Operation of a health exchange within the PPACA

What needs to be in place, how does it operate, and how might states approach governance?

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The Patient Protection and Affordable Care Act (PPACA) mandates that each state have a health exchange in place by January 1, 2014. The PPACA formally authorizes the creation of American Health Benefit Exchanges (exchanges).[1] Under the PPACA, if a state fails to create an exchange, the federal Department of Health and Human Services (HHS) is charged with providing exchange services in that state. This paper will address the functions of an exchange, as well as managerial and administrative operational considerations.

Health exchanges are relatively new organizational structures in the United States. Only two states, Massachusetts and Utah, currently have one in place. Washington state is projecting a January 1, 2011, start-up date.

The Massachusetts exchange (Health Connector) began operations in 2006. It phased in full operations; setup proved to be quite complex and challenging. The Connector promotes the Massachusetts version of universal care.

The Utah Exchange is just over a year old. It began with a limited launch and is working toward full implementation. Initially its approach is focused on providing a marketplace for health insurance rather than universal coverage. In September of this year, the Utah exchange began offering plans to small groups.

The examples of Massachusetts and Utah represent two very different approaches to create an exchange, with Massachusetts more closely representing PPACA concept. The exchange contemplated under the PPACA will serve both individuals and small businesses through the Small Business Health Options Program (SHOP).

The PPACA provides for grants to fund the creation of the exchanges, including planning and implementation grants to determine if the state is going to create an exchange. The current deadline for grant application by individual states is March 23, 2011, but planning grant requests were due September 5, 2010. Because most states will need legislative changes during the upcoming session, there is a lot of planning that needs to occur before the 2014 implementation.

OPERATIONAL CONSIDERATIONS

In its most basic function, an exchange is an organization that brings together buyers and sellers of health insurance benefits. From a consumer standpoint, it is primarily a web-based function intended to be a source of quickly accessed information, while providing ease in purchasing. The term generally used for this type of site is *portal*. The exchange should be designed to attract and educate consumers on available health insurance plan choices. The site should offer information on the available plans, including the benefits and premiums, in a clear and comparative manner. The term generally used for the functional ability to search through plan descriptions and identify a plan that best fits the consumer's needs and pocketbook is *navigator*. The PPACA requires that the navigator be an entity independent of the insurance issuer and not receive any consideration from issuers. An exchange must also be established to provide similar services for small businesses. Those services can be provided under the same exchange format or in a separate exchange.

The more advanced functions for an exchange include determination of eligibility and cost for subsidized and no-cost individuals participating in the exchange through implementation of the PPACA individual health insurance mandate.

The individual mandate requires that the exchange identify the individual situation of each consumer (subsidized or unsubsidized), including the amount of the subsidy for that

1 Muller, S. & Desmarais, A. (July 2010). Should your state establish a health insurance exchange? Milliman Healthcare Reform Briefing Paper. Retrieved Sept. 10, 2010, from http://publications.milliman.com/publications/healthreform/pdfs/should-your-state-establish.pdf.

consumer, and then facilitate choice among products. The PPACA also mandates that the exchange review and approve the insurance products of individual companies. The products offered must meet the plan design requirements of the PPACA as well as more stringent requirements of the insurance company's home state, if applicable. Matching available resources and products to the needs of the consumer is the responsibility of the exchange. Ensuring affordability and assessing the amounts of the subsidy will be a challenging task.

ORGANIZATIONAL CONSIDERATIONS

The functions of an exchange require the delivery of a wide range of services in the virtual as well as the real world. Initially an exchange must address the real-world needs in order to provide the resources for creation of the virtual world.

Placement within a state government organization

The individual state must choose the location of the exchange within its respective government structure. Each location has its own strengths and weaknesses. Placement might be in an existing agency or department under the control of either the executive or legislative branch. This approach provides the new organization with a predetermined reporting structure as well as the state's current operating rules and policies, thus eliminating the need to create a complete operating environment. However, it also requires the use of existing processes such as civil service hiring and subjects the exchange to direct political shaping. Current requirements may not be flexible enough for this new functional organization. Common possibilities for this placement are within the insurance department or commissioner's Office, health department, human services department, Medicaid or healthcare purchasing, or other administrative operation where health insurance benefits for state employees are currently administered (administrative services or comptroller/treasurer types of organizations).

