

# HEALTH INSURANCE EXCHANGES: DESIGN ISSUES

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# What is a Health Insurance Exchange?

Definition: a managed **marketplace** in which individuals and employees of small (and perhaps larger) employers can **choose** among a variety of health plans.

Other labels:

- “Connector” (Massachusetts)
- “Gateway” (Senate HELP bill)

# The Problem

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- COSTS

- Individuals and small employers pay on average **18%** more than very large employers for similar health benefit plans.

- CHOICE

- Very few employees of small employers are offered a choice of health plans

- CONVENIENCE

- Burden for small employers to manage health benefits

# Design Issues

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1. Size
2. Financial sustainability
3. Protecting insurers from adverse selection
4. Roles and functions of the exchange
5. A public option within the exchange?

# 1) Size

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- How big? What is “critical mass?”
- Who should be included/excluded?
  - ▣ Individuals and “micro-groups” only?
  - ▣ Groups up to 50 or 100 employees?
  - ▣ Why limit it at all? (Wyden amendment)

## 2) Financial Sustainability

- Danger of “Adverse Selection” into the Exchange – if sicker people get coverage through the Exchange while the rest use the existing market
- Possible mechanisms to minimize the problem:
  - Require use of the exchange (no dual market), or
  - Participation rules for insurers
  - Rating and marketing regulations

# 3) Protecting Insurers from Adverse Selection

- Insurers will be hesitant to participate if they think the sickest people will enroll in their plan.
- Possible mechanisms to minimize the problem:
  - Standardized benefit plans (“Gold/Silver/Bronze”)
  - Participation rules for insurers and consumers
  - “Risk adjustment” mechanisms to neutralize effect of adverse selection

# 4) Roles and Functions of the Exchange

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- Range of potential functions (from narrow to broad):
  - ▣ Information and decision support – an “insurance mart”
  - ▣ Enrollment and administration
  - ▣ Benchmarking and standards
  - ▣ Selective contracting and rate negotiation

# 5) A Public Option within the Exchange?

- Rationale: an additional option might improve competition – at least in some markets where one insurer dominates and choices are limited.
- Two design options:
  - “Level playing field” – negotiated rates with providers
  - “Strong option” -- use government authority to set provider rates

# Summary

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- Design of an insurance exchange is an important issue in comprehensive health reform
- A well-designed exchange could help to address problems for individuals, small employers and their employees: **Cost, Choice and Convenience**
- Key issues: **Size, Financial Sustainability, Adverse Selection, Functions, Public Option**