

In Defense of Health Exchanges

Committee for Economic Development

The nation is in the midst of transforming healthcare-system payment and delivery, and while there has been significant progress we are not quite there yet. Central to managing healthcare costs effectively and increasing access to care will be the establishment of strong healthcare exchanges.

Exchanges are essential for successful healthcare reform:

- A competitive market of exchanges and cost-conscious consumers can give health plans and providers powerful incentives to innovate to reduce the cost of healthcare while improving quality.
- Competition and choice would complement the incentives for economical choice in the excise tax on high-cost insurance plans.
- Real competition, not regulation, is the only proven method of bending the healthcare cost curve downward.

Specific Amendments Needed to Protect Exchanges from Adverse Selection:

The following amendments are needed to protect exchanges from adverse selection, i.e., the tendency for sicker and higher-cost patients to enroll through the exchange, while healthier and lower-cost people get coverage outside the exchange:

- Preserve the elements in the current Senate bill that protect exchanges.
- Use the language in the House bill explicitly prohibiting “improper steering” of high-risk people into the exchange.
- Require insurers to offer adequate networks of providers for the treatment of expensive conditions, lest they build and manipulate a reputation for providing adequate care only for healthy people.
- Expand the scope of the GAO study to include the analysis of adverse selection. In addition, the Secretary should be given authority to take regulatory steps as needed to address problems of adverse selection.

Specific Amendments Needed to Guarantee Average Risk and Large Size Exchanges:

The following amendments are needed to guarantee that each exchange has the average risk and large size to induce private health-insurance companies to submit competitive bids:

- Combine individual and small group exchanges.
- Require that all uninsured individuals who are not eligible for Medicaid, Medicare or another existing federal program use the exchange.
- Require that all employers with fewer than 100 employees use the exchange.
- Set appropriate standards of quality and soundness for insurer participation in exchanges and allow all qualifying insurers to participate.

Specific Amendments Needed to Create the Proper Incentives for Exchanges:

The following amendments are needed to guarantee that participants in well structured exchanges, i.e. with average risk and large size, also have a strong incentive to select low-cost, high-quality health-insurance plans:

- Require that, if an exchange participant chooses a plan whose premium costs more than the “reference plan,” the participant must pay the entire extra amount out-of-pocket with after-tax dollars.
- Prohibit employers (of any size firm) from contributing to their employees’ health insurance an amount greater than the cost of the “reference plan.”