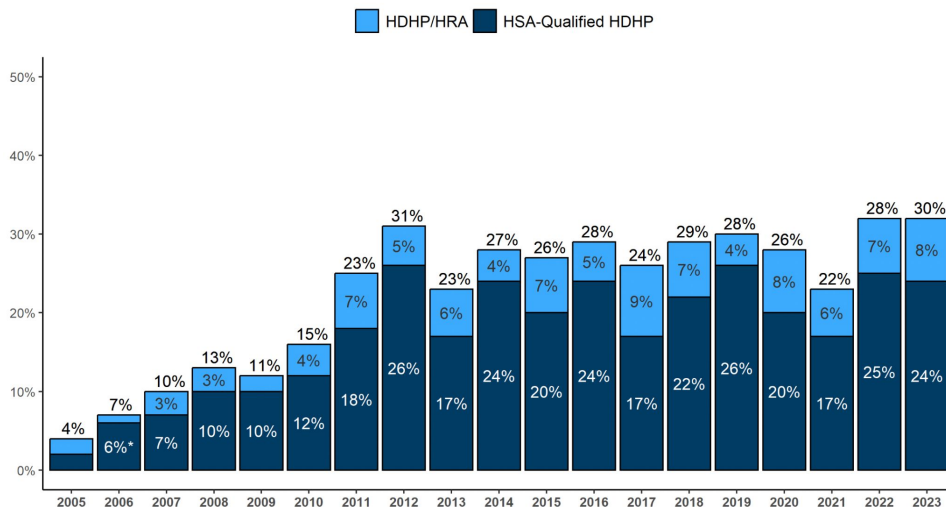
51% of private industry workers participated in high-deductible health plans (HDHPs) in 2023

In 2023, 30% of firms offering health benefits offered a HDHP paired with either a health savings account (HSA, 8%) or health reimbursement arrangement (HRA, 24%) account. HSAs are required to be paired with HDHPs and are offered by large companies such as Bank of America and Lockheed Martin.

Current bipartisan legislation pushing for expansion of health savings accounts and HDHPs has made its way through markups, **expansion would likely lead to increased growth in HDHPs**

Figure 8.1

Among Firms Offering Health Benefits, Percentage That Offer an HDHP/HRA and/or an HSA-Qualified HDHP, 2005-2023



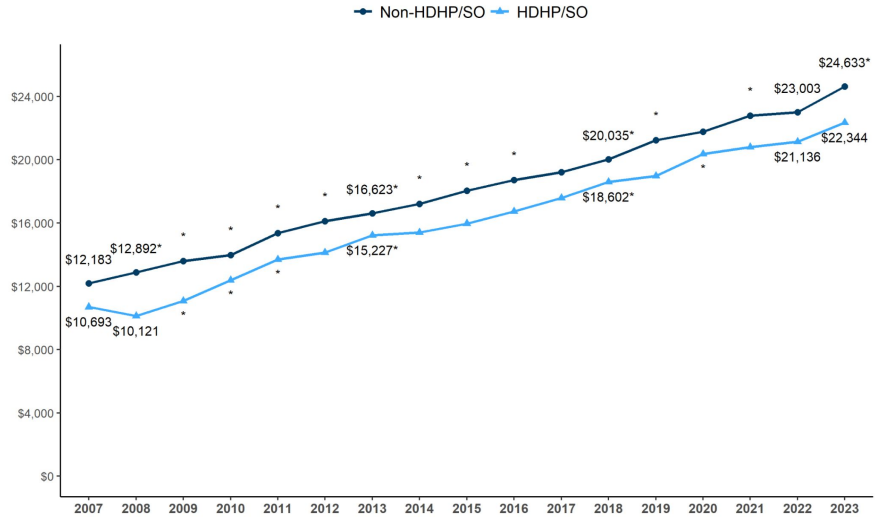
\* Estimate is statistically different from estimate for the previous year shown ( $p < .05$ ).

NOTE: Among all firms that offer health benefits, 2.8% offer both an HDHP/HRA and an HSA-Qualified HDHP. Adding the percentage of firms offering HDHP/HRA and HSA-Qualified HDHPs may not sum to the percentage of firms offering HDHP/SOs because some firms offer both.

