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Exchanges: Making Health Reform Work for Iowans

By Andrew Cannon

Though the federal health reform law remains a lightning rod, making sure that Iowans have access to adequate health care is something most Iowans can agree on. The Affordable Care Act contains provisions that have the potential to benefit hundreds of thousands of Iowans.[1]

Health Benefits Exchanges — regulated marketplaces in which individuals and businesses can purchase quality health insurance plans[2] — are the central feature of the Affordable Care Act (ACA). The Congressional Budget Office estimates that as many as 30 million Americans would purchase their insurance through a state-based exchange.[3] About 66 percent of those that purchase health insurance through an exchange will receive some level of the premium tax credit.[4] The success of Iowa's exchange will be determined by its structure and the commitment of state legislators and executive agency leaders to make it work.

This brief provides a description of the exchange — its key features and potential benefits to Iowans, what the Affordable Care Act requires of exchanges, and what options are left to the state.

What is an Exchange?

A Health Benefits Exchange (or exchange) is "a mechanism for organizing the health insurance marketplace to help consumers and small businesses shop for coverage in a way that permits easy comparison of available plan options based on price, benefits and services, and quality."[5] Individuals who are not offered health insurance through an employer and small businesses (with 50 or fewer employees) will be allowed to purchase insurance through the exchange. [6] Plans offered in the exchange will be required to offer a minimum benefits package, broadly defined by the ACA, with specifics to be developed by the secretary of the U.S. Department of Health and Human Services (HHS). Coverage of maternity and newborn care, emergency services, mental health services, prescription drugs, laboratory services, preventive services and chronic disease management are among the essential benefits that plans offered in the exchange must cover.[7]

The essential health benefits package a level playing field — one insurer cannot gain a competitive advantage over another by the small print denying coverage for something that the consumer only discovers when they need help. Instead, insurers will be forced to compete on plan prices and value, and consumers will be able to rest assured that they are insured.

Many individuals and small businesses have not been well-served by the traditional health insurance market. Individuals and families who did not receive health insurance through an employer — including self-employed individuals — now have to turn to the individual health insurance market to find health coverage. Unlike employer-based health coverage, which is partially regulated by federal law, individuals in this market can face exclusions of coverage for pre-existing conditions, or be denied coverage altogether. Additionally, because their medical risk is not spread across a larger group, such as a workplace, individuals and families often faced far higher premiums than those available in employer-sponsored health plans. Similarly, small businesses often have significantly higher premiums for their

employees because they have a smaller pool among which to spread the medical cost risk.[8] A 2009 survey revealed that three-fourths of the Iowa small businesses that did not offer health insurance to their employees found it cost-prohibitive.[9]

The ACA authorizes states to create statewide (or even multistate) exchanges, to provide these two groups that have been inadequately served by the existing insurance market with more options. Within the exchange, the medical cost risk of individuals will be spread across a much larger population, which should make premiums more affordable. Exchanges will have market leverage to secure high-value insurance for exchange users and gain economies of scale.[10] Further, insurers will not be allowed to deny coverage for pre-existing conditions and will have to provide essential medical coverage.

Within the exchange, health consumers will be able to compare the benefits and costs of different health plans side-by-side. Those needing assistance in understanding their health options will be able to call a toll-free number for assistance or call upon the expertise of a "navigator" — an individual or community-based entity that "has existing relationships, or could readily establish relationships, with employers and employees, consumers, or self-employed individuals likely to be qualified to enroll" in an exchange plan. The ACA leaves states considerable room for selecting navigators; the law suggests that a navigator could be a trade, industry, and professional associations, farming organizations, community and consumer-focused nonprofit groups, chambers of commerce, unions, or any other individual or entity that meets the requirements set forward in the ACA.[11]

Additionally, low- to moderate-income individuals and families will have access to tax credits to help them buy health insurance. These premium tax credits will be based on the individual or family's income, and will phase out as the individual or family's income rises. Individuals and families with income above 400 percent of the federal poverty level ($88,200 for a family of four in 2010) will not be eligible for premium tax credits.[12] Individuals with income below 133 percent of the federal poverty level ($30,429 for a family of four in 2010) will automatically qualify for Medicaid. The federal government will pick up almost all these additional public costs.

Exchanges must be fully operational on January 1, 2014. States will need to demonstrate their progress in establishing their exchange by January 1, 2013; otherwise, they risk having HHS administer the state's exchange. Iowa has received a $1 million grant from HHS to plan its health insurance exchange.[13]

What Does the Affordable Care Act Require the Exchange to Do?

