

Evidence-Based Health Care Policy

Structuring Exchanges: An Overview of State Issues and Options

Video Conference

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Health Insurance Exchanges

Federal Health Reform enables states to establish “American Health Benefit Exchanges” for individuals and small employers.

- **HHS Sec’y provides grants to states to develop.**
- **If state will not establish qualified Exchange, HHS Sec’y is to do so.**
 - **Can designate a non-profit entity.**
 - **To be determined before 2013.**

Key Roles of an Exchange

- **Provide convenient access to consumer choice of competing qualified plans.**
- **“Travelocity” / “Kayak.com” of health insurance.**
- **“Essential health benefits” and “actuarial value” requirements outlined in federal law.**
 - **“Actuarial value” means how much of the cost of the essential benefits the plan pays (in %).**
- **Like Massachusetts Connector, specifies bronze, silver, gold and platinum benefit levels,**
 - **Plus low-cost catastrophic-only plan for adults <30 or individuals exempt from mandate due to cost.**

Key Exchange Functions

- **Arrange eligibility determinations:**
 - For individual tax credits.
 - For “affordability” waiver granting access to tax credits in Exchange (where employer-offered coverage costs >9.5% of income).
 - For “affordability” exemption from individual mandate (>8.0% of income).
 - Screen and refer to Medicaid, CHIP (“one-door” eligibility)
- **Certify Qualified Health Plans**
 - Using HHS criteria (plus _____?)

Other Exchange Functions

- **Website with standardized comparative information on plans. Also toll-free hotline.**
- **Assign a quality rating to each exchange plan (based on criteria developed by HHS).**
- **Online calculator so people can determine their cost of coverage after premium credits and cost-sharing subsidies.**
- **Determine when employees are eligible for Exchange coverage and tax credits because employer's plan was unaffordable or inadequate.**
- **Inform individuals of eligibility requirements for Medicaid, CHIP, etc., and, if eligible, enroll them.**
- **Set up a "Navigator" program.**

Who Is Served by the Exchange?

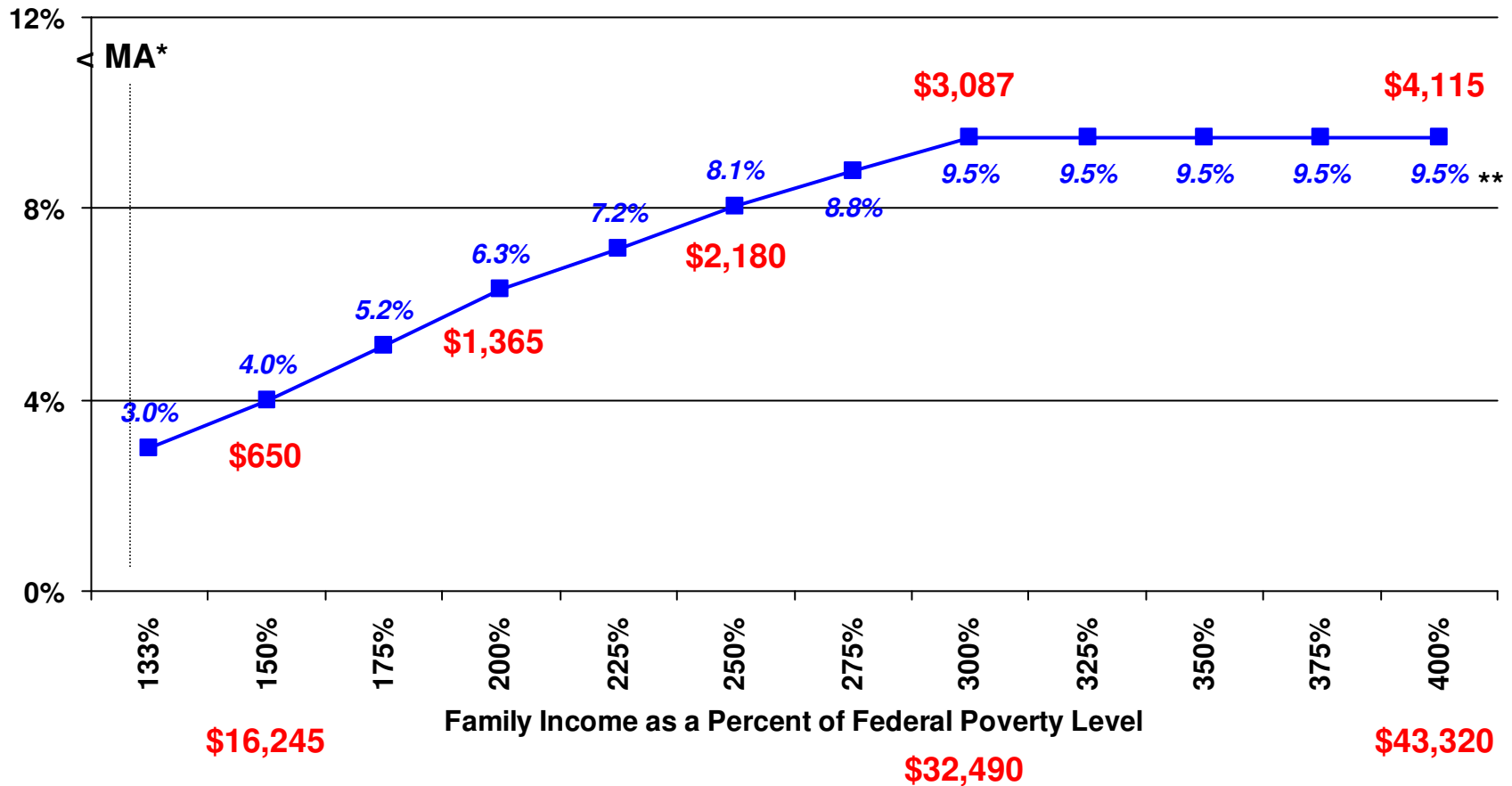
Mandatory:

