
The Health Insurance Exchange: Business Plan for a Sole Market Scenario

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December 14, 2010



The Exchange as the Sole Market for Individuals and Small Groups

- The original analysis assumed that there would be a *dual market*, i.e., insurers would have the option to sell coverage to individuals and small groups outside of the exchange.
- An alternative scenario: the exchange would be the *sole market*, i.e., all individual and small group coverage would be sold through the exchange.

Building the Business Plan

Background

- Exchanges will begin enrolling people in late 2013 for coverage effective 1/1/2014.
- Start-up expenses will be incurred in prior to 2014.
 - *Federal government will fund start-up expenses, per ACA.*
- Exchange must be self-supporting by 2015 (year 2 of operations).
 - *Federal government will cover operating costs in 2014 (year 1), per ACA*

The Business Plan for the Sole Market Scenario: Structural Assumptions

- ~~Dual Market~~ *Sole Market*
- Active purchaser role
- 3-4 benefit options in each tier
- Active marketing
- Public corporation structure

The Business Plan for the Sole Market Scenario: Approach

Membership:

- Used forecasts developed by Jonathan Gruber, PhD (MIT), presented at August 2010 Board meeting. Total market forecast for small employers based on additional analysis by the Institute for Health Policy Solutions.

2016 Membership	Dual Market	Sole Market	Difference
Individuals	232,500	377,500	+145,000
Employees of Small Groups	95,000	612,000	+517,000
Total	327,500	989,500	+662,000

(cont.)

The Business Plan for the Sole Market Scenario: Approach (cont.)

Expenses: based generally on experience of MA Connector

- Adjusted for much larger scale (nearly 3x), especially for small group segment (6x)

Fixed and variable expense model

- Mostly Variable: eligibility processing, enrollment, premium billing, customer service
- Mostly Fixed: management, marketing/communications, professional services, IT, other infrastructure

(cont.)

The Business Plan for the Sole Market Scenario: Approach (cont.)

Start-up: Full year of expenses in 2013, prior to 1st year of operations (2014)

For Sole Market scenario, start-up expenses are significantly greater than in the Dual Market scenario, due primarily to the need for robust and scalable business and information systems for the small group segment.

	Dual Market	Sole Market	Difference
2013 Start-up Costs	\$37M	\$56 M	+\$19 M

(cont.)

The Business Plan for the Sole Market Scenario: Approach (cont.)

Eligibility Processing, Enrollment, Premium Billing, Customer Service: higher expenses in start-up year (2013); expenses based on pmpm in subsequent years (2014-)

Marketing, Website Development, Professional Services: higher expenses in start-up year (2013) and 1st year of operations (2014), declining in subsequent years (2015 -)

Other fixed expense categories: increase only for inflation 2014-

Administrative fees: amount set to *ensure breakeven in 2015* (year 2 of operations). Same \$\$ amount used in 2014-2016.

The Business Plan: Dual Market

(As presented to Oregon Health Policy Board - November 2010)

	2013	2014	2015	2016
Membership (YE):				
Individuals	-	142,500	190,000	232,500
Employees of small groups	-	65,000	87,000	95,000
Operating Revenue - \$ millions	0	\$31	\$42	\$50
Operating Expense - \$ millions	\$37	\$36	\$42	\$48
Net Gain (Loss)*	\$(37)	\$(5)	\$ 0	\$ 2
Admin. fee (% of est. premium)	-	3.1%	2.8%	2.6%

**Federal government will fund start-up expenses and 2014 operating costs, per ACA.*

The Business Plan: Sole Market

	2013	2014	2015	2016
Membership (YE):				
Individuals	-	255,000	340,000	377,500
Employees of small groups	-	332,000	442,500	612,000
Operating Revenue - \$ millions	0	\$59	\$79	\$100
Operating Expense - \$ millions	\$56	\$64	\$79	\$98
Net Gain (Loss)*	\$(56)	\$(5)	\$ 0	\$ 2
Admin. fee (% of est. premium)	-	2.1%	1.9%	1.8%

**Federal government will fund start-up expenses and 2014 operating costs, per ACA.*

Summary: Sole Market Scenario

- Significantly higher membership in total (**3x** of dual market)
 - Most of the increase is due to higher membership from employees of small groups (6x of dual market)
 - Total membership by year 3: **989,500**.
- Higher start-up costs (to be paid by federal government): **\$56M** (1.5x of dual market)
- Financial results are similar to dual market scenario – breakeven in year 2, modest surplus in year 3
- Ongoing operations covered by fee paid by insurers : est. **2%** of premium (vs. 3% in dual market scenario) -- lower due to economies of scale.