Iowa Fiscal Partnership

BACKGROUNDER

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What is a Health Benefits Exchange?

Understanding a Key Component of the New Health Law

Health Benefits Exchanges are the central feature of the Affordable Care Act (ACA). The Congressional Budget Office estimates that as many as 30 million Americans will purchase their insurance through a state-based exchange.[1] Exchanges are to be fully operational starting January 1, 2014.

What is an Exchange?

A Health Benefits Exchange (or exchange) is a health insurance marketplace that allows consumers and small businesses to compare different insurance plans based on price, benefits and services, and quality.[2] Individuals without employer-sponsored health insurance and small businesses may purchase insurance through the exchange.[3] Exchange users will enjoy protection from exclusions of coverage and insurer abuses and the knowledge that their plans cover a baseline of benefits.[4] A baseline of benefits will require insurers to compete on plan prices and values.

The ACA authorizes states to create statewide exchanges, to provide individuals and small businesses with more options. Within the exchange, the medical cost risk of individuals will be spread across a much larger population, which should bring premium prices down. Exchanges will have market leverage to secure high-value insurance for exchange users and reduce administrative costs, by gaining economies of scale.[5] Health consumers will be able to compare the benefits and costs of different health plans side by side.

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, up to 400 percent of the federal poverty level ($89,400 for a family of four in 2011).[6] About 66 percent of those who purchase health insurance through an exchange will receive some level of the premium tax credit.[7] Individuals with income below 133 percent of the federal poverty level ($29,725 for a family of four in 2011) will automatically qualify for Medicaid. The federal government will pick up almost all these additional public costs.

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[1] Congressional Budget Office, Patient Protection and Affordable Care Act, Incorporating the Manager's Amendment. November 19, 2009. <http://cbo.gov/ftpdocs/108xx/doc10868/12-19-Reid_Letter_Managers_Correction_Noted.pdf>.

[2] Initial Guidance to States on Exchanges, Office of Consumer Information and Insurance Oversight, U.S. Department of Health and Human Services, November 18, 2010. <http://www.hhs.gov/ociio/regulations/guidance_to_states_on_exchanges.html>.

[3] After 2016, states may opt to allow firms with more than 50 employees – the ceiling may be set as high as 100 – to purchase through the exchange.

[4] Maternity and newborn care, emergency services, mental health services, prescription drugs, laboratory services, preventive services and chronic disease management are specified by the law as essential benefits. Public Laws 111 -148 and 111-152, "Patient Protection and Affordable Care Act," §1302(b)(1).

[5] Initial Guidance to States.

[6] The HHS Poverty Guidelines for the Remainder of 2010, U.S. Department of Health and Human Services, January 20, 2011. < http://aspe.hhs.gov/poverty/11poverty.shtml>.

[7] Dawn C. Horner and Sabrina Corlette, "Health Insurance Exchanges: New Coverage Options for Children and Families," Georgetown University Center for Children and Families, August 2010. <http://ccf.georgetown.edu/index/cms-filesystemaction?file=ccf%20publications/health%20reform/health%20insurance%20exchanges.pdf>.

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