

To: Vermont Health Benefit Exchange Advisory Group
From: Bailit Health Purchasing (Amy Lischko, Joshua Slens, Beth Waldman)
RE: Overview of Key Decisions to Date
Date: March 2, 2011

The Patient Protection and Affordable Care Act (PPACA) requires the establishment of a Health Benefit Exchange (Exchange) with numerous functions. States are encouraged to set up an Exchange, but if the state elects not to, the federal government will do it on the states behalf. Exchanges have been conceptualized and developed as platforms to improve access to health benefit plans for small employers and individuals. Exchanges also can be attractive alternative distribution channels for small-to-medium sized employers, part-time employees who work for large employers, temporary and seasonal employees, and people purchasing in the individual market.

As envisioned in Vermont, the Exchange will be established as a mechanism for achieving administrative simplification and encouraging delivery system reform and as a building block towards its single-payer system. The Governor has recommended that Vermont's Exchange go beyond what most states will propose, especially in terms of payment reform, cost control, and administrative simplification. Vermont will take advantage of the federal funding available to states to develop necessary infrastructure and to establish a mechanism for subsidy determination and distribution to individuals and employers. This memo describes the goals of Vermont's Exchange and presents several high-level policy decisions that have been proposed in legislation for the Exchange.

Vermont has identified the following problems in its health care system that it would like to address first with a Health Benefit Exchange and ultimately with a single-payer system:

- Health care costs are too high
- Costs are not distributed equitably, causing cost-shifting
- Gaps in coverage, lack of continuity of coverage, and underinsurance persist
- Current payment structures do not provide incentives for primary care, prevention, and wellness

The administration's goals for Vermont's Exchange are as follows:

1. Provide for easy transition to single payer: The proposed long-term goal for Vermont's health care system is a single-payer system as outlined in legislation (H.202/S.57). The Exchange can be used as a platform to bring the benefits of administrative simplification, transparency, and cost control to as many Vermonters as possible and to ease the transition to a single-payer system. Harnessing federal funds to establish an Exchange infrastructure that can easily transition to single-payer is the most important goal for Vermont's Exchange.

2. Facilitate purchase of affordable, qualified health plans in individual and group markets: Because the PPACA provides for premium and cost-sharing subsidies to individuals purchasing through the Exchange and tax credits to small businesses with low income earners, the Exchange will help to facilitate the purchase of affordable health insurance for individuals and small groups prior to the implementation of the single-payer system. The administration would also like to include larger groups, state employees, and municipalities in the Exchange as the law allows.

3. Reduce the number of uninsured and underinsured Vermonters: The primary role of an Exchange is to increase the number of people with health insurance. The Exchange can help to facilitate this in a number of ways. The Exchange can simplify the purchase of insurance for individuals and businesses, streamline the eligibility process for public programs, and coordinate among programs to mitigate gaps in coverage. The Exchange will also facilitate premium and cost-sharing credits for individuals and tax credits for employers, making health insurance more affordable. The Exchange can also be the primary source for information and education in the state on health care reform, thereby helping individuals and employers to understand their responsibilities regarding the purchase of health insurance. Standardizing plans offered in the Exchange will ensure that fewer Vermonters experience underinsurance.

4. Reduce administrative costs and improve quality of health care: Vermont would like to use its Exchange to reduce administrative costs associated with insurance and the delivery of care. The Exchange can also be used as platform for integrating payment reform and quality incentives into the health care delivery system. This is possible in Vermont as the Exchange will have a significant market share, and the Exchange can require activities that improve the delivery of health care services as a condition of health plan participation. The standardization of benefit plans will also help to unify and simplify health insurance and reduce administrative costs.

5. Reduce disruptions during income and employment transitions: Vermont's Exchange will facilitate a streamlined, coordinated eligibility system for Medicaid and the tax subsidies. Vermont is also assessing options for coordinating benefits across its programs. The administration may want to merge Vermont's insurance markets into a single risk pool, making the same benefit plans available to individuals and employees of small firms, but will need to further analyze the impact of doing so during the planning process.

6. Promote health, prevention and healthy lifestyles: The overarching goal of the PPACA is to improve the health of residents of the United States. This is the overall goal of Vermont's Exchange as well.

These goals helped to shape the first-order policy decisions that are represented in the As Introduced Legislation. These decisions provide the starting-point for addressing the myriad smaller policy decisions involved in implementing the Exchange.

High-level Policy Decisions for Vermont's Exchange

A review of high-level policy decisions proposed in legislation for Vermont's Exchange and the rationale behind them is presented next.

