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Virtual insurance marketplace hits bump

Health » Utah Health Exchange didn't produce good deals for everyone.

By Lisa Rosetta

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Salt Lake City - Gov. Gary R. Herbert, left, congratulates Lane Beattie, president of the Salt Lake Chamber of Commerce, after Beattie signed up the chamber for the Utah Health Exchange. Also seated are David Jackson, center, of First West Benefit Solutions, and Matt Klein, of Klein's Custom Countertops. At the state Capitol on Wednesday, the three businessmen participated in the kickoff of the Web site where individuals and businesses can compare and buy plans. Photo by Francisco Kjolseth/The Salt Lake Tribune 8/19/2009 (Francisco Kjolseth)

The Utah Health Exchange, a virtual marketplace for insurance that opened up to small-group employers in August, was billed as a way to offer a menu of plans at a good value. Businesses clobbered by premiums rising by double digits clamored to get in.

But the exchange, in its experimental first stage, isn't running as smoothly as hoped. The first round of pricing for the 66 plans offered through it revealed that some were many times more expensive than what some companies already were paying.

Now lawmakers and insurers who once recoiled at the idea of a modified community rating, or basing the price of a plan on applicants' age rather than health history, are tentatively embracing the idea. John T. Nielsen, an adviser to Gov. Gary Herbert on health reform, told the Health System Reform Task Force Wednesday it should be considered.

For Utahns, the implications are significant if insurance premiums are no longer based on health history, at least for individuals and companies buying plans in the exchange.

"This is huge, and actually, it renews my faith in the state reform process," said Judi Hilman, executive director of the Utah Health Policy Project. If the state takes that step, "it wouldn't be long before we realize we actually have to make coverage affordable in this new modified community rating market, because you have to get the young people in to make it work."

At the outset of Utah's health reform initiative three years ago, the notion of community rating triggered a backlash from insurance companies worried about getting stuck with a disproportionate number of sick, costly people.

But things have changed.

The Legislature has since created the Utah Defined Contribution Risk Adjuster Board, whose job is to make sure no one insurer gets arbitrarily dinged with the most expensive cases.

And with all eyes on Utah as a leader in state-engineered health reform, Nielsen said, the price of failure is high. The federalist camp, intent on showing Washington, D.C., how the states can do it better, needs a success story.

"We cannot afford to fail. We have got to do it right," he told the task force. "We cannot allow problems that might arise to in any way jeopardize what we have done to move health system reform forward."

The first round of pricing for plans featured in the exchange, a keystone of the state's 10-year health reform plan, exposed a pitfall of a parallel market, or the side-by-side markets "inside" and "outside" the exchange. Some companies faced 50 percent to 130 percent price hikes for plans similar to what they already had, while others actually stood to save.

The huge disparity in rates was not only perplexing -- even the insurance carriers were surprised -- but also threatened to undermine the exchange's success. If plans in the exchange were perceived to be expensive, said Norman Thurston, health policy and reform initiative coordinator for the state, interest in the experiment would wane.

Dave Jackson, a consultant from First West Benefit Solutions, analyzed the rates and found a number of factors at work.

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With the economy in the doldrums, he told the task force, it's possible some companies laid off their younger, less experienced workers, thus changing their age demographics; other groups, meanwhile, had gotten sicker over time, increasing their risk.

For companies applying for coverage in the exchange as new customers, this meant their rates could be substantially higher than if they simply renewed their existing plans outside the exchange, Thurston said.

That's because insurers underwrite new plans based on their forecast of how sick -- and expensive -- a group might be; with a renewal, they look back at how many claims it actually filed. And, under state law, the group's rate can only be increased by a maximum of 15 percent plus "trend," or medical inflation.

Insurers temporarily fixed the problem by agreeing on an all-for-one approach: If a small-group employer were an existing customer of one participating insurer, all the insurers would treat its application as a renewal and calculate its rates as such, helping keeping rates down.

But it's a money-losing proposition for insurers. Outside the exchange, they would charge a company with a bad claims year a higher rate than what they can quote under this agreement with its competitors in the exchange, Thurston said.

A modified community rating may be one solution.

Lt. Gov. Greg Bell is also pushing for the end of the parallel insurance market, one of the main drivers of these rate inequities. "I don't know exactly the legal way we're going to get there," he said, "but conceptually it doesn't do violence to the system to run everyone through the exchange."

It's an idea the Utah Health Policy Project supports. Creating a risk adjustor board, for instance, helps ensure the health insurance market operates more smoothly. To only build in such a mechanism inside the exchange doesn't make sense, because it has the potential to create a "death spiral."

"Basically, if you have a good risk adjustor and so better affordability for businesses within the exchange, the exchange will become a magnet for the sickest, highest cost individuals," she said.

Applied across both markets -- or one combined market -- however, a risk adjustor can curb the significant spike in premiums that force small businesses to drop or reduce coverage.

"This is not easy stuff," Nielsen said. "It's challenging, it's uncomfortable, it's messy... but it's something we absolutely have to resolve because... we cannot be in a position of failing. Too many people are looking at us for our success."

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Utah Health Exchange

A virtual marketplace for health insurance, the exchange launched in August and opened enrollment to a limited number of small-group employers. More than 130 companies applied, and 99 were considered eligible. Some 66 health plans have been submitted by insurance carriers; around 1,200 people have completed their applications and will soon be able to choose a plan.

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