

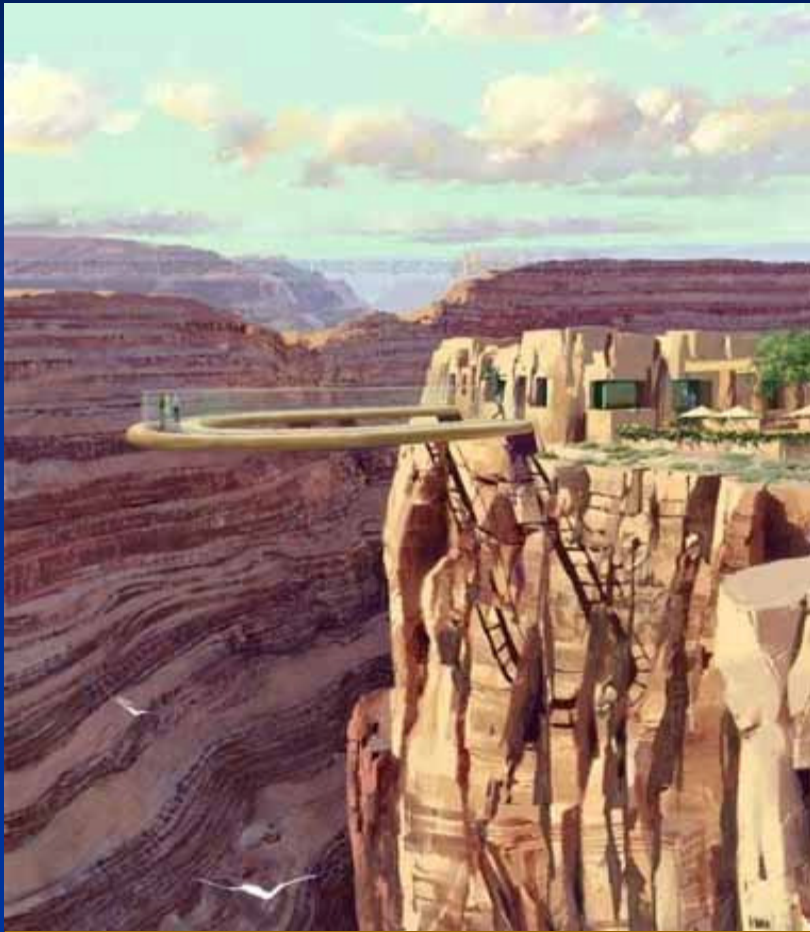
*The Devil is in the Details:
Health Exchanges
and Some Lessons from
Massachusetts*

To HealthRIght

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Board Member of Massachusetts Connector
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Two Visions of Exchanges



BRIDGE TO NOWHERE



**STAIRWAY TO
HEAVEN**

What consumers might get...



Exchanges in PPACA

States must establish state-based or regional exchange(s) that will

- Sell qualified plans to individuals and employers
 - 2014: Individuals and employers < 100 employees
 - 2017: Employers > 100 employees
 - 5 benefit tiers: Bronze, Silver, Gold, Platinum and Young Invincible
 - Plans available inside and outside exchange
- Administer premium credits and cost-sharing subsidies
 - Sliding scale based on income up to 400% FPL
 - Not available to those with employer-sponsored insurance unless the employer plans does not meet minimum requirements
 - “Free choice voucher” for certain employees to purchase through exchange rather than through employers
- Create a Small Business Health Options Program (SHOP) to help employers enroll their employees in plans
 - Small business tax credits available for plans purchased through exchange beginning in 2014 (sliding scale based on firm size and average worker wage)

Lessons from Massachusetts: Seven “Ps” for an Effective Exchange

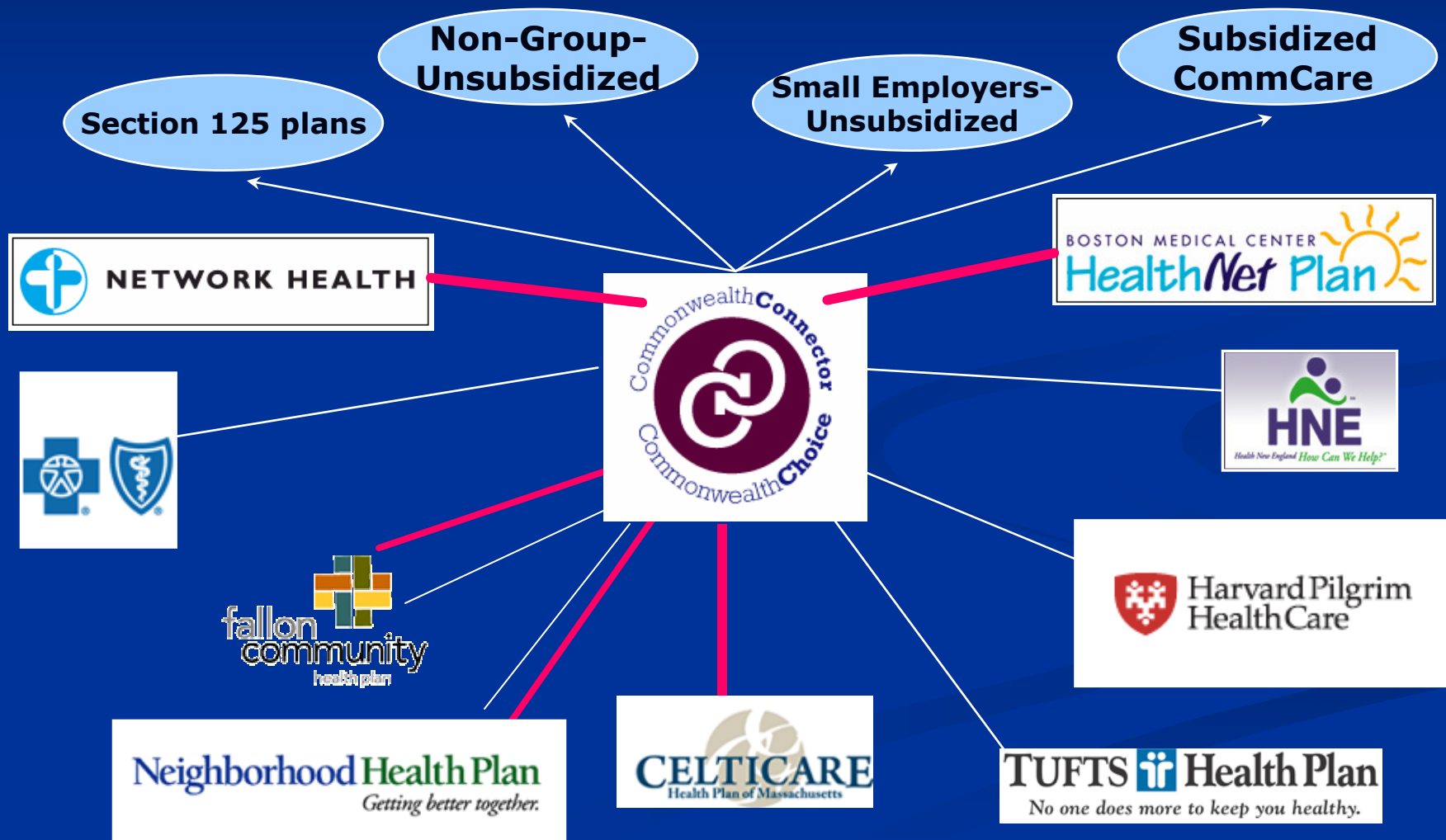
1. Public subsidies
2. Purging pernicious insurance practices
3. Pooling
4. Protection (against adverse selection)
5. Product standardization
6. Purchasing power
7. Public Accountability