- **Must participate in Exchange to receive tax credits:**
 - Individuals; small, low-wage employers.
 - Individuals are **not** eligible for tax credits (subsidies) if they are:
 - Eligible for affordable employer coverage, OR
 - Eligible for Medicare or Medicaid.

Voluntary:

- Any lawful resident who is not incarcerated may participate.
- Small employers with up to 100 EEs.
- Beginning in 2017, larger employers, at the option of the State.

How Much Individuals Have to Pay (per year) for Benchmark Exchange Coverage Is a Percent of Family Income (2010 figures shown)



Notes:

Poverty level for one in 2010 = \$10,830

* Workers and dependents with family incomes under 133% FPL would always be allowed to enroll in Medicaid.

** If cost is more than 8.0% of income, individual mandate to buy does not apply.

Source: H.R. 3590 as amended by H.R. 4872

Key Differences from Massachusetts Connector Model

- **Mass. Connector has separate Exchanges—with different health plans—for modest-income subsidized participants <300% FPL and for non-subsidized individuals >300% FPL.**
- **American Health Benefit Exchanges make the same plans* available to all individuals, and**
- **All participants across Exchange and “outside market” are in same risk pool.**
- **Mass. Connector pays plans (like Medicaid / Badgercare).**
- **U.S. Treasury, not Exchanges, pays subsidies (tax credits and cost-sharing subsidies) to plans.**

* *Low-income persons will receive supplemental benefits (reduced cost-sharing) in addition to the “silver” plan they choose. The same “silver” plans will be offered to other Exchange participants, but without supplemental benefits.*

