Comparison of Insurer/Plan Selection Approaches

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BACKGROUND

The Patient Protection and Affordable Care Act of 2010 (ACA) provides for the establishment of state-regulated health insurance exchanges. These exchanges will provide a platform where consumers can shop for, compare, and purchase health insurance products from multiple insurers.

The ACA requires health insurance exchanges to perform several important administrative functions such as qualifying participating plans, providing customer service, determining premium subsidies, and rating plan quality. The core functions of an exchange as defined in Section 1311 of the ACA are:

- Certification, recertification, and decertification of plans;
- Operation of a toll-free hotline;
- Maintenance of a website for providing information on plans to current and prospective enrollees;
- Assignment of a price and quality rating to plans;
- Presentation of plan benefit options in a standardized format;
- Provision of Information on Medicaid and CHIP eligibility and determination of eligibility for individuals in these programs;
- Provision of an electronic calculator to determine the actual cost of coverage taking into account eligibility for premium tax credits and cost savings reductions;
- Certification of individuals exempt from the individual responsibility requirement;
- Provision of information on certain individuals to the Treasury Department and to employers;
- Establishment of a Navigator program that provides grants to entities assisting consumers;
- Presentation of enrollee satisfaction survey results;
- Provision for open enrollment periods;
- Consultation with stakeholders, including tribes; and
- Publication of data on the exchange's administrative costs.

The U.S. Department of Health and Human Services (HHS) and the Center for Consumer Information & Oversight have provided some guidance to the states regarding these requirements. In addition, HHS is developing specific regulations, but is expected to give states broad discretion regarding the strategies they will use to meet these functional requirements. In addition to the minimum requirements provided in the ACA, many states are looking for ways to expand the role of the exchange to include other administrative activities.

Among many decisions states will need to make regarding operation of the exchange is the decision regarding the exchange's role as a passive or active purchaser. This paper discusses the various plan selection roles the exchange could adopt and the considerations for each.

DISCUSSION OF PLAN SELECTION MODELS

The health insurance exchange will provide a new distribution channel for the individual and small group insurance markets where consumers can shop for insurance coverage. Plan options will be presented in a standardized format that allows shoppers to search for and compare plans based on common product differentiators such as plan design, benefits, and price.

There are several plan selection models the exchange could implement for selecting the insurers and plans that would be presented:

- Passive Distributor
- Selective Purchaser
- Active Purchaser

Each of these models has different impacts on the number of insurers participating in the exchange, the number of plans offered in the exchange, and the exchange's workload and administrative expense levels.

Passive Distributor

Under the Passive Distributor Model, the exchange offers any Qualified Health Plan (QHP). QHPs, as defined by Section 1301 of the ACA, are certified by the exchange, provide the essential health benefits package, and are offered by a licensed insurer that offers at least one QHP at the silver and gold benefit levels and agrees to charge the same premium rate for the plan regardless of whether it is offered through the exchange, direct from the insurer, or by an agent.

In this model, the exchange allows market competition to decide which plans will be offered and the price and quality of those plans. Because the exchange's role is limited to certification of the plans, this model will have the lowest administrative burden among all options. It will also support consumer choice by maximizing the number of insurers participating in the exchange and likely the total number of plans offered.

Selective Purchaser

Under the Selective Purchaser Model, the exchange will select plans for participation rather than accept all QHPs. This selection process can be accomplished through enforcement of plan certification criteria beyond the QHP standards such as:

- A minimum rating from a third party rating agency such as AM Best;
- Increased minimum number and mix of plans offered by the insurer;
- Performance on metrics such as the Healthcare Effectiveness Data and Information Set® measures; and/or
- Accreditation from a third party accreditation organization like the National Committee for Quality Assurance or URAC.

The Selective Purchaser approach would most likely be implemented as a mechanism for increasing the quality of insurers or plans offered in the exchange by setting a higher bar for participation. This concept could be expanded beyond plan certification criteria to include a bidding process, or some other mechanism that forces insurers to compete for participation.

Generally, the Selective Purchaser Model focuses on increasing the quality of the plans offered in the exchange. It will, however, reduce the number of insurers participating in the exchange, and likely the number of plans offered. Reducing the number of insurers or plans within the exchange could also reduce the level of price competition.

This approach will also have a slightly higher administrative burden compared to the Passive Distributor Model due to the additional resources necessary to verify that insurers or plans meet the higher standards. If a bidding process is implemented, the exchange will also need resources to design and manage this work.

Active Purchaser

In the Active Purchaser Model, the exchange actively negotiates prices with insurers. This approach allows the exchange to leverage its buying power and distribution channel exclusivity to negotiate premiums with the insurers. This model may, however, significantly reduce the number of plans participating in the exchange, reducing consumer choice. It also significantly increases the administrative workload and cost of the exchange as resources are required to support the negotiations with insurers.

SUMMARY OF PLAN SELECTION MODELS

At one end of the spectrum, the Passive Distributor Model offers the lowest administrative burden and maximizes the number of insurers and plans in the exchange. It relies on market competition for determining the price and quality of products offered in the exchange.

At the other end of the spectrum, the Active Purchaser Model increases the exchange's administrative burden and reduces the number of insurers and plans in the exchange, but may result in lower premiums and higher quality.

The state should consider these options, as well as hybrid models that blend aspects of each, to identify the approach that provides the optimal balance of administrative burden for the exchange, consumer choice, and product price/quality.