The Roles of the Massachusetts Connector: Programmatic

- Exclusive purchaser for *Commonwealth Care*
 - Program of subsidized coverage for low income uninsured adults; offered through 5 private insurers
 - 150,000 members
- Administers *Commonwealth Choice*, a commercial insurance “exchange”
 - Competes side-by-side with regular insurance market
 - Non-subsidized plans for individuals
 - Four product tiers: Bronze, Silver, Gold, Young Adult Plans
 - 25,000 individual members and 4,000 small group members

Massachusetts Connector

The “Travelocity” of Health Insurance

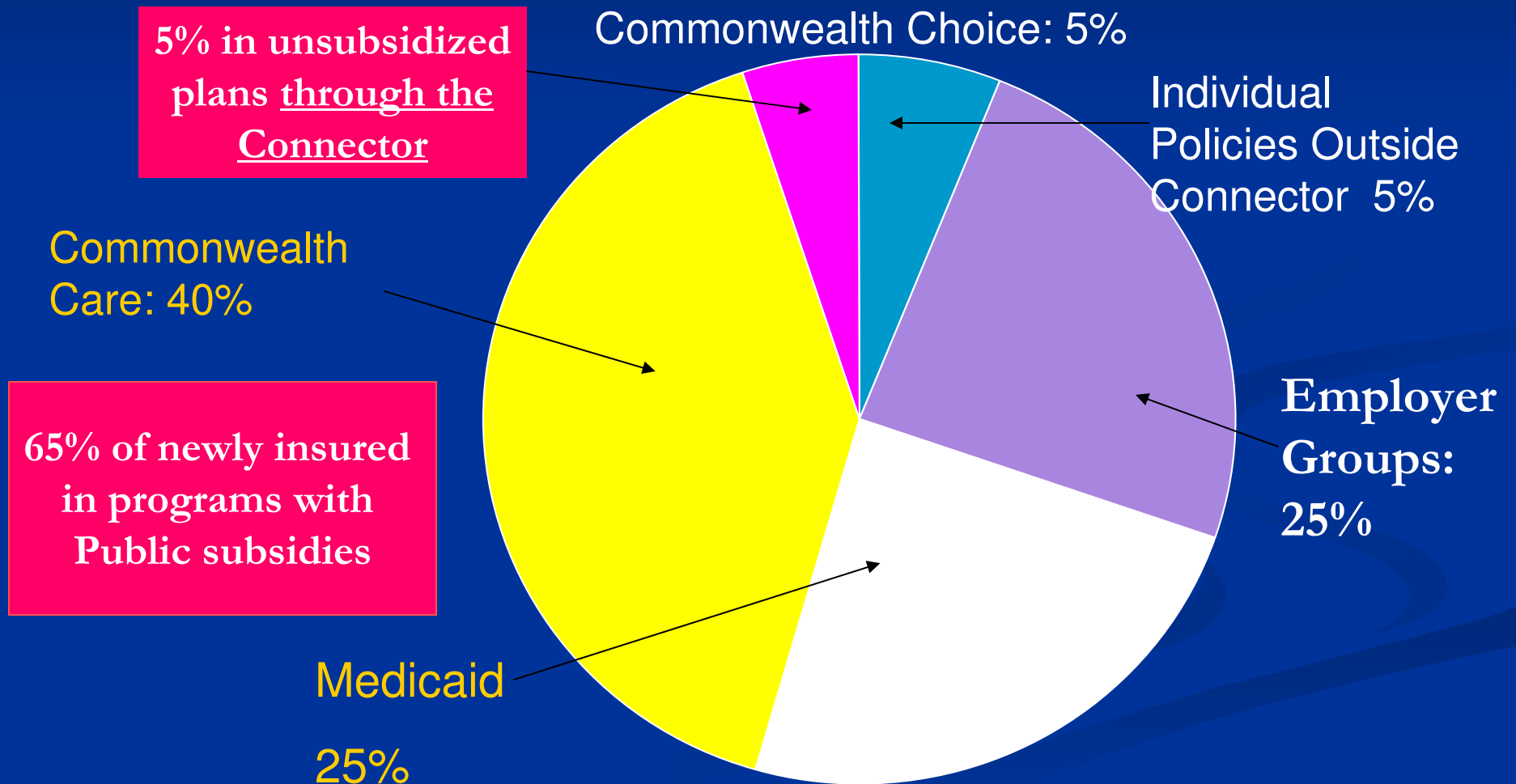


The Roles of the Massachusetts Connector: Policy maker

- Policy making body
 - Individual mandate (minimum creditable coverage, schedule of affordability)
- Facilitates expansion of coverage in the state through information, outreach, and marketing
- Provides technical assistance to other state health insurance-related projects
 - Joint purchasing of student health insurance for state colleges and community colleges