SOURCE: KFF Employer Health Benefits Survey, 2018-2023; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005-2017

# HDHP Growth Over Past Decade

**Figure 8.10**  
**Average Annual Premiums for Covered Workers with Family Coverage, by Plan Type, 2007-2023**



\* Estimate is statistically different from estimate for the previous year shown ( $p < .05$ ).

SOURCE: KFF Employer Health Benefits Survey, 2018-2023; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007-2017

# Individual Coverage HRAs Gaining Momentum

Individual Coverage HRAs (ICHRAs) were created in 2020 under a regulation finalized by the Trump administration and codified under a 2023 House-passed bill

*ICHRAs enable employers of any size to contribute tax-free funds to a HRA, which employees can use to pay premiums for individually purchased insurance plans*

83% of new adopters had no prior health coverage for their employees: ICHRA allows employers, especially smaller ones, the chance to offer health benefits for the first time

## OUTLOOK

- The CBO predicts **2 M people** will be enrolled by 2032: uptake was slow in first few years due to pandemic and tight labor market, but interest is now picking up and is expected to take off due to their flexibility
- Over 200,000 employees are offered ICHRA, which does not include dependents (some estimate 500,000 people are enrolled), and ICHRA adoption saw a 29% increase from 2023 to 2024, according to the [HRA Council](#)

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# Consolidation in the Healthcare Space

01

## Horizontal Consolidation

- Mergers between companies that provide the same type of service or product and compete for the same geographic market
- Uptick in healthcare horizontal consolidation in the 1990s and early 2000s, and again following passage of ACA in 2010



02

## Vertical Consolidation

- Mergers that involve companies that offer different services or products but operate along the same supply chain
- Examples in healthcare include hospitals or health systems acquiring physician practices, mergers between insurers and providers

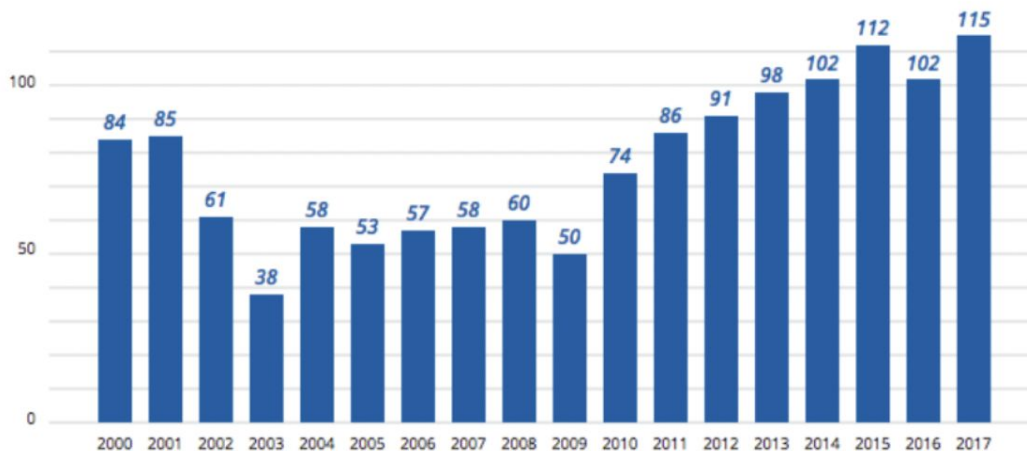




# Consolidation in the Healthcare Space: Trends

Following the passage of the ACA in 2010, which encouraged consolidation by incentivizing providers to coordinate care, healthcare has grown more concentrated.

