



# Health Insurance Exchanges: Market Design Matters

David A. Hyman  
Richard & Marie Corman Professor of Law  
and Professor of Medicine  
University of Illinois

# My Main Theme For Today



“You keep using that word [inconceivable]. I do not think it means what you think it means.”  
The Princess Bride

# My Main Theme For Today



“You keep using that word [exchange]. I do not think it means what you think it means.”

The Princess Bride

# What is an Exchange? Minimalist Version

- “A mechanism that facilitates the buying, selling and administration of private health insurance.”  
(Cathy Chambless, Health Insurance Exchange: What Does it Mean for Utah? (2007))
- “A store that sells competing brands of health insurance.”
- Synonym: Clearinghouse
- Features: Voluntary, non-exclusive, private-ordering

# Some Minimalist Exchanges



[Find Doctor](#) [Plan Details](#) [Not Yet Rated](#)


BEST  
SELLER

# What is an Exchange? Maximalist Version

- “An organized marketplace for the purchase of health insurance” Linda Blumberg & Karen Pollitz, Health Insurance Exchanges: Organizing Health Insurance Marketplaces to Promote Health Reform Goals (Apr. 2009)
- Synonyms:
  - Connector
  - Alliance
  - Purchasing Pool
  - Purchasing Cooperative
  - Sponsor
  - PUC
- Features: ???

# A Min-Maximalist Exchange: The Massachusetts Connector

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SEARCH

✓ [Step 1: Eligibility](#)

✓ [Step 2: Provide information](#)

✓ [Step 3: Choose type of plan](#)

Step 4: Compare plans

Step 5: Confirm your plan

Step 6: Enroll

[Exit Shopping](#)

## Find Insurance: *Individuals & Families*

### STEP 4 OF 6 - COMPARE PLANS (OVERVIEW)

Click "View Plan" to see details. You can also compare up to 3 plans at a time. Check the box next to the plans you want to compare. Then click "Compare Selected Plans."

Compare Selected Plans

Tier	Plan	Premium* <sup>?</sup>	Deductible <sup>?</sup>	Co-Payments <sup>?</sup>			Hospital Stay <sup>?</sup>	Doctors You Can See <sup>?</sup>	Choose Plan
				Doctor	RX	ER			
B	<input type="checkbox"/> <i>Neighborhood Health Plan</i> NHPTThree Select	\$269.72	\$2,000/\$4,000	\$25	\$15 after Rx deductible / 50% co-insurance after Rx deductible / 50% co-insurance after Rx deductible	\$100 after deductible	20% co-insurance after deductible	<a href="#">Find Doctor</a>	<a href="#">View Plan</a>
B	<input type="checkbox"/> <i>Tufts Health Plan</i> Advantage HMO Select 2000 <small>(Limited choice of doctors &amp; hospitals)</small>	\$331.49	\$2,000/\$4,000	\$40	\$20 after Rx deductible / \$50 after Rx deductible / \$75 after Rx deductible	\$200	\$0 after deductible	<a href="#">Find Doctor</a>	<a href="#">View Plan</a>
B	<input type="checkbox"/> <i>Fallon Community Health Plan</i> FCHP Select Care	\$360.00	\$2,000/\$4,000	\$25	\$15 / \$50 / \$100	\$200	\$500 per admission after deductible	<a href="#">Find Doctor</a>	<a href="#">View Plan</a>
B	<input type="checkbox"/> <i>Blue Cross Blue Shield of Massachusetts</i> HMO Blue Basic Value	\$386.39	\$250 per plan year / \$500 per plan year	\$25	\$15 / 50% co-insurance after Rx deductible / 50% co-insurance after Rx deductible	\$150	35% co-insurance after deductible	<a href="#">Find Doctor</a>	<a href="#">View Plan</a>
B	<input type="checkbox"/> <i>Harvard Pilgrim Health Care</i> Harvard Pilgrim Core Coverage 1750	\$410.13	\$1,750/\$3,500	\$25 copay up to 3 medical care office visits per individual (or 6 per family); next visits are subject to the deductible; then 20% co-insurance thereafter	\$15 / 50% co-insurance after Rx deductible / 50% co-insurance after Rx deductible	\$250	20% co-insurance after deductible	<a href="#">Find Doctor</a>	<a href="#">View Plan</a>