The key responsibilities of the Exchange are to ensure that exchange users have quality health insurance options and can compare plans. Exchanges ensure that participating plans provide the minimum benefits required by the law, and may further limit plan participation in the exchange to plans that meet higher standards set by the state.[14]

In addition, the exchange must have a consumer-friendly web presence. Exchange websites must not only make it possible for consumers to shop for health insurance plans, but also provide them with impartial and accurate information regarding those plans. Consumers will be able to compare insurance plans based on their price and quality, as well as determine the cost of the coverage, after factoring in premium tax credits and cost-sharing reductions. The ACA requires the exchange to rate the plans offered in the exchange based on price and quality. Similarly, exchanges are required to survey consumer satisfaction with the participating plans and make the results available to the public.[15]

As Iowa develops its exchange, it must address a number of key issues, including the following, which are discussed below:

- Governance of the Exchange

- Dealing with the limited size of Iowa's current insurance market
- Ensuring long-term sustainability.

Exchange Options for Iowa — Governance

Though the ACA mandates some of the broad features of the exchange, Iowa will have considerable latitude in how it chooses to structure, administer and finance its exchange. Policymakers should use that latitude to ensure that Iowa's exchange serves the interest of Iowans.

Among the most significant options granted to Iowa as it develops its exchange, is whether the exchange will be a state-run enterprise within an existing department or agency, a new and separate state-run enterprise, or an independent nonprofit entity.[16] Though there are advantages to all these options, an agency that is not housed in an existing executive department could help insulate the exchange from political pressures, and ensure that it remains focused on the interests of Iowans. On the other hand, a non-governmental agency may lack the easy access to data to determine customer eligibility for premium tax credits or Medicaid enrollment. Further, the many responsibilities of the exchange under the Affordable Care Act fall beyond the purview of a single state agency. Though the Iowa Medicaid Enterprise, which administers Medicaid within DHS, might seem to be a natural home for the exchange, it is primarily focused on Medicaid and lacks the expertise required to administer the exchange in private health insurance plans. The Insurance Division would seem to be another natural home for the exchange; yet it is possible that not all insurers will be certified for participation within the exchange, and selecting and rating specific plans might be inconsistent with the impartiality required of division.[17]

Earlier this year, California's Legislature passed its exchange legislation, which was signed by Governor Schwarzenegger on September 30.[18] It elected to have its exchange be a new, separate state agency. Similarly, when Massachusetts enacted its 2006 health reform, its exchange (The Connector) was created as an independent government agency.[19]

If Iowa chooses to create an independent exchange, it will need capable and knowledgeable administrators to serve the interests of Iowans. The exchange board should represent a variety of interests and perspectives, but it ought to be shielded from conflicts of interest. Representatives from other state agencies, consumer groups, a health economist, and someone experienced in negotiating with insurers should be part of the governance of the exchange. Individuals that stand to benefit financially from the sale of insurance, such as health care providers, insurance brokers and insurers themselves, should not have a seat on the board, to ensure that the board represents the interests of Iowans.

Massachusetts and California both provide strong models for Iowa. The Massachusetts Connector's board consists of 10 members — four designated public officials, three appointed by the governor, and three appointed by the attorney general.[20] The California Health Benefit Exchange will be governed by five board members — one appointed by the California Secretary of Health and Human Services, two appointed by the governor, one by the Senate Committee on Rules, and one by the Speaker of the Assembly. The California exchange also protects against conflicts of interest on the board by prohibiting appointees who are employees or affiliates of insurers, brokers, or health providers.[21]

Iowa could create an advisory board, consisting of insurance brokers, carriers, consumer groups and providers, to ensure that their concerns and proposals are considered, as well as to make use of their considerable expertise.[22] However, the advisory committee's role should be just that: advisory.

Exchange Options for Iowa — Regulatory Authority

In addition to certifying that plans in the exchange meet the ACA minimum benefits requirement and Iowa's own insurance regulations, Iowa's exchange will have the option of limiting plans in the

exchange to those that meet requirements beyond ACA minimum standards, if those plans fail to serve the interests of qualified participants.[23]