Key Initial State Decisions

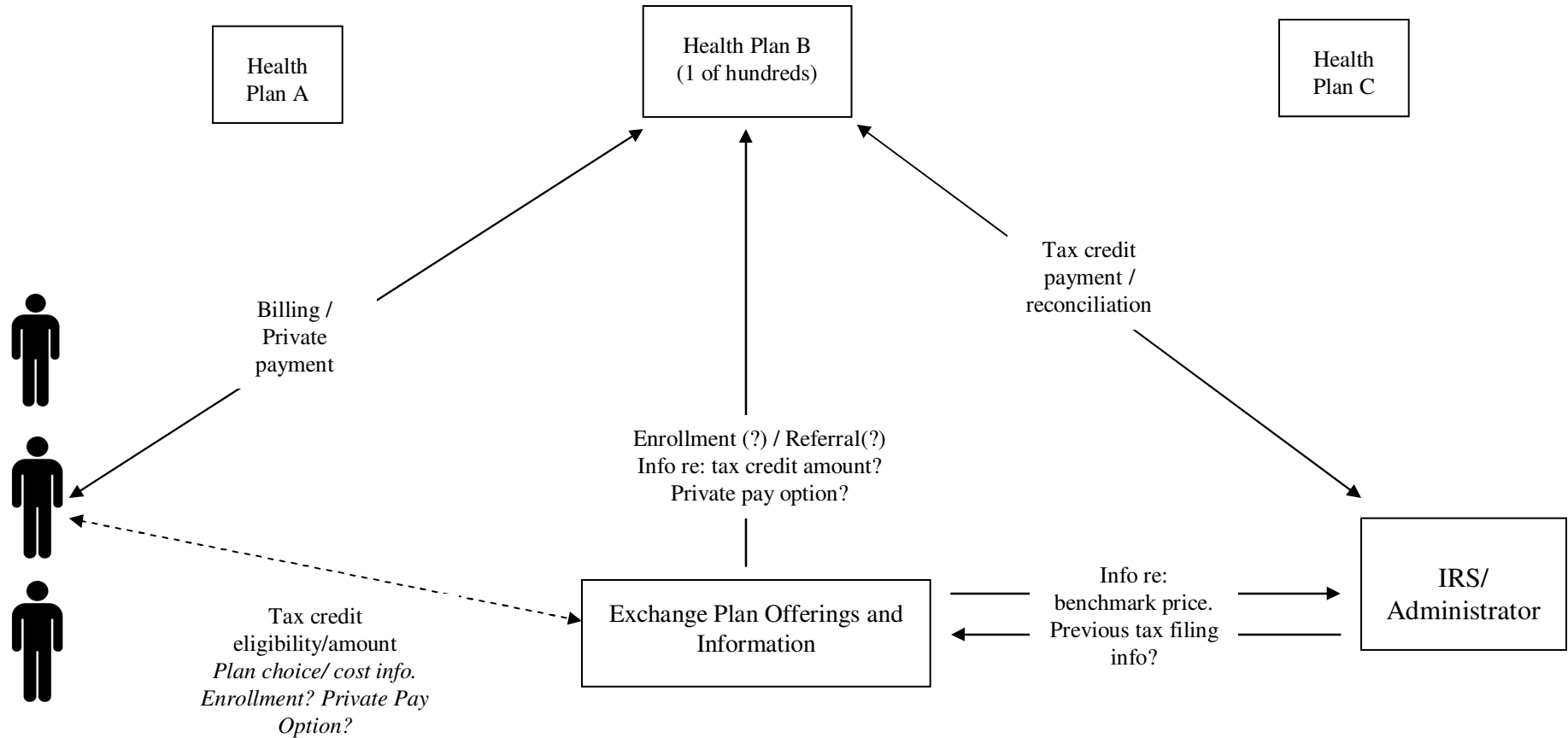
(inter-related, of course)

- **How Many?**
- **Who / Where?**
- **What (if any) plan-selection role?**
- **Other issues.**

