GOVERNMENT OF BERMUDA
Ministry of Health

Standard Premium Rate and BHB Funding 2019
FACT SHEET

The Government will be transitioning to a more efficient way to fund BHB in order to prevent an increase to the standard premium rate (SPR) (the premium for the basic package of insurance, the Standard Health Benefit (SHB)). The SHB premium will not increase and the money that has always been intended for standard hospital care will be directed to the hospital. To make this possible, from 1st June 2019 the Mutual Reinsurance Fund (MRF) premium will increase but the Standard Premium will stay the same. This will ensure healthcare money is used only for healthcare.

1. Implementation will be 1st June because the SPR has to suffice to cover projected claims

Due to utilization increases, fee levels and unequal risk pooling, the current SPR would not suffice to cover population SHB claims projected for the upcoming year. To prevent SHB claims from exceeding premium across the health system, a cap had to be placed on what the system would spend at the hospital, as it is the largest component of SHB (>95%).

2. Independent actuarial modelling determined that an $84 per month premium increase would be needed to cover projected fee for service claims. The change in funding model reduced the revenue BHB would have obtained from $350m with fee for services to $330m with a fixed budget. The funding change prevented $20m added spend in the health system.

Actuarial modelling was completed on the status quo method of funding the health system. Based on multi-year trends of utilization, the innate incentives within a fee for service (FFS) infrastructure, and disproportionate risk being borne by public providers, it was determined that an $84 per month increase in the Standard Premium Rate would be required. That $84 dollar increase to each policy equates to an estimated increase of $49.42M in additional system funding. Under the current FFS model, the hospital would have generated additional revenue, amounting to $350M for fiscal year 2019/20. Through collaboration and a review of current hospital expenses, it was determined that there was a feasible pathway to a revenue target of $330M with incorporation of a more aggressive plan including implementation of an efficiency improvement programme within BHB. This collaboration and aggressive plan represent a planned $20M reduction in anticipated revenue.

3. Extensive consultation was held with BHB before deciding to streamline its funding

The solution to streamline BHB's funding and the revenue target were discussed in detail with BHB prior to a decision being finalized by the Government. BHB is the most affected party in this change so their input and engagement is pivotal. A revenue target of $330 million was agreed on the basis that it will cover the cost of operating the hospitals safely in this fiscal year (2019/20) to deliver the necessary

healthcare to insured and subsidized populations and that it is an interim solution to enable forward planning toward a more comprehensive and sustainable funding mechanism.

Health insurers have highlighted the impact of the BHB funding change to their overall loss ratios and requested more consultation time and a delayed implementation. Because the most affected party is BHB and the SPR will be underfunded across the system without a change, further consultation time is not possible. However, the Government remains committed to working with all insurers on broader health system reforms.

4. The concept of a <u>global or fixed budget</u> is internationally accepted

For example, in the United States, which has a current predominant fee for service system, is monitoring and adopting more fixed budget models as they have seen the success of such models in states such as Maryland and Pennsylvania. The transition to a global payment model has seen significant reductions in preventable complications, reduction in readmission rates and millions of dollars in savings. In fact chief executives from hospitals in Maryland which converted to this model discovered that the new budget freed them from the urgent need to fill their beds to maintain adequate revenue.

Notably, the move to shift BHB's funding model to a global budget occurred in 2017 when subsidy was changed legislatively from fee-for-service to a block grant. This enabled a $25 million reduction in BHB's subsidy budget allocation, and prevented uncontrolled increases to the annual budget.

5. <u>Quality of care at the hospital</u> will remain BHB's primary priority and the funding change allows development of incentives to ensure the right care is delivered efficiently

The hospital has been the most important partner in the decision to streamline its funding mechanism for the benefit of the community. In depth discussions took place to agree a $330 million revenue target, based on BHB's financial analyses, as a realistic goal that would not disrupt operations or quality care in this fiscal year. Quality care is cost effective because it means patients receive the right care at the right time in the right place. The new funding model will incent BHB over time to develop innovative partnerships with the community to deliver the right care at the right time in the right setting.

6. Care should not be driven <u>overseas</u> because the hospital will continue to provide medically necessary care within its scope

Concern that an increase in hospital wait times would drive care overseas is theoretical at this time. The hospital will continue to provide medically necessary care within its scope, making overseas referrals no more necessary than today. Care in excess of medical necessity should not be funded from a community rated premium. Insurers have no incentive to pay for care overseas that has already been funded locally. The current population who favour overseas care above local care is unlikely to be swayed by the change in BHB funding.

The real pressures on BHB's capacity are driven by the lack of long term care resources in Bermuda and insufficient primary care coverage for underinsured persons. These are broader systemic problems which the Ministry is seeking to address through the broader health reforms.

7. The standard health premium is community rated not risk rated to ensure equity

The SPR is community rated, which means the premium is averaged across the whole insured population. This spreads risk equally and is fairer because it provides financial risk protection in the event of a catastrophic health event, which can happen to anyone at any time. For this reason, the SPR has to be at a level that can support whole population claims. This is the structure and spirit of the Health Insurance Act 1970.

