



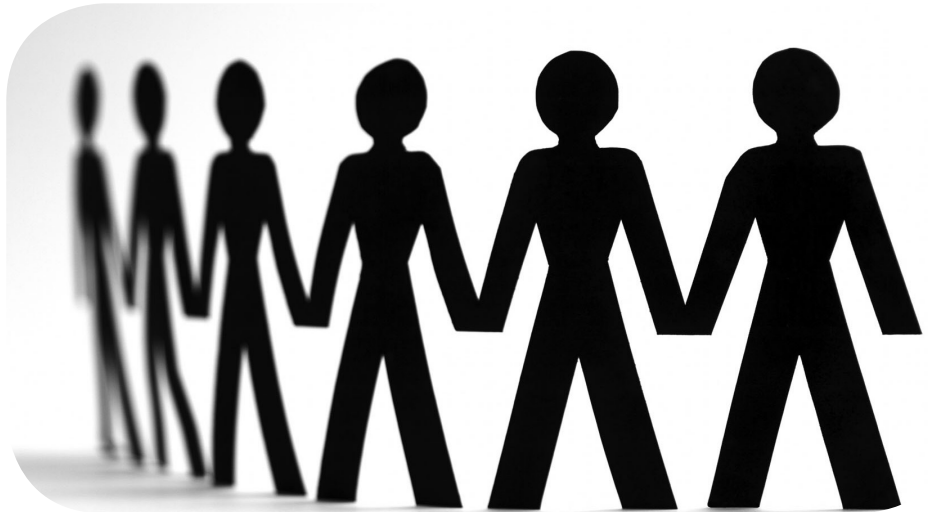
# Understanding the Health Reform Law: What are Health Insurance Exchanges?

by John McNerney and Caitlin Carr

Under the new health reform law (the Affordable Care Act), Virginians will have access to health insurance coverage through a health insurance exchange. The exchange will be a marketplace that offers a selection of private insurance options for people to get the health insurance coverage they need. Subsidies to help people afford the coverage offered in the exchange will be available. Individuals and small businesses in Virginia will benefit because they can shop for insurance options in a more competitive, organized and affordable environment than is currently available.

The state-based exchanges will build upon many insurance reforms implemented in the new health law, such as the requirement for insurers to stop pricing policies based on health status and the elimination of pre-existing condition exclusions. Insurers will also be required to spend at least 80 percent of premiums collected on health care services and not administrative costs.

*This is the latest in a series of briefs on the new health reform law and the initial look at the future health care exchanges. Future briefs will include a more in-depth look at lessons Virginia policymakers should consider in creating exchanges; a look at the high-risk pools created under health reform; and information on tax credits available to small businesses that provide health insurance to their workers.*



## What's in the Law?

- Effective Jan. 1, 2014, all states will be required to begin operating an insurance exchange that allows individuals and small businesses to purchase health insurance from various insurance carriers. States will have flexibility in creating the exchanges, within federal guidelines. If a state chooses not to operate an exchange or if the federal Department of Health and Human Services (HHS) determines that a state will not be ready to operate its own exchange in 2014, then HHS will set up an exchange in that state.
- States may decide to create a single statewide exchange, but could also choose to create multiple exchanges to cover different geographic regions within the state. A multi-state regional exchange is also an option, such as a 'Capital Exchange' that could include Washington, D.C., suburban Maryland, and Northern Virginia. In addition, states will be able to create a separate exchange, Small Business

Health Options Program (SHOP), for small businesses with up to 100 employees to access, or to set up one exchange that serves both individuals and small firms. In 2017, SHOP will be opened to businesses with more than 100 employees.

- Eligibility determinations for premium subsidies and Medicaid must be fully coordinated. The Secretary of HHS is required to develop a single form that can be used to apply for Medicaid, the Children's Health Insurance Program (CHIP, called FAMIS in Virginia), and premium subsidies to purchase insurance in the exchange. The exchanges will be required to screen people who apply for but are determined ineligible for premium subsidies for Medicaid and CHIP eligibility and enroll them or refer them to the appropriate state agency. People will be able to apply for Medicaid, CHIP or premium subsidies in person, online, via telephone, or by mail.