Compare Selected Plans

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# A Maximalist Exchange

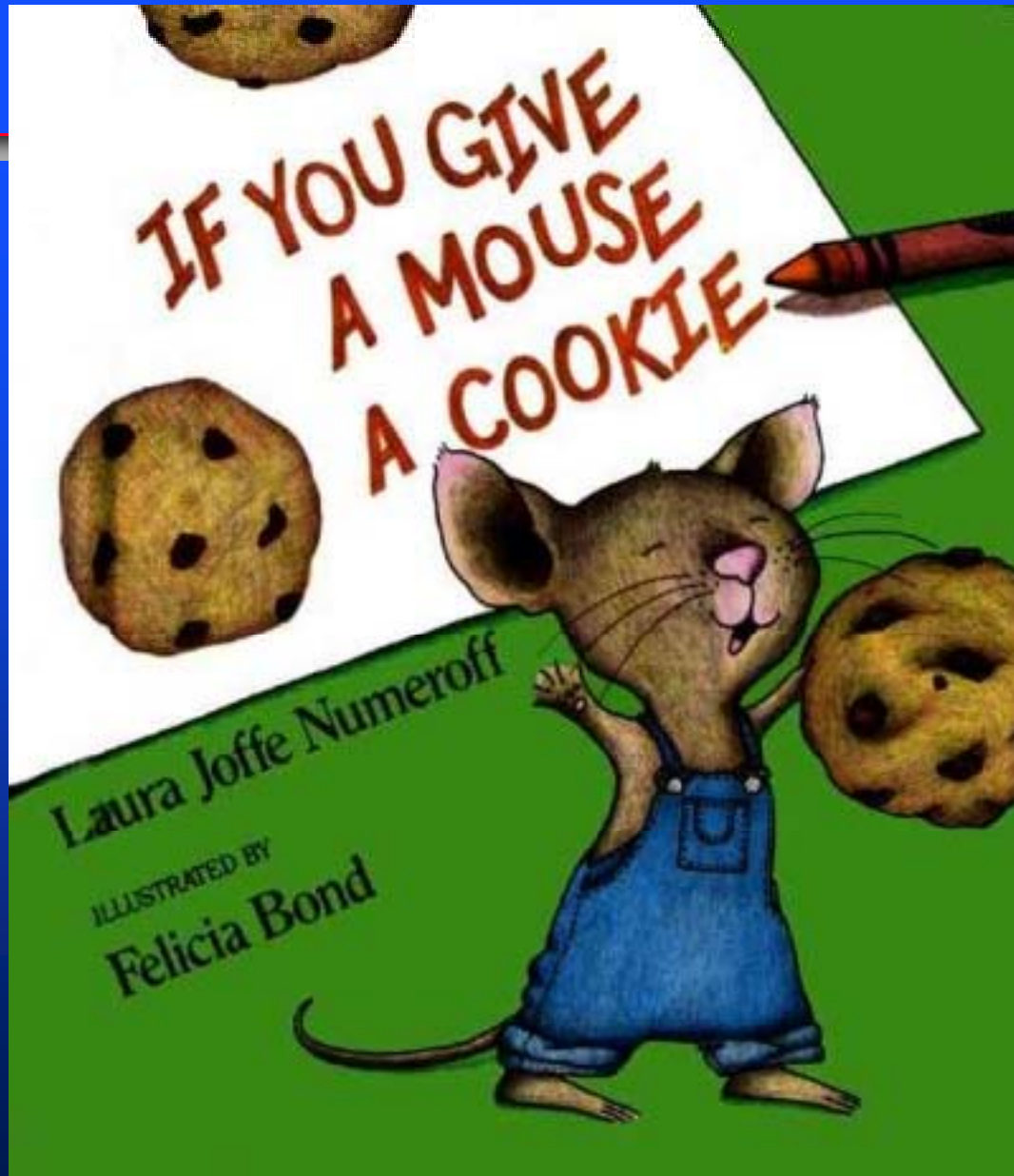
- Specified Minimum Benefits
- Limited Variation in Benefits
- Limited Plan Choices
- Monopoly Provider of Health Insurance
- Comprehensive Risk Adjustment
- Pricing based on one risk pool
- Guaranteed Issue
- Community Rating

# Designing An Exchange: The “Vision Thing”

- What Are We Trying to Do With an Exchange?
  - Offer better options to the currently uninsured?
  - Reduce premiums for the currently insured?
  - Increase/Decrease choice for those who wish to obtain insurance?
  - Enhance portability?
  - Protect against life-time risk of costs of ill health?
  - Provide better information on cost/quality/value of coverage?
  - Lower administrative/transaction costs?
  - Simplify the process of obtaining coverage (“flip the default”)
  - Standardize benefit package(s)?

# The “Vision Thing: II”

- What Are We Trying to Do With an Exchange?
  - Deliver subsidies to individual purchasers of coverage?
  - Make it possible for individuals to use pre-tax dollars to purchase coverage (Section 125 of I.R.C.)
  - Risk-adjust?
  - Increase competition in the coverage market?
  - Pool risk?
  - Cross-subsidize?
  - Drive improvements in the delivery market?
    - Quality?
    - $\text{Cost} = \text{Price/unit} * \text{Volume}$
  - Create an opening for a public plan to enter the market?
  - Protect consumers?



change

Priorities

ulatory

# Exchange: Design Options

(Rick Curtis, Institute for Health Policy Solutions)

- Any Licensed Carrier
- Carriers Set Prices
- Any Insured Benefit Plan meeting standing exchange min

- All plans meeting exchange specified standards
- Risk-Adjusted Plan Payment?
- Carriers must offer plans in each Actuarial Equivalent Benefit tier ("Bronze-Silver-Gold")

- Selective Contracting
- Price Negotiation + Risk Adjuster
- Standard Core Benefit Tiers