#1: Public Subsidies

Newly Insured in Massachusetts



Source: Division of Health Care Finance and Policy

US vs. Mass Reform

Annual Income	US Reform Max Monthly Premium	MA Affordability Schedule	
\$0 - \$13,538	\$24	\$0	COMM CARE
\$13,539-16260	\$54	\$0	
\$16,261-21,672	\$114	\$39	
\$21,673-27,096	\$182	\$77	
\$27,097-32,508	\$257	\$116	
\$32,509-39,000	\$300	\$171	
\$39,001-44,200	\$343	\$228	
\$44,201-54,600	8% income	\$342	
Over \$54,601	8% income	Affordable	

PREMIUM CREDITS

The table includes several red arrows: a vertical arrow pointing down from the \$13,539-16260 row to the \$16,261-21,672 row; a vertical arrow pointing down from the \$21,673-27,096 row to the \$27,097-32,508 row; a horizontal arrow pointing right from the \$21,673-27,096 row to the \$27,097-32,508 row; and a horizontal arrow pointing right from the \$39,001-44,200 row to the \$44,201-54,600 row.

#2: Purging Pernicious Practices

Make insurance work as well for sick as the healthy

Massachusetts has

- Guaranteed issue and renewal
- No medical underwriting
- No rating on health status, medical claims, gender
- Modified community rating
 - 2:1 rating bands
- All products available to everyone



#3: Pooling

Massachusetts has

- Individual and small group markets are combined
- All products at each carrier in one rating pool
 - Includes Young Adult Plans
- Same rating pool inside and outside exchange



Pooling Matters



#4: Protecting against adverse selection

Massachusetts has

- Same insurance rules inside and outside the exchange
- Same rating pool inside and outside the exchange
- Insurer must sell “Seal of Approval” products inside and outside the Connector
- Individual mandate
- Standardized products in the Connector for the individual market

Massachusetts lacks

- Insurers can sell non-standardized products outside the Connector
 - Minimum creditable coverage rules set a floor of coverage in the market
- No risk adjustment across insurers (except in subsidized Commonwealth Care)
- No annual open enrollment period for individual market

#5: Product Standardization

Massachusetts 1.0: “Actuarial Value”

Find Insurance: *Individuals & Families*

STEP 4 OF 6 - COMPARE PLANS (OVERVIEW)


Click "View Plan" to see details. You can also compare **up to 3 plans** at a time. Check the box next to the plans you want to compare. Then click "Compare Selected Plans."

Compare Selected Plans

Tier	Plan	Premium* ?	Deductible ?	Co-Payments ?			Hospital Stay ?
				Doctor	RX	ER	
B	<input type="checkbox"/> Neighborhood Health Plan NHPTThree Select	\$314.15	\$2,000/\$4,000	\$25	\$15 after Rx deductible / 50% co-insurance after Rx deductible / 50% co- insurance after Rx deductible	\$100 after deductible	20% co- insurance after deductible
B	<input type="checkbox"/> Fallon Community Health Plan FCHP Direct Care	\$392.00	\$2,000/\$4,000	\$25	\$15 / \$50 / \$100	\$200	\$500 per admission after deductible
B	<input type="checkbox"/> Tufts Health Plan Advantage HMO Select 2000 (Limited choice of doctors & hospitals)	\$421.38	\$2,000/\$4,000	\$40	\$20 after Rx deductible / \$50 after Rx deductible / \$75 after Rx deductible	\$200	\$0 after deductible
B	<input type="checkbox"/> Harvard Pilgrim Health Care Harvard Pilgrim Core Coverage 1750	\$451.56	\$1,750/\$3,500	\$25 copay up to 3 medical care office visits per individual (or 6 per family); next visits are subject to the deductible; then 20% co-insurance thereafter	\$15 / 50% co-insurance after Rx deductible / 50% co-insurance after Rx deductible	\$250	20% co- insurance after deductible
B	<input type="checkbox"/> Fallon Community Health Plan FCHP Select Care	\$454.00	\$2,000/\$4,000	\$25	\$15 / \$50 / \$100	\$200	\$500 per admission after deductible
B	<input type="checkbox"/> Blue Cross Blue Shield of Massachusetts HMO Blue Basic Value	\$476.13	\$250 per plan year/\$500 per plan year	\$25	\$15 / 50% co-insurance after Rx deductible / 50% co-insurance after Rx deductible	\$150	35% co- insurance after deductible

Premiums for 50-year-old resident of Boston for effective date of June 2009

Mass 2.0: Standardized Products



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BROWSE PLANS: 3 benefits packages [\(What's a benefits package?\)](#) → [24 plans] [Print this page](#)

Sort plans by Benefits Package close instructions

You've Selected:

Benefits Package

Bronze

Silver

Gold

Narrow Your Plans by:

Monthly Cost

[Less than \\$300](#) (15)

[\\$301 - \\$400](#) (19)

[\\$401 - \\$500](#) (10)

[\\$501 - \\$600](#) (2)

[\\$601 - \\$700](#) (7)

[Greater than \\$701](#) (2)

Annual Deductible

[None](#) (15)

[\\$250 - \\$500](#) (8)

[\\$500 - \\$1,000](#) (8)

[\\$1,000 - \\$2,000](#) (8)

[\\$2,000 - \\$4,000](#) (18)

Insurer

[Blue Cross Blue Shield](#) (7)

[Celticare](#) (7)

[Fallon](#) (13)









[Harvard Pilgrim](#) (7)

[Health New England](#) (7)

[Neighborhood](#) (7)

[Tufts](#) (7)

Show Plans. Then choose up to 3 to compare. Click **Continue** at bottom.