**Figure 1.** Hospital and Health System M&A Activity, 2000-2017



Source: [John Locke Foundation](#)

# New Merger Guidelines from FTC/DOJ (2023)

- On December, 2023, the FTC and DOJ released updated merger guidelines, which in essence chilled merger activity in practically all industries, including healthcare, and provide more backbone for challenges to a much wider variety of mergers
- Herfindahl-Hirschman Index (HHI), a measure of market concentration, market thresholds are lowered from 2,500 to 1,800, and change in HHI thresholds are lowered from 200 to 100: if market HHI is greater than 1,800 AND change in HHI post merger is greater than 100, the merger is presumed illegal
- Guidelines target vertical integration with new 50% “foreclosure share” test, will likely lead to increased scrutiny on vertical consolidation
- Crack-down on serial acquisitions (PE roll-ups)



# Antitrust Outlook: FTC/DOJ

## Current activist environment in FTC/DOJ

- In May 2024, the DOJ [announced](#) a new healthcare task force
- In April 2024, the DOJ, FTC, and HHS [announced](#) a new online portal to report anti competitive healthcare practices
- The FTC/DOJ [set records](#) in 2022 on number of merger challenges
- Lina Khan, the chair of the FTC, has taken an aggressive approach on antitrust and has stated her intent to go after anticompetitive practices in healthcare
- Khan's term ends in September: even if she is replaced, a Harris presidency will likely continue aggressive antitrust enforcement, despite current pressure from big donors to axe Khan
- A Trump presidency also may not change current antitrust climate, as antitrust enforcement aligns with Trump's brand of populism, and VP candidate **J.D. Vance has been called a "Khanservative" for previously signaling support of Khan's aggressive antitrust action**



# TRENDS

# Healthcare Services Trend #1

Ever-popular Medicare Advantage (MA) will be in the crosshairs for a few years

## Congress will step in on:

- marketing & prior authorization
- network adequacy, particularly in mental health

## Risk Adjustment

- Risk adjustment will be manageable for most, but painful for other MA plans as MedPAC urges Congress to rein in pay to 'overpaid' plans (123% FFS)
- 2025 paycut = benefits will be cut

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# Healthcare Services Trend #2

Value based care  
will feel the  
ripple effect of  
MA woes

**Will Washington and industry support  
patient-centered care going forward?**

- Yes, but it may be slow going

**Recent Co. Commentary**

## Humana

Humana: spike in MA utilization could  
cause entire industry to reprice plans for  
2025

# Value-Based Care

- ACO Reach (132 participants)
- CMMI 2030 Goal
  - All Medicare beneficiaries (with Parts A & B) & the majority of Medicaid beneficiaries will be in an accountable, patient-centric relationship

## Recent Co. Commentary

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Gross savings in ACO Reach was 21% in 2023



Alignment Health

Not deploying capital into ACO Reach



300 bps better cost performance in ACO Reach (vs national benchmark)



WBA partners with Pearl Health for ACO Reach but forced to close locations

# Healthcare Services Trend #3

## Sleeper issue: Medicaid & IMD (Psych Hospitals)

**Cathy McMorris-Rodgers (R-WA) and  
Chair of the House E&C wants full  
repeal**

**CBO score is lower now**

- \$ 7.7 B to \$38.4 B / 10 cost

**Full repeal unlikely today due to  
split Congress**

*Medicaid Institutions for Mental Diseases (IMD) exclusion prohibits the use of federal Medicaid financing for care provided to most patients in mental health and substance use disorder residential treatment facilities larger than 16 beds*



# Healthcare Services Trend #4

Vertical  
consolidation will  
continue to irk  
antitrust regulators

## Plans buying providers & post acute

### Regulators

- Consolidation in the space has been chilled to some extent by regulators, and it will only intensify this year, amid new merger guidelines

