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HEALTH MANAGEMENT ASSOCIATES

Health Insurance Exchanges: Governance Options and Considerations

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Introduction

The Patient Protection and Affordable Care Act (hereafter, Affordable Care Act) establishes two types of health insurance exchanges -- one for individuals (American Health Benefit Exchange) and one for small employers (Small Business Health Options Program, or SHOP) -- to serve as one-stop-shopping markets for a range of subsidized and unsubsidized coverage options. In addition to certifying that all health plans sold through the exchange meet federal requirements, exchanges will perform (or arrange) several administrative and consumer support functions, such as, supplying standardized plan and cost comparison information, assisting consumers with health plan selection, streamlining enrollment processes, and facilitating access to subsidies and/or public programs. Significant coordination with health plans as well as state and federal agencies will be required.

The Affordable Care Act provides little federal guidance about exchange governance but does specify the following:

- Exchanges may be administered by a governmental agency or non-profit entity established by the state;
- States may operate state, regional, or subsidiary exchanges;
- States may opt-out entirely and participate in a national exchange;
- Exchanges may perform all required functions in-house or contract out key services.

National, Regional, State or Subsidiary Exchanges?

States are not required to establish their own exchanges. However, states that have not taken adequate steps by January 1, 2013 to meet the exchange implementation deadline (January 1, 2014) will default to participation in a national exchange operated by the federal Department of Health and Human Services (HHS). For states that elect to operate exchanges, they will need to select among several options for defining the geographic scope:

- States may establish statewide exchanges serving all state residents
- States may establish multiple subsidiary exchanges, serving distinct geographic areas that are no smaller than premium rating areas
- States may join regional or multi-state exchanges, with *separate* risk pools
- States may join regional or multi-state exchanges, with *merged* risk pools.

Each of these options has governance as well as operational implications. For example, the degree of local control will depend on whether exchange administration is at the national, state, or regional level.

Separate Individual and Small Business Exchanges or Merged Exchanges?

In addition to considering the geographic scope of exchanges, states must decide whether or not to merge their individual and small business exchanges/markets. States again have several options:

- Individual and SHOP exchanges may be operated as separate entities
- Individual and SHOP exchanges may be administered jointly, with *separate* risk pools
- Individual and SHOP exchanges may be administered jointly, with *merged* risk pools.

States considering whether to merge individual and small group markets have many factors to consider including implications for enrollment volume, price and adverse selection.

In-House vs. Out-Sourced Functions?

Finally, the Affordable Care Act explicitly recognizes that exchanges may benefit from contracting with entities that have experience with key required functions such as eligibility, account maintenance, and data exchange with health carriers. Contracting options include:

- Exchanges may contract with the state Medicaid agency to determine eligibility for subsidies or for public programs
- Exchanges may contract with entities with demonstrated experience in the individual and small group health insurance markets and in benefits coverage, so long as the entity is not an insurer or controlled by an insurer.

The exchange administrator choice may affect the need for and ease of subcontracting for additional administrative services for such things as customer service call centers, website development, etc.

Considerations for States

State decisions about governance and scope will have important implications for day-to-day exchange operations. For example, non-profit administration will require establishing a board of directors, whereas governmental administration will entail compliance with civil service, public contracting, and open-records/meeting requirements. In weighing governance options, states will need to consider operational capacity to implement federally-required exchange functionality as well as attend to issues such as user-friendliness, responsiveness, accountability, administrative efficiency, start-up/operational costs, financing, insurance pool size, range of health plan offerings, and the need for coordination with other entities, such as boards of directors or other state governments.

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