



## Washington State Health Benefit Exchange Program

### Issue Brief #1: Goals and Value of a Health Benefit Exchange

*As Submitted to the Federal Department of Health and Human Services*

**January 1, 2011**

#### **Summary**

Health Benefit Exchanges were conceived and developed primarily as platforms to improve access to affordable health insurance coverage for individuals and small employers. However, there are a number of goals that can be considered for Washington State's Health Benefit Exchange. This issue brief describes the potential goals for an Exchange including: 1) reduce the number of uninsured and increase access to care, 2) ensure greater accountability and transparency, 3) increase the portability and continuity of coverage, 4) simplify the health insurance purchase, 5) increase competition in the health insurance marketplace, and 6) drive quality improvement and cost containment.

This brief refers to an "Exchange Development Board" that will be responsible for planning Washington State's Health Benefit Exchange, and establishing a framework for implementation. This Board will consider the goals listed above and other potential goals for Washington State's Exchange.

#### **Background**

Section 1311 of the Patient Protection and Affordable Care Act (ACA) requires states to establish exchanges for individual and small group purchasers. The law establishes some parameters and defines areas in which the Health and Human Services Secretary (HHS) will provide further guidance and regulations for states. Because the law provides significant flexibility to states regarding the establishment of a state-based Exchange, the scope and design of Exchanges will likely vary drastically from state to state, based largely on a state's goals for its Exchange. This flexibility implies that some Exchanges will be more active than others in trying to reform the marketplace. Washington State needs to consider what role an Exchange should play in the marketplace, and will likely need to balance varying stakeholder views as it moves forward in the Exchange design and implementation.

Long before the ACA passed, Washington State was laying the groundwork for a small, targeted Exchange. On September 1, 2010, after several years of planning, Washington

State's Pilot Exchange known as the Health Insurance Partnership (HIP) began enrolling small employers in the program, with health benefits to begin January 1, 2011. HIP was established to address a specific need—to help small businesses, with predominantly low-wage workers, get access to affordable health insurance coverage for themselves, their employees, and respective eligible dependents.

Because of HIP, Washington State joins the short list of states with experience considering the goals for an Exchange and answering some of the important questions involved in the planning and implementation phase.

## **Key Considerations**

### **Reduce the number of uninsured people and increase access to care**

There are certain benefits that will accrue to every state regardless of how the state implements an Exchange. For example, increasing access to insurance coverage will occur in every state, because 1) the federal law establishes premium tax credits for individual market purchasers with incomes between 133% and 400% of the federal poverty level, and 2) the individual mandate requires most U.S. citizens to carry health insurance. In addition, the federal law expands Medicaid eligibility to all individuals with incomes up to 133% FPL, which will increase access to Medicaid coverage in many states. The ACA should also increase access to care by eliminating cost sharing for certain preventive services, and by establishing cost-sharing subsidies for lower-income individuals.

Because premium credits are only available to individuals purchasing insurance through the Exchange, the Exchange will facilitate an increase in the number of covered individuals in the state. Exactly how successful states will be at enrolling individuals into their Exchanges, even with subsidy credits depends, in part, on how much effort a state makes to educate and market to eligible individuals. In addition, it will be important to align efforts with other stakeholders to strengthen outreach, marketing and enrollment capabilities.

Massachusetts' 2006 health reform law required extensive marketing, public outreach, and education around the various components of the law. For consumers, the focus was on the insurance mandate and the types of insurance assistance they were eligible for. The Massachusetts Connector established its own Public Information Unit to respond to public and stakeholder inquiries regarding health reform. In addition, the Connector launched numerous public outreach and education campaigns, collaborating with state agencies, community organizations and corporate and civic organizations. The Connector's many outreach and marketing activities were supported and augmented by advertising campaigns of the insurance carriers.

Washington State has a long history of providing excellent outreach and education to individuals eligible for various health care programs, as evidenced by waiting lists for the Basic Health program. It will be important for Washington State to build upon proven outreach and education strategies and avoid those proven ineffective. In Washington State, early estimates by Families USA<sup>1</sup> show 597,100 people will be eligible for the premium tax credits. About half of those eligible, (292,800) are currently uninsured. If these estimates are accurate, and outreach and enrollment processes are successful, the rate of uninsured in Washington State could be reduced significantly.

### **Ensure greater accountability and transparency in the purchase of insurance**

The ACA includes specific requirements for health care plans participating in Exchanges to significantly improve accountability and transparency. Exchanges will be required to post information on both cost and quality of the health plans. Such provisions will promote transparency of: 1) information on claims-payment policies and practices, 2) financial information, 3) data on enrollment and disenrollment, 4) claims denials and rating practices, 5) information on cost-sharing and out-of-network coverage, and 6) information on enrollees' rights.

