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Insurance Market Competition Under Health Reform: Public Plan and Exchange Options

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Overview

- What are we trying to do?
- Where and How are we trying to do it?
- Who would we like to have participate?
- When might all this start?
- What else should you worry about?

What Are We *Trying* to Do?

- Provide small group and individual market participants with same kinds of choices and efficiency that large employer workers have now
- CHANGE the business model of insurers, from risk selection, to value seekers for all
- Need new market regulations and organization

Why Do We Need an Exchange and Insurance Market Reforms?

- Non-group market underwriting increasingly unacceptable
 - 2008 election
 - Ryan-Coburn, H.R. 2520, S. 1099
- Small group market failing small employers
 - faster premium growth than other markets
 - high loads
 - explicit or de facto underwriting
 - moribund competition

What Can an Exchange Do

- Regularize competition
 - Administer “qualified” health plans’ participation in the exchange
 - Oversee marketing and insurer conduct
 - Including compliance with benefit package rules
 - Keep track of money flows
 - Oversee/ensure risk adjustment works
 - This is made difficult by allowing “parallel” markets to survive outside exchange
 - Aid in enforcement of purchase mandates
 - Manage interaction with Medicaid and SCHIP
- Ensure that enforcement of insurance regulations occurs

Where Will Exchanges Be Organized?

- States
 - HELP and probably Finance
 - Could combine states, sub-state, federal fallback
 - Federal rules
- National
 - House
 - National exchange in Tri-Com draft and in bills passed by Ways and Means and Education and Labor
 - States can apply to Commissioner to run it consistent with federal rules
 - Energy and Commerce has jurisdiction
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Who Will Be In Exchange?

- Who Must
 - HELP: no one
 - House: individuals, small groups
- Who May
 - HELP: individuals, small groups
 - House: individuals, small groups
- Who May Keep What You Have Now
 - EVERYONE grandfathered, everywhere
 - HELP allows individual plus small group markets to continue outside Gateway, but with conformed insurance market rules
 - House requires rule congruence in *entire* group market by 2017

How small is “small” ?

- Conceptually: large enough to self-insure
- Transition issues complicated, scary
 - HELP: small = 10, maybe more later
 - House: 10 in year one, 20 in year 2, maybe more later
- Some see in these provisions precious little relief for larger small firms who are not happy with their status quo
- Selection issues from opening up group market are real, but not insurmountable
- What about those who work for “large” firms but do not like their offerings?
 - House: lets you in after 2 years if oop premium > 11% of income

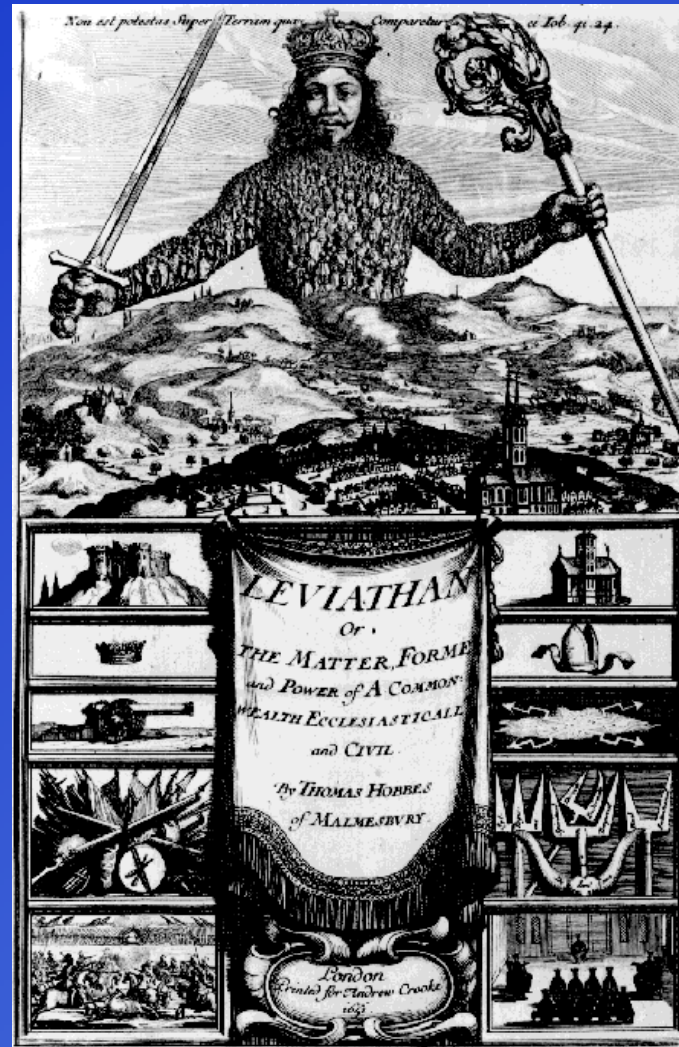
Why is the Public Option SO Controversial?

- Both extremes wanted to kill off the prospect of bipartisan agreement
- All bad behavior is based on fear
- It touches the deepest nightmares of some on each side

WHY is the Public Option SO Controversial?



Why Is the Public Option SO Controversial?



Why is a Public Option *such* an issue?

- Three motivations (actually 4)
 - Trust
 - Benchmark
 - Cost containment
- Fear of Leviathan
- Fear of cost-shift
- Fear of losing current margins
- Fear of losing existence

Technical Public Option Issues

- Federal or state
- Level playing field
- Provider payment rates
 - If payment not linked to Medicare, must have plan B on cost growth control
- Timing: beginning or fall back?

Why Competition Needs Help

- Small group insurance markets not very competitive
 - 34 states have actionable concentration
 - $HHI > 1800$, $CR5 > 75\%$
 - Median market share of #1 = 47%, 33% in '02
- Individual insurers are pure risk segmenters, not interested in new world of guaranteed issue => seeking value, not risk selecting

A simple tale

- BCBSAR
 - 75% market share
- Pays MDs “way” more than Medicare
- United #2, market share has fallen from 12% (2002) to 6% (2008)
- Imagine day one of a tight exchange
- Blue Dogs live in these kinds of markets

Hospital Margin Facts (MedPAC)

	High Pressure	Medium Pressure	Low Pressure
Non-Medicare margins	-2.4%	4.5%	13.5%
Medicare margin	4.2%	-3.8%	-11.7%
Share of all Hs	28%	14%	58%
Share of big teaching Hs	53%	18%	29%
Share of Discharges	27%	37%	36%

Performance and Margins

- Lower cost hospitals' median Medicare margin
 - + 7.6%
- Higher cost hospitals' Medicare margin
 - - 20%
- Difference in MEDIAN standardized cost per case
 - + 25%
 - + 40% (actual range of std. Cost per case)

When?

- HELP: 2012
- House: 2013
- Interim/immediate measures:
 - HELP: smaller, lower wage employers will get tax credit under certain conditions
 - Both: reinsurance for retiree health plans
 - Baucus White Paper: physical plus temporary coverage for seriously ill (cancer, chronic)

Remaining Issues

- Do we really want to change the business model of insurers?
- Do we think we can manage “public” competition?
- Are we comfortable with plan B for cost control?
- Age rating/transition issues
- Role of employers