STATEMENT OF

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ON

THE IMPLEMENTATION OF THE AFFORDABLE CARE ACT

BEFORE THE

U. S. HOUSE COMMITTEE ON ENERGY & COMMERCE

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Good morning, Chairman Upton, Ranking Member Waxman, and members of the Committee. Thank you for the opportunity to speak about the work at the Centers for Medicare & Medicaid Services (CMS) implementing the Affordable Care Act to put in place strong consumer protections, provide new coverage options, and give Americans the additional tools to make informed choices about their health insurance. In March 2010, Congress passed and President Obama signed into law the Affordable Care Act, putting in place comprehensive reforms to improve access to affordable health insurance for all Americans and protect consumers from abusive insurance company practices. Millions of Americans have already benefited from this law, and two months from today, the Health Insurance Marketplace will be open for business, giving consumers an easy way to compare and enroll in more affordable health insurance coverage.

Reducing Costs and Improving Health Care Quality

In addition to expanding coverage, CMS is implementing reforms in the Affordable Care Act that will make the health care delivery system work better for consumers. These reforms include incentives and tools to help providers avoid costly mistakes and preventable readmissions, keep patients healthy, and make sure Medicare and Medicaid payments reward excellent care and not simply the provision of more services. These payment changes and investments will strengthen our health care system, ensuring quality care for generations to come – not just for Medicare and Medicaid beneficiaries, but for all patients that depend on our health care system.

There is growing evidence that these reforms are working for the entire system, keeping costs low for not only Medicare and Medicaid beneficiaries, but also for consumers and employers shopping for coverage in the private health insurance market. Affordable Care Act reforms are contributing substantially to recent reductions in the growth rate of Medicare spending per

beneficiary[1] without reducing benefits for beneficiaries. Growth in national health expenditures over the past three years was lower than any time over the last 50 years. We are also observing a decrease in the rate of patients returning to the hospital after being discharged. After fluctuating between 18.5 percent and 19.5 percent for the past five years, the Medicare 30-day all-cause readmission rate dropped to approximately 18 percent in the final quarter of 2012. This decrease is an early sign that our payment and delivery reforms are having an impact. Growing numbers of physicians and other providers are participating in new payment initiatives that reward higher-quality and lower-cost care. In 2012, we launched the first cohort of Medicare Accountable Care Organizations (ACOs), groups of providers working together to promote accountability for a patient population and redesigning care processes for high quality and efficient service delivery. To date, more than 240 Medicare ACOs are in operation, available in almost every State. A health care delivery system that rewards quality over volume will help make health care more affordable for all consumers.

Improving Access to Health Insurance: The Health Insurance Marketplace

Millions of Americans currently buy coverage through the individual market, in many cases at a much higher cost than they would see as part of a larger pool. Additionally, over 40 million Americans under the age of 65 do not currently have health insurance, sometimes because the cost of insurance is too high or because they have been excluded from the private insurance market because of pre-existing conditions.

Establishing the Marketplaces

To give Americans a better way to shop for coverage, the Affordable Care Act directs states to establish State-based Marketplaces by January 1, 2014. In states electing not to establish and operate such a Marketplace, the Affordable Care Act directs the Federal Government to establish and operate a Marketplace in the state, referred to as a Federally-facilitated Marketplace. A State may also choose to partner with the Federal Government to operate a Marketplace. The Marketplace will provide consumers with access to health care coverage through private,

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[1] ASPE Issue Brief: "*Growth In Medicare Spending Per Beneficiary Continues To Hit Historic Lows*" for full report please visit: http://aspe.hhs.gov/health/reports/2013/medicarespendinggrowth/ib.cfm

qualified health plans, and consumers seeking financial assistance may qualify for insurance affordability programs.

