Evidence-Based Health Care Policy

Structuring Exchanges:
An Overview of State Issues and Options

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Health Insurance Exchanges

Federal Health Reform enables states to establish “American Health Benefit Exchanges” for individuals and small employers.

- HHS Sec’y provides grants to states to develop.
- If state will not establish qualified Exchange, HHS Sec’y is to do so.
  - Can designate a non-profit entity.
  - To be determined before 2013.
Key Roles of an Exchange

• Provide convenient access to consumer choice of competing qualified plans.
• “Travelocity” / “Kayak.com” of health insurance.
• “Essential health benefits” and “actuarial value” requirements outlined in federal law.
  ▪ “Actuarial value” means how much of the cost of the essential benefits the plan pays (in %).
• Like Massachusetts Connector, specifies bronze, silver, gold and platinum benefit levels,
  ▪ Plus low-cost catastrophic-only plan for adults <30 or individuals exempt from mandate due to cost.
Key Exchange Functions

• Arrange eligibility determinations:
  ▪ For individual tax credits.
  ▪ For “affordability” waiver granting access to tax credits in Exchange (where employer-offered coverage costs >9.5% of income).
  ▪ For “affordability” exemption from individual mandate (>8.0% of income).
  ▪ Screen and refer to Medicaid, CHIP (“one-door” eligibility)

• Certify Qualified Health Plans
  ▪ Using HHS criteria (plus ____?)
Other Exchange Functions

• Website with standardized comparative information on plans. Also toll-free hotline.

• Assign a quality rating to each exchange plan (based on criteria developed by HHS).

• Online calculator so people can determine their cost of coverage after premium credits and cost-sharing subsidies.

• Determine when employees are eligible for Exchange coverage and tax credits because employer’s plan was unaffordable or inadequate.

• Inform individuals of eligibility requirements for Medicaid, CHIP, etc., and, if eligible, enroll them.

• Set up a “Navigator” program.
Who Is Served by the Exchange?

Mandatory:

- **Must** participate in Exchange to receive tax credits:
  - Individuals; small, low-wage employers.
  - Individuals are **not** eligible for tax credits (subsidies) if they are:
    - Eligible for affordable employer coverage, OR
    - Eligible for Medicare or Medicaid.

Voluntary:

- Any lawful resident who is not incarcerated may participate.
- Small employers with up to 100 EEs.
- Beginning in 2017, larger employers, at the option of the State.
How Much Individuals Have to Pay (per year) for Benchmark Exchange Coverage Is a Percent of Family Income (2010 figures shown)

Notes:
- Poverty level for one in 2010 = $10,830
- * Workers and dependents with family incomes under 133% FPL would always be allowed to enroll in Medicaid.
- ** If cost is more than 8.0% of income, individual mandate to buy does not apply.

Source: H.R. 3590 as amended by H.R. 4872
Key Differences from Massachusetts Connector Model

• Mass. Connector has separate Exchanges—with different health plans—for modest-income subsidized participants <300% FPL and for non-subsidized individuals >300% FPL.

• American Health Benefit Exchanges make the same plans* available to all individuals, and

• All participants across Exchange and “outside market” are in **same** risk pool.

• Mass. Connector pays plans (like Medicaid / Badgercare).

• U.S. Treasury, **not** Exchanges, pays subsidies (tax credits and cost-sharing subsidies) to plans.

* Low-income persons will receive supplemental benefits (reduced cost-sharing) in addition to the “silver” plan they choose. The same “silver” plans will be offered to other Exchange participants, but without supplemental benefits.
Key Initial State Decisions
(inter-related, of course)

• How Many?
• Who / Where?
• What (if any) plan-selection role?
• Other issues.
How Many?

- Statewide? Regional? Multi-State?
- Individual and SHOP Employer Exchange: Same or separate?
  - State can choose to combine individual and small employer markets, or not.
  - If markets are combined, combined Exchange makes sense.
- But essential functions differ in the two markets.
Individual Exchange and Premium Tax Credit Relationship

- Health Plan A
- Health Plan B (1 of hundreds)
- Health Plan C

Exchange Plan Offerings and Information

- Enrollment (?) / Referral(?)
  - Info re: tax credit amount?
  - Private pay option?