Creation or placement within an independent quasi-public agency

This option creates an autonomous operation that will manage the exchange outside of the usual state government bureaucracy. The agency creates its own structure and operates under the policy control of an appointed board. That policy board is appointed under a set of rules that are determined during the creation of the new agency. This structure generally tends to be more flexible and responsive than the traditional department form. It may also be seen as more independent and truly a new entity if operationally separated. However, because subsidies will be partially funded through state and federal sources, it is likely that the agency will not be completely independent. The functions of the exchange may need to be divided between state and board control.

Administrative needs

Depending upon the placement noted above, the exchange could either rely on the existing state structure for support services such as eligibility determination, payroll, purchasing, accounts payable, accounts receivable, financial reporting, information technology needs, treasury, and human resources, or create its own internal service structure built for its specific operational requirements. Considerations here should also include independence and public perception.

CHALLENGES

These are just a few of the organizational and operational considerations facing state insurance exchanges between now and January 1, 2014. These challenges are compounded by the legislative calendar, since most states have only two legislative sessions between now and then in which to develop an exchange infrastructure.

Membership

The exchange is given the responsibility of identifying and managing membership. Among these responsibilities is identifying which individuals are required to purchase through the exchange and if they qualify for some level of subsidy. This task becomes even more challenging in identifying which product options are available for the individual relative to Medicaid, Children's' Health Insurance Program (CHIP), or possibly state employee coverage. If the exchange is to be the sole source of insurance for Medicaid or similarly entitled individuals, a mechanism of auto-assignment may be needed. A single exchange may become the statewide marketplace for the purchase of health insurance for all individuals and small employers. With this comes the duty to educate the consumers. Membership will be comprised of a wide range of educational backgrounds and native languages and cultures. Education must overcome these challenges.

Information technology

The exchange website is the location where many of the challenges are to be addressed. Website functions at a minimum may include the capabilities to educate site visitors on qualification for subsidies, compare plan designs, compute premiums, and model cost sharing for specific procedures. The site must be able to connect the consumers with their insurance carriers, agents, and possibly providers. Quality measurements and comparison shopping may be provided to help ensure education and proper plan selection. Optional choices and assistance must be available for those unable or unwilling to use the website.

Marketing and communications

Outreach to the public is a critical aspect of the success of the exchange. Unless there is general acceptance of the website and knowledge of its existence, it will not be successful. Success of the exchange is contingent on its role as the facilitator for communications between members, insurers, and the provider community as a whole.

Participating insurers— education, management, and risk adjustment

In addition to managing membership, the exchange will be responsible for educating and managing participating insurers. The exchange must review or at least monitor the insurance plans offered for compliance with design and pricing requirements. The exchange may also need to consider risk-adjusted transfer payments between insurers to account for risk selection.[2] The exchange will need to actively manage the participating carriers, monitoring whether the needs of the membership are being met.

Small employer group purchasing

If the state determines to maintain a separate small employer exchange, it will also need to decide if the model of group purchasing will continue for these employers. Today, in most states, the small employer premiums are based upon the average cost of covered employees. This group purchasing creates implicit subsidies of the cost of some individual employees relative to the group average. The SHOP exchange will also need to manage these subsidies if conversion to individual rating and billing is not possible within the state.

Further discussion regarding pricing and underwriting issues will be addressed in another Milliman Briefing Paper.

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2 Fontana, J. & Yi, R. (June 2010). Risk adjustment: Health calculus for the reform environment. Milliman Healthcare Reform Briefing Paper. Retrieved Sept. 10, 2010, from http://publications.milliman.com/publications/healthreform/pdfs/risk-adjustment-health-calculus.pdf.

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