	Monthly Cost	Annual Deductible	Annual Out of Pocket Max.	Doctor Visit	Generic Rx	Emergency Room	Hospital Stay
STANDARD BENEFITS FOR ALL BRONZE LOW PLANS							
Bronze Low Benefit Package 8 plans available	as low as \$211	\$2,000 (ltd.) \$4,000 (fam.)	\$5,000 (ltd.) \$10,000 (fam.)	annual deductible, tier \$25	annual deductible, tier \$15 copay	annual deductible, tier \$100 copay	annual deductible, tier 20% co-insurance
STANDARD BENEFITS FOR ALL BRONZE MEDIUM PLANS							
Bronze Medium Benefit Package 8 plans available	as low as \$251	\$2,000 (ltd.) \$4,000 (fam.)	\$5,000 (ltd.) \$10,000 (fam.)	\$30 copay	\$10 copay	annual deductible, tier \$150 copay	annual deductible, tier \$500 copay
<input type="checkbox"/>	 Celticare	\$251.12	↑	↑	↑	↑	↑
<input type="checkbox"/>	 Fallon Community <small>SMALLER NETWORK</small>	\$252.67	↑	↑	↑	↑	↑
<input type="checkbox"/>	 Tufts Health Plan <small>SMALLER NETWORK</small>	\$255.23	↑	↑	↑	↑	↑
<input type="checkbox"/>	 Neighborhood Health Plan	\$268.89	↑	↑	↑	↑	↑
<input type="checkbox"/>	 HNE	\$276.09	↑	↑	↑	↑	↑
<input type="checkbox"/>	 Fallon Community	\$289.78	↑	↑	↑	↑	↑
<input type="checkbox"/>	 Harvard Pilgrim Health Care	\$339.56	↑	↑	↑	↑	↑
<input type="checkbox"/>	 MASSACHUSETTS	\$341.34	↑	↑	↑	↑	↑
STANDARD BENEFITS FOR ALL BRONZE HIGH PLANS							
Bronze High Benefit Package 8 plans available	as low as \$273	\$250 (ltd.) \$500 (fam.)	\$5,000 (ltd.) \$10,000 (fam.)	\$25 copay	\$15 copay	\$150 copay	annual deductible, tier \$250

Still Too Much Choice and Price Variation?

- 54 years old in Boston area
- 41 choices through Connector
- 7 products

- Bronze Low, Med, High

- Silver Low, Med, High

- Gold

6

insurers

--Premiums range from \$320-\$996/month
Premium variation within product tier: Up to
70+%

- 50+ choices directly from health insurers

ONE
CONSUMER



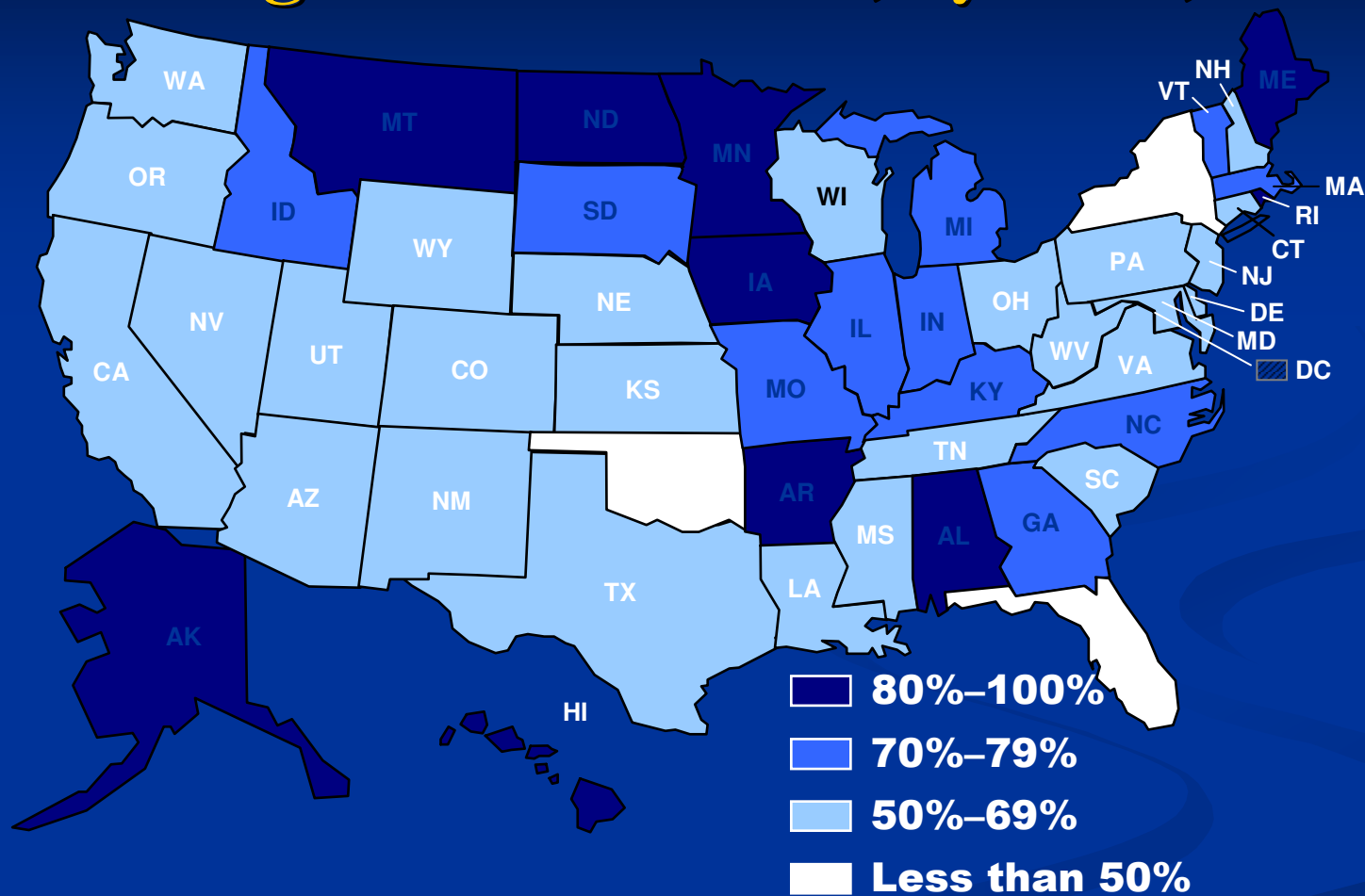
**25-year-old has 61 plan choices ranging from \$152-554 per month