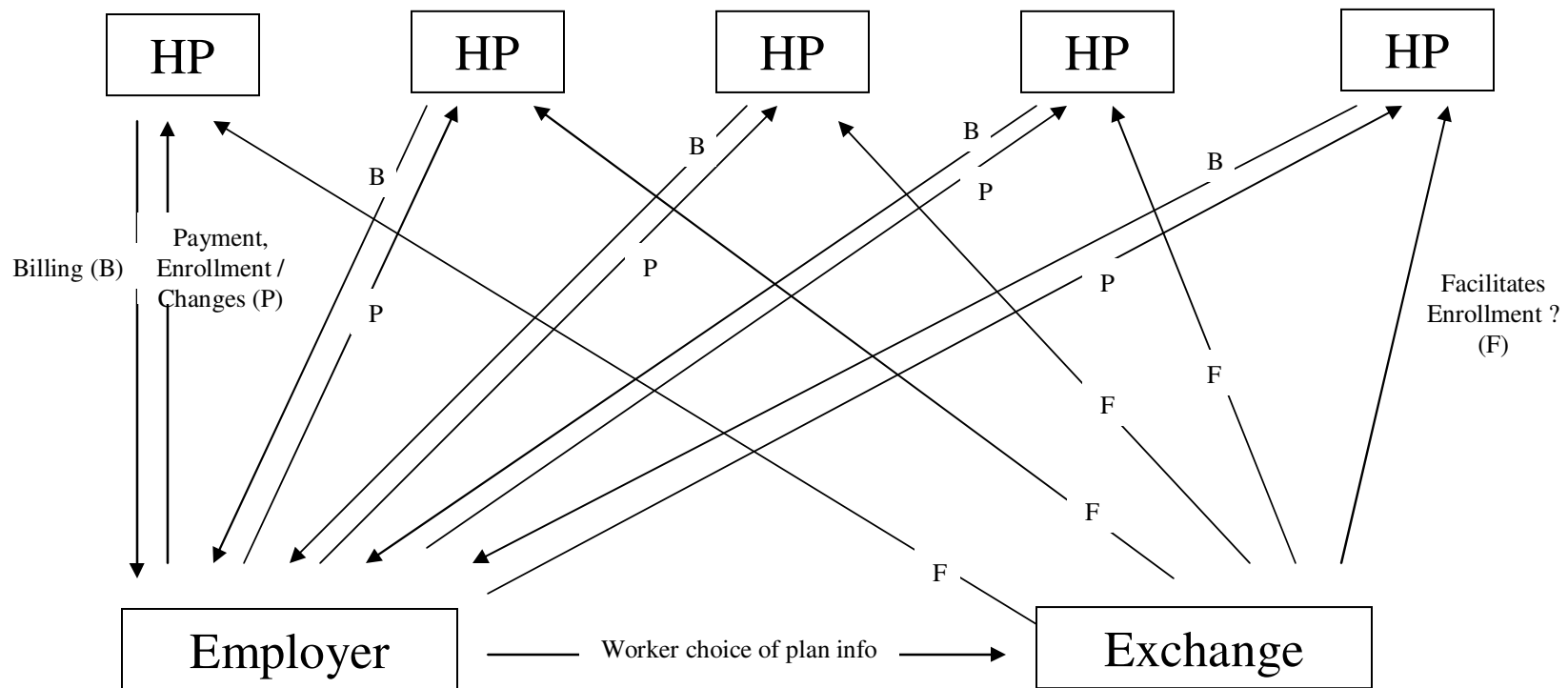
How Many?

- **Statewide? Regional? Multi-State?**
- **Individual and SHOP Employer Exchange: Same or separate?**
 - **State can choose to combine individual and small employer markets, or not.**
 - **If markets are combined, combined Exchange makes sense.**
- **But essential functions differ in the two markets.**

