

# Health Insurance Exchanges

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# Status Quo Purchasing: Individuals and Small Employers

## Access

- Through brokers/agents
  - Help navigate underwriting rules, product design, and cost trade-offs; act like HR dept. for small employers
- Recently, through alternate channels like eHealthinsurance.com
- Directly from insurers, e.g. carefirst.com

## Issues

- High commissions
  - 15 -20 % first year for individuals; 8 -10% at renewal
  - 12-15% for small employers; 5-8% at renewal
- High cost of policy issue and billing for individual policies
- To get reasonable premiums, small employers often trim benefits or increase cost sharing

# Possible Functions of an Insurance Exchange

- Information Purveyor
  - Provides tools and services to help individuals select a plan
- Negotiator
  - Negotiate/contract with insurers to establish plan offerings and premiums
  - Set standards for health insurance plans to be offered
- Administrator
  - Market the exchange's service to individuals and/or employers
  - Enroll individuals and possibly collect premiums
  - Possibly underwrite applicants
  - Possibly risk adjust premiums paid to plans

# Potential Advantages of an Insurance Exchange

1. Greater choice; greater transparency and clarity; and portability
2. Market power due to being bulk purchaser leads to better value (superior benefits/lower premiums)
3. Administrative economies of scale

Benefits 1 and 3 are within the exchange's capacity; Benefit 2 depends on the insurance market, the exchange's role in the market; and the policies within and outside the exchange

# How Can an Insurance Exchange Change the Environment?

- Getting better value depends on:
  - Exchange's role in market
    - Market share and perceived risk
  - Policies within and outside the exchange
    - Guaranteed issue
    - Allowable premium variation
    - Risk adjustment
- Above factors determine how insurers will deal with exchange