Billing / Private payment

Tax credit eligibility/amount
- Plan choice/ cost info.
- Enrollment? Private Pay Option?

Tax credit payment / reconciliation

Info re: benchmark price.
- Previous tax filing info?

IRS/ Administrator
Employer
“SHOP-YOU-WOULD-DROP” Exchange
Employer One-Stop SHOP Exchange

IRS

Billing (B) → HP
E → HP
B → HP
E → HP
B → HP
B → HP

Enrollment & plan payment (E)

Exchange

Worker plan choice info
one consolidated “list bill”

Workers choose plans
Enrollment, premium payment
Who / Where?

- Existing State agency?
- New State agency?
- Independent Board?
- Private Non-Profit Accountable?
- Governance / Board Membership?
What Role re: Selection of Plans

• Clearinghouse of all plans meeting federal criteria, or

• Help drive value in market by selecting and making better value plans available to all individuals.

• Provide venue with manageable number of choices.
Low-Income Adults 133%-200% FPL

- Continue Badgercare coverage (and state match)
  - Benefits and access considerations
- Use “Basic Health Program” option
  - No state match requirement, but federal funding constrained.
- Include in Exchange with same “essential health benefits” available to all enrollees.
Other Issues

• Require benefits beyond federal “essential health benefits”?
  ▪ If so, state pays extra subsidy costs.

• Require greater standardization of products than the federal statute does?

• “Outside” market?
  ▪ Federal guidelines only.
  ▪ Extend all same rules as Exchange.
  ▪ The Exchange is the market.
Small Employer Tax Credits and SHOP Exchange

• It seems unlikely that the small, low-wage employer tax credit will induce many non-offering firms to offer coverage.
  ▪ Up to 35% of employer share too little.
  ▪ Up to 50% only available when individual tax credits are available instead.

• But a significant share of offering firms <25 EEs could qualify for a significant tax credit.
  ▪ This makes coverage more affordable and sustainable pre-2014.
  ▪ Should provide an initial critical mass for SHOP Exchange post-2013 (albeit 2-year limit / employer).
### Offering Small Employers by Wage and Size Thresholds for Employer Tax Credit

<table>
<thead>
<tr>
<th>Average Annual Wage</th>
<th>1-10</th>
<th>11-15</th>
<th>16-24</th>
<th>Total: 1-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>$25,000 or less</td>
<td>22.0%</td>
<td>2.1%</td>
<td>1.7%</td>
<td>25.8%</td>
</tr>
<tr>
<td>$25,000 - $37,499</td>
<td>18.8%</td>
<td>2.9%</td>
<td>3.4%</td>
<td>25.1%</td>
</tr>
<tr>
<td>$37,500 - $49,999</td>
<td>12.2%</td>
<td>3.1%</td>
<td>2.9%</td>
<td>18.2%</td>
</tr>
<tr>
<td>$50,000 or more</td>
<td>22.3%</td>
<td>4.4%</td>
<td>4.2%</td>
<td>30.9%</td>
</tr>
<tr>
<td><strong>All</strong></td>
<td>75.2%</td>
<td>12.5%</td>
<td>12.2%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Distribution shown for private-sector business establishments that offer health coverage and are part of firms with fewer than 25 employees, United States, 2008. Limited to establishments in which more than 75% of employees work full-time. Some establishments with more part-time workers also offer coverage, but the average annual wage figures available for those businesses would not be correct for calculating the tax credit.

**Source:** Special tabulations of the 2008 Medical Expenditure Panel Survey – Insurance Component.
Employee Eligibility Requirements for Individual Tax Credits via Individual Exchange

• Employees who are offered employer coverage are **not** eligible for subsidized coverage through the Exchange . . .
  ▪ **unless** employer coverage costs them more than 9.5% of household income. (50+ employer fee $3,000—does not affect employee cost.)