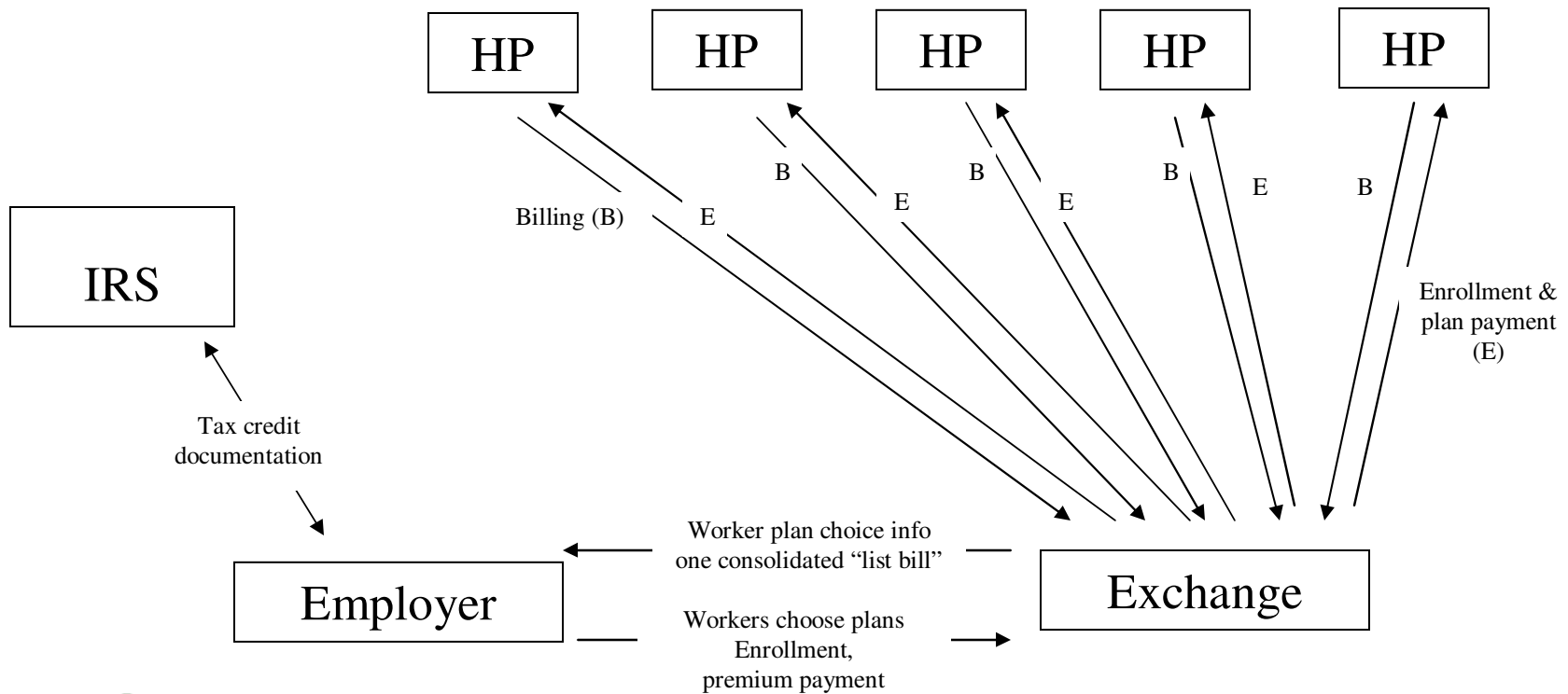
Individual Exchange and Premium Tax Credit Relationship



Employer “SHOP-YOU-WOULD-DROP” Exchange



Employer One-Stop SHOP Exchange



Who / Where?

- **Existing State agency?**
- **New State agency?**
- **Independent Board?**
- **Private Non-Profit Accountable?**
- **Governance / Board Membership?**

What Role re: Selection of Plans

- Clearinghouse of all plans meeting federal criteria, or
- Help drive value in market by selecting and making better value plans available to all individuals.
- Provide venue with manageable number of choices.

Low-Income Adults 133%-200%? FPL

- **Continue Badgercare coverage (and state match)**
 - **Benefits and access considerations**
- **Use “Basic Health Program” option**
 - **No state match requirement, but federal funding constrained.**
- **Include in Exchange with same “essential health benefits” available to all enrollees.**

Other Issues

- **Require benefits beyond federal “essential health benefits”?**
 - **If so, state pays extra subsidy costs.**
- **Require greater standardization of products than the federal statute does?**
- **“Outside” market?**
 - **Federal guidelines only.**
 - **Extend all same rules as Exchange.**
 - **The Exchange is the market.**

Small Employer Tax Credits and SHOP Exchange

- It seems unlikely that the small, low-wage employer tax credit will induce many non-offering firms to offer coverage.
 - Up to 35% of employer share too little.
 - Up to 50% only available when individual tax credits are available instead.
- But a significant share of offering firms <25 EEs could qualify for a significant tax credit.
 - This makes coverage more affordable and sustainable pre-2014.
 - Should provide an initial critical mass for SHOP Exchange post-2013 (albeit 2-year limit / employer).

Offering Small Employers by Wage and Size Thresholds for Employer Tax Credit

Average Annual Wage	Number of Employees in Firm			
	1-10	11-15	16-24	Total: 1-24
\$25,000 or less	22.0%	2.1%	1.7%	25.8%
\$25,000 - \$37,499	18.8%	2.9%	3.4%	25.1%
\$37,500 - \$49,999	12.2%	3.1%	2.9%	18.2%
\$50,000 or more	22.3%	4.4%	4.2%	30.9%
All	75.2%	12.5%	12.2%	100.0%

Distribution shown for private-sector business establishments that offer health coverage and are part of firms with fewer than 25 employees, United States, 2008. Limited to establishments in which more than 75% of employees work full-time. Some establishments with more part-time workers also offer coverage, but the average annual wage figures available for those businesses would not be correct for calculating the tax credit.

