



# STRENGTHENING UTAH'S EXCHANGE

## Policy Recommendations to Ensure Viability & Success

A Utah Health Policy Project Issue Brief

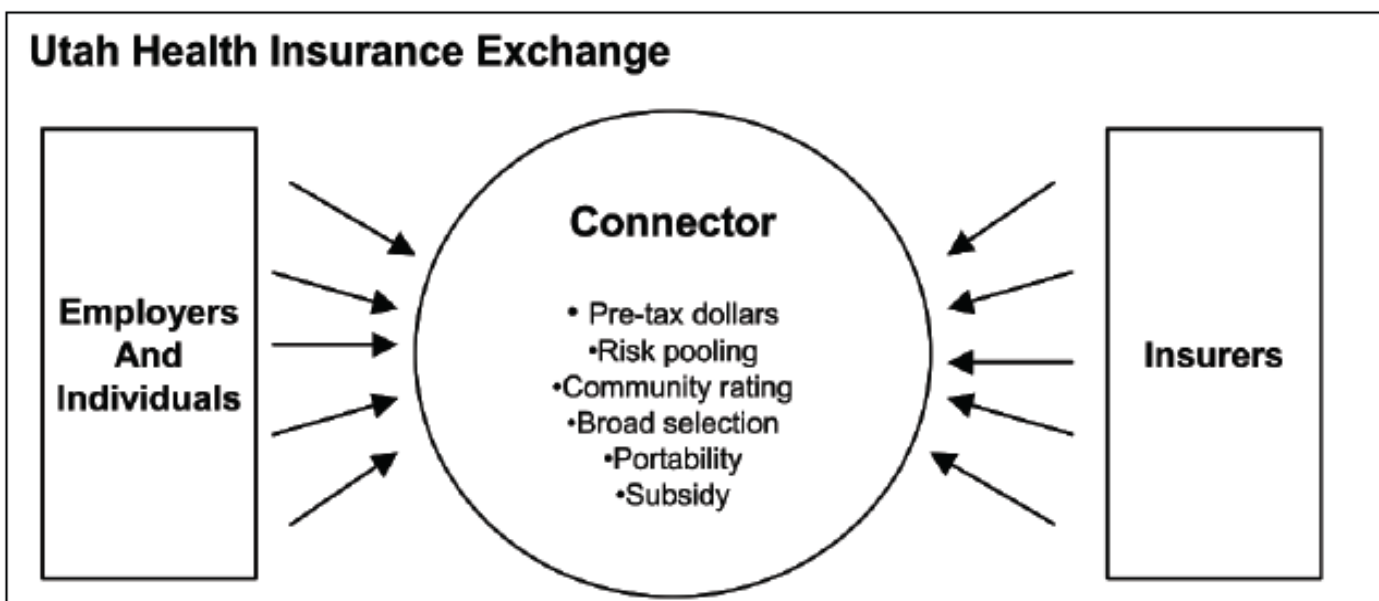
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### BACKGROUND

Utah began its health reform discussions in 2007, passing the first in a series of insurance reform bills during the 2008 General Session. [House Bill 133](#) (Health System Reform, sponsored by current House Speaker David Clark) created a web-based portal or "Exchange" where employers and consumers can shop for affordable, quality insurance. During the 2009 General Session additional parameters were created around the Exchange with the passage of [HB188](#) (Health System Reform-Insurance Market). The passage of this legislation means that Utah is second only to Massachusetts in creating this type of virtual store-front.

With a few additional changes, Utah could become a leader in state-level health care reform. Utah's Exchange contains important building blocks for reform, yet there are steps that need to be taken in order to achieve the goals envisioned by those that worked to draft and pass HB133 and HB188. As Utah's Exchange becomes fully operational, employers will certainly appreciate a one-stop shop along with new market choices and tools to contribute towards premiums with pre-tax dollars. However, without mechanisms to pool risk and manage cost growth, these same employers (especially small business owners) may soon become disenchanted with the Exchange. As currently configured, Utah's Exchange could push employers into a defined contribution arrangement *before* the necessary affordability and benefit standards are in place for them and their employees. **Yet, with a number of changes aimed at spreading risk and making coverage more affordable for employees, Utah's Exchange has the potential to serve as the foundation for market-based, value-driven reforms.**

Should national health reforms come to pass, they will likely include state-based Exchanges. Utah's Exchange will then become even more critical to making health insurance accessible and affordable for Utah families. A recent report by the Congressional Budget Office stated that they anticipate that only 6



million eligible citizens (or roughly 2%) will buy into the federal “public option” – the health insurance policy that will be managed by the federal government. This public option would not a public program like Medicare or Medicaid but simply another choice alongside private sector plans. The only difference is that the federal Department of Health and Human Services would be responsible for managing the plan, negotiating rates with provides, etc.

With only 6 million people anticipated to select the proposed public plan, this leaves approximately another 24 million that will be purchasing private sector policies through state-level exchanges.<sup>i</sup> Utah residents who do not qualify for public programs as well as small employers will need the assistance of the Exchange to find a health insurance policy that fits their needs.

Another concern with national reforms centers around affordability. In the current version of the Senate Finance Committee bill (aka the Baucus bill), contributions to health savings accounts (HSAs) will be capped at \$2,500 a year. Yet these mechanisms are going to be a primary tool for those that have them to pay for their out-of-pocket costs, including the employee share of premium costs.<sup>ii</sup> This new cap on HSAs highlights the concern that even if national reform efforts are successful, much work will need to be done at the state level to keep health insurance affordable for Utahns. This is where a strong Exchange with the right tools to manage costs, increase access and contain costs is critical.