Since the passage of the Affordable Care Act, CMS has been hard at work to design, build, and test secure systems that ensure Americans are able to enroll in affordable health care coverage through the Marketplace. CMS has already completed the majority of the development of the services required to support open enrollment beginning on October 1, 2013 for coverage starting January 1, 2014. CMS has been conducting systems tests since October 2012 and will complete end-to-end testing before open enrollment begins. CMS is also reviewing applications from issuers to offer qualified health plans in the Federally-facilitated Marketplaces; CMS has received qualified health plan submissions from more than 120 issuers.

When consumers visit the Marketplace through HealthCare.gov beginning on October 1, 2013, they will experience a new way to shop for health coverage. There, they can fill out one application to purchase coverage through a qualified health plan, to qualify for premium tax credits and reduced cost sharing, or to apply for coverage through Medicaid or the Children's Health Insurance Program (CHIP).[2]

The online version of the application will be a dynamic experience that shortens the application process based on individuals' responses. The paper application for individuals is three pages, and the application for families is seven pages. These applications are much shorter than industry standards for health insurance applications today. The paper application was simplified and tailored to meet personal situations based on important feedback from consumer groups.[3] CMS is also developing a variety of information sources to support consumers as they fill out the streamlined application, including through HealthCare.gov and a toll-free call center, which is already up and running.

[2] Application Elements: http://www.cms.gov/Regulations-and-Guidance/Legislation/PaperworkReductionActof1995/PRA-Listing-Items/CMS-10440.html

[3] http://www.cms.gov/Newsroom/MediaReleaseDatabase/Press-Releases/2013-Press-Releases-Items/2013-04-30.html

During the application process, millions of Americans may learn that they or their family member qualifies for coverage under their state's Medicaid program. The Medicaid program provides care for millions of individuals, and plays an important role in providing coverage for low-income children, pregnant women, people with disabilities and seniors needing long term care services and supports. Under the Affordable Care Act, Medicaid eligibility for adult coverage will be simplified, Federal funding will increase, and millions of uninsured low-income people will gain coverage.

These millions of Americans will be able to access and apply for Medicaid or the State Children's Health Insurance Program through the Health Insurance Marketplace in their state. They will fill out the same basic application to help determine what types of coverage they and their family qualify for. CMS has worked with states to ensure eligibility, enrollment and renewal processes will be modernized and streamlined.

In particular, CMS has worked with states to implement the simplified financial eligibility standard set forth under the Affordable Care Act by relying on a single Modified Adjusted Gross Income (MAGI) standard for determining eligibility for most Medicaid and CHIP enrollees and by consolidating eligibility categories. The new MAGI rules and enrollment procedures are aligned with those that will apply for determining eligibility for an advance premium tax credit in the Marketplace. Coordination with the Exchange is important to ensuring that consumers may apply for coverage and enroll in a plan through a single, streamlined process.

Making Health Insurance More Affordable

We are already seeing evidence that the Marketplace is encouraging plans to compete for consumers, resulting in affordable rates. While many states are still finalizing or finishing final review of their rates, some, like New York, California, Washington, Vermont, Oregon, and the District of Columbia, have released preliminary rates, and in some cases, independent experts say that these rates have been lower than expected.[4] In the eleven states for which data are

[4] http://www.zanebenefits.com/blog/bid/301885/Washington-Health-Insurance-Exchange-Rates-Lower-Than-Expected and

available, the preliminary rate for the lowest cost silver plan in the individual market in 2014 is, on average, 18 percent less expensive than the estimate based on projections by the Congressional Budget Office.[5]

This is good news for consumers. In fact, some states have released initial bids only to have insurers request to amend their bid after competitors' publically-available bids come in at lower prices. In Washington, D.C., United Health Care and Aetna both reduced their small group rates, by 10 and 5 percent, respectively.[6] In Oregon, two plans requested to lower their rates by 15 percent or more.[7]Some rates submitted to California's Marketplace, Covered California, are as much as 29 percent below the 2013 average premiums for small employer plans in California's most populous regions.[8] New York State has said on average, the approved 2014 rates for even the highest levels of coverage of plans individual consumers can purchase on New York's Health Benefits Exchange (gold and platinum) represent a 53 percent reduction compared to last year's direct-pay individual rates.[9] Furthermore, states are using their rate review powers to review and adjust rates accordingly. In Oregon, the state has reduced rates for some plans by as much as 35 percent,[10] offering consumers an even better deal on their coverage for the 2014 plan year.