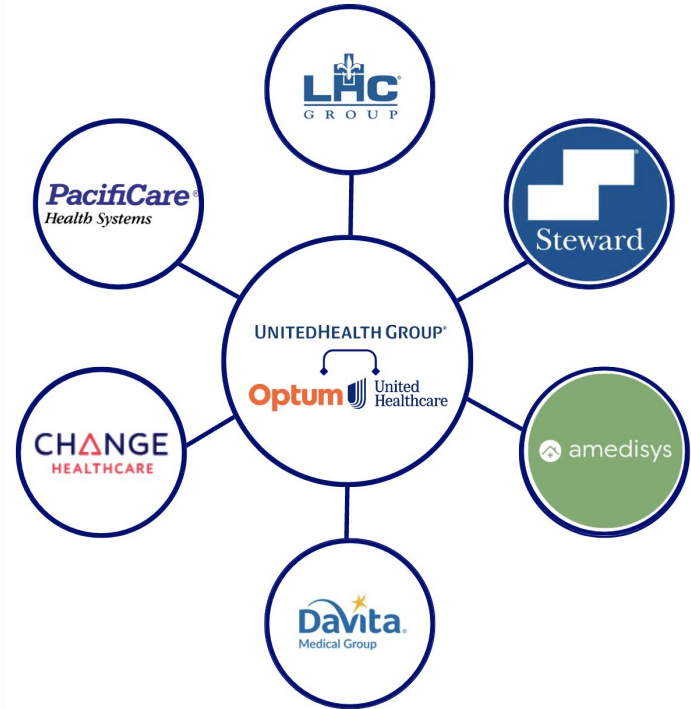
### CVS

- CVS bought Signify and Oak Street



# United Antitrust

- Investigations take time and if the DOJ believes United Healthcare is behaving anti-competitively then a lawsuit may well be initiated.
  - Conduct investigations are not atypical.
- The agency is likely focused on UNH's vertical consolidation (physicians, home health, health data analytics).
- DOJ is also in the middle of reviewing UNH's Amedisys (home health) acquisition.
- The agency's new horizontal and vertical merger guidelines make deals easier to challenge.



# Healthcare Services Trend #5

Hospitals, who once saved the day during COVID, are under scrutiny for buying up facilities and billing at higher Medicare rates

## Site Neutral

- So called “site neutral” with drug-only as a starting point will only accelerate the practice. We look to 4Q24 for potential action (post election, and 2025 for additional action)



# Healthcare Services Trend #6

Obesity, Alzheimer's  
and gene therapies  
will constrain payers  
and providers

## Coverage & Reimbursement

- A dizzying array of coverage and reimbursement actions will emerge from Medicare, Medicaid and various commercial payers
- It's an exciting time for innovation, but with shrinking dollars, nuanced policy will emerge creating winners and losers.

# Policy & Market Outlook

## Plans, Policy, Value-Based Care

### 1 - FTC & DOJ may still be “tough” on healthcare mergers 2025+

- A Harris presidency will likely continue aggressive enforcement
- A Trump presidency also may not change current antitrust climate, as antitrust enforcement aligns with Trump’s brand of populism
- **J.D. Vance has been called a “Khanservative” for previously signaling support of Khan’s aggressive antitrust action**

### 2 - Despite MA headwinds (v28, subsequent years of rate cuts) seniors love the program & it’s not going away

### 3 - Value based care is here to stay, will take time to play out

- ACO REACH, MSSP
- Largely a product of MA right now .... Expansion to Medicaid/Commercial early days

