FOCUS on Health Reform

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EXPLAINING HEALTH CARE REFORM: What Are Health Insurance Exchanges?

A number of recent health care reform plans call for the creation of a health insurance "exchange," a new entity intended to create a more organized and competitive market for health insurance by offering a choice of plans, establishing common rules regarding the offering and pricing of insurance, and providing information to help consumers better understand the options available to them.

An exchange is part of the plan aiming for universal coverage currently being implemented in Massachusetts (where it is called the "Connector"). It was also featured in proposals from the major Democratic candidates for President (including President Obama), in the Healthy Americans Act sponsored by Senators Ron Wyden and Bob Bennett (where they are called Health Help Agencies), and in a white paper released by Senate Finance Committee Chair Max Baucus. In all of these plans, the exchange is a key element in providing coverage to the currently uninsured and in facilitating changes to the insurance market, particularly for those who buy insurance on their own. Some proposals allow employers or employees to purchase coverage through the exchange as well.

This brief explains the purpose and function of exchanges, how they would relate to greater regulation of the insurance market, and some of the key questions likely to be addressed by any health reform proposal that calls for the creation of exchanges.

Purpose and Function of an Exchange

In the context of a health reform plan aiming for a substantial expansion in the number of people insured and universal access to affordable coverage, there are a number of functions envisioned for exchanges, including:

1. **Offering consumers a choice of health plans and focusing competition on price.** Exchanges offer enrollees a choice of private health insurance plans, and some proposals also envision including a public, Medicare-like plan. Covered services and cost sharing (i.e., deductibles, coinsurance or copayments, and out-of-pocket limits) would be organized or standardized in ways that make comparisons across plans easier for consumers. The aim is to focus competition among plans on the price of coverage and minimize the tendency for plans to vary benefits in order to attract healthier than average enrollees.

2. **Providing information to consumers**. In conjunction with offering a choice of health plans, an exchange is intended to provide consumers with transparent information about plan provisions such as premium costs and covered benefits, as well as a plan's performance in encouraging wellness, managing chronic illnesses, and improving consumer satisfaction. The exchange could also serve a customer assistance function—typical for large employers—to assist consumers who encounter billing or access problems with their plans.

3. **Creating an administrative mechanism for enrollment.** For people who obtain private insurance coverage through work, the employer typically facilitates enrollment in a plan and the payment of the premium. This is especially true in larger businesses. An exchange could serve a similar function for people without access to that kind of assistance, including people buying insurance on their own or who work for small businesses. The exchange could also be used to determine eligibility for and administer income-related subsidies. Alternatively, these functions could be handled by a government agency or through the tax system.

4. **Moving towards portability of coverage.** Coverage through an exchange can be de-linked from employment, helping to make health insurance more portable for people moving from job to job. However, since employment-based coverage would still exist under some proposals, insurance may not truly be fully portable. Exchanges also could coordinate enrollment shifts between Medicaid and subsidized private coverage for people with very low and potentially changing incomes.

5. **Reforming the insurance market.** Another function of an exchange is to facilitate changes in the rules governing how insurers sell coverage. In most states today, people buying insurance in the non-group market can be denied coverage or charged a higher premium based on a pre-existing health condition. Health insurers are required by federal law to offer health insurance to any small business, but premiums in most states can vary within prescribed limits based on the health status of workers. Many health reform proposals would require insurers to accept all applicants without consideration of the applicant's health, and would further prohibit or significantly limit premium variation related to health status. Although these types of changes can be implemented simply by changing insurance laws and do not necessarily require the creation of exchanges, some argue that exchanges can make these insurance market reforms more effective by monitoring marketing practices and administering a uniform system for enrolling in a health insurance plan.

KEY QUESTIONS

1. Who has access to the exchange?

At a minimum, most would envision that people without access to employer-sponsored insurance or a public plan like Medicaid could obtain coverage through an exchange. This would include people now buying insurance on their own (like the self-employed), as well as people receiving income-related subsidies. The exchange could be the exclusive place where people buying insurance themselves get coverage, or an outside non-group market could continue to exist. Some proposals would also permit workers with access to employer coverage to join the exchange, or give employers the choice of buying insurance through the exchange. One issue raised by this idea of giving people or employers a choice of whether to join an exchange or not is the potential for "risk selection," meaning that sicker-than-average people could end up in the exchange. This could be mitigated by requiring that any insurance sold outside the exchange would have to comply with similar rules operating inside the exchange, including the guaranteed availability of coverage and limits on the extent to which premiums can vary by health status.

2. How is an exchange structured?

The functions of an exchange could all be accomplished by a single, national exchange, and likely with the lowest administrative overhead. However, individual purchasers— consumers and employers— may feel a greater sense of ownership with an exchange representing their region. Negotiations with health plans might be more effective at the local level, but some sort of oversight body to ensure that the exchanges are complying with national and potentially state rules would likely be needed.