In addition to the more affordable rates resulting from competition among insurers, insurance affordability programs including premium tax credits and cost-sharing reductions will help many eligible individuals and families, significantly reducing the monthly premiums paid by consumers. Premium tax credits may be paid in advance and applied to the purchase of a qualified health plan through the Marketplace, enabling consumers to purchase insurance even if they lack the ability to pay up front. Cost-sharing reductions may also lower out-of-pocket

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http://articles.chicagotribune.com/2013-05-17/news/sns-rt-us-usa-healthcare-exchangesbre94g0sb-20130517_1_health-insurance-insurance-marketplaces-premiums

[5] ASPE Research Brief: Market Competition Works: Proposed Silver Premiums in the 2014 Individual and Small Group Markets Are Nearly 20% Lower than Expected

[6] http://hbx.dc.gov/release/dc-health-link-applauds-aetna-decision-cut-rates

[7] http://www.oregonlive.com/health/index.ssf/2013/05/two_oregon_insurers_reconsider.html

[8] http://www.healthexchange.ca.gov/Documents/COVERED%20CA%20-%20Health%20Plans%20PRESS%20RELEASE%20FINAL%205%2023%2013.pdf

[9] http://www.governor.ny.gov/press/07172013-health-benefit-exchange

[10] http://www.oregonlive.com/health/index.ssf/2013/06/oregon_slashes_2014_health_ins.html

payments for deductibles, coinsurance, and copayments for certain eligible individuals and families.

The Congressional Budget Office has projected that about 85 percent of Americans who obtain coverage through the Marketplaces will qualify for assistance to make their insurance more affordable, an estimated 20 million Americans by 2017.[11] A family's eligibility for these affordability programs depends on its family size, household income, and access to other types of health coverage.

Spreading the Word

Ensuring that consumers and businesses take advantage of these reforms, the Marketplace provides user-friendly tools to learn about the benefits that the Marketplace and other Affordable Care Act reforms have to offer. This is a significant undertaking. We know quite a bit about the uninsured Americans we need to reach—many have never had health insurance, so the transaction of selecting, applying, and enrolling in health coverage will be unfamiliar to them. According to a CMS analysis of the 2011 American Community Survey,[12] 20 percent of uninsured adults have not completed high school. To effectively reach these populations about their new health insurance options, information should be provided by trusted people connected to the community in an appropriate manner.

For that reason, the Affordable Care Act authorizes, and CMS is implementing, a variety of ways to provide outreach, education, and enrollment assistance. We are leveraging forms of assistance that exist in the insurance market today, as well as new forms of assistance provided by the Affordable Care Act to help educate Americans about the options for enrolling in affordable, high quality coverage beginning on October 1, 2013. In June of this year, CMS re-launched a new consumer-focused HealthCare.gov website and the 24-hours-a-day consumer call center to help Americans prepare for open enrollment and ultimately sign up for private health insurance. The new tools will help Americans understand their choices and select the coverage that best

[11] http://www.cbo.gov/sites/default/files/cbofiles/attachments/44190_EffectsAffordableCareActHealthInsuranceCoverage_2.pdf

[12] Data set available: https://data.cms.gov/dataset/The-Percent-of-Estimated-Eligible-Uninsured-People/9hxb-n5xb

suits their needs when open enrollment in the Marketplace begins October 1.[13] Until the start of open enrollment, the Marketplace call center will provide educational information, and beginning October 1, 2013, it will assist consumers with application completion and plan selection. I am pleased to report that we have had thousands of consumers contact us via live web chat or our toll free number and over 1 million visitors to HealthCare.gov since its re-launch in June. We are also seeing states begin their marketing efforts to help spread the word on the importance of insurance, especially for young adults. States are tailoring their message to specific audiences and the populations of their states. Recent news reports have highlighted the unique ways Oregon, Kentucky, Colorado and Connecticut plan to enroll consumers in their Marketplaces.[14] As with the roll-out of expanded healthcare coverage options, such as Medicare Part D and CHIP, CMS expects that other Federal agency partners and members of the private sector will be involved in efforts to reach, engage, and assist potential enrollees.