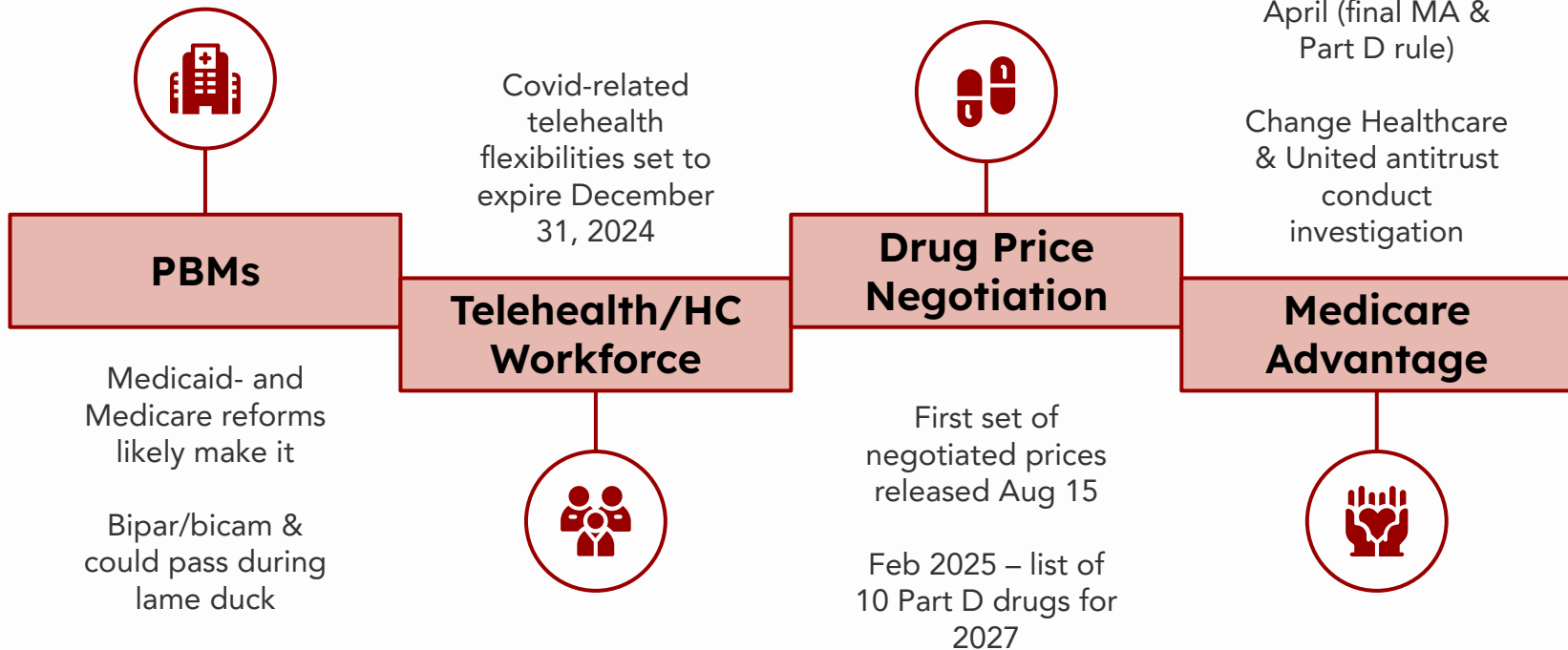
### 4 - ACA is (also) here to stay

- Medicaid expansion states?
- Subsidies likely re-upped in 2025

### 5 - Investors want to own health plan stocks in a Republican environment (VBC names are show me stories)

- GOP likes private industry working with government (PPP)
- Medicaid redeterminations helped plans that have multiple books of business as many moved to Exchange plans (higher margin) CNC, MOH UNH

# The Big 4 for 2024



# ACA Subsidies Likely Extended 2025

## ACA Subsidies

Passed by Democrats under the IRA  
expire at the end of 2025

## Trump's Tax Cuts

Expire at the end of 2025

Both laws were passed on a party-line basis under the "reconciliation" process

# APPENDIX



# Health Insurance Consolidation: Trends

Horizontal consolidation in the health insurance market occurred most dramatically in the 1990s and the 2000s:

- Major mergers include Aetna's acquisition of Prudential in 1999 and United Health's [acquisition](#) of Sierra Health in 2007

Post ACA and the shift to value-based care, attempts by health insurance to consolidate challenged by FTC/DOJ:

- In 2016, the DOJ successfully stopped two mergers: Aetna's attempted acquisition of Humana (\$38 B) and Anthem's (now Elevance) attempted acquisition of Cigna (\$54 B)
- In 2023, Cigna [abandoned](#) its attempt to acquire Humana, a move that could have created a \$140 B + company
- In 2022, United Health acquired Change Healthcare, a payment processing company, after an unsuccessful challenge from the DOJ. In 2024, Change Healthcare was struck by [a cyberattack](#), causing it to shut down its services and throwing the healthcare sector into crisis

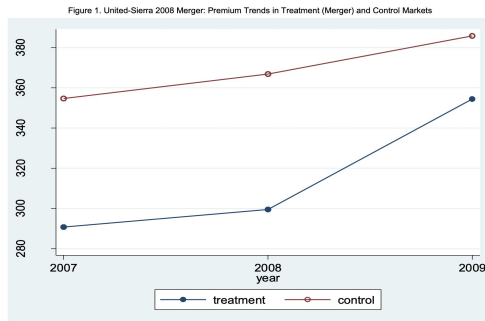
**Table 1. Market concentration, combined PPO+HMO+POS+EXCH product market (2022)**