• **BUT**, if employer coverage would cost the worker between 8.0% and 9.8% (sic) of household income, not eligible for subsidy, but:
  ▪ Worker can leave employer plan and enroll in Exchange plan.
  ▪ Employer must pay to Exchange the age-adjusted amount employer would have paid toward employer coverage (for single or family coverage, as applicable).
  ▪ Worker applies this “voucher” toward full premium of Exchange plan (**not** eligible for subsidies).
  ▪ “Wyden Amendment”
## Wage Levels Don't Define Family-Income-Based Subsidy Levels

<table>
<thead>
<tr>
<th>Workers Holding EBI By Individual Annual Income</th>
<th>Total</th>
<th>&lt;200%</th>
<th>200%-299%</th>
<th>300%-399%</th>
<th>400%+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $20,000</td>
<td>100.0%</td>
<td>55.1%</td>
<td>17.6%</td>
<td>10.6%</td>
<td>16.7%</td>
</tr>
<tr>
<td>$20,000 to $29,999</td>
<td>100.0%</td>
<td>26.5%</td>
<td>37.0%</td>
<td>15.0%</td>
<td>21.5%</td>
</tr>
<tr>
<td>$30,000 to $39,999</td>
<td>100.0%</td>
<td>7.9%</td>
<td>30.3%</td>
<td>30.4%</td>
<td>31.4%</td>
</tr>
<tr>
<td>$40,000 to $49,999</td>
<td>100.0%</td>
<td>3.1%</td>
<td>14.4%</td>
<td>30.0%</td>
<td>52.5%</td>
</tr>
<tr>
<td>$50,000 or more</td>
<td>100.0%</td>
<td>0.2%</td>
<td>3.8%</td>
<td>8.8%</td>
<td>87.2%</td>
</tr>
<tr>
<td>All Workers w/ EBI in Own Name</td>
<td>100.0%</td>
<td>11.0%</td>
<td>16.1%</td>
<td>16.6%</td>
<td>56.3%</td>
</tr>
</tbody>
</table>

**Source:** Institute for Health Policy Solutions analysis of the March 2009 Current Population Survey (CPS)
Soooo . . .

- Many specifics will **not** be determined by DHHS and Treasury this year.
- But state could make some initial decisions:
  - E.g., who runs the Exchange(s)
- Transition measures might be considered. E.g.:
  - Establishing individual market benefit tiers phasing toward federal reforms and/or other measures.
  - “Seeding” a small employer Exchange if subsidy dollars for low-income workers.
Part 2

Small and Large Employer Exchange Options and Choice Considerations
Small Employer (<50 EEs) Options under Reform

• Don’t offer coverage—No penalties or contributions.
  ▪ Lower income workers eligible for individual tax credits through individual Exchange.
  ▪ Higher income workers purchase coverage with after-tax dollars (no “section 125” tax break).

• Offer traditional small group coverage.
  ▪ Contributions are exempt from taxation as income.
  ▪ No individual tax credit.

• Offer coverage through SHOP Exchange.
  ▪ Contributions are exempt from taxation as income.
  ▪ No individual tax credit.
  ▪ Two-year tax credit on employer contributions if <25 EEs and <$50,000 average annual wage.
  ▪ Workers choose plan of choice.
Assumptions: Small employers with 10 or fewer EEs and average wages (per FTE of $25,000 or less. Workers purchase coverage that costs the same amount as the coverage on which the premium tax credit is based. Premium for single coverage (with 70% actuarial value) = $4,700 in 2014 (deflated from CBO’s estimate of $5,200 for 2016). Poverty level for one in 2014 = $11,450 (deflated from CBO’s estimate of $11,800 for 2016). Source: Illustration by Institute for Health Policy Solutions based on H.R. 3590 as amended by H.R. 4872, using 2009 tax rates.
Large Employer Responsibility Requirements under Health Reform

• Applies to “large” employers with 50 or more full-time-equivalent workers.

• Non-offering employers:
  ▪ pay $2,000 per year times number of FT (30+ hr/week) employees (not equivalents) less 30,
  ▪ unless NO FT worker gets subsidized coverage in Exchange.

• Offering employers pay $3,000 per year for every FT employee who qualifies for subsidized coverage in Exchange (because employer coverage costs too much)
Assumptions: Workers purchase coverage that costs the same amount as the coverage on which the premium tax credit is based. Premium for single coverage (with 70% actuarial value) = $4,700 in 2014 (deflated from CBO’s estimate of $5,200 for 2016). Poverty level for one in 2014 = $11,450 (deflated from CBO’s estimate of $11,800 for 2016).