Additional improvement in both accountability and transparency can be achieved but is dependent upon not only the selected governance structure of the Exchange (a public entity may promote greater accountability and transparency than a nonprofit entity) but also how the Exchange provides and presents information and the type of information that is presented. For example, an Exchange could promote additional transparency by presenting information regarding providers in carriers' networks; including hours and appointment wait times, patient satisfaction, outcomes data or other information that may be important to the consumer. This information may prove more valuable to the consumer than information on claims denials and rating practices. Moreover, how this information is communicated will be important in engaging consumers.

Best practices in areas other than health care may provide some guidance to Exchanges in this regard. For example, Consumer Reports has a longstanding reputation for providing useful price and quality information to help consumers make informed decisions among competing product choices. Many consumers are also fond of various online search engines for different types of purchases. Washington State will need to consider the amount of accountability and transparency desired for a state-based Exchange.

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<sup>1</sup> "Lower Taxes, Lower Premiums: The New Health Insurance Tax Credit in Washington." The Lewin Group for Families USA, September 2010. At this point in the project, the Health Care Authority has decided to use figures from national sources to begin discussing the magnitude of potential Exchange enrollment. It is our plan to coordinate with Washington State efforts to estimate the impact of an Exchange and readers can expect these figures to be refined in later issue briefs.

Working with consumer groups is necessary to learn what types of information and tools consumers need and will use to help them with purchasing decisions. Developing and implementing appropriate and effective consumer tools will be important, should a goal of increased transparency be considered a priority.

### **Increase the portability and continuity of coverage for individuals**

The ACA's plan for a streamlined eligibility system for individuals with incomes up to 400% of the federal poverty level (FPL) should improve continuity of coverage for low-to-moderate income individuals. Washington State will need to work closely with participating carriers, and state and federal agencies to establish an eligibility system that can integrate information from many different sources. This practice would ensure any changes in eligibility status can be efficiently determined, providing the least amount of disruption to the consumer.

There are other opportunities for Exchanges to improve portability and continuity of coverage that will depend on the priority a state places on this goal. First, the more people purchasing through an Exchange, the more portable coverage there will be. That is, if many small employers offer coverage through the Exchange, as individuals move from one employer to another, they can potentially maintain the same coverage. People may also transition from working for a small employer to self-employment. Such transitions are made easier and smoother for people when the same products are available across all markets, thus increasing portability and continuity of coverage.

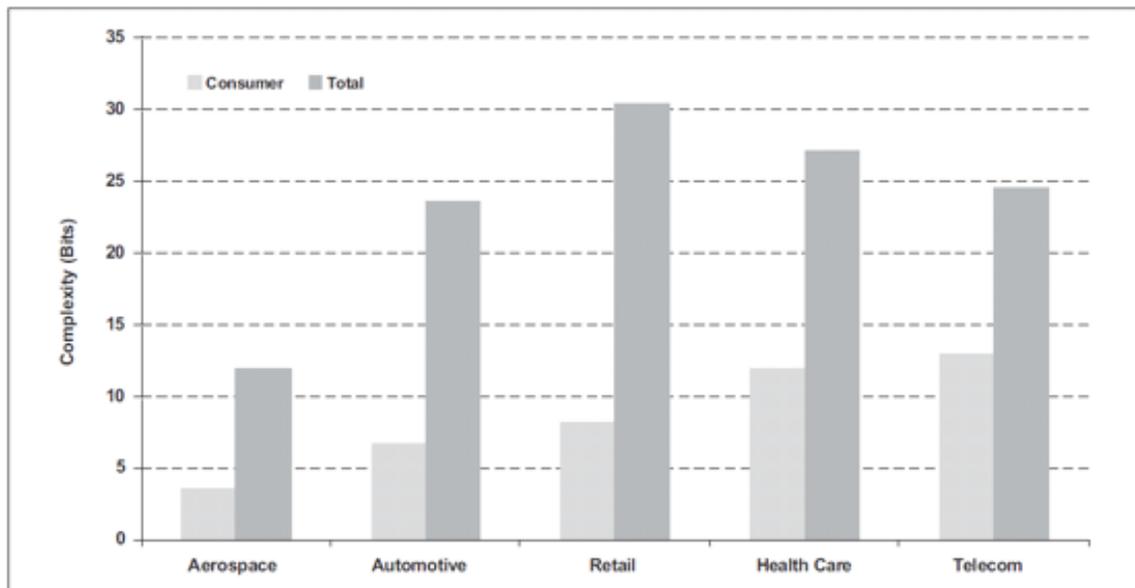
Merging the small group and individual markets, as was done in Massachusetts, may make these transitions easier. However, even in the absence of a merged market, smoother transitions between markets can be facilitated in several ways. Requiring carriers to offer products in both markets and/or ensuring some consistency among product offerings in both markets will help consumers maintain similar coverage as they transition from one market to another. The use of "list billing" in the small group market, where employees are rated separately, as opposed to a single average rate for the group, may also promote greater portability of coverage.