Unlike Massachusetts and California, which both have competitive health insurance markets, 71 percent of Iowa's overall health insurance market is dominated by one carrier.[24] Iowa's second most dominant carrier covers just 9 percent of Iowa's insurance market.[25] In Iowa's small group market, in which small businesses purchase their insurance, the top five insurers have a market share of 90 percent.[26] The announcement that Principal Financial Group will sell its Iowa health insurance assets to UnitedHealth will further concentrate the market share of Iowa's insurers.[27] Thanks to a variety of competing plans in California and Massachusetts, those states' exchanges have leverage to negotiate with carriers on the price, quality and value of health insurance plans. Iowa's exchange, because it will be dealing with such a concentrated insurance market, will not have the same leverage. This makes an active purchaser model — in which the exchange solicits bids from carriers on prices, as both California and Massachusetts — very difficult to enact in Iowa. One option for policymakers to consider is to allow most plans into the exchange, carefully track their performance and customer satisfaction, and retain only the highest performers.[28]

At the same time, however, Iowa's exchange should consider whether it simply allows any minimally qualified plan to be offered in the exchange serves the interests of Iowans. Though plan choice is desirable, too many choices could overwhelm consumers. The creation of Medicare Part D in 2003 led to widespread confusion, as most seniors were confronted with at least 40 plans that differed in price and prescription drug benefits.[29] Further, research shows that consumers often lack the understanding to make careful assessments when it comes to complex, high-stakes decisions, such as choosing an insurance plan.[30] Too many plan options could also lead to adverse selection — when a plan or market attracts a disproportionate number of unhealthy people. Research suggests that older people are less likely to leave their insurance plan than younger people, even if a better option becomes available. If younger people, who are cheaper to insure than older people, leave an existing plan for a cheaper one, and the older enrollees stay, the plan could "death spiral" — as healthier individuals leave the plan, premiums rise. Those premium increases induce more healthy individuals to leave the plan, causing prices to rise higher, until the plan becomes unaffordable.

Though plans offered in the exchange are sorted by the ACA into four tiers (Bronze, Silver, Gold and Platinum), insurers can create a multitude of plans with different benefit structures and cost-sharing schemes that would fall under each tier. By standardizing plans within each tier, Iowa would ensure that its businesses and consumers have a sufficient but not overwhelming selection of plans to choose from, and further increase competition among carriers, as the plans offered in each tier would be easier to compare.

Exchange Options for Iowa — Ensuring Long-Run Success

Perhaps the most important task for policymakers as they look to construct Iowa's exchange is to ensure its long-run success and thus Iowans' long-term health insurance security. This will require an exchange that is attractive to both small businesses and individuals, as well as to insurance carriers already operating in the state and new entrants to Iowa's insurance market.

Further, enrollment in plans must be easy and the exchange's web-portal will need to be highly-functioning. Policymakers will need to remember that there are significant populations within Iowa who will qualify for the Medicaid expansion and the premium tax credits for whom computer access is not a reality or who have sensory, physical, or developmental limitations. For many other Iowans, language might be a barrier to participation. Exchange web portal users should be able to toggle between different language options. Navigators will play a crucial role in assisting these populations access the exchange.

Groups with ties to Iowans with disabilities, racial and ethnic minorities and older and rural Iowans ought to be selected as navigators. To help these difficult-to-reach populations, state and exchange officials will need to conduct an extensive outreach campaign.

Businesses and individuals will be attracted to the exchange if they are able to find plans that meet their health needs within their budget constraints. Carriers will want to participate in the exchange if they determine that participation in it is financially advantageous.

Though the small businesses, individuals, and carriers' motivations for exchange participation differ, all will rely on the Exchange attracting and maintaining a large and diverse risk pool.

A pool that is too small will fail to attract plans, and will be unable to gain the savings generated by economies of scale. A pool of primarily unhealthy individuals will have higher premiums, and healthier individuals will look elsewhere for their insurance plans, leading to spiraling health insurance costs within that risk pool. Individuals, families and small businesses will then find it advantageous to find other plans, whether in or out of the exchange.

The ACA allows states to maintain a small business exchange (Small Business Health Options Program, or "SHOP") separate from the individual exchange, or to merge them.[31] And whether or not the SHOP and individual exchange remain separate, there will likely be a small-group market and an individual market that continue to operate outside the exchange.

To ensure that the exchange maintains a healthy mix of medical risk, health plan options inside the exchange must not be less attractive than plans outside of the exchange. One option to ensure that the exchange remains an attractive option to both small businesses and individuals would be to apply the same regulations that plans in the exchange face to those offered outside. Carriers that wish to offer plans outside of the exchange could be required to offer at least two plans in the exchange as a condition of joining the private market. Insurance brokers should not be rewarded with larger commissions for selling plans outside the exchange.

