

MEMORANDUM

TO: Members, DCHBX Authority Executive Board
FROM: Mila Kofman, J.D., Executive Director
DATE: March 6, 2013
SUBJECT: **Exchange Market Transition Recommendations**

Background

In the fall 2012, the DC Health Benefit Exchange Board voted unanimously to create one large marketplace for the sale of individual coverage and small group coverage to businesses with 50 or fewer employees. The Board took this action to increase price competition and choice, to have all insurers compete for customers, and to increase efficiency by reducing administrative costs. This decision does not apply to grandfathered plans. Grandfathered plans under the ACA are exempt from certain consumer protections and have their own risk pool.

In December, the Board directed me to consult with a broad array of stakeholders – insurers, employers, producers, consumer and patient advocates, and providers – to identify the optimal way to move from the current market to this new marketplace. A consistent theme of these discussions was the need for a transition period to ensure smooth implementation and mitigate any potential complications in the District’s small group market.

To further these efforts to build one big marketplace from the ground up, I asked the Standing Advisory Board – a multi-stakeholder group appointed by the Board – to provide me with recommendations on how a transition to one big marketplace could best be achieved. I did not ask Advisory Board members to endorse the policy decision. Rather, I asked them to use their extensive expertise to advise me on several important aspects of a transition, including length, treatment of new purchases and renewals, as well as the individual market. The Advisory Board was specifically asked to consider if the transition period to one big marketplace should be one or two years.

Advisory Board Process

The Advisory Board held three public meetings to consider options for a market transition with the support of Linda Blumberg, PhD, an economist and senior fellow with the Urban Institute. Dr. Blumberg provided valuable information on market competition and transition options as well as pros and cons associated with the options. The Advisory Board also accepted written and oral testimony from a variety of stakeholders, including insurance carriers, brokers, employers, and consumer/patient advocates. The recommendations from the Advisory Board include a majority report addressing all recommendations, and a minority report focused on the issue of newly insured small businesses.

Recommendations

After reviewing the final majority and minority reports from the Advisory Board, testimony presented to the Advisory Board, materials (email information) prepared by some members of the Advisory Board,

and Dr. Blumberg's written materials prepared for the Advisory Board, **I recommend the Board approve a transition that reflects the Advisory Board's majority report.** These recommendations are summarized below.

INDIVIDUAL (NON-GROUP) MARKET

Recommendation: In the individual market, District residents should enter the Marketplace Exchange in CY2014, without a transition.

The Advisory Board was unanimous in this recommendation.

In addition to testimony, the Advisory Board considered Dr. Blumberg's report (edited below for length):

- An estimated 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.
- The existing non-group market lacks 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. By providing this information to non-group consumers, the Exchange will fundamentally improve the shopping experience for individual consumers. Providing that transparency to all consumers of all products also provides increased incentives for carriers to compete on price and quality.
- Because of the small overall size of this market (about 20,000 covered lives), treating different segments of the market differently is likely to create significant confusion and possibly perpetuate segmentation of risk as well.

SMALL GROUP MARKET

Recommendations for the small group market take into account the different circumstances and needs of (1) employers who are not currently purchasing coverage in the small group market but will do so in 2014; and (2) employers and their employees who currently have coverage in the existing small group market.

Recommendation 1: New entrants to the small group market should enter the Marketplace Exchange in CY2014.

The Advisory Board voted 5 to 4 in favor of this recommendation.

In addition to testimony, the Advisory Board considered Dr. Blumberg's report (edited below for length):

- New entrants to the small group market do not have attachment to the existing market. For them, enrolling outside the Exchange and then enrolling post-transition into the Exchange creates multiple transitions where there need be only one.
- New entrants and their workers will benefit from the information provided by the Exchange for making informed purchase decisions.
- Some new purchasers may be eligible for federal small business tax credits, which can only be made available through Exchange-based purchases.

The four dissenting members submitted a minority report providing their rationale for not supporting this recommendation. The minority report highlighted the following:

- Concern with the potential impact on new entrants if there are any material operational issues with the Exchange.
- The recommendation by the Advisory Board to require DC HBX regulations to apply equally to plans offered inside and outside the Exchange mitigates concerns that new entrants will be adversely impacted by having a choice between plans offered in or out of the Exchange during a transition period.
- Negative perceptions that may result from requiring one category of small businesses to purchase inside the Exchange and not another group.
- Employers considering entering the market for the first time might opt out because of time constraints, particularly if there are any operational issues with the Marketplace systems.

Recommendation 2: Currently insured small businesses wishing to change carriers should transition into the Marketplace Exchange over a two-year period. In CY2015, renewals will be through the Exchange web portal.

The Advisory Board voted 7 to 2 in favor of this recommendation.

In addition to testimony, the Advisory Board considered Dr. Blumberg's report (edited below for length):

- Providing a 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 the Exchange reduces the number of changes to be implemented in 2014, to some degree.
- Allowing a transition period will allow small business owners to observe the new Exchange in operation and should significantly reduce concerns over a new entity that they do not understand well at the present time.
- A transition will reduce the workload on the Exchange in the 2014 Open Enrollment period, permitting it to make adjustments to staffing and technical systems where appropriate without slowing down what are effectively renewals of existing coverage.

Recommendation 3: Currently insured small businesses wishing to remain with their current carriers should transition to the Marketplace Exchange over a two-year period. In CY2015, renewals will be through the Exchange web portal.

The Advisory Board vote for this recommendation was unanimous. Key considerations for this recommendation mirror the areas summarized for Recommendation 2.

Recommendation 4: All plans sold outside of the Exchange during the two-year transition period should be required to comply with all of the requirements for the Exchange plans.

The Advisory Board voted 7 to 2 in favor of this recommendation.

In addition to testimony, the Advisory Board considered Dr. Blumberg's report (edited below for length):

- Allowing new insurance products to be sold outside of the Exchange that do not meet the Exchange standards would produce additional change and potential confusion for small business owners and employees.

- All non-grandfathered coverage sold in these markets, beginning in CY2014, will have to be modified to come into compliance with ACA requirements. If requirements are different in the non-Exchange market, small business owners and their employees enrolled in such coverage would face a second set of significant changes when they enter the Exchange.
- Plan variations outside the Exchange 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.

SUMMARY

I recommend the Executive Board approve a transition that reflects the majority report of the Advisory Board. These recommendations are summarized below.

- In the individual market, consumers should enter the Marketplace Exchange in CY2014 with no transition period.
- New entrants to the small group market should enter the Marketplace Exchange in CY2014.
- Currently insured small businesses wishing to change carriers or stay with their current carrier should transition into the Marketplace Exchange over a two-year period. In CY2015, renewals will be through the Exchange web portal.
- All plans sold outside of the Marketplace Exchange during the two-year transition period should be required to comply with all of the requirements applicable to coverage sold through the Marketplace Exchange.

In addition to the above, one area I recommend the Board to address relates to undocumented people who are currently not eligible for coverage through the Alliance and who would not be eligible for coverage through the Exchange due to restrictions on eligibility under the ACA. Since the Healthcare Alliance cannot be part of the Exchange, the Board should recommend that the Department of Health Care Financing (DHCF) propose a buy-in program for people with income above 200 percent of the federal poverty level (FPL) who are ineligible for Exchange coverage under the federal law.

Future Considerations

Beginning in CY2016, the small group market will expand to include businesses with 51 to 100 employees. The addition of this market segment should be addressed in subsequent years (assuming there are no related amendments to the ACA).