

Health Insurance Exchanges and Market Design: An Introduction

Presentation to Oregon
Health Fund Board

November 6, 2007

Important Questions

- *Can an exchange solve the problems of cost, quality and/or access?* No, not by itself.
- *What else do we need to consider?* Other market design elements, e.g., individual mandate, guaranteed issue, rating regulations, etc.
- *Can we simply use the Massachusetts Connector as a model for Oregon?* No, because their individual and small group markets differ from ours.

The Market Context

The current individual market in Oregon is relatively healthy compared to other states, *but . . .*

- We do not have guaranteed issue
 - In the absence of an individual mandate, we chose to
 1. allow medical screening, and
 2. create a high risk pool
 - This creates higher administrative costs, and the high risk pool is not affordable for some people.

A “new” individual market?

If we assume that we should have an individual mandate, then the individual market will have to change:

- Coverage would have to be available to all, i.e., guaranteed issue
- Coverage would have to be affordable, i.e., subsidies for low-income individuals

What would be the role of an insurance exchange in this “new” individual market?

What is a Health Insurance Exchange?

A market mechanism that:

- Brings together consumers, and
- Facilitates the purchase of health insurance from a choice of health plans
 - “one-stop shopping”
 - mirrors the functionality of large employer pools

Why do we need an Exchange?

- Individuals buying health insurance often face obstacles:
 - Administrative complexity (esp. subsidy administration)
 - Lack of tools to shop effectively
 - Individuals don't have the tax advantages of employer-based coverage

The Goals of an Exchange

- Efficiency and affordability
- Convenience
- Tax advantages

What's been the experience with exchanges?

- Mixed at best
 - Some have been successful (e.g., CBIA)
 - Most have not attracted many participants
 - Most did not achieve goals of constraining health insurance premiums via efficiency or purchasing power
 - Some have collapsed financially due to adverse selection spiral
- Design and implementation are critical to success

Massachusetts Connector Design

- Two programs
 - **Commonwealth Care:** free/subsidized coverage for uninsured with income to 300% FPL, without access to coverage
 - **Commonwealth Choice:** unsubsidized commercial products for individuals above 300% FPL, small business
- Use of Connector is voluntary but is sole entry point for subsidies
- All plans offered through Connector meet Minimum Creditable Coverage requirement
- Three plan levels with differing benefits, cost sharing

The Massachusetts Connector – Initial Results

- Enrollment: higher than projected
 - CommCare: 127,000 enrollees on 10/1/07
 - CommChoice: 8,300 enrollees on 10/1/07 (covg. began 7/1)
- Financial outlook: expect to be self-sustaining by year 3 (2009)
 - Barriers: high enrollment by 55+, most younger enrollees are in fully subsidized program
- Benefit design: lots of public interest in “minimum creditable coverage” requirement

The Massachusetts Connector – Initial Results (Cont.)

- Health Plan participation has been good
- Implementation Issue: Not everyone has insurance yet
 - mandate purposely implemented slowly
 - Individuals with unaffordable employer coverage
- Implementation Issue: Consumers responded to clear information about differences between plan levels
- Connector Board now looking at cost control issues

MA vs. OR: Individual Market (prior to reform)

	Massachusetts	Oregon
Size	42,500 (1%)	218,000 (6%) [including OMIP]
Guaranteed issue and renewability?	GI: yes GR: yes	GI: no GR: yes
Rating regulation	Rates cannot be based on individual's health experience or other factors; may use age factor	Rates cannot be based on individual's health experience or other factors; may use age factor
Coverage regulation	May exclude coverage of pre-existing conditions up to 6 mos.	May exclude coverage of pre-existing conditions up to 6 mos.
Benefit regulation	No current mandate. On 1/1/09, minimum creditable coverage must meet certain benefit standards, incl. coverage of preventative & primary care, emergency services, hospital, prescription drugs and mental health care. Annual deductible maximum of \$2,000 (individual)/ \$4,000 (family).	Certain benefits mandated, but not mental health parity
Other	No high risk pool Ind & small group markets merged 7/1/07	OMIP for individuals denied coverage

MA vs. OR: Small Group Market (prior to reform)

	Massachusetts	Oregon
Size	700,000 (11%); includes groups of 1-50 FTEs (self-employed = group of one)	283,000 (8%) [incl. portability]
Guaranteed issue and renewability?	GI: Yes GR: Yes	GI: Yes GR: Yes
Rating regulation	Rates cannot be based on individual's health experience or other factors; may use age factor; 2:1 rating band (age, geography, industry, size -- includes four rate basis types)	Rates pooled for all small groups. Allowed factors: benefit design, geography, age, family coverage, participation rate. Max band for age factor: 2.5
Coverage regulation	May exclude coverage of pre-existing conditions up to 6 months. Group plans cannot apply exclusion period for pregnancy, newborns or newly adopted children, children placed for adoption, or genetic information.	May exclude coverage of pre-existing conditions up to 6 mos. (excl pregnancy)
Benefit regulation	No restrictions on employer coverage: employers can design the health benefit offered to employees. By 1/1/09, all individuals must get minimum creditable coverage: preventative & primary care, emergency services, hospital, prescriptions, mental health benefits	Must include mandated benefits

Critical Success Factors – External Market Context

- Requirement for individuals to have coverage (with subsidies for low-income individuals)
- Guaranteed issue and renewability inside and outside of exchange
- Rules (including rating regulations) are the same inside and outside of exchange
 - to ensure affordability and minimize risk skimming

Critical Success Factors – Internal Design of Exchange

- Meaningful choice of health plans
- Reasonable standardization of benefit offerings
- Transparent information and decision support tools for consumers
- Mechanisms to protect insurers that enroll high-risk members
 - e.g., risk adjusters, reinsurance or high-risk pool

Summary and Implications

- An exchange is a tool, not a solution in itself.
 - An exchange won't work in a vacuum; it must be done in conjunction with other market changes, i.e., individual mandate, guaranteed issue, subsidies
 - An exchange can be a very important element of a comprehensive reform plan
- Oregon's individual and small group markets differ from Massachusetts's, so we can't simply import the Mass. Connector.
- Due to differences in Oregon's individual and small group markets, it may make sense to focus initially on the individual market.

Design Issues

(from Finance Committee Charter)

- Should insurance products for the “new” individual market be offered on the basis of guaranteed issue and renewability?
- To what degree should benefits offered by insurers in this “new” market be standardized to minimize unnecessary variation, facilitate comparison shopping and minimize risk skimming?
- What role could an Exchange fill in this “new” individual market?
- How might the Exchange be used to administer subsidies to eligible Oregonians?
- Should all individual products be sold through an Exchange, or should use of an Exchange be required only for individuals accessing subsidies?
- If a separate individual market operates in parallel with an Exchange, what is needed to avoid adverse selection between the two pools?

(cont.)

Design Issues (cont.)

- How should insurers be selected to participate in the Exchange? How are a range of product offerings managed to avoid adverse selection?
- What mechanisms should be used to protect insurers who enroll high-risk members? Should we continue to have a high-risk pool, or are other mechanisms preferable?
- What kinds of decision support tools and transparent information on cost, quality and service should there be to support informed consumer choice?
- How should an Exchange be organized and governed?
- How should the costs of an Exchange be financed?
- What should be the role of brokers/agents in the “new” individual market?
- Based on proposed reforms of the individual market, are there implications for the small group market?

Next Steps

- Nov 19 – Exchange/Market Design presentation to Finance Committee
- Week of Nov 26 - Exchange Work Group launch
- Feb '08 - Preliminary Exchange report due to Legislature
- March/April '08 – Finance Committee refines recommendations to Board