

# State-Based Health Benefit Exchanges: A Guide to Maximizing Consumer Benefits



UnitedHealth Group®

## How Should States Create An Exchange?

- Exchanges should fundamentally be State-based, ensuring responsiveness to the characteristics unique to the State.
- State-based Exchanges can:
  - Achieve the goals of being responsive to local market dynamics;
  - Make it easier for consumers to navigate a broad array of coverage options, make informed decisions, and obtain coverage; and
  - Facilitate eligibility determinations and effective coordination with the State Medicaid and CHIP programs.

## What Governance & Financing Issues Should States Consider?

- Exchange governing boards benefit from broad constituent representation from a wide range of stakeholders, including health plans, consumer representatives, employers and providers.
- Establishing the Exchange as an independent public authority will promote transparency to the public and limit politicized decision making.
- As governing boards develop financial plans to meet the requirement that Exchanges be self-supporting by 2015, States should consider the imposition of user fees for those purchasing coverage through the Exchange, similar to the fees successfully established by other State Exchanges to support their ongoing operations.
- Other assessments to support the Exchange should be broad-based and levied on all health care industry participants who benefit from the Exchange, including providers, health plans, employers, agencies and other constituencies.

## Are There Unique Issues Relative To Group Size?

- Maintaining separate individual and small group markets would result in ease of administration, more accurate risk pooling and greater likelihood of widespread health plan participation.
- The individual market generally has a higher-risk profile than the small group market, presenting greater potential for adverse risk selection and inherently higher administrative costs for individual coverage.
- Small groups have different eligibility, enrollment and general administrative needs than individuals.
- Combining the two markets would likely result in a rate increase for small groups, which could destabilize the small group market.
- Exchanges would be better served by selecting a maximum of 50 employees as the initial size limit for the small group market, minimizing market disruption and avoiding additional State administrative burdens in operating the small business Exchange. It will also decrease the risk of adverse selection. The 51+ employee group market is very competitive and enjoys significant market leverage.
- Large employers are generally either self-funded or rated based on the experience of the employees within the large group. Allowing employers of this size to be eligible for the Exchanges increases the potential for adverse selection because the highest-cost large employers will likely find the community adjusted rates with the Exchange more attractive than other marketplace options, such as experience-based rates.

## Are There Unique Regulatory Issues?

- All qualified health plans should be permitted to participate in the Exchange, enhancing choice and competition.
- Preserving a market outside the Exchange is beneficial for consumers, thus ensuring consumer choice and plan competition both inside and outside the Exchange.
- Regulations should ensure that Exchanges serve to supplement, but not replace, the existing small group and individual markets.
- Avoiding duplication of existing State regulatory functions regarding rate review, licensing, and market conduct, and relying to the extent possible on existing review standards established by national accreditation agencies – such as NCQA – are critical considerations for States.
- Requiring the same rules to apply to plans sold inside and outside the Exchange or requiring that the same plans be sold inside and outside the Exchange without exception, would likely serve to reduce consumer choice and competition.
- State-based Exchanges will benefit from uniform Federal standards in areas where variation at the State level would add unnecessary complexity, such as risk adjustment mechanisms, quality improvement measurements, and uniform data transaction standards.

## What Can States Do To Mitigate Risk Selection In The Individual Market?

- Existing law provides a number of mechanisms which mitigate adverse selection. For example, subsidies are only available through the Exchanges and health care reform requirements are applied equally to insurers operating inside as well as outside the Exchange. States can take further steps to mitigate risk selection including:
  - Adjusted Community Rating rules (adjusted only by age, tobacco use, geography, and family status);
  - Requiring individual and small group plans to cover the same essential health benefits;
  - Limiting individual out-of-pocket cost-sharing;
  - Treating all individuals as part of one risk pool, for the individual as well as small group markets;
  - Charging the same premium rates for a plan offered inside and outside the Exchange; and
  - Operating risk adjustment and reinsurance programs.

## What Can States Do To Prevent Adverse Selection In The SHOP Exchange?

- Some form of employer participation requirement is highly recommended for a balanced risk pool.
- Requiring all employees of an employer within the SHOP Exchange to purchase from within one actuarial level offers additional protections by avoiding adverse selection and thus helps to control costs.

## How Can States Address Enrollment Issues?

- Open enrollment period rules must create incentives for consumers to maintain continuous coverage and attract a stable risk pool of members to avoid suffering from severe adverse selection.
- Both initial and ongoing open enrollment periods should be structured to encourage consumers to maintain continuous health care coverage, rather than permitting consumers to wait to purchase coverage until they incur high health care costs and then cease coverage immediately thereafter.
- Specific steps Exchanges should consider to mitigate the possibility of adverse selection include:
  - Limiting the open enrollment to a single 30 to 45-day time frame each year;
  - Prohibiting plan changes between open enrollment periods, and limiting increases in coverage at open enrollment to one step (e.g. bronze to silver) per year;
  - Providing clear rules about the limited exceptions that should be allowed for individuals to enroll outside the open enrollment period; and
  - Establishing staggered open enrollment periods tied to a policyholder's date of birth to distribute the administrative process evenly throughout the year.
- For programs with income eligibility criteria, the open enrollment periods and eligibility determination process must promote continuity of coverage and reduce shifts between types of coverage and subsidy levels.

## What Are The Issues Related To Eligibility Determinations?

- Continuity and stability for consumers is enhanced with coordinated eligibility and enrollment efforts.
- The Exchange will be an entry point and a vehicle to determine both Medicaid eligibility and subsidies for consumers.
- Even with a streamlined definition of eligibility (i.e. Modified Adjusted Gross Income), States will still need to evaluate the extent to which individuals will move between Medicaid, CHIP and the Exchanges and consider options to promote continuity of coverage such as:
  - Periods of continuous eligibility;
  - Simplified redetermination processes; and
  - Opportunities to collaborate with health insurers and community-based organizations to educate and help consumers navigate the system.
- New Federal dollars can be leveraged to modernize and link State-based eligibility systems to Exchanges and Federal data, streamlining the initial eligibility-determination process.
- Multiple venues for enrollment (online and in-person), pre-populated enrollment forms, and the development of comparative summary tools that consider language, health literacy and reading comprehension will improve consumer navigation and ease administrative burdens.