

THE HEALTH INDUSTRY FORUM

POLICY BRIEF

AUGUST, 2010

ESTABLISHING A NATIONAL SYSTEM OF HEALTH INSURANCE EXCHANGES

Expanding access to high quality, affordable health insurance has been a public policy goal for decades. Many Americans, especially those in the individual and small group markets, have increasing difficulty purchasing health insurance. Many also purchase coverage that does not cover important services or with deductibles and co-pays that create significant financial barriers to specific types of care. As costs continue to rise faster than incomes, many believe that these trends are not sustainable. As a result, the new "Patient Protection and Affordable Care Act" (Public Law 111-148) focuses on health insurance reform and providing consumers in the small and individual markets with the benefits of choice, portability, and large group purchasing efficiencies through the establishment of health insurance exchanges.

Before the law was passed, the Health Industry Forum convened a group of academics, policy experts, and government officials to discuss how best to establish a national health insurance exchange system. Participants explored lessons from Massachusetts which has achieved near universal coverage by enacting an individual mandate, premium subsidies, and a health insurance exchange. The full conference report is available on the Forum's website <http://healthforum.brandeis.edu/meetings/conference-pages/2009-20-july.html>.

EXPANDING INSURANCE COVERAGE THROUGH PRIVATE MARKET MECHANISMS WITH MEANINGFUL BENEFITS AND AFFORDABLE PREMIUMS REQUIRES A NEW HEALTH INSURANCE POLICY FRAMEWORK.

A policy framework for expanding insurance coverage through the private market should include a mandate that individuals obtain coverage, a requirement that insurers accept all applicants (guaranteed issue), prohibition of excluding pre-existing conditions from coverage, a managed marketplace for individuals and small businesses to purchase coverage (health insurance exchange), subsidies to ensure that individuals have access to affordable coverage, and reforms that help control future growth in premium costs. Insurance industry leaders have stated support for guaranteed issue in combination with an individual mandate and penalties that are sufficient to ensure that most individuals comply with coverage requirements. Without effective penalties for individuals who fail to comply, healthier individuals may not buy coverage, which would lead to a sicker risk pool and higher premiums. Similarly, mandated coverage creates a responsibility that government ensure affordable premiums. The new law provides government subsidies for individuals with incomes between 133-400% of the federal poverty level (roughly \$30,000 - \$40,000 for individuals and \$60,000 – \$80,000 for a family of four); nevertheless, there is concern that some individuals who do not qualify for subsidies will not be able to afford coverage. Over time, without effective policies in place that control the rate of growth in medical costs and insurance premiums, fewer people will be able to afford insurance. There is much debate over the best strategies for ensuring that insurance is affordable; however, health insurance exchanges could become an important mechanism for doing so.

Another national policy issue is defining minimum credible coverage to ensure that all citizens have access to appropriate services. Although some believe that requiring products to meet minimum standards will increase premiums and limit consumer choice, most recognize that underinsured individuals face critical gaps in their coverage that can prevent them from getting medically necessary care. Requiring minimum credible coverage for all health insurance products can ensure that important preventive and chronic disease management benefits are covered, and help shift utilization away from costly acute care settings. Creating an effective market of credible insurance products can help reduce spending and improve quality in the long run.

THE DEGREE OF PURCHASING AUTHORITY GIVEN TO AN EXCHANGE WILL DETERMINE ITS ABILITY TO AFFECT AFFORDABILITY.

In a background paper prepared for the Forum, Jon Kingsdale and John M. Bertko outlined a series of health insurance exchange design options that reflect a range of potential purchasing authority.¹ These could range from a basic information channel approach that simply lists all available plans through more active purchasing models that set rigorous standards for participating plans, and use purchasing strategies like competitive bidding to achieve affordable prices.

The Massachusetts Commonwealth Health Insurance Connector Authority (Connector) has two distinct exchange models. The first, which applies to Commonwealth Care, the state's subsidized insurance program for uninsured individuals, is an exclusive distribution channel for subsidized enrollees. In this model, the Connector defines benefit requirements, oversees a competitive bidding and carrier selection process, risk adjusts premiums across plans, and administers subsidies for low income beneficiaries. The premium trend under Commonwealth Care has averaged a 4.7 percent increase annually for FY2008 - FY2010 while premiums in the individual and small group markets have increased by 8-12 percent annually.

