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Health Insurance Exchange: What does it mean for Utah?

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The concept of a health insurance exchange has been receiving attention from policymakers as a solution to help individuals access and afford health insurance. A health insurance exchange attempts to increase individual responsibility for health coverage and maintains existing employer-based access to health insurance. This approach is based on a private insurance model and thus is a market-based approach (Moffit, 2006). A health insurance exchange policy proposes to address the problems of the uninsured in the individual and small group market by addressing portability and the inequities of the tax code that provides tax breaks to certain employees for payment of health insurance premiums.



At the Utah Legislative Health and Human Services Interim Committee on May 16, Jason Perry, Director of the Governor's Office of Economic Development and Norm Thurston, an economist with the Utah Department of Health, made a presentation regarding the potential for a health insurance exchange for Utah (Thurston & Perry, 2007). They explained that the purpose of an exchange is to make it easier and more attractive for individuals and families who are not eligible for a large group policy to purchase health insurance (Plan to Insure Utahns praised, 2007). The Utah proposal attempts to address the most problematic segment of the health insurance market: the individual and small group market. These market segments are the most unstable because the insurance industry's experience rating and underwriting practices make the premiums fluctuate widely depending on age and/or health conditions of the insured. Also, individuals do not have the tax advantages of the large employer group market.

A health insurance exchange is a mechanism that facilitates the buying, selling and administration of private health insurance. The concept is compared to a stock exchange or a farmer's market which bring buyers and sellers together. A legal structure is created to act as a clearinghouse for approved health insurance products, to collect and consolidate insurance premiums from individuals and employers, and to forward the payments to the insurance companies. The entity is established to comply with federal tax law (Section 125 Cafeteria Plan) to allow employees to pay health insurance premiums with pre-tax dollars (Haislmaier & Owcharenko, 2006).

Some of the key advantages and disadvantages to a health insurance exchange are as follows:

Advantages for individuals

Portability. The insurance plans sold through the exchange would be portable, allowing individual participants to retain the same health plan if they changed employers within the state, became unemployed, or were self-employed. The individual would need to pay the full premium if there was no employer contribution, but coverage would remain in place. Transition between coverage through an exchange and separate employer-group plans would be governed by existing Health Insurance Portability and Accountability Act (HIPAA) regulations (Haislmaier & Owcharenko, 2006).

Many choices of insurance companies and plans. The exchange would create a market with many choices of insurance carriers and products, similar to choices available from a large employer. Purchase of coverage through an exchange would be limited to an annual open-enrollment period and participants could change plans without pre-existing condition

exclusions.

Premiums paid with pre-tax dollars. If the exchange is structured to be compatible with federal employer-group insurance law, any employer may designate the exchange as its employer group health benefit plan. This would allow the company's workers to buy portable coverage with tax-free dollars (Haislmaier & Owcharenko, 2006). Individuals without an employer would not have the same tax advantage as employees, however, unless they had relatively large health care expenses and qualify to deduct health expenses on their individual tax returns (U.S. Department of the Treasury, 2006).

Advantages for employers

Decreased administrative burden. Employers who participate in the exchange would be relieved of most of the burdens of selecting and administering group coverage for their workers. Insurance brokers, who now work with employers to assist in developing plan options, could instead assist employees to select which plan would be most suitable for them.

Standard payroll withholding system. The exchange would consolidate the premium payments made by employers, employees and individuals and distribute them to the insurance companies. By performing this function, the exchange would reduce the employer's role in making payments to several companies and make it more like existing tax withholding systems.

Employer contributions to health coverage. Employers could choose to subsidize premium costs for their employees, but may not be required to do so. If employers chose to contribute to the cost of health insurance, it would be a defined contribution, that is, it would be a predictable cost without the risk of a self-insured plan. Employers would collect and pay the insurance premiums, but would not be required to pay all or part of the cost of the premium.

Disadvantages of the policy

Tax inequity persists. From the perspective of an individual not connected to a group, the exchange does not solve the problem of the tax inequity. The primary advantage for such individuals in a health insurance exchange is the portability it affords them to maintain the same health plan while moving between employers or to unemployment. The federal tax code does not allow for giving the same tax breaks to individuals who are not connected to an employer. To tackle the problem of the uninsured in this manner perpetuates reliance on a private, employer-based system for health care, and continues to exempt generous health plans from taxes. A reformed health insurance structure addresses the portability problem among employed, unemployed and self employed, but it does not ameliorate the problem of tax inequity.

Erosion of coverage. From the perspective of workers who now receive health benefits from an employer with a comprehensive plan, they might see an erosion of their coverage. Health care could become a "defined contribution" supported by a flat dollar amount rather than a comprehensive benefit. Employees have seen a similar trend in retirement benefits. From the employers' perspective, by switching from a self-funded plan to an exchange, an employer would lose control over the health care options their workers have available. This could mean some workers are at risk for inadequate coverage because they chose a weak health plan.

Discussion

Continued fragmentation of system. A health insurance exchange policy perpetuates a complex, pluralistic health insurance system that lacks integration. Such a state-level policy does not adequately address problems of gaps in coverage, cost-shifting, or turnover in health coverage (Davis, 2003). Utah could make major reforms in the state's insurance law, but unless it is done

concomitantly with federal law changes, we will continue to have a seriously fragmented health insurance system.

Learning from other states. A health insurance exchange is a fairly new policy that does not have a long track record in other states. Several states are studying and/or designing exchanges, but Massachusetts is the only state to have implemented such a structure. The Massachusetts plan combines the Connector with other reform elements such as subsidies and mandates (Commonwealth of Massachusetts, 2006). Low income and working families may receive support to pay their premiums. Individuals are required to obtain insurance; and employers must offer, at least, a cafeteria plan for the worker to purchase insurance with pre-tax dollars. The Massachusetts plan is being touted as a model for how the political right and left can come together to compromise on a comprehensive reform package that addresses many difficult issues (Nichols, 2006).

The enactment of a health insurance exchange in Utah without other reform elements would likely not attract enough participants to be sustainable or achieve the promised benefits. A serious proposal would have to attract a significant group of insured individuals. This could be accomplished in one of several ways, such as by rolling the existing individual or small group markets into the Exchange, or incorporating state employees. A mandate for all state residents to purchase health insurance might be needed in order to bring about sufficient participation in an exchange. Each of these components would bring out concerned constituencies that would make passage more difficult. If the Utah Legislature were to consider a health insurance exchange proposal, it would be appropriate to debate these other components as well. Utah policymakers could learn from other state experience.

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