

HRIC Insurance Subcommittee

District Insurance Market Structure under ACA

March 13, 2012

Overview:

This report presents an overview of options that the District is currently weighing in determining the state of the health insurance marketplace upon implementation of ACA and the District of Columbia Health Benefits Exchange (DC HBX) insurance marketplace on January 1, 2014.

The District is seeking the input of Insurance Subcommittee stakeholders* in advance of formal recommendations to the HRIC (tentatively scheduled for April 12, 2012). The formal recommendations will be a comprehensive report that reflects the pros and cons of each option as identified by stakeholders. This report will be available to the public upon completion.

The District is faced with unique demographic challenges in implementing an Exchange. We have a relatively small population and a low level of uninsured residents. One of the vital elements of establishing a sustainable and successful Exchange insurance marketplace is a sizable and diverse pool of participants. This guides our thinking when evaluating all options in determining rules and regulations for a post-ACA insurance market. Our research is based on the work done in partnership with Mercer under the Exchange Planning Grant, analysis performed by the National Association of Insurance Commissioners (NAIC), and the work of colleagues in states also working to implement ACA (all background materials are available upon request and/or in the “implementation” section of healthreform.dc.gov).

Active Exchange vs. Passive Exchange:

ACA allows the District to establish an “active” exchange that selectively contracts for plans available in the exchange marketplace versus a “passive” exchange that allows the sale of any plan as long as it meets District and Federal Qualified Health Plan (QHP) standards. The recently enacted DC HBX legislation grants the DC HBX Authority (Authority) the ability to enter into selective contracting with carriers upon further study.

We recommend that upon the initial launch of the DC HBX insurance marketplace, QHPs must meet the minimum requirements set forth by the District and the Authority, but that there be no further negotiations or contracting for QHPs between carriers and the Authority. This recommendation is intended to:

1. Mitigate additional market disruptions already inevitable from implementation of ACA and DC HBX insurance marketplace;
2. Allow the Authority the opportunity to analyze and appropriately react to the market changes without burden;

3. Allow for substantive quality ratings to be developed and integrated into QHP analysis (although quality ratings based on previous years will most likely be applied to QHPs upon launch of the DC HBX marketplace, quality ratings pertaining to the DC HBX marketplace will not be available until 2015).

Individual and Small Group Market Structure

As was noted above in the introduction, the District is faced with many unique challenges in establishing a successful and sustainable DC HBX insurance market. In analyzing options for the market structure in a post-ACA health insurance marketplace, we have been guided by the principles of affordability (both for consumers purchasing plans in the DC HBX insurance marketplace and overall administrative costs of running the Authority), transparency, administrative efficiency, and the need for consistent and non-duplicative administrative functions and regulation of insurance carriers and District residents on the whole.

Market Structure Option 1: Maintain Current Insurance Market Structure and Implement Only Required ACA Mandates

Under this option, Essential Health Benefit (EHB) requirements would be extended to all plans inside and outside the DC HBX insurance marketplace, carriers would have to make plans available on at least the silver and gold precious metal levels inside of the DC HBX insurance marketplace, and no additional requirements would be placed on carriers in the District.

There are several provisions within ACA that are intended to mitigate adverse selection under this scenario, including the “3 R’s” (risk adjustment, risk corridors, and reinsurance), the requirement that carriers offering QHPs make plans available on at least the gold and silver coverage levels, and market-wide implementation of the eventual District EHB package

Market Structure Option 2: Consolidate all Individual and Small Group Insurance Plans into the DC HBX Insurance Marketplace

A consolidated health insurance marketplace would grant the District the most robust tools in preventing adverse selection in the DC HBX insurance marketplace. Consolidating health insurance plans for the individual and small group markets would help to ensure that the DC HBX insurance marketplace achieves a sustainable and diverse risk pool which will lead to long-term viability.

The District faces a great challenge in guaranteeing the long-term viability of the DC HBX insurance marketplace. Consolidating small group and individual health insurance markets into the DC HBX insurance marketplace virtually assures a robust and diverse risk pool in addition to the critical mass needed to sustain the Authority financially. In addition, this option would also potentially allow carriers to shift more administrative costs to the Authority where economies of scale might produce overall administrative cost reductions.

The DC Healthcare Alliance (Alliance) would still be offered in addition to the DC HBX insurance marketplace and alternatives for addressing the population that would not be eligible for the DC HBX insurance marketplace or the Alliance are being considered, including asking for a waiver as Vermont has proposed or allowing buy-in to the Alliance.

Market Structure Option 3: Extend all QHP Requirements to the Plans Both Inside and Outside of the HBX Insurance Marketplace. Require All Carriers Offering Health Insurance in the District to Participate in the DC HBX Insurance Marketplace and Offer Bronze Plans.

The outside market would remain open, but all carriers who want to continue to offer health insurance in the District must also offer QHPs in the DC HBX insurance marketplace while plans sold in the external market would be required to adhere to all DC HBX insurance marketplace QHP requirements. This policy would extend the concept of the “level playing field” further than the existing ACA provisions do. In addition, this policy would help to protect against individuals with healthy risk being steered outside the DC HBX insurance marketplace by the availability of leaner “young invincible” plans and/or bronze level coverage.

In addition to the ACA requirement for carriers to offer plans at least silver and gold plans in the DC HBX insurance marketplace, the District would require carriers to offer bronze plans on the HBX as well. This would eliminate a major area of potential adverse selection in that carriers would have to offer leaner plans, more appealing to healthy individuals, in the HBX instead of incentivizing those individuals to purchase coverage outside the HBX. This increases the stability and overall rating of the risk pool by maintaining a potentially healthier risk pool.

Role of Producers and Navigators in the ACA Insurance Marketplace:

DHCF contractor, The Crider Group is completing a comprehensive analysis and recommendations for the Navigator program under ACA, which will also consider the role of producers. The input provided by the producer community to the Insurance Subcommittee during meetings and focus groups has been integrated into their work. Under all options and the recommendations made above, the District envisions an active role for producers in the new DC HBX insurance marketplace, especially with regard to the small group (SHOP) market. One of the most pressing unresolved questions is how to compensate producers. We will be working with our Level 1 Establishment grant contractor to flesh out the details of this issue and will continue to reach out to producers and all stakeholders on the Insurance Subcommittee to resolve.

*** Stakeholder Comment Due by Close of Business Tuesday, March 27, 2012. Please e-mail all comments to Brendan.Rose@dc.gov.**