The second model, Commonwealth Choice, serving the non-subsidized individual market, functions as an alternative distribution channel. Consumers select from an array of standard plan choices with significantly less oversight of premiums by the Connector. Enrollment in Commonwealth Choice has been limited with roughly 20,000 participants. Some policymakers believe that making the Connector the exclusive purchaser of all individual policies, as it is for the beneficiaries in Commonwealth Care, would create far more purchasing clout, generate a larger risk pool, decrease administrative costs, and permit risk adjustment across plans. Key policymakers also agree that allowing the Connector to become the purchaser in the small group market would increase its leverage and ability to keep premium costs from increasing further. Insurance plans, however, do not support an expanded purchasing role for the exchange. If exchanges are allowed only limited purchasing authority, policymakers will need to consider other strategies to address the current premium trend.

EVEN WITHOUT SIGNIFICANT PURCHASING AUTHORITY, EXCHANGES MAY REDUCE PREMIUM COSTS BY INCREASING COMPETITION AND REDUCING ADMINISTRATIVE COSTS.

Even without expanded purchasing authority, exchanges may have the effect of creating downward pressure on premiums by establishing standard benefit packages and creating user-friendly product comparison tools. Consumers would then be able to choose products more effectively, and insurers would face pressure to price competitively. As in Massachusetts, the exchange would need to require that insurers offer identical products inside and outside of the exchange to avoid risk selection or shifting more costly individuals into exchange-sponsored products.

Exchanges could also significantly reduce administrative costs which the Congressional Budget Office estimates as 29 percent of premium in the individual market. In addition to administrative savings from guaranteed issue (since insurers will not bear the cost of medical review), there is also likely to be less spending on marketing.

Currently, insurers rely heavily on brokers to sell their products in the individual and small group markets. The exchange could reduce the role of brokers by providing an organized centralized market with consumer protections and clearer marketing materials of plans that meet and exceed minimum credible coverage standards. Although there still would be a role for brokers, commissions would likely decrease as they have in Massachusetts. Another potential administrative cost savings could be decreased churning across insurance plans. Individuals who purchase through the exchange would not need to change plans when they change jobs and this may increase incentives for insurers to invest in improving the health of these beneficiaries.

FACTORS AFFECTING THE SUCCESSFUL IMPLEMENTATION OF THE MASSACHUSETTS' EXCHANGE INCLUDE ITS GOVERNANCE STRUCTURE, CONSUMER OUTREACH EFFORTS, AND COOPERATIVE RELATIONSHIPS WITH OTHER STATE AGENCIES.

The Massachusetts health reform legislation delegated many critical policy decisions to the Health Insurance Connector's governing board. The Connector's success in implementing key aspects of the health reform program is credited, in part, to the governing board's broad representation and transparent decision making process that includes public meetings with minutes posted on the Connector's website. This combination of inclusiveness and transparency helped establish the Connector as a trusted organization. Another critical aspect to the Connector's success is the effort it placed on educating the public about the health insurance mandate and developing clear information about coverage options and subsidies for consumers. The Connector maintains a website, as well as a call center, to help consumers select appropriate coverage options. The Connector works closely with other state agencies including Medicaid, the Division of Insurance, the Department of Revenue, and Human Services. For example, it works with Medicaid on subsidy administration, the Department of Revenue on interpretation, tax enforcement, and appeals of the individual mandate, and with the Division of Insurance on regulation of new insurance offerings.

Ensuring that all Americans have access to affordable, credible private health insurance coverage will require significant policy changes. Affordability is an overarching concern, especially with an individual mandate. Establishing a national health insurance exchange system could provide a mechanism to facilitate consumer choice and play a role in keeping premiums affordable regardless of how it is structured. The potential role of an exchange in achieving both access and affordability is ultimately dependent on the authority it is given to act as a purchaser.

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The Health Industry Forum is based at Brandeis University. It is chaired by Professor Stuart Altman, and directed by Robert Mechanic. The Forum brings together public policy experts and senior executives from leading healthcare organizations to address challenging health policy issues. The Forum conducts independent, objective policy analysis, and provides neutral venues where stakeholders work together to develop practical, actionable strategies to improve the quality and value of the US healthcare system.
<http://healthforum.brandeis.edu/>

ⁱ <http://healthforum.brandeis.edu/meetings/materials/2009-20-july/KingsdaleBertkoFinal7.10.09.pdf>