Another essential consideration in the exchange's long-term success is how to finance the exchange. By 2015, all state-based exchanges must be self-sustaining. This will require the exchange to secure an adequate and stable stream of revenue. As Iowa develops its exchange revenue, it should ensure that any taxes, levies or surcharges to finance the exchange do not damage the attractiveness of the exchange to either potential consumers or carriers. Thus, any fees imposed on carriers should be imposed on all carriers, both inside and outside of the exchange. Surcharges on insurance brokers' commissions should apply to commissions' garnered from sales both in and outside of the exchange.

Conclusion

Creating a strong exchange will be central to helping many previously underserved Iowans find affordable, quality healthcare options. Iowa and other states have considerable latitude in structuring their state-based exchange. To make Iowa's exchange work for Iowans, Iowa policymakers might consider:

- Creating a new agency for the exchange that would insulate it from political pressures and changes and protect its role in maintaining a competitive marketplace to help Iowans find health insurance;
- Creating a strong governing board that would represent a wide array of experience, expertise and populations, while protecting against conflicts of interest on the board;
- Altering insurance market regulations to protect the exchange from adverse selection from the non-exchange insurance markets;

- Granting the exchange regulatory authority to standardize plans at different tier levels to give consumers choices with intelligible differences and to protect against adverse selection within the exchange;
- Ensuring that traditionally underserved populations — older Iowans, Iowans with disabilities, lower incomes, racial and ethnic minorities, and rural populations — will be served by navigators who understand their needs and challenges;
- Ensuring that Iowa's exchange has long-term viability, by attracting a variety of different insurers to participate as well as a broad cross-section of Iowa individuals, families, and small businesses;
- Limiting the incentives for either insurers or insurance brokers to favor plans that are sold outside the exchange. Brokers should not receive higher commissions for non-exchange plans; carriers who wish to participate in Iowa's non-exchange markets could be required to offer at least two plans within the exchange.

Iowa, like every other state in the nation, faces a set of complex decisions as it moves forward with health reform implementation. In addition to simply complying with the Affordable Care Act, lawmakers must balance the competing interests of businesses and individuals, who want quality, affordable plans, and carriers, who need a viable, profitable marketplace in which to sell their products. There has been considerable disagreement within Iowa and among our lawmakers about the merits of the Affordable Care Act. Hopefully, however, we can all agree on working to make sure that the law works well for all Iowans.

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[7] Public Laws 111 -148 and 111-152, "Patient Protection and Affordable Care Act," §1302(b)(1).
[8] Jon Gable, Roland McDevitt, Laura Gandolfo, Jeremy Pickerign, Samantha Hawkins, and Cheryl Fahlman, "Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii is Up, Wyoming is Down," Health Af airs. May/June 2006. <http://content.healthaffairs.org/content/25/3/832.full>.
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[13] Affordable Care Act in Your State: Iowa. Healthcare.gov. Accessed November 30, 2010. <http://www.healthcare.gov/center/states/ia.html>.
[14] Initial Guidance to the States.
[15] Initial Guidance to the States.
[16] Timothy Stotzfus Jost, "Health Insurance Exchanges and the Affordable Care Act: Eight Difficult Issues," Commonwealth Fund, September 2010.

<http://www.commonwealthfund.org/~/media/Files/Publications/Fund%20Report/2010/Sep/1444_Jost_hlt_ins_exchanges_ACA_eight_difficult_issues_v2.pdf>.
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[18] California State Legislature, Assembly Bill 1602 and Senate Bill 900. <http://www.leginfo.ca.gov/pub/09-10/bill/asm/ab_1601-1650/ab_1602_bill_20100930_chaptered.pdf> and <http://www.leginfo.ca.gov/pub/09-10/bill/sen/sb_0851-0900/sb_900_bill_20100930_chaptered.pdf>.
[19] Jost, "Eight Difficult Issues."
[20] Jost, "Eight Difficult Issues."
[21] SB 900, §100500(f).
[22] Jost, "Eight Difficult Issues."
[23] Patient Protection and Affordable Care Act, PL 111-148, §1311(e)(1).
[24] American Medical Association, "Competition in health insurance: A comprehensive study of U.S. Markets: 2007 Update," as cited in "Premiums Soaring in Consolidated Health Insurance Market: Lack of Competition Hurts Rural States, Small Businesses," Health Care for America Now, May 2009. <http://hcfan.3cdn.net/dadd15782e627e5b75_g9m6isltl.pdf>.
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Andrew Cannon *is a research associate at the Iowa Policy Project, where he specializes in economic opportunity, health care reform and budget and tax issues affecting Iowans.*

Iowa Fiscal Partnership

The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans.