



## Perspective

### Health Insurance Exchanges — Key Link in a Better-Value Chain

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The focus on health insurance exchanges in the Patient Protection and Affordable Care Act (ACA) is one sign of just how politically mainstream the new law is. Not only are exchanges

market-based, but also the ACA decentralizes them, delegating primary responsibility to the states. The states are eligible for federal financial support for developing statewide or multiple substate exchanges or forming multistate, regional exchanges. A state may even contract with a private, nonprofit entity to operate its exchange. Only if a state failed to act or to meet minimum standards would a federal exchange operate within its boundaries.

Exchanges have been an important element of almost every recent proposal for national health care reform.<sup>1</sup> One of the political virtues of the concept is its flexibility: reformers span-

ning a fairly broad ideological range have been free to imagine various versions, even as they nod in agreement over the value of exchanges. So how does the ACA envision the function and mission of exchanges, and how do exchanges affect the organization of care?

Simply put, an exchange sells insurance. If it does not enroll many people, it has failed at its core mission. Under the ACA, the administrative budgets for state exchanges will be covered through surcharges on transactions, so both margin and mission depend on sales.

The ACA models exchanges on Massachusetts' Commonwealth Health Insurance Con-

necter Authority. Like a regulated stock exchange, the Health Connector runs a market that makes the purchasing transaction relatively easy and inexpensive, offers trustworthy choices, and is transparent about the value of its offerings. Like any good market, the Health Connector tries to stock its shelves with high-value offerings. Unlike most commercial enterprises, it also exercises a fourth public policy function: to seek out the uninsured and encourage, subsidize, and even automatically enroll them.

In the realm of health insurance, it is relatively expensive to serve individuals and small employers, so reducing the cost of distributing coverage to this small end of the market is important. In the fiscal year starting July 1, 2010, the Health Connector's administrative budget — including such nonexchange functions as adjudicating appeals

Sort plans by Benefits Package

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		\$ Monthly Cost	Annual Deductible	Annual Out of Pocket Max.	Doctor Visit	Generic Rx	Emergency Room	Hospital Stay	
<b>You've Selected:</b> Benefits Package <input checked="" type="checkbox"/> YAP <input checked="" type="checkbox"/> Bronze <input checked="" type="checkbox"/> Silver <input checked="" type="checkbox"/> Gold	<b>YAP Low no Rx Benefits Package</b> 5 plans available <a href="#">Show Plans</a>   <a href="#">About YAP Low no Rx</a>	as low as <b>\$136</b>	STANDARD BENEFITS FOR ALL YAP LOW WITHOUT Rx PLANS						annual deductible, then 20% co-insurance
	<b>YAP Low with Rx Benefits Package</b> 5 plans available <a href="#">Show Plans</a>   <a href="#">About YAP Low with Rx</a>	as low as <b>\$163</b>	STANDARD BENEFITS FOR ALL YAP LOW WITH Rx PLANS						annual deductible, then 20% co-insurance
	<b>YAP High no Rx Benefits Package</b> 5 plans available <a href="#">Show Plans</a>   <a href="#">About YAP High no Rx</a>	as low as <b>\$168</b>	STANDARD BENEFITS FOR ALL YAP HIGH WITHOUT Rx PLANS						annual deductible, then 30% co-insurance
	<b>YAP High with Rx Benefits Package</b> 5 plans available <a href="#">Show Plans</a>   <a href="#">About YAP High with Rx</a>	as low as <b>\$191</b>	STANDARD BENEFITS FOR ALL YAP HIGH WITH Rx PLANS						annual deductible, then 30% co-insurance
	<b>Bronze Low Benefits Package</b> 6 plans available <a href="#">Show Plans</a>   <a href="#">About Bronze Low</a>	as low as <b>\$219</b>	STANDARD BENEFITS FOR ALL BRONZE LOW PLANS						annual deductible, then 20% co-insurance
	<b>Bronze Medium Benefits Package</b> 6 plans available <a href="#">Show Plans</a>   <a href="#">About Bronze Medium</a>	as low as <b>\$224</b>	STANDARD BENEFITS FOR ALL BRONZE MEDIUM PLANS						annual deductible, then \$500 copay
	<b>Bronze High Benefits Package</b> 6 plans available <a href="#">Show Plans</a>   <a href="#">About Bronze High</a>	as low as <b>\$229</b>	STANDARD BENEFITS FOR ALL BRONZE HIGH PLANS						annual deductible, then 35% co-insurance
	<b>Silver Low Benefits Package</b> 6 plans available <a href="#">Show Plans</a>   <a href="#">About Silver Low</a>	as low as <b>\$272</b>	STANDARD BENEFITS FOR ALL SILVER LOW PLANS						annual deductible, then no copay
	<b>Silver Medium Benefits Package</b> 6 plans available <a href="#">Show Plans</a>   <a href="#">About Silver Medium</a>	as low as <b>\$288</b>	STANDARD BENEFITS FOR ALL SILVER MEDIUM PLANS						annual deductible, then no copay
	<b>Silver High Benefits Package</b> 6 plans available <a href="#">Show Plans</a>   <a href="#">About Silver High</a>	as low as <b>\$311</b>	STANDARD BENEFITS FOR ALL SILVER HIGH PLANS						annual deductible, then \$500 copay
	<b>Gold Benefits Package</b> 6 plans available <a href="#">Show Plans</a>   <a href="#">About Gold</a>	as low as <b>\$380</b>	STANDARD BENEFITS FOR ALL GOLD PLANS						annual deductible, then \$150 copay

