

**EVENT SUMMARY**  
**“Health Insurance Exchanges: See How They Run”**  
May 11, 2009

The Alliance for Health Reform, with support from The Commonwealth Fund, held a briefing at the Columbus Club in Union Station, Washington, DC. The briefing looked at how health insurance exchanges function and addressed their potential role in national health reform.

**Ed Howard**, executive vice president at the Alliance for Health Reform, extended a welcome from Senators Rockefeller and Collins to those in attendance. He also thanked the panelists for their participation and The Commonwealth Fund for sponsoring the event. Mr. Howard stated that the private health insurance market as it currently exists does not work well – for the sick, the old, even for insurance companies themselves. A health insurance exchange is intended to help solve some of the problems inherent in the private health insurance market.

The co-moderator, **Cathy Schoen**, vice president at the Commonwealth Fund, provided an overview of the role that a national insurance exchange could play, in the context of broad market reforms. She said that by a national exchange would have the potential to fundamentally change the market by leading to improvements in access, choice, portability and competition.

The first speaker, **Linda Blumberg**, economist and senior fellow at The Urban Institute, discussed the benefits that insurance exchanges can provide to consumers. She listed numerous barriers to obtaining coverage, including exclusions on pre-existing conditions, rating by health status, and an often confusing array of products. She also noted that rules and consumer protections vary from state-to-state. Dr. Blumberg addressed the goals of insurance exchanges, including increased sharing of health care risk, slowing the rate of health care inflation, making meaningful coverage affordable and facilitating enrollment in that coverage, and promoting transparency and accountability by verifying compliance with market rules.

In addition, she noted that an exchange can help with cost containment by increasing competition among providers and lowering administrative costs associated with marketing and churning. She discussed how consumers benefit as standardized benefit packages promote comparisons, fixed employer contributions promote lower-cost plans, and greater transparency leads to informed choices and incentives for insurer efficiency. Additionally, she stated, if enrollment is affordable and barrier-free, the need to enforce an individual mandate will be minimal. Dr. Blumberg concluded by saying that with many different problems to be addressed in the insurance marketplace, an exchange is needed to coordinate tasks, guide markets toward cost-efficiency and competition, and to monitor compliance with regulations.

The second speaker, **Rick Curtis**, president of the Institute for Health Policy Solutions, focused on risk adjustment within an exchange. He noted that even with structures and rules, risk is still spread unevenly in today’s insurance marketplace. Mr. Curtis said that

currently there is no incentive for insurers to provide effective, comprehensive coverage to all, so insurers compete for the healthy while the sick are often denied coverage for pre-existing conditions or face premiums that are unaffordable. He asserted that a health insurance exchange is an efficient way to regulate the insurance market. He asserted that a risk-adjustment mechanism within an exchange can create a level playing field for insurers and insured by discouraging risk selection and by compensating plans that arrange better care for those with more expensive needs. Mr. Curtis noted that there is not one right way to structure such a risk-adjustment plan; there are a number of approaches that could work. The challenges, he said, is in finding common ground on which to build such an exchange. With this in mind, he listed a number of considerations, such as the minimum contribution required of employers, how to determine rating and access rules, and the options available to states.

The third speaker, **Nancy Turnbull**, senior lecturer at the Harvard School of Public Health and board member of the Massachusetts Health Insurance Connector Authority, offered lessons on insurance exchanges from the Massachusetts experience. Ms. Turnbull began with a reminder that the Massachusetts Connector is not a panacea, but it does play an important role in reducing the numbers of uninsured. She noted that its success in covering the uninsured comes from arranging subsidized coverage for people with low and moderate incomes and by acting as the policymaking body for the state's individual mandate. Without the individual mandate, the numbers of newly insured would be dramatically lower.

Ms. Turnbull stressed the value of exclusivity in negotiating prices, standardizing benefits, pooling risk broadly and enabling risk adjustment across barriers. She said that Commonwealth Care, which is exclusive, is able to perform these functions, while Commonwealth Choice, which only accounts for 25 percent of the market, is not. The final lesson that Ms. Turnbull discussed was the importance of benefits standards in ensuring adequate coverage and giving consumers the ability to make informed choices. She explained that Commonwealth Choice does not currently feature benefits standards but rather "actuarial values" standards, a requirement that leads to a confusing range of plans and prices for consumers. To simplify the process for consumers, Commonwealth Choice will be moving towards benefits standards, she noted.