Source: Special tabulations of the 2008 Medical Expenditure Panel Survey – Insurance Component.



Employee Eligibility Requirements for Individual Tax Credits via Individual Exchange

- Employees who are offered employer coverage are not eligible for subsidized coverage through the Exchange . . .
 - unless employer coverage costs them more than 9.5% of household income. (50+ employer fee \$3,000—does not affect employee cost.)
- **BUT**, if employer coverage would cost the worker between 8.0% and 9.8% (*sic*) of household income, not eligible for subsidy, but:
 - Worker can leave employer plan and enroll in Exchange plan.
 - Employer must pay to Exchange the age-adjusted amount employer would have paid toward employer coverage (for single or family coverage, as applicable).
 - Worker applies this “voucher” toward full premium of Exchange plan (not eligible for subsidies).
 - “Wyden Amendment”

Wage Levels Don't Define Family-Income-Based Subsidy Levels

Workers Holding EBI By Individual Annual Income	Total	Family Income Relative to FPL			
		<200%	200%- 299%	300%- 399%	400% +
Less than \$20,000	100.0%	55.1%	17.6%	10.6%	16.7%
\$20,000 to \$29,999	100.0%	26.5%	37.0%	15.0%	21.5%
\$30,000 to \$39,999	100.0%	7.9%	30.3%	30.4%	31.4%
\$40,000 to \$49,999	100.0%	3.1%	14.4%	30.0%	52.5%
\$50,000 or more	100.0%	0.2%	3.8%	8.8%	87.2%
All Workers w/ EBI in Own Name	100.0%	11.0%	16.1%	16.6%	56.3%

Soooo . . .

- Many specifics will not be determined by DHHS and Treasury this year.
- But state could make some initial decisions:
 - E.g., who runs the Exchange(s)
- Transition measures might be considered. E.g.:
 - Establishing individual market benefit tiers phasing toward federal reforms and/or other measures.
 - “Seeding” a small employer Exchange if subsidy dollars for low-income workers.