8. The community rated standard health premium has been used to subsidize risk-rated premiums

The Health Insurance Act 1970 (the Act) established that the standard premium would be community rated in order to spread risk equitably. However, in the absence of further protections to prevent coverage denial based on age, pre-existing conditions or ill health, the community rated intent of the Act has not been honoured, severely disadvantaging (private and public) groups with older and sicker people. The Act never intended for some groups to benefit from worse-off groups. The principle of community rating is to spread risk and offer health insurance across the country at the same price to all persons without medical underwriting.

9. Bermuda's two-tier health insurance system will be relieved by streamlined BHB funding

Concern has been raised that the BHB funding change will create a two-tier insurance system. In fact, Bermuda already has two tiers. The change in BHB funding will alleviate this.

There is currently a tier for the healthy and a tier for the poor, the old and the sick. The lack of controls in the Health Insurance Act prevents individuals from securing basic cover at any insurer – there is no obligation to offer coverage. This pushes persons who are a "bad risk" to the public plans which don't currently offer higher level of coverage, thereby creating a two-tier system.

The public plans currently receive a $50.35 per month subsidy from all insurance premiums via the MRF. With the BHB funding change, the subsidy will reduce to $35.89 because the cost operating the country's only hospital will be spread equally across the community.

10. Health insurers will receive hospital utilization data of their policy holders

Data relating to each service that the hospital provides for individual patients will be accessible to their respective health insurer. This data will include the policy holder's identifying information, dates of service, and all codes related to the diagnosis and associated treatments. This data will be provided to insurers on a regular basis to support efforts for case management and utilization trending for a more robust accounting of patient participation in the care continuum. The data will be provided by the Health Council to each insurer.

11. The purpose of insurance is to distribute risk. Larger pools are more resilient so better for essential services. Supplemental benefits to top up basic coverage will always be available

The greatest value of insurance is the distribution of risk so that no one person or group of persons feels the full burden of health conditions that may totally be out of their control or may be the result of unanticipated factors. By having larger pools, the risk gets spread. Insurance options that pool risk have more opportunity to avoid the dynamic shifts that may occur when one person gets sick or gets into an accident.

It will be important going forward to recognize that we cannot have concentrated risk pools where there is a high burden of illness. As a society there may be those who are healthier that may be asked to bear some of the costs of caring for others. The insurance market plays an important role in this, but so will regulation which will help to create ways in which people can get the right care, at the right time and in the right setting. Nevertheless, risk rated insurance for supplemental benefits beyond basic, essential healthcare will continue to be an option provided through the private market as it is now.

12. Bermuda's private health insurers are good corporate citizens who do not wish to burden the community unnecessarily

Health insurers have highlighted the impact of the BHB funding change to their overall loss ratios. The Government appreciates their disclosure that they have been subsidizing supplemental premiums with the favourable loss ratios caused by the inequitable risk distribution. However, the community rated principle of the standard premium must take precedence for the sake of all residents. Likewise, Bermuda will benefit from the good corporate citizenry of the health insurance sector who can contribute to the wellbeing of the community by avoiding burdening policy holders and employers with untenable premium increases.

13. Illness, ageing, health service use and pricing drive health costs. Patient-centred service delivery, fairly reimbursed, will improve health outcomes and contain costs

Health Cost increases are associated with two primary items 1) health services used and 2) the price at which they are paid.

How health services are used – The demand in use of health services is driven by health status (which includes services associated with chronic illness and the needs of older adults) and also through patient or provider driven demand. Patients can request services based on their own perspectives on need, while providers can also drive demand per the fundamental structure of a health system. Patients and providers can uniquely drive demand through moral hazard or the incentives of a volume-based system when there may not be specific consensus on the requirements of the service. A smarter benefit package based on patient-centred, integrated service delivery will be developed with full consultation to control over-utilization.

The prices at which services and products are be paid are based on market conditions that value the service being delivered or underlying cost pressures such as procurement costs or the local costs of doing business. In addition, a lack of full transparency of costs can lead to aggregate pricing that represent market rates and payer willingness rather than the actual costs of delivery. Better pricing and payment options will be developed with consultation to address costs.

14. To <u>improve health outcomes, access and lower costs</u> we have to change the way we pay for healthcare

Three of Bermuda's main health problems are high rates of chronic disease, ageing and high health costs. To address all three, the way we pay for healthcare has to change (in addition to more health education). This is health financing reform. We need services and coverage so everyone can stay healthy and restore health when things go wrong. We need the 50% of the population with risk factors for chronic disease to have access to the necessary care to control their conditions and prevent costly escalations. We need seniors and other vulnerable groups to be able to afford health coverage that will protect them. We need health services to be better aligned and properly integrated to deliver the right care at the right time in the right place. None of that is doable without changing the way we pay for healthcare to incentivise and cover the right care. And this is why health financing reform is needed.

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