Market characteristic	% of MSA-level markets	# of MSA-level markets
Highly concentrated	73%	277
An insurer's market share >=30%	90%	341
An insurer's market share >=50%	48%	184
An insurer's market share >=70%	11%	40
	<b>Mean</b>	<b>Median</b>
HHI	3496	3236

American Medical Association [study](#) in 2023 found that 73% of metropolitan statistical area-level commercial insurance markets were highly concentrated, and 90% of markets have one insurer holding at least 30% of the market share, and 46% of the markets had one insurer holding at least 48% of the market share

# Horizontal Consolidation: Effects

Horizontal consolidation among health insurers increasing their market power. Insurers set prices for premiums from individuals as well as negotiate with providers for prices, so this has two effects: increased negotiating power with providers may allow insurers to pay lower prices, but may also allow insurers to charge higher premiums and limits incentives to pass through savings to patients and premium holders.



Source: [Case study](#) on UnitedHealth-Sierra merger examining effects on premiums

01

## Lower prices for providers

A handful of studies ([here](#), [here](#), [here](#)) found that insurer consolidation led to slower earnings growth for physicians, suggesting that mergers may allow insurers to lower prices paid to providers.

02

## Higher premiums

Increased market concentration can reduce the incentive for insurers to pass through savings to premium holders: studies have shown that premiums tend to increase post merger and markets with higher concentration have higher premiums ([here](#), [here](#), [here](#), [here](#))

03

## Unclear effects on quality

In other healthcare spaces such as hospitals, mergers have been shown to reduce quality ([here](#)). Studies are inconclusive on insurer consolidation effects on quality, with one study citing a positive correlation between concentration and patient satisfaction ([here](#)), but some experts are skeptical because consolidated insurers lack the incentive to improve quality ([here](#))

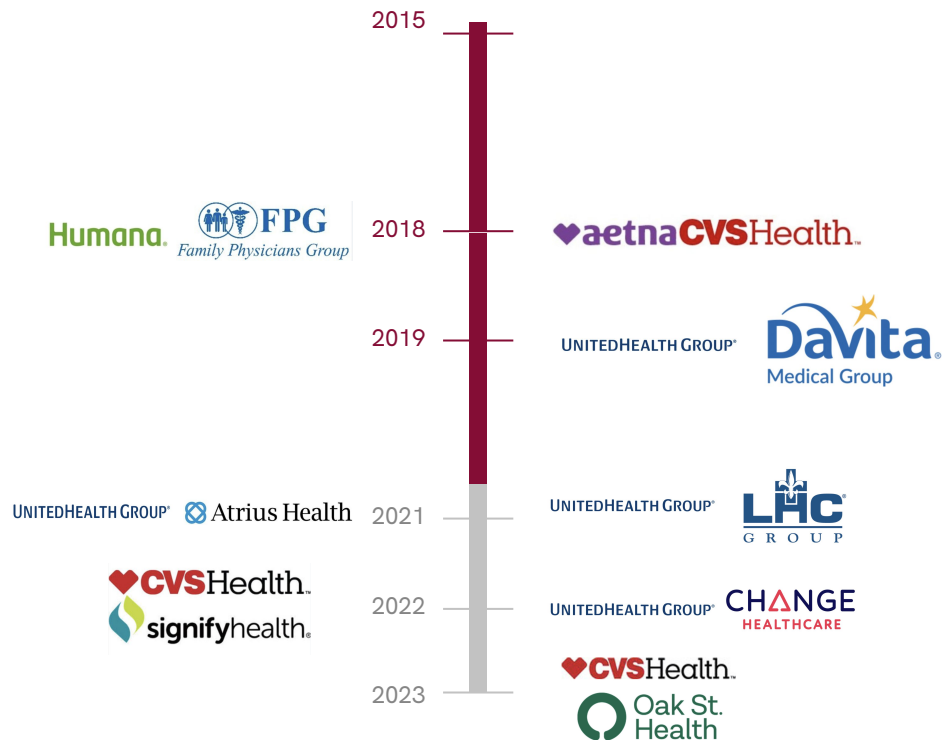
# Insurance Vertical Consolidation: Trends

Vertical consolidation in the health insurance market most often occurs with mergers between providers and insurers.