Part 2

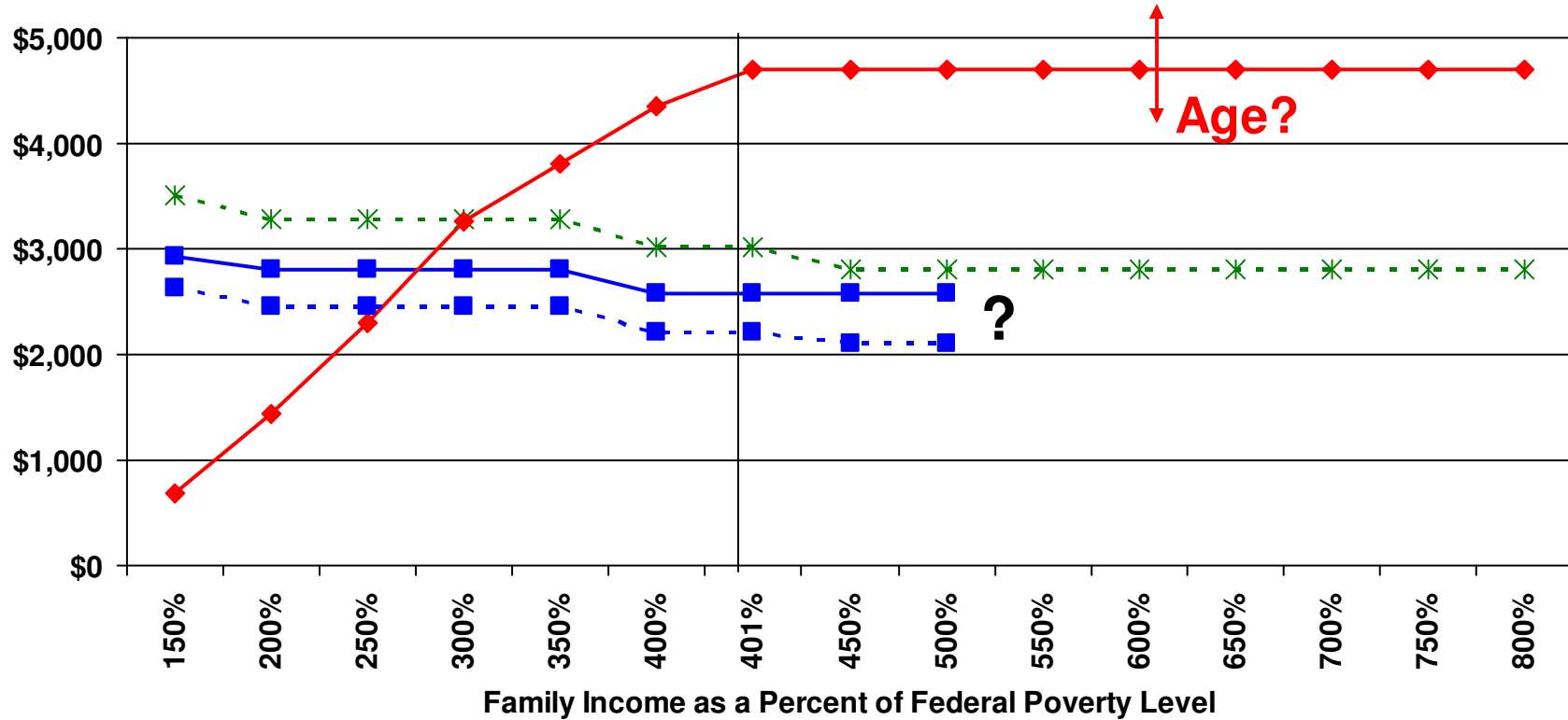
Small and Large Employer Exchange Options and Choice Considerations

Small Employer (<50 EEs) Options under Reform

- **Don't offer coverage—No penalties or contributions.**
 - Lower income workers eligible for individual tax credits through individual Exchange.
 - Higher income workers purchase coverage with after-tax dollars (no “section 125” tax break).
- **Offer traditional small group coverage.**
 - Contributions are exempt from taxation as income.
 - No individual tax credit.
- **Offer coverage through SHOP Exchange.**
 - Contributions are exempt from taxation as income.
 - No individual tax credit.
 - Two-year tax credit on employer contributions if <25 EEs and <\$50,000 average annual wage.
 - Workers choose plan of choice.

Small Employer – Group or Individual?

Employer-plus-Worker After-Tax Cost, by Workers' Family Income, for \$4,700 Single Coverage (Employer pays 50% v. Employer pays 0%)



—■— Employer Pays 50%, Gets Max (50%) Credit

- * - Cost Net of Current Tax Exclusion ONLY

—◆— No Employer Contrib, Indiv Tax Credit in Exch

- ■ - (Includes 1/2 value of current tax exclusion)



Assumptions: Small employers with 10 or fewer EEs and average wages (per FTE of \$25,000 or less).

Workers purchase coverage that costs the same amount as the coverage on which the premium tax credit is based.

Premium for single coverage (with 70% actuarial value) = \$4,700 in 2014 (deflated from CBO's estimate of \$5,200 for 2016).

