

What Is a Health Exchange? And How Will It Impact Businesses and Individuals?

One of the central features of the Patient Protection and Affordable Care Act (or Affordable Care Act) is the establishment of state health exchanges by January 1, 2014. Health exchanges are marketplaces where small businesses and individuals, who do not have government or employer sponsored health coverage, can shop for easy to understand insurance options. This one-stop shopping for health insurance holds the promise of controlling increases in costs and offering better value - for example, health insurance products with expanded wellness and chronic disease management programs.

Individuals who purchase health insurance coverage in the exchange will receive significant tax credits. According to the Kaiser Family Foundation, for example, a family of four making \$55,000 a year will pay a premium of \$345 a month, and the tax credits will be \$840 a month. There are also tax credits for small businesses, particularly small businesses that employ fewer than ten employees, who earn on average \$25,000 or less.

There are a number of important decisions to be made in establishing exchanges, but three decisions are critical in determining the effectiveness of the exchange:

- What will be the mission of the exchange? Will the exchange be operated for the interest of consumers, including small businesses? If the focus of the exchange is to promote the interest of consumers, this can best be accomplished by being “an active purchaser” of health insurance products. The exchange would actively negotiate with insurance companies and allow only those companies that offer the highest value (higher quality and lower cost) to participate in the exchange.

The other option is for the exchange to set minimum standards and allow any insurance company that meets these minimum standards to participate in the exchange. This approach promotes the interest of insurance companies, not the interest of consumers.

- Where will the exchange be located? The Affordable Care Act allows states to place the exchange in an existing government agency, a new, independent state agency, or in a non-profit organization. If the state fails to establish an exchange, the federal government will operate the exchange for West Virginia.

In West Virginia, the Office of the Insurance Commissioner (OIC) has been developing an exchange with grants from the federal government. With this experience and expertise, it is reasonable to assume that the exchange may be located in the OIC.

The exchange, however, has a service mission, while the OIC is a regulatory agency. Building a firewall between these two very different missions is important if the exchange is located in the OIC.

- Who will govern the exchange? If the exchange is in the OIC there is likely to be a governing board of directors to make policy decisions for the exchange, with OIC staff implementing policies of the governing board. Will the exchange be governed by a majority of consumers, including small businesses? Or will the exchange be governed by those who have vested financial interest in how the exchange operates? This decision makes a significant difference in how effective the exchange will be in representing the interest of consumers.

These three central questions will determine whether the exchange fulfills its potential of providing higher quality insurance products that contain costs, or whether West Virginians will continue to see skyrocketing premium increases.

In addition to these three central questions, there are other important questions to be considered. For example:

- What constitutes a small business? The Affordable Care Act's default definition of a small business is one with 100 or fewer employees. States can reduce this definition to employers with 50 or fewer employees. It makes sense, however, to allow as many businesses as possible the **option** of purchasing insurance coverage for their employees in the exchange. This is particularly true if the exchange delivers high value products.
- Should there be one exchange for businesses and another exchange for individuals or should West Virginia combine the two exchanges? The Affordable Care Act's default is to have two exchanges. Currently, there is insufficient financial data in order to make an informed decision on this issue. Carefully considering the impact on small businesses and individuals is essential before making a decision on whether to combine the two exchanges. West Virginia should wait and see how the exchanges work for several years, and understand the impact on both businesses and individuals prior to deciding this issue.
- How can the small business exchange be business-friendly? It is in the best interest of the exchange that it attracts a diverse selection of businesses. This will help the exchange avoid adverse selection (see below). The exchange should allow small businesses to select the product that they are willing to purchase for their employees, and establish what percentage of the premium they are prepared to pay. Employees could choose a better insurance product, but would have to pay the difference.

Regardless of what policy employees selected, the exchange would send the small business one invoice each month for all their employees. In essence the exchange would act as a small businesses human relations (HR) department, at least for health insurance.

- Will West Virginia enter into a regional exchange with other states? Given the health status of West Virginians (for example, West Virginia has the second highest rates of diabetes, obesity and tobacco usage in the country), it is unlikely that any state would want to pool their claims experience with ours. However, we should explore the possibility of joining other states in order to increase the number of people in the exchanges. The more people in the exchanges, the more likely the exchange will be stable.
- How will the exchange avoid adverse selection? Adverse selection is where policies sold inside the exchange attract a sicker population, while insurance products sold outside the exchange attract a healthier population. If this happens, the insurance policies inside the exchange will have higher premiums driving healthier people to purchase insurance outside the exchange. Adverse selection can be the death spiral for policies sold in the exchange unless steps are taken to prevent adverse selection. Steps that can be taken include requiring the same rules for insurance policies sold inside and outside the exchange. For example, insurance companies must provide policies inside the exchange that have relatively low out-of-pocket expenses. If insurance companies can sell policies outside the exchange that have low premiums but high out-of-pocket expenses, which will be attractive to a healthier population, this will promote adverse selection. Having the same rules for policies sold inside and outside the exchange will reduce the potential for adverse selection. Allowing consumers to enroll in insurance policies during any time of the year, allows some consumers to “game” the system by enrolling when they have medical problems and dropping their coverage when they are healthy. The exchange should establish a limited enrollment period after the initial enrollment period. Medicare Part D, for example, is moving to an enrollment period each year of October 15 through December 7 with policies effective the following January 1.

How can West Virginians impact the decisions that will be made on the development of our exchange? First, there are public forums being held around the state this fall and winter. All meetings will be held from 6:00 to 8:00 PM at the following locations:

Fairmont- November 30 - West Virginia High Tech Consortium

Huntington- December 2- Riverside Suite at the Big Sandy Arena

Wheeling- December 7- Wilson Lodge at Oglebay Resort & Conference Center

Beckley, December 14, 2010, Beckley-Raleigh County Convention Center,
Conference Room A
Shepherdstown, January 6, 2011, Shepherd University, Storer Ballroom
Charleston, January 20, 2011, Capitol Complex, Building 7, Capitol Room

Additionally, WVAHC has established an Exchange Workgroup as part of the Implementation Coalition, which is working to develop a strategic plan for implementing the Affordable Care Act in West Virginia. The coalition is comprised of consumers, providers and state agency officials. If you are interested in serving on this workgroup contact Perry Bryant at pbryant@wvahc.org .

Finally, the OIC is establishing four different workgroups to consider various issues related to the development of the health exchanges in West Virginia. If you are interested in serving on one of these workgroups contact Jeremiah Samples at the OIC at Jeremiah.Samples@wvinsurance.gov .