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As preparations for the implementation of the exchanges begin, federal regulators will be issuing new requirements and guidelines to ensure that states comply with the basic standards outlined in the health reform law. However, states will need to make several key decisions as well. One of the first is deciding whether to run the exchange and administer it through a governmental agency or a nonprofit entity. In Virginia, the options include the Bureau of Insurance, the Department of Medical Assistance Services, or a separate agency within the state Department of Health and Human Resources. The state could also choose to ask a private non-profit organization to administer the exchange.

All health plans in the exchange must meet certain requirements. These include:

- Providing a package of essential health benefits that covers basic items and services.
- Limiting the amount of out-of-pocket expenses that individuals and families are charged each year under their plans.
- Offering plans within standard coverage levels to help people understand their choices.

Exchanges will be required to establish websites that include substantial consumer information, including price and quality rating systems to help consumers evaluate their insurance options. An online calculator will allow people to factor in premium and cost-sharing assistance in determining the actual cost of their coverage.

### What are the Benefits of Exchanges?

In Virginia, less than six percent of the non-elderly population purchases insurance in the individual, non-group market. Premiums are generally expensive, and the coverage is often inadequate. Virginians who are not in perfect health are often charged higher rates, not able to get coverage for conditions they may have, or refused coverage altogether. Under the health law — both inside and outside the exchange — more Virginians who are unable to access health insurance through their employer will have access to affordable and comprehensive coverage.

Premium Assistance Under Health Reform	
Figure 1: Summary of How Premium Subsidies will Limit Amount Paid for Health Insurance	
Income Amount (family of four)	Premium limit as percent of income (federal subsidies will cover additional premium costs)
\$22,000 to \$29,000	2 to 3 percent of income
\$29,000 to \$33,000	3 to 4 percent of income
\$33,000 to \$44,000	4 to 6.3 percent of income
\$44,000 to \$55,000	6.3 to 8.1 percent of income
\$55,000 to \$66,000	8.1 to 9.5 percent of income
\$66,000 to \$88,000	9.5 percent of income

### Eligibility in Virginia

Anyone who is a citizen or in the United States lawfully can purchase coverage in an exchange. People with incomes between 133 percent and 400 percent of the federal poverty level who do not have access to other coverage or have employer-based coverage that is unaffordable will

**Exchange websites will include substantial consumer information, including a price and quality rating system to help consumers evaluate their insurance options.**

be eligible for premium subsidies to help them purchase insurance coverage in the exchanges (individuals and families with income below 133 percent of poverty will be eligible for Medicaid). Small businesses with up to 100 employees will also be eligible to have their employees obtain insurance through an exchange.

Estimates suggest that at least 400,000 uninsured Virginians will be eligible for private insurance subsidies through a health insurance exchange.<sup>ii</sup> These subsidies limit the cost of insurance coverage to a family based on its income. For example, a family of four with income up to \$88,000 a year will generally not pay more than 9.5 percent of their income on health insurance premiums (see Figure 1 for the subsidy schedule).

### Consumer Benefits

State exchanges are expected to be easy for people to access and navigate. Many consumers will access the exchanges by Internet sites or by phone. Exchange websites will include substantial consumer information, including a price and quality rating system to help consumers evaluate their insurance options. The website is also required to provide information on other publicly funded coverage programs including Medicaid and CHIP. An online calculator will allow people to factor in premium and cost-sharing assistance in determining the actual cost of their coverage. Before health reform, there were few resources available that offered such a comprehensive look at both private and public insurance options.

While the exchange will likely be the primary marketplace for insurance, insurers can still offer plans outside of the exchange, and consumers can still purchase these plans. Premium and cost-sharing subsidies, however, are only available to individuals purchasing coverage within an exchange. Many of the requirements for non-group and small-group plans inside exchanges — such as the requirement to offer essential health benefits and limit enrollee out-of-pocket costs — also apply to new plans available in the non-group and small-group markets outside the exchange.

