

Key Issues in Implementing a Health Insurance Exchange

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1. Avoiding Adverse Selection

- Occurs when healthy individuals and groups purchase insurance disproportionately outside the exchange.
 - Exchange becomes a high-risk pool.
- ACA has provisions that discourage adverse selection.
 - Most insurance reforms apply both within and outside the exchange.
 - Transitional and permanent risk-adjustment programs.
 - The individual mandate discourages healthy people from not getting insurance.
 - Subsidies only available through exchanges.
- Despite ACA provisions, adverse selection still seems likely.
 - Some extra requirements on plans in the exchange.
 - Grandfathered plans, especially large group and self-insured.

Adverse Selection (continued)

- Possible strategies to minimize adverse selection:
 - (1) Require all sales of individual and small group insurance to go through the exchange.
 - Appears to be allowed under the ACA.
 - Legal challenges?
 - Undocumented immigrants.
 - ACA prevents unlawful aliens from purchasing coverage through the exchange so undocumented aliens would lack access to health insurance.
 - (2) Regulate the individual and small group insurance market identically inside and outside the exchange.
 - Place all the same requirements on non-exchange plans.
 - Marketing, credentialing and network requirements.
 - Must offer same products.
 - Prevent “lemon dropping.”

2. Number of exchange participants

- The exchange probably needs to enroll as many participants as possible.
- The pool must be large enough to attract insurance plans. If too small, there will not be enough competition, plans will not be a good deal and not enough consumer choice.
 - Insurers need a credible insurance risk pool.
 - Group must be large enough for insurers to obtain provider discounts.
- Must have enough participants to create economies of scale enabling a reduction in administrative costs.

Number of Participants (cont.)

- ACA's provisions that help increase market participants:
 - Individual mandate.
 - Subsidies.
 - Small-employer tax credits for two years.
- State option: Allow employer groups of up to 100 to participate in Exchange (as opposed to 50).
- Open the exchange to large employer, over 100, ASAP (2017).
 - Possibly compounds adverse selection problem.
- Provide state and local government employee coverage through an exchange parallel to the ACA exchange and merge in 2017?

3. Cost of the Exchange

- Start-up costs.
 - Information technology system.
 - \$1 million planning grant.
- On-going administrative costs.
 - Requires staff to determine eligibility, manage plans, etc.
 - Contract with “navigators”
- ACA assumes that most funding will come from assessments on insurers to participate in the exchange.
 - The benefits of participating must outweigh the costs.
- The role of agents and brokers and their fees must be analyzed.

4. Exchange Governance

- Governmental entity or private non-profit?
- If governmental entity, connected to an agency or independent?
- Are the functions of the Exchange appropriate for a private entity?
 - Some decisions, such as determinations of eligibility for subsidies and plan participation appear to be a government function.
 - Unconstitutional delegation of public function to private entity?
- If public entity, potentially subject to:
 - State Personnel Act
 - Procurement code
 - State Rules Act, rulemaking requirements
 - Open Meetings Act
 - IPRA

5. Making the Exchange Employer Friendly

- Combine the Small Business Health Options Program (“SHOP”) with individual market or keep separate?
 - SHOP is designed to assist qualified employers in enrolling their employees in the exchange.
- Exchange must enroll small employer groups to overcome adverse selection.
- Exchange should reduce administrative burdens of small employers
 - Take on basic benefit management services such as automated billing and collection, on-line enrollment, employee additions and removals, plan selection, etc.
 - One aggregate bill covering premiums of all employees.

6. Regulatory Role of the Exchange

- How does the exchange carry-out its regulatory functions?
 - Further standardize plans?
 - Certifying eligibility for subsidies.
 - Certifying eligible plans.
 - ACA sets forth certain standards, but how aggressive should the exchange be in negotiating and competitively selecting qualified plans?
 - The size of the exchange and the ability to attract new insurers to concentrated markets will determine the negotiating power of the exchange.

7. Information Clearinghouse

- The ACA greatly increases transparency of insurance plans and provides for increased consumer information.
- Exchanges are to act as the clearinghouse of all information on available insurance plans.
 - Has to collect information and distribute to the public in an understandable form.
 - Make comparative consumer satisfaction info available
 - Develop a rating system.

8. The exchange and public benefit determinations.

- The ACA calls for a seamless, coordinated and efficient electronic system to process eligibility for tax credits, subsidies, Medicaid and CHIP.
- Must be seamless transitions between Medicaid/CHIP and enrollment in the exchange.
- Subsidy determination process should not hinder the enrollment of unsubsidized individuals.