3. How should an exchange be governed?

The functions of an exchange could be handled by a federal or state government agency. Some advocates of exchanges, however, see the role of a purchaser as better served by a private or quasi-public entity that could operate in a more nimble way than government regulatory bodies are typically able to. There are number of important design questions that have to be addressed in structuring the governance of an exchange:

- Who oversees the exchange, ensuring that it's complying with federal requirements? If the exchange is facilitating coverage for people receiving federal subsidies, it has the potential to affect federal spending in significant ways. This oversight may be particularly important if there are multiple state or regional exchanges.
- How is the exchange board structured? A key issue is whether an exchange operates primarily as a purchaser (e.g., with only employers and consumers on its board) or as a broader market facilitator, potentially with representation by health plans and providers.
- What is the role of states? Federal law could permit states to operate exchanges, or give states authority over the creation and oversight of exchanges within their borders. If the current role of states in regulating insurance markets continues in some form, there would at a minimum need to be significant coordination between exchanges and state insurance departments.

KEY QUESTIONS (continued)

4. How much purchasing authority should an exchange have?

An exchange could range from a relatively passive market facilitator — accepting any plan that meets specified requirements — to a more active purchaser with the authority to limit the number of plans participating to a handful based on a negotiation or bidding process. The more active purchasing role might have greater potential to drive down cost growth and improve quality, and could simplify decision-making for consumers. But, it could also be quite controversial, and create disruption for consumers if their plans were dropped by the exchange. In addition, if the exchange covers a substantial share of the market, a decision by the exchange to no longer contract with a plan could in effect make the insurer commercially non-viable. The authority to make such far-reaching decisions might require procedural requirements similar to what a government agency would face when issuing regulations, such as a public comment period when individuals can voice their concerns. Another issue is whether the exchange offers a public plan in addition to private plans.

5. What benefits should be offered in an exchange?

From the perspective of encouraging competition over price, fully standardized benefits are preferred, making comparisons across plans as simple as possible for consumers. However, a uniform benefits package could discourage innovation by plans and limit choice for consumers wanting to purchase less or more coverage. Benefits and cost sharing could alternatively be standardized in tiers (e.g. low, medium, and high option plans). In addition, plans could be allowed to vary benefits and cost sharing so long as the actuarial value— that is, the average level of coverage provided to enrollees—meets a defined threshold and plan variation does not discriminate against the very sick. This approach complicates choices for consumers, however, and may require greater oversight by the exchange or a regulatory agency.

Conclusion

The idea of a health insurance exchange holds great appeal to a broad range of policymakers and interest groups, in part because they have different notions in mind of what an exchange is and what it would do. To some, it is a tool for organizing a private insurance marketplace for a relatively narrow group of individuals receiving subsidized insurance. To others, it's a mechanism for offering anyone a choice of a public or private insurance plan, and providing oversight of insurers beyond current insurance regulations. In many respects, differing views of how an exchange would function mirror alternative visions of how health coverage should be delivered in a reformed system, not only for the currently uninsured but for many who already have insurance as well.

Resources

Alliance for Health Reform/Commonwealth Fund – Health Insurance Exchanges: See How They Run. Webcast provided by kaisernetwork.org: http://www.kaisernetwork.org/health_cast/hcast_index.cfm?display=detail&hc=3134

Center on Budget and Policy Priorities – Health Insurance "Connectors" Should Be Designed to Supplement Public Coverage, Not Replace It: http://www.cbpp.org/1-29-07health.htm

Community Catalyst – Revisiting Massachusetts Health Reform: 18 Months Later: http://www.communitycatalyst.org/doc_store/publications/revisiting_MA_health_reform_dec07.pdf

Healthy Americans Act: http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:s391is.txt.pdf

Heritage Foundation – The Significance of Massachusetts Health Reform: http://www.heritage.org/research/healthcare/wm1035.cfm

Institute for Health Policy Solutions – What Health Insurance Exchanges or Choice Pools Can and Can't Do About Risks and Costs: http://allhealth.org/briefingmaterials/WhatHealthInsuranceExchangesorChoicePools CanandCantDoAboutRisksandCosts-1459.pdf

Kaiser Commission on Medicaid and the Uninsured – President Obama's Campaign Position on Health Reform and Other Health Care Issues: http://www.kff.org/uninsured/kcmu112508oth.cfm

Kaiser Family Foundation – How Private Health Coverage Works: http://www.kff.org/insurance/7766.cfm

Kaiser Family Foundation/National Governors Association – Webcast, Creating a Marketplace for Expanding Coverage: http://www.kaisernetwork.org/health_cast/hcast_index.cfm?display=detail&hc=2063

Kaiser Family Foundation – State Health Facts (State Insurance Rules): http://www.statehealthfacts.org/comparecat.jsp?cat=7

Massachusetts Connector: http://www.mahealthconnector.org/portal/site/connector/

Senate Finance Committee – Expanding Health Care Coverage: Proposals to Provide Affordable Coverage to All Americans: http://www.finance.senate.gov/sitepages/leg/LEG%202009/051109%20Health%20Care%20 Description%20of%20Policy%20Options.pdf

Senator Max Baucus White Paper – Call To Action: Health Reform 2009: http://finance.senate.gov/healthreform2009/finalwhitepaper.pdf

Urban Institute - Health Insurance Exchanges: Organizing Health Insurance Marketplaces to Promote Health Reform Goals: http://www.urban.org/UploadedPDF/411875_health_insurance_marketplaces.pdf

This publication (#7908) is available on the Kaiser Family Foundation's website at www.kff.org.