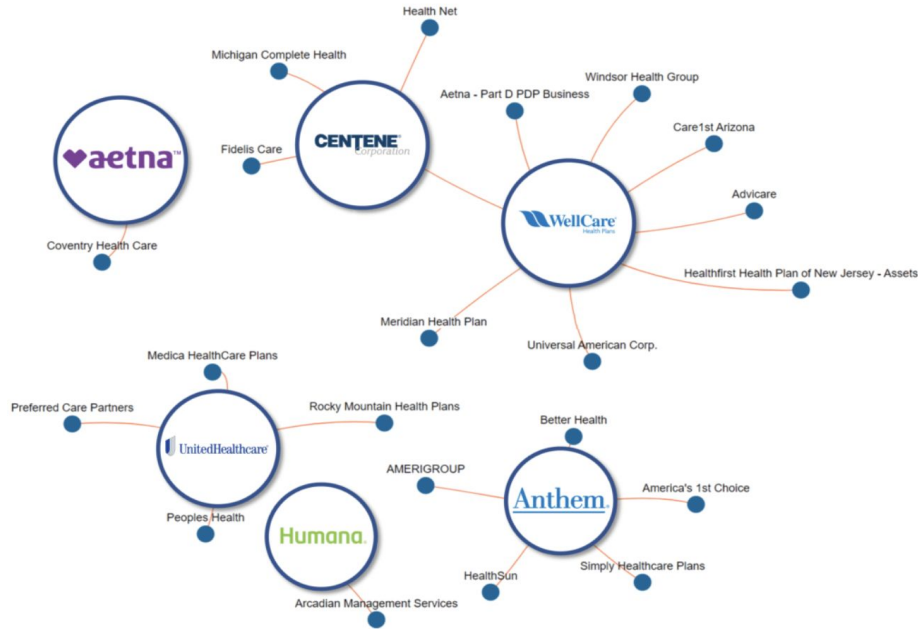
Provider-insurer consolidation has grown significantly in recent years following the passage of the ACA in 2010. Less scrutiny by antitrust officials also contributes to increasing consolidation, as acquisitions of physician practices or smaller provider systems are too small to require reporting (Hart-Scott-Rodino threshold is \$119.5 M).

From 2010 and 2017, provider systems created 37 new health insurance companies and acquired five existing health plans.

Examples of vertical mergers involving health insurers since passage of ACA



# Insurers Gobbling Up Providers and Health Plans



Source: [CBInsights](#)

# Insurer Vertical Consolidation: Effects

In theory, consolidation between provider and insurer could lead to improvements in care coordination and integration of care across providers in different settings, which may in turn better align incentives, decrease transaction costs, and improve care management. However, vertical consolidation can also reduce competition through foreclosure of outside providers if insurers use plan benefit design to steer patients towards providers or clinics that they own.

As Medicare tries to move away from fee-for-service toward value-based payments (capitation), insurers often target primary care practices with large numbers of patients covered by Medicare Advantage, which allows clinicians to increase insurers' payments for each patient's care by upcoding diagnoses. Owning providers also allows insurance companies access to patient data, which may give a competitive advantage in marketing.

01

## Steering towards acquired providers

Vertical consolidation may allow insurers to use plan benefit designs to steer patients to their acquired clinics: for example, Aetna plans have [zero co-payments](#) for CVS MinuteClinic visits. Some may go further: lawsuits [have alleged](#) that UnitedHealth cut reimbursements or terminated contracts with physician practices to steer patients to their own Optum practices

02

## Pressure to upcode

A recent [STAT investigation](#) found that UnitedHealth pressured physician groups it owned to upcode diagnoses for patients covered by Medicare Advantage in order to receive higher capitation payments from the government.

03

## Dependency on one entity

Vertical consolidation can sometimes make the entire health system vulnerable due to its reliance on one entity: in February 21, 2024, Change Healthcare, the payment processing arm of UnitedHealth acquired in 2022, was struck by [a cyberattack](#), causing it to shut down its services and throwing the healthcare sector into crisis as payments, prior authorizations, and pharmacy orders were halted. The DOJ had unsuccessfully tried to stop the merger.