In addition to outreach and education through HealthCare.gov, our toll free number, and state outreach efforts, consumers in the Marketplace will be able to get in-person help from Navigators and similar in-person assisters, who will provide information to consumers about health insurance, the Marketplace, qualified health plans, and public programs including Medicaid and CHIP. Last month, CMS finalized a rule outlining the standards for Navigators, in-person assisters, and certified application counselors in the Federally-facilitated and State Partnership Marketplace. Navigators will provide accurate and impartial assistance to consumers shopping for coverage in the new Marketplace, including consumers who are not familiar with health insurance, have limited English proficiency, or are living with a disability. To be selected as Navigators, organizations must submit grant applications and undergo a thorough Federal review process. All Navigators must complete a Federal training program and pass a test to ensure they are prepared to assist consumers. State-based Marketplaces have the option of using materials developed by the Federally-facilitated Marketplace or developing their own. Grant awards for Navigators in states with Federally-facilitated and State Partnership Marketplace will

[13] http://www.cms.gov/Newsroom/MediaReleaseDatabase/Press-Releases/2013-Press-Releases-Items/2013-06-24.html
[14] http://capsules.kaiserhealthnews.org/index.php/2013/07/state-insurance-exchanges-launching-tv-ads-to-encourage-enrollment/

be awarded on August 15, 2013. Additionally, where permitted by the state,[15] licensed agents and brokers, as well as online brokers and insurers, may help consumers and employers enroll in a qualified health plan through the Marketplace.

CMS is building on the lessons we learned through the efforts of earlier roll-outs of expanded health care coverage programs, such as the CHIP and the Medicare Part D drug benefit as we work to educate Americans about the Marketplace. With 60 days remaining until the beginning of open enrollment, CMS is working to provide consumers with numerous avenues to get help selecting a qualified health plan through the Marketplace.

Reforming the Health Insurance System

In addition to expanding access to affordable insurance coverage for the uninsured, the Affordable Care Act also improves the existing health insurance market. Before the Affordable Care Act, health insurance premiums had risen rapidly, straining the pocketbooks of Americans for more than a decade. Between 1999 and 2012, the cost of coverage for a family rose 172 percent.[16] These increases forced families and employers to spend more money, often for less coverage. Before the Affordable Care Act, women could be charged more for individual insurance policies simply because of their gender. For example, a 22-year-old woman could be charged 50 percent more than a 22 year-old man. Many young people and people with low incomes often could not afford health insurance, leaving millions of Americans without coverage. Before the Affordable Care Act, premium rates charged to older Americans could be more than five times the rate for younger Americans.

What We Have Already Achieved

Since the Affordable Care Act was signed into law, CMS has implemented strong consumer protections that increase insurance company accountability, give consumers more coverage options, and improve the value of that coverage. Today, more than 3.1 million additional young adults under the age of 26 are covered under their parents' plans. The families of 17.6 million

[15] Per 45 CFR 155.220

[16] Kaiser Family Foundation. Employer Health Benefits 2012 Annual Survey http://kaiserfamilyfoundation.files.wordpress.com/2013/03/8345-employer-health-benefits-annual-survey-full-report-0912.pdf

children with pre-existing conditions can rest more easily, because their insurance companies cannot deny their children coverage based on pre-existing conditions. Nearly 71 million Americans now have expanded access to preventive services at no additional cost through their private insurance plans, and 27 million women now have guaranteed access to additional preventive services without cost-sharing.[17] The Affordable Care Act also brought important benefits to Medicare beneficiaries. Over 6.6 million seniors saved more than $7 billion on their prescription drugs.[18] Additionally, an estimated 34 million Medicare beneficiaries received preventive care like mammograms and colonoscopies in 2012 because of the Affordable Care Act,[19] and nearly 17 million Medicare beneficiaries took advantage of at least one free preventive service in the first six months of 2013.[20] These benefits have helped to improve the lives of our neighbors and fellow Americans.

