

# *Exchange Goals, Options, and Considerations*

Rick Curtis, President

Institute for Health Policy Solutions

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# Why A Structured Market & Risk Adjustment?

(1)

## Key goal for reform:

### **Accessible, Affordable, Coverage for all**

- If everyone participates in coverage, this can work system wide.
- When people are sick, they should not have to pay more or be denied coverage for “pre-existing” conditions.
- Plans should compete on the basis of quality and price, rather than risk selection (cherry picking the healthy and avoiding the sick).
- Market rules and a well structured Exchange can minimize how much health plans can profit from risk selection.

# Why A Structured Market & Risk Adjustment?

(2)

- **But some health plans will enroll more people with high-cost conditions, and some will enroll more low-risk people (either by luck of the draw or because of health plan attributes).**
- **Even though high risk people shouldn't pay more, than others, to cover their costs, plans that enroll more costly populations need to be paid more than those with healthier population.**

# Why A Structured Market & Risk Adjustment?

(3)

- **To achieve this, a Risk-Adjustment mechanism is needed so that the net payments plans finally realize are adjusted for their enrollee risk profile.**
  - **For example, either set aside a portion of all premium payments (or assess plans with low-risk enrollment) and make additional payments plans with high-risk enrollees.**
- **This should “level the playing field,” discourage risk selection, and compensate plans that arrange better care for people with expensive conditions, thus encouraging better, more cost-effective care**
- **But finding common ground for such a market is challenging.**

# A Colorful Exchange

It's a Clearinghouse!



No way we're going there!!



Individual Health Underwriting  
Pre-existing Condition limits allowed  
High Deductible Plans for the Poor

Government Prescribed Prices and Benefits  
IT IS the Market  
Universal Comprehensive Benefit Plan



No way we're going there!!



It's a Purchaser!

# Fortunately, between these **colorful extremes**, there are shades of gray for common ground

- Alternative approaches are possible in each of a number of important dimensions.
- While various combinations can work, others would not due to interactive effects.
- It's worth searching for common ground approaches that work.

# Searching Shades of Grey for a Workable Exchange



## *Same Access and Rating Rules*

Individuals choose

Individuals choose

Exclusive venues for some

Low-Income Portable Credits

Credits only in Exchange

Risk Adjuster



## **"Outside Market"**

Carriers free to offer in or out at differential rates and benefit plans

Carriers offer plans meeting new "outside" minimum + existing plan enrollees "grandfathered"

Carriers must offer higher tier plans + limits on grandfather plans or portability

# **There are of course other related factors**

- **Whether (which) employers have what responsibility to help pay for coverage and where their employees can get coverage.**
  - **Exactly what the rating and access rules are.**
    - E.g., what degree of age rating is allowed.
    - E.g., what constraints might there be on switching plans or coverage venues.
  - **What are state roles, responsibilities, and options.**
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**The design of a workable construct will involve these and other dimensions to achieve a coherent, workable approach.**

## **P.S. ...**

- **A number of alternative configurations could work.**
- **An example of a variation which is unlikely to work:**
  - **Coverage of uninsured very poor in Exchange rather than Medicaid.**
  - **A structured market and risk adjustment across plans in the Exchange only.**
  - **An open outside market allowing selective marketing of “special” benefit plans.**

- **Health and associated needs among the very poor are much greater than for working population, so:**
  - **The risk profile & premiums in Exchange would be much higher than in outside market.**
  - **Broader benefits and support services are needed for poorest enrollees.**
- **Serving the very poor with little or no attachment to work ...**
  - **Is a different ball game than serving those with a connection to work**
  - **Sending both to the exchange from the get-go could greatly reduce prospects for successful implementation**
  - **If childless are in exchange and parents in MA they'd have to change sources every time parental (or pregnancy) status changes.**

**Again, to design a workable exchange construct, these and other dimensions should be taken into account to achieve a coherent, workable approach.**