health policy solutions

Health Insurance Exchanges: Viability & Influence on Private Markets

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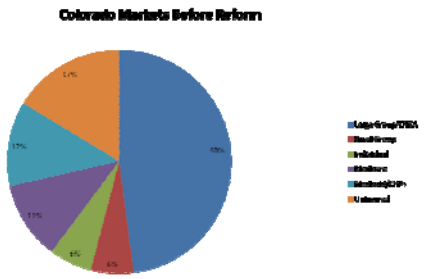
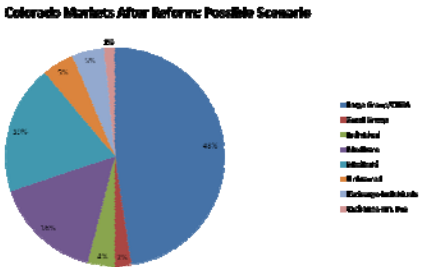
Presentation Overview

- Goal: Provide context for a discussion on the ideal market role for a Colorado exchange
- Review Colorado's current health insurance markets
- Project a post-reform scenario for Colorado markets
- Compare insurance market rules for individual and small group markets before and after reform
- State-level considerations for designing a Colorado exchange:
  - Managing risk pool & potential for adverse selection
  - Promoting high quality benefit designs
  - Fostering plan participation & competition

Participation in Colorado Insurance Markets in 2010: (Before Reform)



Participation in Colorado Insurance Markets in 2014: Possible Post-Reform Scenario



Individual Market Rules: Before & After Federal Health Reform

INDIVIDUAL MARKET	Before Federal Reform	After Federal Reform
• **Covered Lives**	**290,199** (2009)	?
• **Guarantee Issue**	**No;** Those with pre-existing conditions may be denied	**X**
• **Guarantee Renewal**	**X**	**X**
• **Premium Rating Factors**	• **No limits on rating EXCEPT:** ▪ **Cannot rate on gender** ▪ **Health status may be considered at issue only*** *Plans are permitted to create separate books of business within the individual market	• **Age** (3:1 max. ratio) • **Geography** • **Tobacco** (1.5:1 max. ratio) • **Family Composition** • **Plan Design**
• **# carriers**	**Not tracked**	?
• **Benefit Tiers**	**Not regulated** (benefits designed by carriers)	**Bronze** (covers 60% of the benefit costs of the plan) **Silver** (covers 70% of the benefit costs of the plan) **Gold** (covers 80% of the benefit costs of the plan) **Platinum** (covers 90% of the benefit costs of the plan) Note: For all plan types, out-of-pocket limit equal to current HSA limit

Sources: Colorado Division of Insurance, July 2010; Summary of New Health Reform Law, Kaiser Family Foundation, April 2010

Small Group Market Rules: Before & After Federal Health Reform

SMALL GROUP MARKET	Before Federal Reform	After Federal Reform
• **Definition of Small Group**	**1-50 employees**	<50 employees until 2016 (state option) **After 2016, <100 employees**
• **Covered Lives**	**287,238** (2009)	?
• **Guarantee Issue**	**X**	**X**
• **Guarantee Renewal**	**X**	**X**
• **Premium Rating Factors**	• **Age** (no max ratio) • **Geography** • **Tobacco** • **Industry** • **Family Composition** • **Plan Design**	• **Age** (3:1 max. ratio) • **Geography** • **Tobacco** (1.5:1 max. ratio) • **Family Composition** • **Plan Design**
• **# carriers**	**21 carriers;** top 3 w/ 77.3% of market top 10 w/ 99% of market	?
• **Benefit Tiers**	**Basic Plan** (defined by DOI) = approx. lowest level of benefits **Standard Plan** (defined by DOI) = average level of benefits **Health Savings Account** (defined by HHS) = pre-tax accounts paired with high-deductible insurance plans **Other small group plans** (designed by carriers)	**Bronze** (covers 60% of the benefit costs of the plan) **Silver** (covers 70% of the benefit costs of the plan) **Gold** (covers 80% of the benefit costs of the plan) **Platinum** (covers 90% of the benefit costs of the plan) Note: For all plan types, out-of-pocket limit equal to current HSA limit

Sources: 2009 Colorado Small Group Activity Report, Colorado Division of Insurance, May 2010; Summary of New Health Reform Law, Kaiser Family Foundation, April 2010

Managing Risk Pools

- **Risk Pool Definition**: the number and characteristics of Coloradans purchasing coverage in a particular insurance market
- In general, **bigger is better** (economies of scale, negotiating power, ability to spread risk)
- **Minimum size: 100,000 lives**
  - at least 300,000 Coloradans are likely to qualify for premium subsidies
- **Federal provisions** intended to increase pool sizes:
  - **Individual mandate:** requirement to purchase coverage
  - **Guaranteed Issue:** no one can be denied coverage
  - **Restrictions on segmenting risk:** states could take additional steps

Managing the Potential for Adverse Selection

- **Adverse Selection Definition:** Disproportionate participation/enrollment of high-cost individuals within a specific market or health plan
- In general, **prices are higher** and **plan participation is lower** in markets with adverse selection
- **Federal provisions** intended to protect exchange/plans from adverse selection:
  - **Individual mandate:** aims to increase participation of healthy individuals who currently opt-out of coverage
  - **Standardization inside/outside exchange:** limitations on how different offerings can be; states could further standardize
  - **Risk adjustment:** payments to plans with disproportionate risk

Fostering High Quality Benefit Designs, Plan Participation & Competition

- "**Certification"** of "qualified health plans" is main exchange lever to influence benefit design and quality of care
- **Federal provisions** intended to ensure quality:
  - **Standardized plan designs** inside/outside exchange
  - **Certification** of qualified health plans
  - **State Options**: may add certification requirements
    - Add benefits or other certification requirements
    - Limit plan participation through selective contracting
    - Negotiate rates with plans (?)
- **Plan participation** and nature of **competition** will be highly influenced by state implementation and policy decisions around certification