The Affordable Care Act has brought an unprecedented level of scrutiny and transparency to health insurance rate increases by requiring an insurance company to justify a rate increase of 10 percent or more, shedding light on arbitrary or unnecessary costs. Since the rule on rate increases was implemented,[21] the number of requests for insurance premium increases of 10 percent or more plummeted from 75 percent to an estimated 14 percent. The average premium increase for all rates in 2012 was 30 percent below what it was in 2010. Available data suggest that this slowdown in rate increases is continuing into 2013.[22] Americans have saved an estimated $1 billion on their health insurance premiums thanks to rate review.

The rate review program works in conjunction with the 80/20 rule (or the Medical Loss Ratio rule),[23] which generally requires insurance companies in the individual and small group markets to spend at least 80 percent of premiums on health care and quality improvement activities, and

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[17] http://aspe.hhs.gov/health/reports/2013/PreventiveServices/ib_prevention.cfm
[18] http://cms.gov/Newsroom/MediaReleaseDatabase/Press-Releases/2013-Press-Releases-Items/2013-07-29.html
[19] http://www.cms.gov/apps/files/Medicarereport2012.pdf
[20] http://cms.gov/Newsroom/MediaReleaseDatabase/Press-Releases/2013-Press-Releases-Items/2013-07-29.html
[21] Health Insurance Rate Review – Final Rule on Rate Increase Disclosure and Review: http://www.gpo.gov/fdsys/pkg/FR-2011-05-23/pdf/2011-12631.pdf
[22] ASPE Research Brief: Health Insurance Premium Increases in the Individual Market Since the Passage of the Affordable Care Act http://aspe.hhs.gov/health/reports/2013/rateIncreaseIndvMkt/rb.cfm
[23] MLR Final Rule: https://www.federalregister.gov/articles/2012/05/16/2012-11753/medical-loss-ratio-requirements-under-the-patient-protection-and-affordable-care-act

no more than 20 percent on administrative costs (such as executive salaries and marketing) and profits. In the large group employer market (more than 50 employees), insurers must spend 85 percent of premium dollars on medical care and quality improvement activities. If they fail to do so, they must provide rebates to their customers. The Medical Loss Ratio rule also improves value, increases transparency and accountability, and promotes competition among insurers. In 2012, 77.8 million consumers saved an estimated $3.4 billion up front on their premiums as more insurance companies operated more efficiently and spent less on overhead. And this year, 8.5 million consumers can expect a total of $500 million in rebates, with an average rebate of around $100 per family nationwide from insurance companies that did not meet the 80/20 standard in 2012. This is in addition to the $1.1 billion in rebates based on 2011 premiums, which benefited approximately 13 million Americans.[24]

Looking Ahead to 2014

We are proud of the accomplishments of the last three years, and we look forward to even more promising reforms of the Affordable Care Act that are set to start in 2014. Soon, a variety of consumer protections will take effect that will further strengthen the Health Insurance Marketplace, ending many of the insurance industry practices that make health care coverage too expensive or unavailable for many consumers.

In 2014, new rules will help make health insurance more affordable for more Americans.[25] Most health insurance companies will be prohibited from charging higher premiums to applicants because of their current or past health problems. Most insurance companies will no longer be able to charge women more than men based solely on their gender. Most insurers will be limited in how much more they can charge older Americans than young Americans, so insurance becomes more affordable for most Americans.