1. Vermont will establish its own Exchange

States have the option of ceding responsibility for establishing an Exchange to the federal government. States accepting responsibility for the Exchange must establish an American Health Benefit Exchange (AHBE) to serve individuals who receive tax credits as well as others who are purchasing insurance on their own. The law also requires the AHBE to establish a Small Business Health Option Program (SHOP) for employers.

In considering whether to operate a state-based Exchange or to default to the federal government, the administration and the House Health Care Committee, to date, have considered the following issues:

- Flexibility to transition the Exchange to a Single-Payer System
- Coordination with other health coverage programs
- Uniqueness of market characteristics of Vermont
- Capacity and infrastructure within the state to operate an Exchange
- Efficiency of running a state-based Exchange

Transition Health Benefit Exchange to Single-Payer System

The PPACA does not contemplate a single-payer system; therefore, its development of an Exchange for states will likely not have all of the features necessary to transition an Exchange to a single-payer system. Relinquishing this responsibility to the federal government would also likely create more work for agencies required to coordinate with the Exchange and may not provide enough flexibility regarding implementation issues that arise. There is greater likelihood that Vermont can create an Exchange that meets its priorities if it establishes its own Exchange, and the fact that Vermont desires to move its system towards a single-payer greatly influenced its decision to create and operate its own Exchange.

Coordination with other health coverage programs

It would likely be less complex to coordinate benefits and eligibility across all of Vermont's programs if the Exchange operates in the state as opposed to the coordination being done by the federal government. If Vermont were to allow the federal government to manage its Exchange, the state would not have as much flexibility in the operation of its Exchange. This could create gaps in regulation, uncertainty as to which standards apply, and problems in coordination between BISHCA and the federal government. Moreover, if rating rules or other regulatory provisions are different for plans operating in the Exchange from those operating in the outside market, these differences could cause selection problems.

Uniqueness of Market Characteristics of Vermont

Vermont is a very small state with unique market characteristics, including a larger than average proportion of small businesses, a large seasonal and part-time workforce, and a large middle-income population, many of whom will be eligible for subsidies through the Exchange. Vermont's rating laws are different from the national standards established by the PPACA. While Vermont will need to consider whether to adopt any of the national standards, thoughtful consideration should be given to what impact such changes will have on the insurance markets and on individuals and businesses purchasing insurance in these markets, and how such changes would ultimately affect its transition to a single-payer system. It seems unlikely a federal Exchange will be able to adapt to Vermont's unique circumstances.

Capacity and Infrastructure

Vermont has existing capacity to operate an Exchange as some of the necessary functions are already performed by state agencies, including eligibility functions, determination of premium assistance amounts for individuals with access to employer-sponsored insurance, operating customer services and call centers, and, through BISCHA, monitoring and reporting on health plan quality.

Efficiency of running a State-based Exchange

Vermont's population is about 620,000. Experts have suggested that about 100,000 lives are necessary in order to establish an Exchange that is financially self-sustaining. It will be important for Vermont to open its Exchange to as many people as possible to ensure efficient operations. The state already has much of the infrastructure necessary to operate an Exchange through its Green Mountain Care programs, which will help to create some efficiencies in running the Exchange.

Summary

The advantages to Vermont of operating its own Exchange instead of defaulting to the federal government include ease of coordinating the Exchange with other state-level programs and ensuring a maximum amount of flexibility in implementing an Exchange that can transition to the single-payer system. The State already has significant infrastructure within its state agencies that it can build upon during the planning and implementation phase. The primary challenge to Vermont in implementing its own Exchange is the long-term requirement to make the Exchange self-sustaining. As part of its Exchange planning grant, Vermont will develop a plan for sustainability for the Exchange to cover the period after 2015 (when the federal financing ends). This plan would be included in the financing study proposed in H.202 and presented to the general assembly in January 2013.

2. Vermont will create one Exchange serving both individuals and businesses

The PPACA provides an option for states to either run a single Exchange or separate Exchanges for individuals and businesses. This decision does not presume that the two insurance markets (or risk pools) are merged. That is a separate question that will be assessed during the planning phase of the Exchange. In considering whether to operate two Exchanges or one Exchange each for individuals and businesses, a number of issues were considered, including:

- Transition to single payer
- Coordination between individual and group Exchange
- Resource requirements
- Impact on the market
- Ability to cater to specific needs of individuals and/or businesses

Transition to Single Payer

In the single-payer system envisioned in Vermont, everyone would have access to the same benefit package regardless of employment status or employer. Therefore, establishing a single Exchange that serves both individuals and businesses which can transition to the entity overseeing the single payer system is the best strategy for Vermont.

