Proposed Framework for Discussion of Transitioning
the DC Small Group and Non-group Health Insurance Markets
into a Unified Exchange-Based Market
Prepared 2/15/2013

Decision Point 1: At what time will small group and non-group market enrollees (other than those in grandfathered plans) all purchase their coverage through the DC Health Benefit Exchange? Beginning in 2014, all small group and non-group market enrollees will at least have the option of enrolling in coverage through the HBE, however.

	Small Group Market	Non-group Market
1. New Entrants to Market		
2. Currently Insured in Market		
a. Staying with current carrier (essentially renewing current coverage, but modifying to be ACA compliant)		
b. Changing carriers		
c. Grandfathered plans	N/A. Remain outside exchange	N/A. Remain outside exchange

Notes on the non-group insurance market:

- The Urban Institute Health Insurance Policy Simulation Model (HIPSM) estimates that more than 3/4 of the DC non-group market would purchase through the exchange, even if the market was not unified. This means that any residual non-group market would be very small in any case, in the neighborhood of 7,000 residents, and the vast majority of these would be in grandfathered policies, policies that by definition are held outside of the exchange even with a unified exchange market.

- HIPSM also estimates that about 55% of those purchasing non-group coverage in DC post-reform would be eligible to receive financial subsidies through the exchange. Because financial subsidies are only available through the exchange, it makes the exchange a central factor in the post-reform non-group market.

- Today, consumers in the non-group market suffer the most from a lack of easily accessible and comparable information on plan options, covered and excluded benefits, premiums, cost-sharing details, quality measures, provider networks and other information related to carrier operations. The information provided to non-group consumers through the exchange (but not required under federal law

outside the exchange) will fundamentally improve the shopping experience for individual consumers. Providing that transparency to all consumers of all products provides increased incentives for carriers to compete on price and quality and provides consumers the information they need to make the most appropriate plan choices for themselves.

- Because of the small overall size of this market, treating different segments of the market differently is likely to create significant confusion and possibly perpetuate segmentation of risk as well.

- *Suggested Approach: No transition period to a unified exchange-based non-group insurance market.*

Notes on the small group insurance market:

- New entrants to the market -

  Option 1: Enroll immediately into exchange-based coverage. Rationale – these purchasers do not have attachment to the existing market, and are unlikely to have discomfort with purchasing through the exchange. For them, enrolling outside the exchange during a transition period and then enrolling post-transition into the exchange creates multiple transitions for them where there need be only one. New entrants and their workers will perhaps benefit most from the information provided by the exchange for making informed purchase decisions. Also, some of these new purchasers may be providing benefits for the first time due to the federal small business tax credits, which will only be made available to eligible small businesses through exchange-based purchases.

  Option 2: Provide a 1 year window during which new small business purchasers can purchase coverage outside the SHOP exchange. Under this approach, new small group coverage could be issued outside of the exchange during 2014, but not in subsequent years.

- Current small group purchasers, wishing to remain with current carrier, but modifying coverage as necessary to obtain ACA compliant plans (for these purposes, renewal of current coverage) -

  Option 1: Provide a 1 year window during which these employers can continue to provide coverage through existing means. This strategy means that, beginning February 1, 2014, all non-grandfathered small group coverage up for renewal will be issued as exchange-based coverage. Thus, by the end of January 2015, all non-grandfathered small group coverage will be based in the exchange. *Considerations.* Impending changes, considerable misinformation, and the complexity of reform have created an environment of concern and uncertainty for many small businesses currently offering coverage to their workers. Providing a 1 year period for small businesses to adapt to the ACA's premium rating reforms,

introduction of essential health benefits, and actuarial value tiers prior to requiring small group coverage to be sold exclusively through exchanges reduces the changes to be implemented in 2014 to some degree. Allowing a transition period for small businesses to see the new exchange up and running is also likely to significantly reduce their concerns over a new entity that they do not understand well at the present time. Because the lion's share of post-reform small group coverage will be attributable to small groups already offering coverage today, this approach will also significantly reduce the workload on the exchange in the early months of 2014, permitting it to make adjustments to staffing and technical systems where appropriate without slowing down what are effectively renewals of existing coverage.

Option 2: Provide a 2 year window during which these employers can continue to provide coverage through existing means. This strategy means that, beginning January 1, 2015, any non-exchange based non-grandfathered small group coverage up for renewal will be issued as exchange-based coverage. Thus, by the end of December 2015, all non-grandfathered small group coverage will be based in the exchange.

- Current small group purchasers wishing to change to a different carrier when purchasing coverage for their workers -

  Option 1: Enroll immediately through the Health Benefit Exchange. *Considerations.* Employers interested in shopping for a different product or more competitive pricing will benefit most from the additional information provided through the exchange. In order to minimize transitions for workers from year to year, thereby increasing stability of coverage, those interested in a broad market scan for new options should all have the advantage of the additional consumer information and assistance provided through the exchange (but which is not required by federal law for non-exchange plans).

  Option 2: Provide a 1 year window during which these employers can continue to provide coverage through existing means. Under this approach, small businesses with pre-reform coverage wishing to buy new coverage from a different carrier may enroll in that coverage outside of the exchange during 2014, but not in subsequent years.

Decision Point 2: Given the expectation that at least some non-grandfathered plans will be sold outside the exchange in 2014, should those plans be allowed to differ from those being sold inside the exchange?

Considerations. With the stated goal of unifying the small group and non-group markets in the exchange within 2 years of reform implementation, allowing new insurance products to be sold outside of the exchange which do not meet the standards to be delineated for exchange-based products would introduce additional transitions and confusion for consumers. All non-grandfathered coverage sold in these markets,

beginning in 2014, will have to be modified at least somewhat to come into compliance with the requirements of the ACA. Thus, it is a coverage transition year for many, while others will be obtaining coverage for the first time. If products are sold in the non-exchange market in 2014 (or in 2014 and 2015) that do not satisfy the requirements of the exchange, then all those enrolled in such coverage will not only face a transition in 2014 but also one in 2015 (or alternatively in 2016). This would require another education effort in order to explain upcoming changes and their importance, will likely create additional confusion on the part of consumers, and will have carriers wasting resources developing plans that are legally compliant for only 1 to 2 years.

Plan variations outside the exchange also create the additional risk of market segmentation, where particular products attract individuals with lower expected health care costs than others. While risk adjustment, reinsurance, and risk corridors are designed to correct for such segmentation, these approaches are most effective when plan variation is limited.

- *Suggested approach: Require products sold outside exchange during transition to comply with all requirements of exchange-based plans.*