In addition to making coverage more affordable, beginning in 2014, new protections will help Americans of all ages maintain health insurance coverage, regardless of their health status. With

[24] http://www.cms.gov/CCIIO/Resources/Forms-Reports-and-Other-Resources/Downloads/2012-medical-loss-ratio-report.pdf

[25] Health Insurance Market Rules: http://www.gpo.gov/fdsys/pkg/FR-2013-02-27/pdf/2013-04335.pdf

limited exceptions, all non-grandfathered plans and policies in the individual and group markets will be required to enroll individuals, regardless of health status, age, gender, or other factors and will be prohibited from refusing to renew coverage because an individual or employee becomes sick. Plans will also be prohibited from putting annual dollar limits on benefits.

Soon, consumers will be able to select an insurance plan with confidence that it will cover key health care services when they need them. All non-grandfathered plans in the individual and small group markets will cover essential health benefits,[26] which include items and services in ten statutory benefit categories, such as ambulatory patient services (including doctors' visits), hospitalization, prescription drugs, and maternity and newborn care. These benefits will be equal in scope to a typical employer health plan. To this end, the essential health benefits will be defined in each state by reference to a benchmark plan.

Beginning in 2014, non-grandfathered health plans in the individual and small group markets also must meet certain actuarial values: 60 percent for a bronze plan, 70 percent for a silver plan, 80 percent for a gold plan, and 90 percent for a platinum plan. Actuarial value means the percentage paid by a health plan of the total allowed costs of benefits. For example, if a plan has an actuarial value of 70 percent, the average consumer would be responsible for 30 percent of the costs of the essential health benefits the plan covers. These tiers will allow consumers to compare plans with similar levels of coverage, which, along with comparing premiums, provider participation, and other factors, will help consumers make more informed decisions.

Insurance market reforms will also help large employers. Already, employers are reporting slower growth in health insurance premiums.[27] The Congressional Budget Office analyzed the net impact on premiums by market and found that for the large group employer market, the Affordable Care Act will result in a 0 to 3 percent premium reduction.[28] Employers (and their premium-paying employees) may also accrue additional gains as uncompensated care decreases and population health improves. We are also observing important signals that payment and

[26] Essential Health Benefits: http://www.gpo.gov/fdsys/pkg/FR-2012-11-26/html/2012-28362.htm
[27] Employer Health Benefits 2012 Annual Survey: http://kaiserfamilyfoundation.files.wordpress.com/2013/03/8345-employer-health-benefits-annual-survey-full-report-0912.pdf
[28] http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/107xx/doc10781/11-30-premiums.pdf

delivery system reforms are having an impact, including a decrease in the rate of patients returning to the hospital after being discharged and growing numbers of physicians and other providers participating in new payment initiatives that reward higher-quality and lower-cost care. By combining insurance market reforms, new efficiencies created by the Marketplaces, and programs such as reinsurance that will help stabilize premiums in the new Marketplaces, the Affordable Care Act reduces uncompensated care, increases competition among health insurance issuers, and reduces the hidden cost of uncompensated care for all premium payers.

Conclusion

By making coverage more affordable, improving the value of insurance coverage, and protecting consumers from the worst health insurance industry abuses, CMS is paving the way for a fairer, more transparent, more accessible health system. Over the last three and a half years, CMS and our Federal partners have been hard at work drafting policy, implementing consumer protections, working with stakeholders, and building IT systems that will enable Americans to shop and apply for insurance coverage starting just two months from now.

I appreciate this Committee's ongoing interest in our efforts and the opportunities you have given CMS to keep you appraised of our progress. It is my strong hope that we can work together to help provide the American people with the information they need about this important law. As the Administrator of CMS, I want to assure you that we stand ready to work with you and your constituents to answer questions or concerns as they arise, and are always eager to work with you on constructive suggestions to improve any CMS programs. Thank you for the opportunity to discuss CMS' important work to improve access to affordable health coverage for all Americans.