

# **AFFORDABLE CARE ACT: IMPACT ON HEALTHCARE INDUSTRIES AND MARKETING IMPLICATIONS**

Talai Osmonbekov, Eric Yordy and Sean Gregory, Northern Arizona University

## **Abstract**

Health care sector is a large and important sector of the US economy. National health expenditures (NHE) reached \$2,593.6 billion dollars or 17.9% of US GDP in 2010. Hospital care industry, a subset of the healthcare sector, has grown from \$255.8 sector of the economy in 1980 to a \$2,593.6 billion sector of the economy in 2010 (Martin et al 2012). That is 8% compounded annual growth rate (CAGR) for thirty years, which is more than twice of the official inflation rate for the period. From the consumer perspective, adding insurance premiums, Medicare and Medicaid payments and out of pocket spending, health spending accounts for 28% of household expenditures (Bradford et al 2011). In addition to growing health care costs there are approximately 45 million Americans without health insurance, which exacerbates the costs of health insurance for the rest of the population. NHE per capita in US was about \$8,402 in 2010 and that was the highest expenditure per capita (even after adjusting for purchasing power parity) among the developed countries, yet the satisfaction with the healthcare system remained very low (Adams et al 2012). In response to the growing problems in the healthcare sector, Congress passed the Patient Protection and Affordable Care Act (ACA) and President signed it into law in 2010. In 2012, the Supreme Court upheld the key provisions of the law. The law's intention is to reduce the growth of health care costs, improve the quality of health care and expand health care coverage to more Americans. Congressional Budget Office estimates that by 2016 only 7% of Americans will be without health insurance while without ACA about 18% of Americans would not have health insurance (CBO 2012). The ACA represents the most important and sweeping regulatory change in the health care sector since the establishment of Medicare and Medicaid in the 1960s. The significance of the law could be compared to the legislative actions that deregulated the telecommunications industry in the 1990s and the airline industry in 1970s.

## **Provisions of the ACA**

Title I of the ACA constitutes nearly 17% of the law and contains the major provisions related to health insurance coverage. In addition to the so-called "Individual Mandate," (Sec. 5000A) which requires individuals to obtain and maintain adequate insurance and imposes penalties for failing to do so, the act requires insurers to do several things and forbids them from doing others

(Patient Protection and Affordable Care Act). Title II of the bill deals with Medicaid coverage and improvements to the Medicaid program. In addition, long-term care and community-based care systems are addressed in Title II. Section 2401 allows states to create or maintain a system where in-home care can be covered under the Medicaid payment systems (Sec. 2401). This in-home or community-based care can include health tasks, the teaching of daily life skills and administrative fees for the state to train attendants (Sec. 2401, 2703). Title III addresses payment for outcomes and how to measure quality in care. In this Title, Congress also directed the Secretary of Health and Human Services to develop a “demonstration” program to “test a payment incentive and service delivery model that utilizes physician and nurse practitioner directed home-based primary care teams” to reduce preventable hospitalizations and readmissions as well as reduce emergency room visits (Sec. 3024). Title IV focuses on chronic diseases and public health, including preventative activities. Title V addresses shortages in the health care workforce and creates loan programs for health care students. Title VI focuses on transparency of the Medicare and Medicaid systems. Title VII is entitled “Improving Access to Innovative Medical Therapies” and deals with affordability of medicine for children and poor people. Title VIII establishes a national voluntary insurance program for community living programs. Title IX focuses on revenue, including the imposition of fees on pharmaceutical and medical device manufacturers and importers based on annual sales. Finally, Title X clarifies certain provisions of Title I.

### **Marketing Implications**

The implications of the ACA and the Supreme Court ruling are numerous, complex and, at this point, not very certain. In addition to the bill, various federal and state agencies will develop their own rules and regulations that will implement the ACA provisions in various jurisdictions. In the past several decades hospitals and physicians has been experiencing a trend toward group buying, where hospitals formed hospital buying groups, physicians formed physician groups in order to negotiate for lower prices with medical product and services providers (Nollet and Beaulieu 2005). The ACA is likely to give an additional impetus to this already growing trend. The ACA Title III provisions specify significant incentives for the existing physician groups and hospitals to form ACOs to interact with government programs. Title I and Title II of the ACA are likely to expand the number of insured patients by approximately 30 million by 2016 (CBO 2012). Therefore, in the short run, the ACA provisions and upholding of the individual mandate by the Supreme Court is likely stabilize pricing for hospital and physicians and decrease the costs they incur treating patients with healthcare insurance. For marketers at the

pharmaceutical products manufacturers, such as Merck, Pfizer and Eli Lilly, the ramifications of the ACA may transform both the marketing process and the allocation of marketing expenditures. The creation of ACOs by Title III of the ACA may present a challenge to pharmaceutical products manufacturers. It is likely that the ACOs will be more important buyers of pharmaceutical products from the Big Pharma companies. Traditionally, pharmaceutical products manufacturers direct their marketing efforts to doctors, now they will have to change their practices and direct their selling and marketing efforts to ACOs. ACOs are likely to be more economic buyers, focusing on the cost of the products, than doctor's offices that primarily focus on the merits and effectiveness of pharmaceuticals. Medical device companies such as Stryker, Boston Scientific and Medtronic will likely experience similar major changes in the way of marketing their products. . In general, the ACA is likely to accelerate the existing trend of the transferring health care expenditures from the private sector to the public sector as public insurance will likely to cover millions of people that were uninsured before or transferred from employer provided insurance to the state or federal health insurance programs (Martin et al 2012; Bradford et al 2011). There are many direct and specific ACA provisions that impact insurance companies' pricing decisions. For example, Title I directly and very specifically affects pricing latitude of the companies by capping administrative expenses and profits at 15% of revenue for large group plans and 20% for small and individual plans. The provisions that already went into effect in 2011 require insurance companies to submit price increases for a review by Centers for Medicare and Medicaid Services (CMS) (Federal Register 2011).

References Available Upon Request