#6: Purchasing Power



Health Insurance Exchange

Concentrated Insurance Markets: Market Share of Two Largest Health Plans, by State, 2006

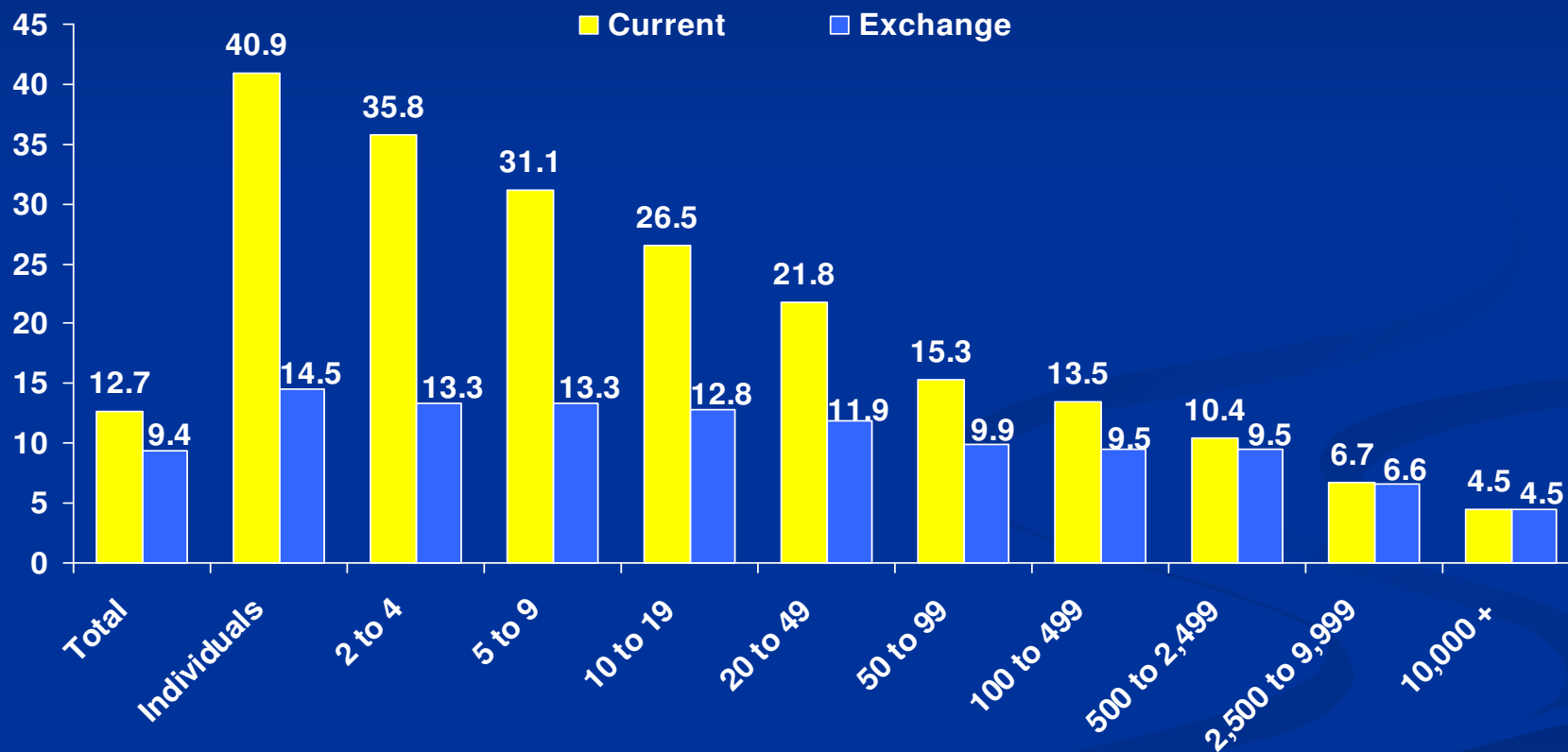


Note: Market shares include combined HMO+PPO products. For MS and PA share = top 3 insurers 2002-2003.
 Source: American Medical Association, *Competition in health insurance: A comprehensive study of U.S. markets, 2008 update*; MS and PA from J. Robinson, "Consolidation and the Transformation of Competition in Health Insurance," *Health Affairs*, Nov/Dec 2004; ND from D. McCarthy et al., "The North Dakota Experience: Achieving High-Performance Health Care Through Rural Innovation and Cooperation," The Commonwealth Fund, May 2008.

Cost of Administering Health Insurance as a Percentage of Claims Under Current Law and Potential with Exchange, by Group Size