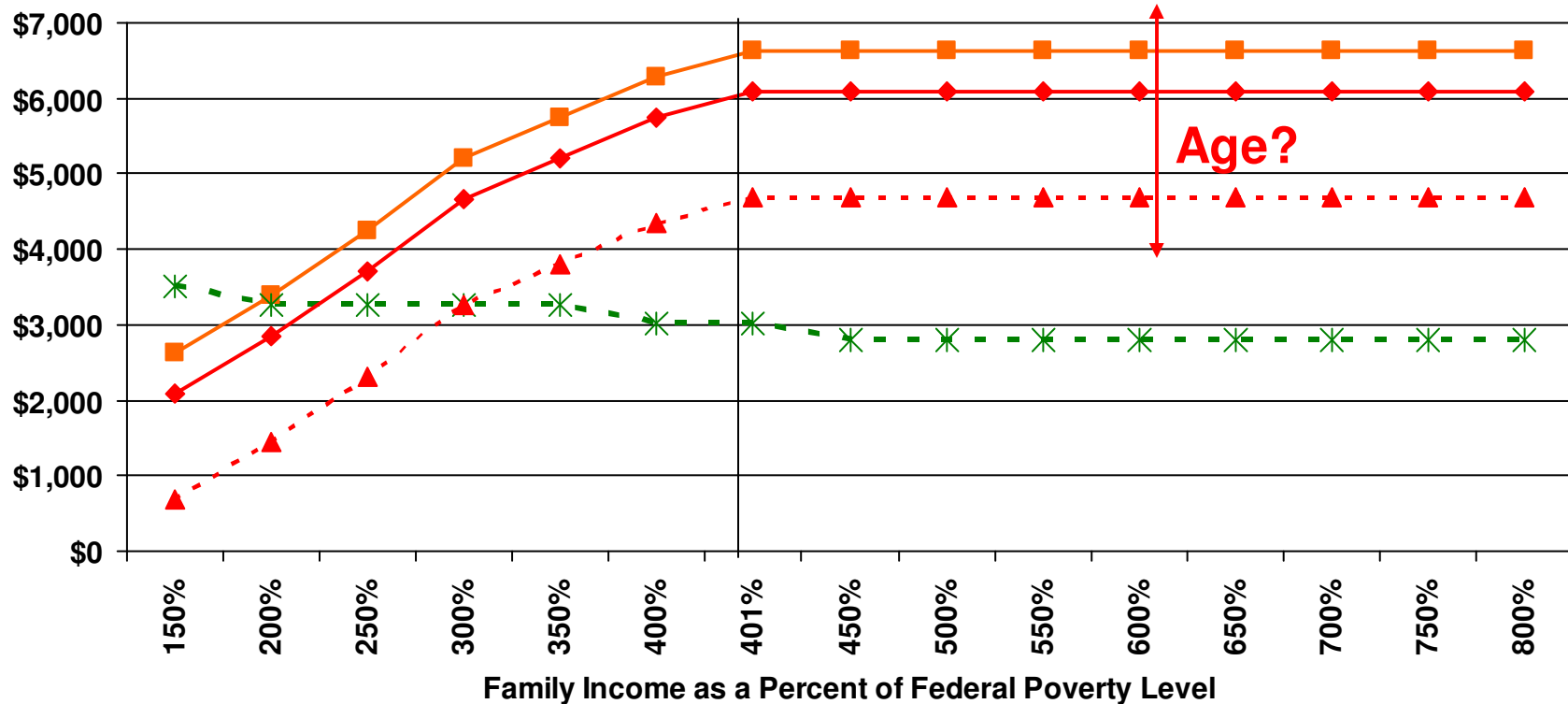
Poverty level for one in 2014 = \$11,450 (deflated from CBO's estimate of \$11,800 for 2016).

Source: Illustration by Institute for Health Policy Solutions based on H.R. 3590 as amended by H.R. 4872, using 2009 tax rates.

Large Employer Responsibility Requirements under Health Reform

- Applies to “large” employers with 50 or more full-time-equivalent workers.
- Non-offering employers:
 - pay \$2,000 per year times number of FT (30+ hr/week) employees (not equivalents) less 30,
 - unless NO FT worker gets subsidized coverage in Exchange.
- Offering employers pay \$3,000 per year for every FT employee who qualifies for subsidized coverage in Exchange (because employer coverage costs too much)

Large Group Plan v. Individual / Exchange Costs: Large Employer-plus-Worker After-Tax Cost, by Workers' Family Income, for \$4,700 Single Coverage



- Exchange Coverage, 1,000 FT EEs
- ◆— Exchange Coverage, 100 FT EEs
- *— Employer Coverage (Cost Net of Current Tax Exclusions)
- ▲— Worker Cost Only



Assumptions: Workers purchase coverage that costs the same amount as the coverage on which the premium tax credit is based. Premium for single coverage (with 70% actuarial value) = \$4,700 in 2014 (deflated from CBO's estimate of \$5,200 for 2016). Poverty level for one in 2014 = \$11,450 (deflated from CBO's estimate of \$11,800 for 2016).

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