## STRENGTHENING & MONITORING UTAH’S EXCHANGE

Following are UHPP’s main concerns with the current structure of Utah’s Exchange:

- **Affordability:** The point of making the Exchange available to all small businesses and individuals is to create a large enough risk pool that will permit insurers to *community rate* (share risk across the entire small group and non-group market inside *and outside* the Exchange). To this end, coverage must be made truly affordable through the use of affordability standards. If coverage is *not* made affordable, young and healthy people will not participate, opening the door to *adverse selection* (when older and sicker individuals are drawn into a risk pool, thus increasing costs within the pool). Given that 70% of the uninsured have household income under 200% of poverty, eligibility for public programs and premium subsidies should also be integrated in a more functional manner into the Exchange.<sup>iii</sup> For example, consumers should learn of their eligibility for public programs and subsidies whenever they shop on the Exchange. Without any limitations on out-of-pocket costs families will forego cost-effective care, defeating the broader purpose of reform.
- **Open Enrollment:** Currently, there is only one open enrollment period for small businesses which limits the number of individuals that can come into the market. To ensure long term viability and sustainability, there should be a much larger pool of purchasers. Opening enrollment more frequently would allow small businesses, especially those with high turnover, to enroll new employees in a more timely fashion. The Legislature worked hard to enable CHIP to have continuously open enrollment. This prudent decision allowed for greater access to CHIP for otherwise uninsured children. Providing more enrollment periods for the Exchange would do the same for all Utahns looking for health insurance. Fortunately, a bill to open enrollment to businesses throughout the year will be introduced in the 2010 session.

- Community rating instead of medical underwriting: Currently, businesses entering the Exchange will still be medically underwritten according to the risk profile within their individual business. This means the group will be rated according to how healthy or sick their employees are as a group. The true power of an Exchange comes from its function as a purchasing pool where risk is spread over a larger group. Establishing the Exchange as a broad purchasing pool would foster stability, decrease costs, and increase access to cost-effective coverage and care. Yet doing so would also require all small businesses to participate in the Exchange.<sup>iv</sup>
- Defined Benefit Standards: Currently, health plans participating in the Exchange have yet to be categorized in terms of the level of benefits offered, and there is no minimum benefit standard. Both pieces are critical for the sake of comparison shopping and to ensure people are purchasing plans that are of value. If the intent is to move toward a consumer-oriented market where individuals can compare apples to apples when they shop for benefits, plans must be categorized (for example, gold, silver, and bronze levels). Without a common denominator and minimum benefit standard, in industry-speak a “minimum creditable coverage” level, consumers will not be able to effectively evaluate products and make value-based decisions.
- Portability: Health plans in the Exchange are not yet truly portable. If you lose your job, there is no guarantee that you will be able to purchase your same plan at the same price after you have exhausted your COBRA benefits. Individuals no longer affiliated with an employer are not yet allowed to shop for coverage in the same market. Community rating *both inside and outside the Exchange* will ensure an individual or family can purchase a plan for the same price regardless of their employment situation, yet even this is not enough: The best way to create plans that are truly portable is to give individuals full access to the Exchange along with navigation assistance so they can make prudent choices for themselves and their families.

While policymakers work to build consensus around these and other key elements of reform, Utah’s Exchange should be monitored closely in terms of the following impacts:

- What does an abrupt shift to a defined contribution arrangement do to the overall market?
- What impact does defined contribution have on cost sharing, scope of benefits, and access to cost-effective preventive care?
- How many businesses entering the portal are offering health benefits to their employees for the first time?
- Has there been a net reduction in the number of uninsured?

## THE BOTTOM LINE

For the Exchange to function as intended, Utah will have to seriously grapple with the need to...

1. **Community rate** (spread risk across all participants) the entire health market in the insurance pool, both inside and outside of the Exchange. The rules must be the same outside the Exchange

so that the Exchange does not become a magnet for the sickest and most costly individuals and small groups.

2. **Create affordability standards and subsidies** to attract the ‘young immortals’ to the market and to ensure small businesses, individuals, and families can purchase creditable coverage in the private market.
3. **Mandate participation by individuals and businesses.** The only way around a mandate is even stronger affordability standards!

State legislative leaders have yet to form a consensus around many of these issues, and this is why the parameters for real reform may need to come from the federal level. Short of the changes listed above, Utah’s Exchange may give some employers short-term relief from rising health care costs; but without the other key provisions of reform, starting with affordability and minimum benefit standards, much of this cost will be shifted to other, less efficient parts of the state’s over-burdened health care system.

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<sup>i</sup> See Congressional Budget Office, *Preliminary Analysis of the Affordable Health Care for America Act*, letter to the Honorable Charles B. Rangel (October 29, 2009)

<sup>ii</sup> A full version of Senate Bill 1796 titled *America’s Health Future Act of 2009* is available at the following link: <http://www.finance.senate.gov/sitepages/leg/LEG%202009/101909%20America's%20Healthy%20Future%20Act%20Legislative%20Language.pdf>

<sup>iii</sup> Utah Healthcare Access Survey, 2008

<sup>iv</sup> See *How are Insurance Rates Regulated? A Guide to Underwriting Laws in Utah & Policy Recommendations*, Utah Health Policy Project issue brief, January 2009 available here:

[http://www.healthpolicyproject.org/Publications\\_files/USHARE/RateRegulationCommunityRating12909Final.pdf](http://www.healthpolicyproject.org/Publications_files/USHARE/RateRegulationCommunityRating12909Final.pdf)