*Same Access and Rating Rules*

Individuals choose

Individuals choose

Exclusive venues for some

Low-Income Portable Credits

Credits only in Exchange

Risk Adjuster



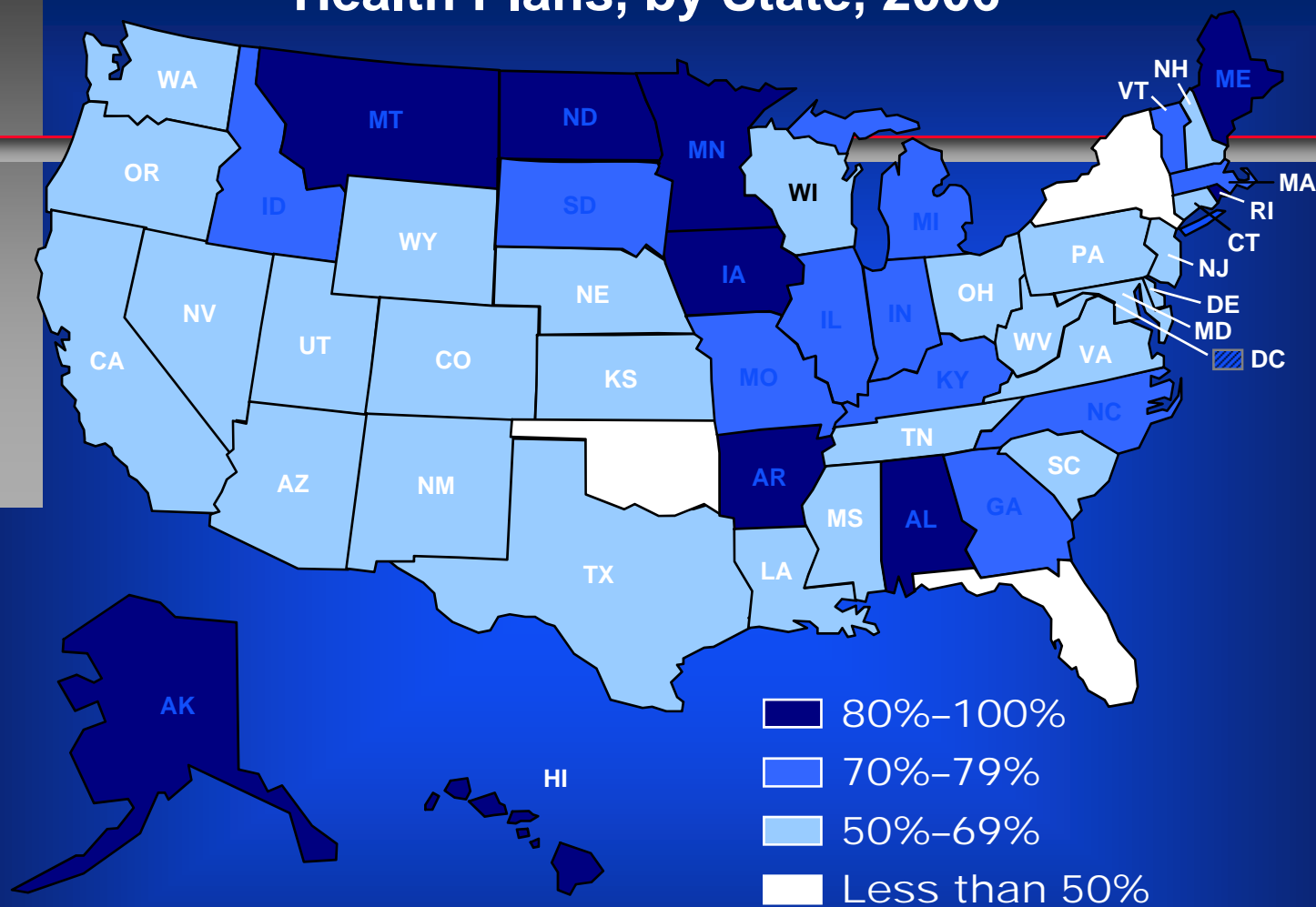
## "Outside Market"

Carriers free to offer in or out at differential rates and benefit plans

Carriers offer plans meeting new "outside" minimum + existing plan enrollees "grandfathered"

Carriers must offer higher tier plans + limits on grandfather plans or portability

# Concentrated Insurance Markets: Market Share of Two Largest Health Plans, by State, 2006



Note: Market shares include combined HMO+PPO products. For MS and PA share = top 3 insurers 2002-2003.  
 Source: American Medical Association, *Competition in health insurance: A comprehensive study of U.S. markets, 2008 update*; MS and PA from J. Robinson, "Consolidation and the Transformation of Competition in Health Insurance," *Health Affairs*, Nov/Dec 2004; ND from D. McCarthy et al., "The North Dakota Experience: Achieving High-Performance Health Care Through Rural Innovation and Cooperation," *The Commonwealth Fund*, May 2008.

# Preliminary Conclusion



“You got to be careful if you don't know where you're going, because you might not get there.”

# Actual Conclusion



“If people don’t want to go to the ballpark, nobody is going to stop them.”