# Protecting the Exchange and SHOP Against Adverse Selection

## Issues Related to State Options

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# What does “merging the markets” mean?

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| It means … | **<u>But</u>** … |
| --- | --- |
| • The same carriers (“issuers”) would serve both markets.<br>• Carriers would have to make the same products (plans) at the same age-rated premiums available to any individual or small-employer group. | • There would still be distinctions between individual and small-group coverage.<br>» Coverage sold to individuals would still be individual coverage, and coverage issued through an employer group (or through the SHOP) would still be employer coverage.<br>» This distinction remains significant for tax purposes and for plan administration. |

*The SHOP and the individual Exchange would each retain some unique functions that the other does not need to perform:*

| The individual Exchange … | The SHOP Exchange … |
| --- | --- |
| • … must determine eligibility for individual tax credits and display after-tax-credit prices for individual purchasers. | • … must determine that the employer is qualified and meets any contribution and participation requirements the SHOP chooses to establish.. |
| • … must give each individual the option to pay the health plan directly.<br>» The Exchange <u>may</u> opt <u>not</u> to collect any private premiums at all. | • … must bill and collect from the employer for the total premium payable with respect to all enrolled workers, and transmit the appropriate premium to each QHP the employer’s workers are enrolled in. |
| • … cannot administer the advance federal tax-credit portion of the premium (which is paid directly to the plan by the U.S. Treasury.) | • If the employer has elected to give workers a choice among available QHPs, the SHOP bill to the employer should list both the employer’s and the worker’s contribution for each worker. |

## Merge the Markets?

- **No**
- **Yes, on January 14, 2014**
- **Maybe later, after market implications can be assessed.**

Should the individual and small-group markets would be merged?

Key Consideration: People who currently cannot obtain individual insurance due to the medical underwriting allowed in most states will be among the first entrants to the new, "guaranteed-issue" individual market. Therefore, average health care costs in the individual market are likely to be initially high. Whether the transitional reinsurance and risk-corridor programs will be sufficient to compensate for this effect is uncertain.

Depends on State Environment: The relative merits of merging markets vary across states:

- States with very small populations could benefit from expanding the risk pool and from health plan scale economies.
- States with a much larger small-employer market (relative to projected individual market) might be able to merge the risk pools with minimal effect on small-employer rates.

- For other states, with already-reformed small-group markets and currently underwritten individual markets, the following advantages and disadvantages apply.

| Advantages | Disadvantages |
|---|---|
| • Would likely reduce immediate post-reform premiums for individuals by providing a base of relatively well-known risk (small employer groups) to offset the uncertain (but expected to be higher) risk of new individual entrants.<br>» This would primarily benefit higher-income individuals not eligible for premium tax credits. (Tax credits protect those eligible from higher market-wide prices.) | • Would almost certainly raise early-reform-year premiums for small employer groups. (Only a formal actuarial study could estimate the likely size of the premium increase.)<br>• Higher premiums, or fear of them, could drive some small employers out of the insured market (either to self-insured coverage or to drop coverage entirely).<br>» This would increase health insurance costs for any workers involved, e.g., due to loss of tax benefits associated with employer coverage. |
| • Could improve number / range of plans available through SHOP Exchange.<br>» Worker-choice requirements could discourage carrier participation in the SHOP, but if markets are joined, carriers would be more likely to offer plans in the SHOP in order to get access to tax-credit recipients in individual Exchange. | • Adds a potentially de-stabilizing factor in the early days of reform implementation.<br>• Carriers aren't set up to handle the administrative costs of realigning businesses, departments, etc. |
| • Could improve continuity of coverage / provider relationships for people moving between individual and small-employer coverage. | • Could reduce continuity of existing employer group plan arrangements. |

## Should the small-group market be defined to include employers with 51-100 employees effective January 1, 2014.

Relative merits may depend on the relative size of these markets and possibly employer interest and coverage patterns.

| YES | NO |
|---|---|
| • Provides more affordable access to higher risk 51100-employee employer groups. | • 51-100- employee groups are more often "self-insured." Unless/until federal action, going to 100 could increase average premiums for the insured small-group market due to adverse selection. |
| • Could increase both overall size of small-group market and average size of groups in that market, and bring down average administrative costs for the entire market. | • As a result, could increase movement to self-insurance among employers with 50 or fewer employees. |
| • Could provide workers in 51-100-employee firms with access to worker choice of plans (where available through SHOP Exchange). | • Adds a potentially confusing and potentially destabilizing factor in the early days of reform implementation. |
| • Could expand population enjoying continuity of coverage and provider relationships when switching jobs. | • Reduces flexibility in plan design for employers with 51-100 employees. |
| • One transition point for small-employer market rule changes (in 2014), rather than a second in 2016. | • Could shift market focus, reduce help available to smaller groups. |

## Add larger Employers after 2016?

-Option for private employers could extend benefits of worker choice of competing plans-- Market viability m
dubious in many states; To avoid adverse Selection, would need to establish separate rates/adjust rates for pro
of respective Groups

-Adding Public employee group(s) could increase scale economies and further state reform goals-- To avoid cost increase for small employers (or in some cases for public employee plans), rate adjustment seems advisable