**Narrow Your Plans by:**  
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[Less than \\$300 \(40\)](#)  
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[\\$401 - \\$500 \(2\)](#)  
[Greater than \\$500 \(1\)](#)  
**Annual Deductible**  
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[\\$250 - \\$500 \(18\)](#)  
[\\$500 - \\$1,000 \(6\)](#)  
[\\$1,000 - \\$2,000 \(6\)](#)  
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**Insurance Carrier**  
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[Carrier D \(11 Plans\)](#)  
[Carrier E \(11 Plans\)](#)

**Sample Online Health Insurance Exchange.**

YAP denotes young adult plan. Data are from www.mahealthconnector.org.

of tax penalties for failure to comply with the individual mandate and explaining health care reform to the public — will amount to 3% of total premiums.<sup>2</sup> This compares with administrative budgets of 5 to 20% of premiums in the private sector for distributing nongroup and small-group insurance through

conventional channels.<sup>3</sup> Because the Health Connector is Web-based, its costs reflect economies of scale: if it doubled its volume (from its current 210,000 enrollees), the administrative cost might decrease to 2% of premiums.

Individuals and small employers are also relatively weak buyers. They cannot afford to em-

ploy benefits specialists (who are used by large companies and unions), and they lack the scale to negotiate from a position of strength. Also, small employers cannot shoulder the administrative burden of interacting with multiple health plans. The ACA charges exchanges with performing these functions — selecting

and offering a choice of health plans on the basis of quality, access, and premiums. The authority of state exchanges to select plans to be offered was the subject of considerable congressional debate, and the Health Connector's effort to offer easy-to-compare choices has encountered opposition from some of the dominant insurers in Massachusetts, which (correctly) see the Health Connector as disrupting their traditional ways of doing business at the small end of the market.

Selection sets up a negotiating dynamic in which the exchange wants to offer leading health plans — to attract and serve customers — and health plans want to meet the exchange's specifications, in order to gain access to its customers. Choice intensifies competition among health plans in two ways. First, the exchange should make comparison shopping easy: the average time consumers take to shop on the Health Connector's Web site is 30 minutes, which provides far more information than does half a day spent telephoning plans directly (see chart). Second, the exchange should lower barriers for new competitors: the Health Connector actively solicited the first major new entrant into the Massachusetts insurance market in decades, by offering access to its 200,000-plus enrollees.<sup>4</sup>

Beyond administrative savings and offering a choice of high-value health plans, transparency is an exchange's third major function. The ACA specifies a laundry list of information on health plans that exchanges must provide. Given the (understandable) lack of excitement in the general populace for mastering

the details of insurance, the danger of information overload is almost as great as that of knowing too little. Exchanges must learn what information consumers want and need and how best to package and present it — a challenge not unlike that confronted by retailers.

With time and considerable market research, the Health Connector learned which benefits packages its customers prefer and persuaded the health plans receiving its seal of approval to standardize benefits accordingly. For similar benefits, consumers receive the equivalent of 30% off the higher-priced plan by enrolling in the lower-priced plan, but not until benefits and cost sharing were standardized did the price differences become transparent. As a result, the Connector now sells far more lower-priced, "generic" coverage and less expensive, "brand name" coverage than do traditional market channels.<sup>4,5</sup>

Fourth, the ACA charges exchanges with determining individuals' eligibility for federal tax credits and other insurance subsidies. This critical public mission also provides exchanges with market leverage: because of these subsidies, the exchanges can guarantee that approved health plans will have access to an entirely new market, organized and structured very differently from traditional ones. To tap into the new market, health plans will have to meet the exchanges' specifications. In effect, the health plans have to compete to be offered by the exchanges.

There is then another step in an exchange's sales process: approved plans compete with one another for individual customers. This "retail sale" differs

from the process for most group insurance, whereby an employer picks one health plan, partly on the basis of ease of administration, and the employee has one choice — take it or leave it. Offering just one plan averts the need for annual enrollment fairs, dealing retroactively with employees' dissatisfaction over their choice of plan, the administrative hassles of working with multiple carriers, and the need to worry about and police risk selection. The one-plan model favors health plans with the largest provider networks. So that no employee (or spouse or child) has to switch doctors, employers prefer to offer a health plan that permits access to virtually every doctor and hospital, rather than health plans offering limited networks of physicians integrated into pre-paid systems of care. Therein lies the root of frustration on the part of many managed-competition enthusiasts, who yearn for a radical restructuring of health plans into competing delivery systems.

By contrast, the ACA, at annual enrollment, would allow each participating employee to choose among the various health plans offered in the exchange; the employee would presumably pay more or less depending on the premium of the chosen plan. Managed-competition enthusiasts reason that if an enrollee could save money or increase benefits by choosing one organized system of care, rather than pay for both efficient and inefficient care delivery under a broad-network plan, then the market would reward providers that undertake the hard work of systematizing and organizing to provide more efficient, effective care (and would penalize those

that do not). Some see this as exchanges' ultimate mission.

I believe in exchanges' potential to help manage competition. But I'm a realist: I know that controversies will arise over their proper function and mission. The opponents of change will try to hobble exchanges, market skeptics will try to convert them into purely regulatory schemes, and even when exchanges succeed in increasing transparency and demand for value, other critical links must be forged in the supply chain of managed competition. After all, an accessible, customer-friendly, easy-to-use market is still only as good as the products it offers. Whether an insurance exchange looks more like a Walmart than

a flea market will depend on whether doctors organize themselves into efficient, patient-responsive systems of care. In the United States, reforming the organization and delivery of medical care has always been the biggest challenge in the struggle to produce better care at sustainable cost.

Disclosure forms provided by the author are available with the full text of this article at NEJM.org.

From the Commonwealth Health Insurance Connector Authority, Boston.

This article (10.1056/NEJMp1004758) was published on May 12, 2010, at NEJM.org.

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