Insurance brokers and agents will still be allowed to sell insurance plans. HHS will create guidelines that allow brokers to continue enrolling individuals and employers into particular plans that are offered both inside and outside of the exchanges. Brokers can also assist individuals

in applying for and obtaining financial help through the exchanges.

### Insurance Market Benefits

Health reform, by giving many more people access to coverage, will create larger risk pools than currently exist in the non-group individual marketplace. Each insurer that operates both inside and outside the exchange is required to place all of their enrollees from all of their individual health plans (both within the exchange and outside of it) into one risk pool. With more people in a particular pool, the costs of individual insurance should decrease.

The new health law strikes a balance in establishing federal standards in insurance markets while maintaining a certain amount of flexibility for states. Federal regulations likely will call for a strong set of insurance market protections in the exchange, but Virginia and all other states will maintain flexibility to do more than the regulations require. Beyond the requirements laid out in the law and in upcoming regulations, states will have latitude to decide many details to ensure that the exchanges best fit the insurance market needs in their states. States will also largely maintain their existing regulatory authority over health insurance as long as their policies do not conflict with federal health reform requirements.

### Examples of Exchanges

Although the exchange model is relatively new, previous reform in Massachusetts provides a look at what forms exchanges may take. In 2006, Massachusetts passed state health care reform that required residents to purchase insurance and created an exchange similar to what has been envisioned in national health reform.

The Massachusetts Commonwealth Health Insurance Connector enables online comparison of private insurers through Commonwealth Choice, while Commonwealth Care offers insurance plans with subsidies and premium limitations for eligible individuals. In addition, the Connector coordinates with the Massachusetts' Medicaid program (MassHealth) to guide enrollees into the correct program.

Since the enactment of Massachusetts' health care reform bill in 2006, coverage rates of non-elderly adults have increased from 87.5 to 95.2 percent. The percentage and number of uninsured was cut in half in one year, and Massachusetts has the lowest percentage of uninsured of any state in the nation.

Although many will cite Utah as another example of a state that has already created a health insurance exchange, Utah's current exchange likely will not provide a model for states creating exchanges under the health reform law. Utah has created a non-subsidized, defined contribution exchange for small businesses. When the program began, the plans it made available tended to be more expensive than comparable plans outside the exchange due to different pricing rules inside the exchange compared to the outside market and insurers' concerns over adverse selection. To date, fewer than 500 small business workers have enrolled. Utah will open the defined contribution program for large groups starting in January 2012 and will launch a pilot program for these large groups in advance of the start date; the state has also enacted legislation aimed at equalizing pricing between the defined contribution exchange and outside markets.

As a new program, there is not yet enough data to offer a full evaluation of Utah's efforts. But it is clear that health reform will require states to take a significantly more expansive approach to exchanges, including making exchange coverage options available to individuals and families as well as small businesses, helping administer premium credits to help people afford coverage, enforcing a number of requirements for plans offered through the exchange, and instituting market reforms inside and outside of exchanges to ensure that people can obtain coverage at fair prices even if they have health conditions or are older.

### Conclusion

Successful implementation of health care exchanges is one of the most critical aspects of the new health reform law. Policymakers and others in Virginia will need to construct exchanges that offer comprehensive insurance options and maximize consumer protections.

### Footnotes

i Under the health reform law, plans will be categorized under platinum, gold, silver and bronze coverage levels, which will be defined using estimates of how comprehensive the coverage is to a standard population. Insurers also can offer a catastrophic plan (with a very high deductible) that will be available to people under 30 years of age and those exempt from the individual responsibility requirement because they lack affordable coverage or have experienced a hardship. Premium assistance in the exchange will be based off of the premium and cost sharing in the lowest cost silver plan.

ii [http://www.urban.org/uploadedpdf/412015\\_affected\\_by\\_health\\_reform.pdf](http://www.urban.org/uploadedpdf/412015_affected_by_health_reform.pdf)

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