Another important consideration is whether the same or similar product choices available to Medicaid, Children's Health Insurance Program (CHIP), Basic Health and HIP populations are available to people receiving premium tax credits through the Exchange. This would be considerably less disruptive for the many people who will inevitably move between the programs, as income fluctuates, and will improve continuity of coverage.

## Simplify the health insurance purchase for individuals and businesses

The ACA includes a number of provisions for Exchanges that will help simplify the purchase of health insurance by individuals and businesses. Exchanges must include call centers with 1-800 numbers, and establish Navigator programs to assist consumers in their insurance purchase decisions. Categorization of plans into platinum, gold, silver and bronze levels, as required by the ACA, will also help simplify consumers' ability to compare like health insurance plans across carriers. The single eligibility portal holds great promise for streamlining and simplifying the eligibility process for individuals. How Washington State plans and implements these activities is extremely important in determining its ability to ensure simplification of the insurance purchase for individuals and small businesses.

Traditionally, insurance purchase has been viewed as a complicated process. Figure 1 from William Rouse's article on health care<sup>2</sup> compares how consumers rate the complexity of the health care industry to other industries. Individuals purchasing on their own have had to manage this process, too often, without assistance. Small employers have typically used agents to provide assistance with the purchase of health care. For prospective enrollees to be comfortable with their health insurance purchasing decision, Exchanges must provide a simplified, personalized experience (ideally available in multiple methods such as web-based searches, telephone etc.) that engages, educates and empowers their customers.



<sup>2</sup> Rouse, William, B. Health Care as a Complex Adaptive System: Implications for Design and Management. The Bridge, spring 2008.

Some of the knowledge and technology needed to simplify this transaction for employers already exists within current distribution channels, such as general agents, brokers, chambers of commerce and third party administrators. The Exchange will need to work with these stakeholders to better understand how to leverage these existing processes and build or buy the needed infrastructure to simplify the transaction for those purchasing through the Exchange. It will be equally important to consider where the Exchange can add value, rather than simply duplicate current tools that exist in the market. Simplifying the process for consumers may require additional work by the Exchange to understand what works for the many consumer types who will purchase through the Exchange. Washington State will likely need to consider in-person enrollment opportunities as well as online capabilities in order to reach certain populations.

### **Foster competition on price, quality and service in the health insurance marketplace**

A large, stable Exchange pool may provide an opportunity for increased competition based on value in some health insurance markets. Competition occurs when consumers can choose from a range of available options, creating some price and quality pressure on market participants. If Washington State desires increased competition in its health insurance marketplace, the following issues will need to be considered:

- The Exchange can increase competition by either attracting new entrants into the marketplace or by creating a more transparent marketplace, such that smaller, lesser-known local carriers can more effectively compete with the larger carriers.
- To the extent that the Exchange makes insurance products more competitive and choices more focused on price, quality and value, increased efficiency and a reduction in costs may be possible.
- The ACA creates several options for bringing new competition to the marketplace through Exchanges, including the offering of interstate plans, as well as multistate plans and cooperatives. Depending on how it is structured, the SHOP<sup>3</sup> model can provide employees of small businesses with a choice of insurance plans which could also add a competitive element to this marketplace.
- The ACA does not stop states from establishing a “public plan” to compete with other options in the market. Washington State will need to consider which, if any, of these options have the greatest potential to bring added competition to the marketplace, if this is deemed a goal for its Exchange.

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<sup>3</sup> States are required to establish a small business health options program (or "SHOP exchange") for eligible small employers.

## **Drive quality improvement and cost containment**

The Exchange can be a powerful tool for Washington State to help advance health care priorities such as payment reform, development of Accountable Care Organizations (ACOs) or medical homes, promotion of consumer-directed health insurance, and other quality improvement and cost containment efforts. The combined number of individuals the state coordinates coverage for (between Medicaid, CHIP, Basic Health, and the Exchange) could create enough enrollment to influence the health care market in Washington State. The Exchange can play a coordinating role in this regard.

It is too soon to know what impact the new Exchanges will have in the area of payment reform. As of yet, Exchanges have not had any big successes in this area. Coordinating goals among the various state agencies can sometimes be challenging, and federal rules can also make harmonization more difficult. To achieve objectives in this area, the Exchange needs to enroll a significant percent of its potential market so it cannot be disregarded as a viable option, but also so it can create economies of scale, help coordinate the delivery of care across insurance markets, and limit administrative costs.

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