



NEWS RELEASE

Embargoed for release:
12:01 a.m., Thursday
September 30, 2010

For further information, contact:

Mary Mahon: (212) 606-3853, mm@cmwf.org

Bethanne Fox: (301) 448-7411, bf@cmwf.org

New Health Insurance Exchanges Should Be Independent, Should Aim for a Level Playing Field for Plans Within and Outside the Exchange, and Should Reduce Administrative Costs of Insurance

New Report Addresses Difficult Issues for Design of Exchanges That Will Be Key to Effectiveness of the Affordable Care Act

New York, NY, September 30, 2010—A new report from The Commonwealth Fund provides recommendations for state and federal policymakers as they design and implement the new health insurance exchanges which are a key element of the Patient Protection and Affordable Care Act (ACA). The state-based exchanges, to be set up by states and the federal government to provide a health insurance marketplace with subsidized health insurance for small businesses and individuals without employer or public coverage, will play a major role in enhancing many Americans' access to health insurance coverage when they are fully implemented in 2014.

The report by Timothy Stoltzfus Jost, Professor of Law at the Washington and Lee University School of Law, *Health Insurance Exchanges and the Affordable Care Act: Eight Difficult Issues*, examines issues that policymakers will grapple with as they work towards implementing the exchanges, and provides detailed recommendations to improve affordability and access to coverage purchased through the exchanges. These include how exchanges should be set up and governed; how they can avoid adverse selection—or having a disproportionately large share of high-cost enrollees, leading to unaffordable premiums within the exchange—and how to reduce administrative costs.

The author's recommendations include:

Governance

- In each state, the exchange should be placed within an independent agency, with a governing board that includes representatives of state agencies with which the exchanges must work, and others with relevant expertise.
- Management of the exchanges should be apolitical and professional.

Adverse Selection

- To the extent possible, state regulation of the individual and small group markets should be identical inside and outside the exchanges.
- The U.S. Department of Health and Human Services should design a sophisticated but practical risk-adjustment system that will enable states to efficiently compensate insurers who have enrollees with above average health risks.

Exchanges and Large-Group and Self-Insured Plans

- States are allowed to open the insurance exchanges to large employers starting in 2017. The risk is that only large employers with unhealthy or older workforces will opt to come into the exchanges which could increase premiums for plans sold through the exchange.
- To counteract this possibility states should consider extending the requirements of the ACA to large plans and to grandfathered plans that qualify for exchange coverage and provide strong incentives for all firms of a given size to obtain coverage through the exchange.

| Making Exchanges Work for Employers

- The exchanges should offer employers the option of one bill covering the premiums of all employees, and should then allocate premiums among the various insurers and plans chosen by individual employees.

The Regulatory Role of Exchanges

- Exchanges should use their regulatory authority to lower prices and increase value to the extent that the competitive conditions in their markets allow.
- Exchanges should also standardize and limit the range of plan choices available within each benefit tier to stimulate competition based on price and value.

Exchanges as Sources of Descriptive and Evaluative Information

- To permit informed selection of an appropriate health plan through the exchange Internet portal, health plans should be contractually bound by information they disclose on their Web sites, and should develop rating systems that permit accurate comparison of the value of competing health plans.
- When conducting their health plan evaluations, exchanges should be attentive to the opinions of both employers and individuals.

Exchanges and Public Subsidy Determination

- The exchange and public programs such as Medicaid and the Children's Health Insurance Program should facilitate electronic applications that minimize the need for paper documentation.
- Individuals should be permitted to apply initially either to the exchange or to the state Medicaid agency, with either agency ensuring that the individual is signed up for the appropriate program.
- Exchanges should see it as their responsibility to ensure the continued enrollment of eligible individuals and families for tax credits or public programs, rather than holding individuals responsible for continually having to work at maintaining their own eligibility.

Administrative Costs and Funding of the Exchange

- Exchanges should develop a variety of revenue sources to fund their work, including an assessment on all insurers in the market.
- Exchanges should seek opportunities to lower administrative costs both for insurers and for employers.

The Commonwealth Fund is a private foundation supporting independent research on health policy reform and a high performance health system.