Percentage

Potential with Exchange, by Group Size



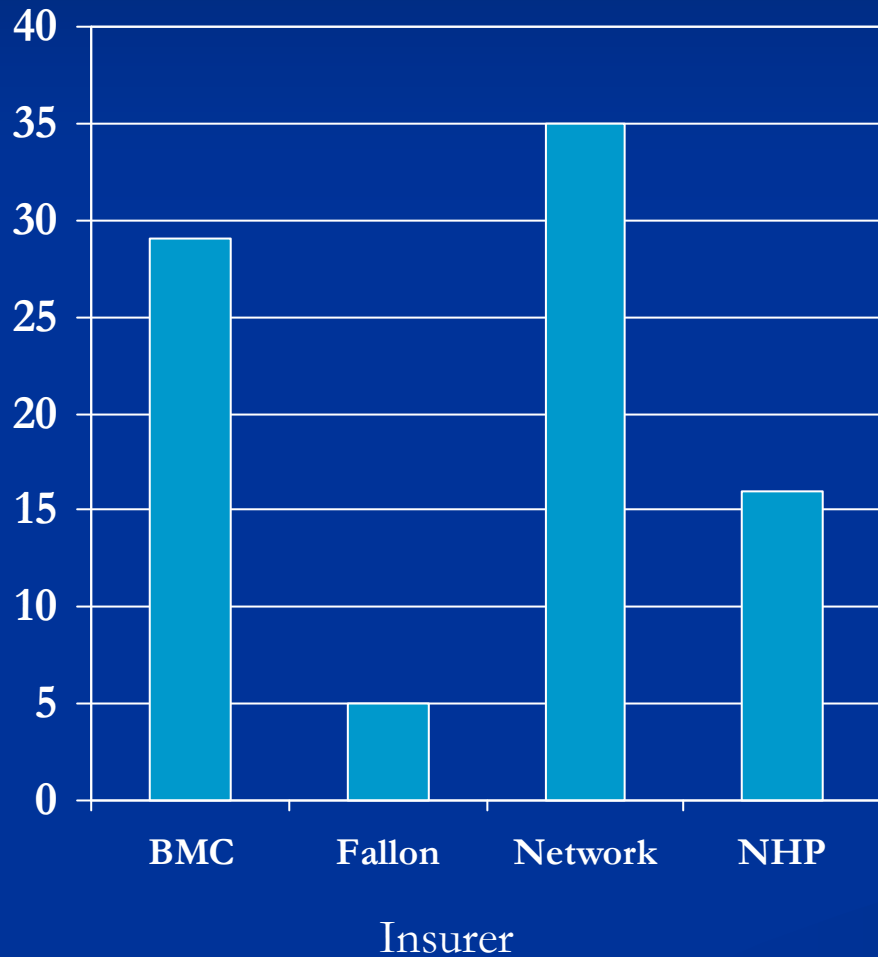
Source: Estimates by The Lewin Group for The Commonwealth Fund published in *The Path to a High Performance U.S. Health System: A 2020 Vision and the Policies to Pave the Way* (New York: Commonwealth Fund, Feb. 2009).

Exclusivity Enhances Value of Exchange

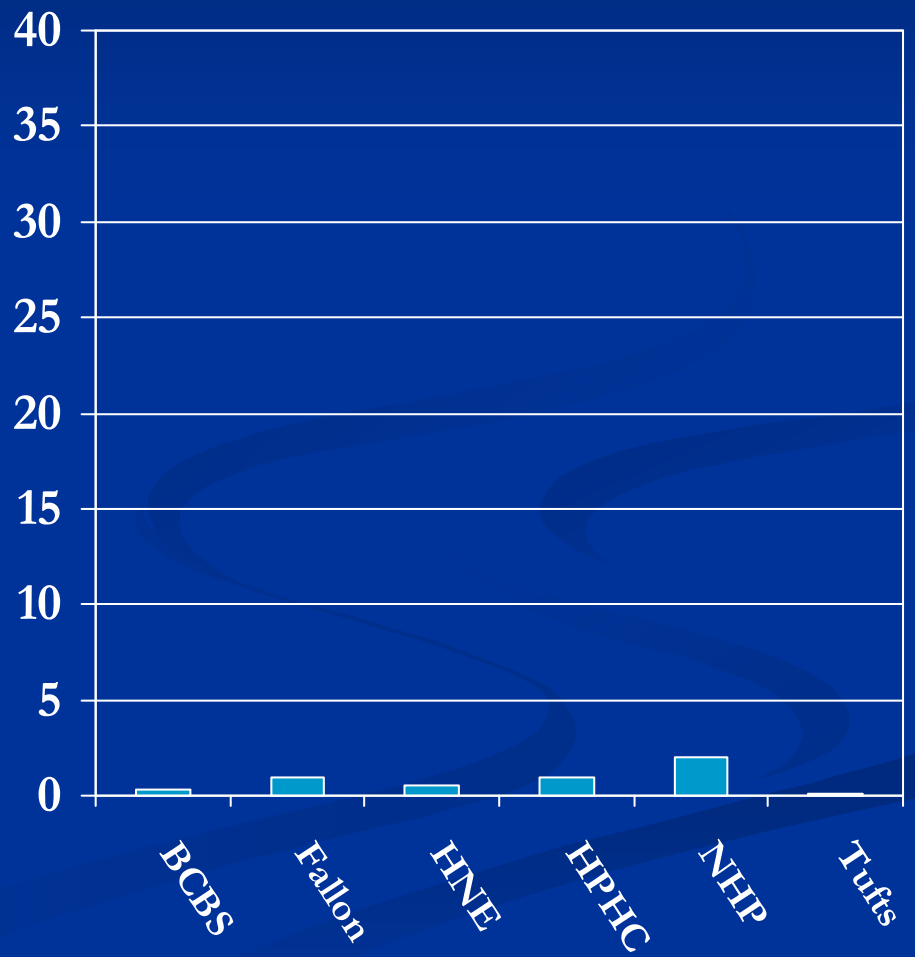
- Maximizes enrollment and ability to be active purchaser
- Easier for consumers to understand and navigate
- Prevents gaming by insurers
 - Can compete based on risk selection by offering different plans outside the Exchange
- Forces broader pooling of risk
 - Spreads benefits of younger people buying coverage
- Enables risk adjustment across carriers
- Economies of scale on administrative costs
- Allows innovation without concerns about impact on/response of market outside of Exchange

