The Patient Protection and Affordable Care Act
Federal Healthcare Reform
Impact on the Property Casualty Industry

Healthcare costs make up a major portion of the expenditures in the U.S. economy and they are projected to grow from 17.9% of the US gross domestic product (GDP) to 19.6% in 2021. The aging population will drive this growth in part as more than 10,000 people per day are expected to turn 65 over the next 19 years increasing the demand for healthcare goods and services. In addition, Medicare and Medicaid spending is projected to grow from 5% of current GDP to 10% in 2037.

In March 2010, President Barack Obama signed into law two legislative acts that seek to address the rapidly rising cost of medical goods and services: the Patient Protection and Affordable Care Act (P.L. 111-148) (PPACA); and the Healthcare and Education Reconciliation Act of 2010 (P.L. 111-152) (the healthcare provisions of these acts together are known as the “ACA”). This sweeping national healthcare reform has the following among its primary goals:

- To provide health insurance coverage to an estimated additional 32 to 40 million uninsured Americans; and
- To expand the use of preventive services in private insurance plans, Medicare, and Medicaid.

A tremendous amount of regulation will likely be required to implement this comprehensive legislation. While the ACA will likely impact the federal budget and private healthcare programs, the information presented in this paper focuses only on those aspects of the ACA that may affect the property casualty (P&C) industry.

The ACA and Its Potential Impact on the P&C Industry

Medical trends impact workers compensation, general liability, and auto insurance costs, which make up about 5% of healthcare revenue. Prior to the ACA, medical severity in workers compensation almost doubled that of indemnity severity, rising 275% between 1991 and 2010. Some of the key ACA components expected to affect the P&C industry are:

- **Extended healthcare coverage** – a 15% increase in demand for a fixed supply of healthcare services
- **Black Lung presumptions** – any miner (or surviving spouse) with 15 or more years of underground coal (or substantially similar) mine employment and a totally disabling respiratory or pulmonary impairment is presumed to be disabled due to pneumoconiosis and eligible for Black Lung benefits
- **Pharmacy and durable medical equipment (DME) taxes and assessments** – the potential to increase costs 1.5% and 2.3%, respectively
- **Medical data** – enhanced electronic record keeping and sharing of data among providers

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The potential positive effects of the ACA on the P&C industry include:

- Increased wellness – a healthier and better conditioned population
- Decreased incentive to file questionable P&C claims
- Increased fraud detection supported by government funding
- Fewer emergency room visits
- Decreased need to over-treat

The potential negative effects of the ACA on the P&C industry include:

- Decreased access to care, increasing indemnity costs as prompt access to physicians is reduced and return to work is delayed
- Increased cost shifting from Medicare to P&C payers by physicians and hospitals due to declining Medicare reimbursement rates
- Increased pharmacy and DME medical costs due to new taxes and fees passed on to consumers
- Decreased network discounts due to increased bargaining power of physicians/hospitals and less need to drive volume, increasing medical costs

Travelers’ Response

Travelers is partnering with our commercial accounts and agents to lessen the potential negative impact of this changing healthcare environment through a number of loss prevention and mitigation initiatives, including:

Prevention

- Travelers Risk Control is working to prevent losses for all employees, including members of an aging workforce with unique safety needs, and providing wellness information for our customers’ employees
  - Travelers has partnered with Virginia Tech to improve driver wellness and safety

Mitigation

- **Travelers Medical Advantage** is an integrated set of medical management capabilities that can be leveraged across all property and casualty lines of business, including workers compensation, general liability, and auto. Components of Travelers Medical Advantage include:
  - In-house registered nurses who help coordinate implementation of cost-effective treatment plans that enable injured employees to return to work as soon as possible
  - Product innovations like the industry’s first ConciergeCLAIM® Nurse program (patent pending), in which a Travelers-employed registered nurse is located within a preferred medical clinic to facilitate access to appropriate treatment for injured employees and to begin the process of medical management on the spot
  - An industry-first injured worker website (myWCinfo.com) that provides injured employees with access to network medical providers, statutes and regulations, and common forms
  - Predictive modeling capabilities that promote the development of claim management tools, including a patented nurse triage model and a chronic pain intervention program
The Patient Protection and Affordable Care Act

- A Specialized Medical Audit and Review Team (SMART) that reviews the more complex medical bills to identify savings opportunities that an automated review system cannot
- A not-for-profit modified duty program that places injured employees temporarily in roles at approved non-profit organizations, allowing them to stay active as they recover
- Medical specialists, including physicians and pharmacists, who assist in individual claim management and in driving the development of medical management strategies

- Travelers Claim and Risk Control work together to help our customers establish or strengthen their post-injury management programs, which facilitate their injured employees’ safe and timely return to work while controlling medical costs.

Our Partnership

At Travelers, we believe it is important to keep our agents and customers apprised of key issues that may affect them. This paper is one of a series of “white papers” designed to do that. By working in unison, Travelers and its agents and customers will be better positioned to overcome challenges and seize opportunities. We thank you for your partnership.