Connector's Current Market Power

Commonwealth Care as % Total Insurer Members



Commonwealth Choice as % Total Insurer Members

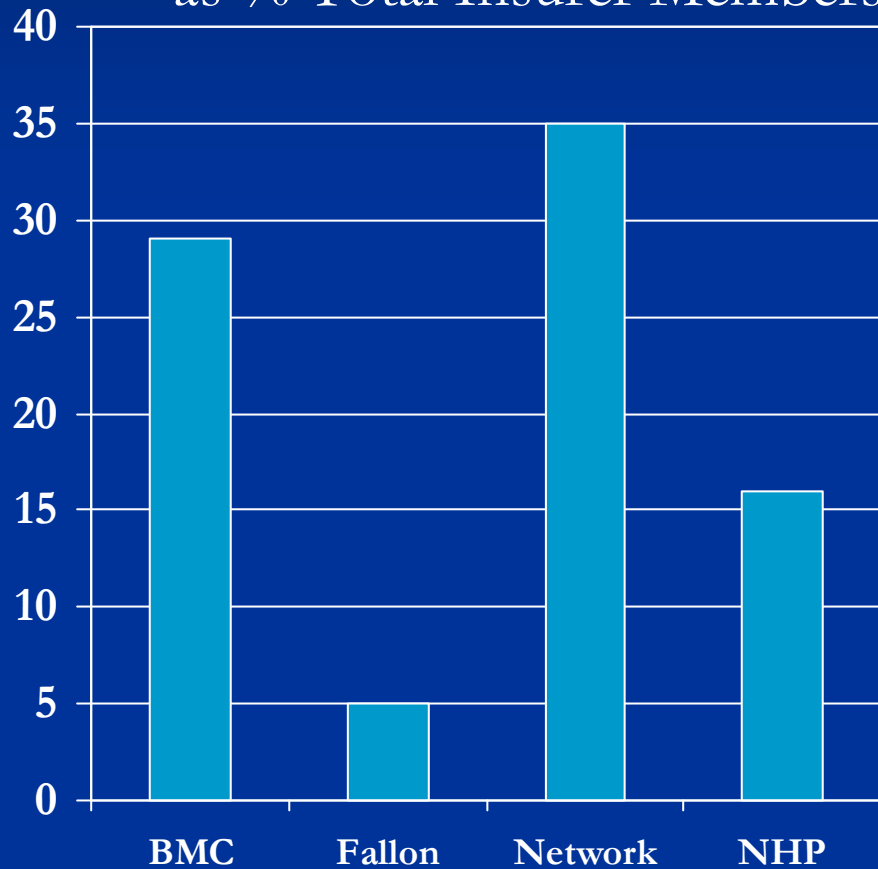


As of 12/31/08; non-Medicare members

Connector Potential Market Power

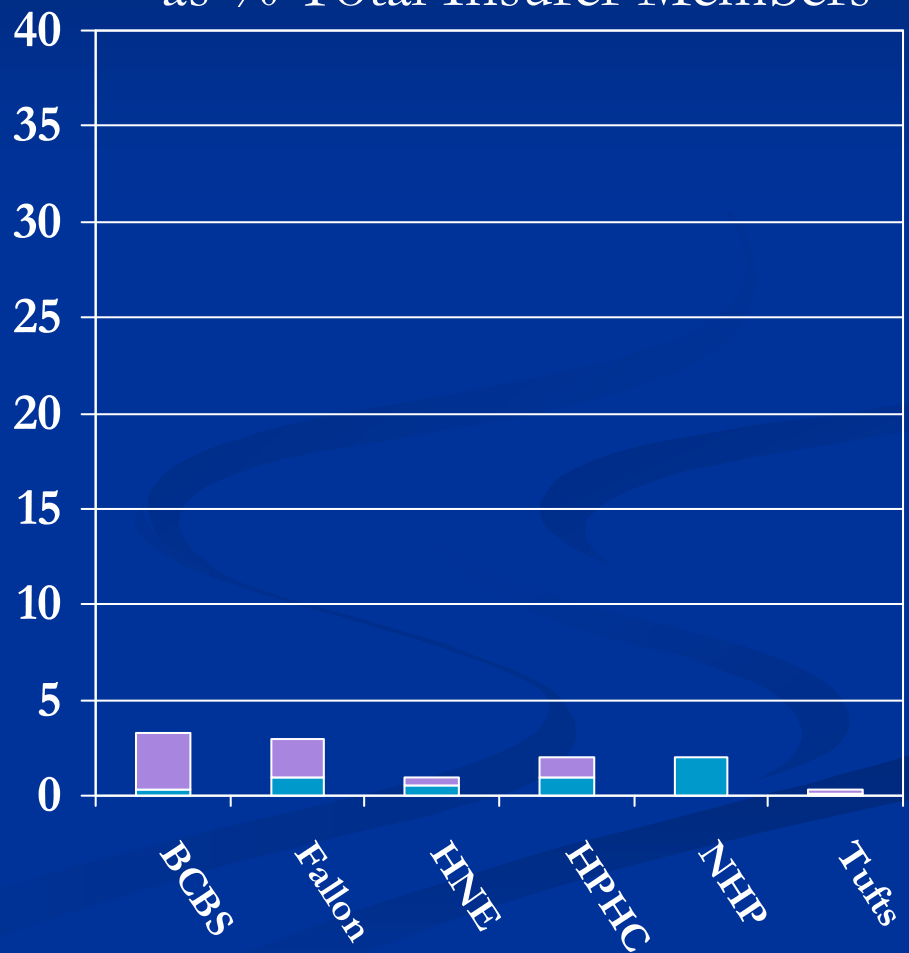
Commonwealth Care

as % Total Insurer Members



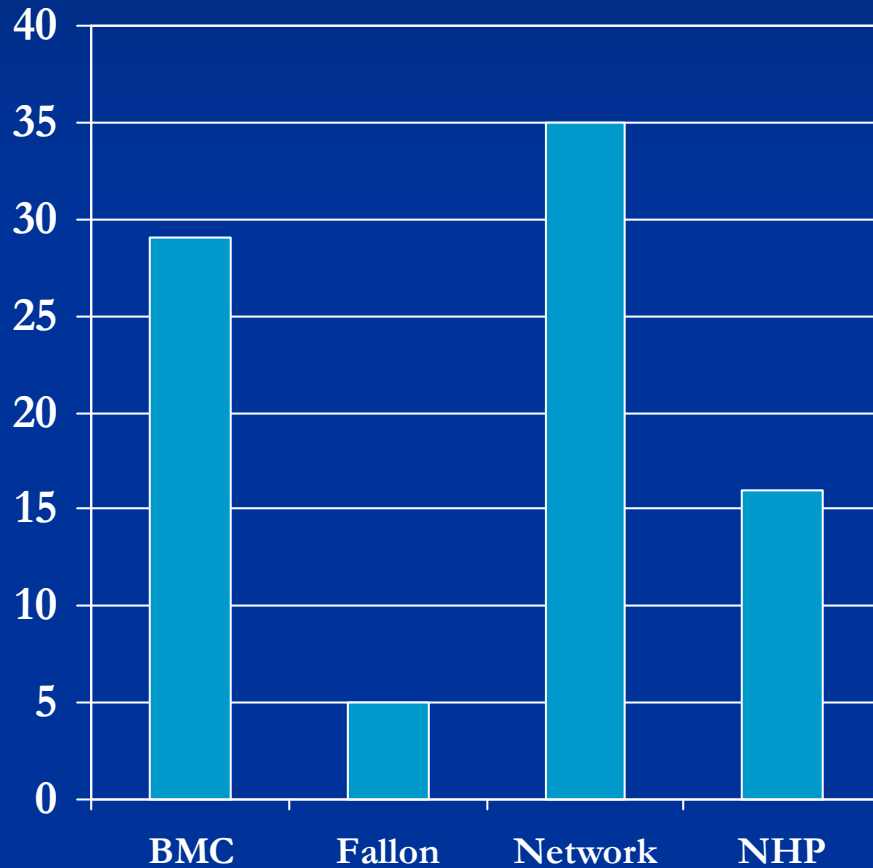
All Individual

as % Total Insurer Members

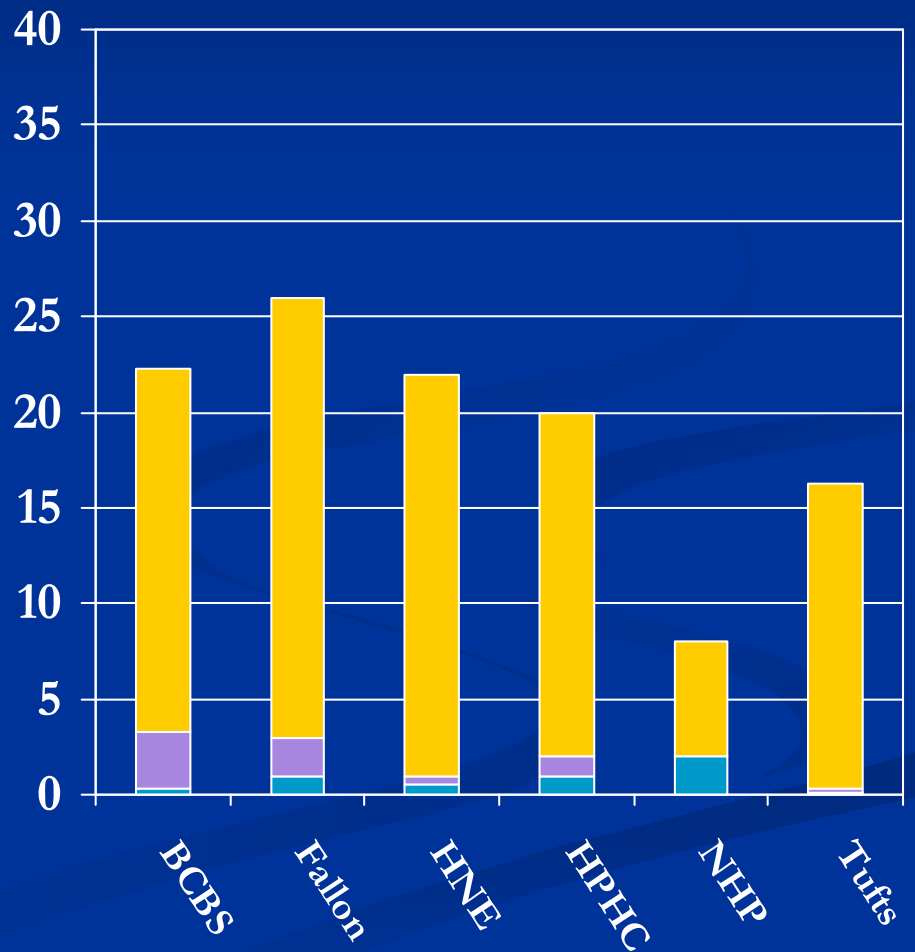


Connector Potential Market Power

Commonwealth Care
as % Total Insurer Members



All Individual and Small Employer <50
as % Total Insurer Members



Changing distribution patterns is dangerous work

OFFICIAL
WHO
PROPOSED
EXCLUSIVITY
FOR THE
EXCHANGE



SMALL
EMPLOYER?
BROKER?
INSURER?
PROVIDER?
INTER-
MEDIARY
ALL OF THEM?

#7: Public Accountability

- Independent body
- Governance
 - Strong consumer representation
 - No conflicts of interest
- Public meetings



Governance of Mass Connector

- Quasi-public organization--self-governing
- Board composition: 10 members
 - 4 ex officio state officials: Secretary of Administration and Finance (chair), Insurance Commissioner, Medicaid Director, head of state employee benefits agency
 - 3 appointed by governor: business rep, health economist, actuary
 - 3 appointed by attorney general: consumer rep, labor rep, rep from health and welfare trust fund
- All meetings are public
 - No more than 3 board members can meet together without being subject to open meeting law
- Critical mass of consumer voices
 - Close collaboration among consumer, labor and health and welfare reps
 - Labor rep is member of the steering committee of the Affordable Care Today (ACT) coalition

Closing Thoughts

- Exchanges can be helpful in making the insurance market work better
- Must be built on a foundation of strong insurance market regulation
- Impact so far in Massachusetts primarily for individual market
- Premium credits and small business tax credits in national reform could be significant changes
- Potential conflicts between policy making role and business imperatives if exchange must be self-supporting financially
- Significant new administrative expenses must be off-set by real cost savings for consumers for exchanges to add value