Coordination between individual and group Exchange

Individuals move between employer coverage and individual coverage as their employment status changes. Having one Exchange that serves both individuals and businesses makes it easier for people to know where to go to purchase insurance. In addition, if there is one Exchange, decisions that affect either individuals or employers can be more thoughtfully considered to ensure coordination of policies. Should a decision be made to merge the markets, having one Exchange would also promote continuity and portability in coverage, since the same products would be available both to individuals and small businesses in the Exchange.

Resource requirements

The resource requirements for establishing and operating an Exchange are not insignificant. The federal government is planning to provide funds to states for implementing Exchanges, but beginning in 2015, state exchanges must be self-sustaining. If two Exchanges were established, the resource requirements would not be doubled since some of the infrastructure could be shared. However, capital requirements and staffing needs would be greater if two separate entities were established. There would certainly be economies of scale achieved if only one Exchange were established with two “product lines,” one catering to the needs of businesses and one to the needs of individuals.

Impact on the market

As mentioned earlier, one of the goals of Vermont’s Exchange is to attract as many members as possible in order to have an impact on the market. In addition to subsidized individuals, beginning in 2014, small businesses seeking a tax credit are also required to purchase through

the Exchange. It is unclear how many small businesses in Vermont will take advantage of these tax credits. It is also difficult to estimate how many individuals and businesses who are not subsidized will choose to purchase through the Exchange. Because of Vermont's small population, having one Exchange would enable it to have a greater impact on the overall market.

Ability to cater to the specific needs of individuals and/or businesses

It may be difficult for one entity to balance the differing priorities of individuals and businesses. The priorities of businesses could get lost in the effort to launch the Exchange for subsidized individuals. In addition, the plans for individuals could be perceived as more of a "government program," and businesses may not view the entity that is managing the subsidized program as a place where they can purchase private insurance for their employees. Therefore, since the two entities will be merged into one Exchange, significant marketing and promotion of the business functions will be needed. In addition, efforts will need to focus on the customer service needs of both individuals and businesses.

Summary

The advantages to Vermont of operating a single Exchange that serves both individuals and businesses far outweigh the disadvantages. The Exchange may want to establish separate lines of business at least initially to ensure viability of both programs and that the priorities of each group are met. Moreover, marketing, outreach, and customer service activities will need to be designed to meet each group's particular needs.

3. Vermont will establish a single Exchange to serve the entire State

The PPACA allows for states to operate more than one Exchange if the regions of the state are distinct enough to warrant multiple Exchanges. This issue does not require extensive discussion because the population and size of Vermont do not warrant having more than one Exchange. Moreover, the insurance carriers licensed to operate within the state are available statewide. Administrative efficiencies could be realized only if one state-wide Exchange were established. However, there may need to be special outreach to individuals and businesses in the rural areas of Vermont. In addition, there are certain geographic areas of the state that do not have access to broadband or WIFI, and therefore other strategies would be necessary for reaching individuals and businesses in those areas.

4. Vermont will carefully consider collaborative opportunities with other New England states

The PPACA allows states to join together to form regional Exchanges with HHS approval. The advantages of a regional Exchange include some economies of scale, in addition to some added portability that could result from having product availability across contiguous states. However, given the ambitious federal timelines, challenges of working across states with multiple state agencies, and Vermont’s desire to move its system to a single-payer, a regional Exchange is not feasible. The administration did explore whether other states in the region were interested in a regional exchange, and the other states were not interested in a regional exchange due to the complexity of aligning markets across state borders. This decision does not preclude some regionalization of certain aspects of the Exchange, such as data sharing and opportunities for regional demonstration projects or grants and the potential to share some functionality with neighboring states. In fact, the state has joined a regional consortium of New England states, which jointly received an “innovator” grant to pursue information technology solutions which could be used by multiple states.

In addition, federal start-up funds are available and Vermont will need to take advantage of this opportunity to build the needed infrastructure – including effective and seamless eligibility systems – for its overall reform activities.

5. Vermont’s Exchange will be a governmental entity housed within the Department of Vermont Health Access

The PPACA requires that the Exchange be operated by the state or a nonprofit entity. A number of issues were considered by the administration and the House Health Care Committee in making the preliminary decision to house the Exchange in an already existing governmental agency including:

- Transition to single-payer system
- Coordination with other state programs and agencies
- Amount of desired accountability and transparency
- Degree of state authority preferred

Transition to Single Payer System

Transitioning the current system to single-payer while simultaneously implementing features of the PPACA will be challenging for Vermont. Coordination with the federal government to attain waivers that are necessary to establish a single-payer system and to transition the Exchange to such a system will be of utmost importance. Having the Exchange reside in a state agency is the only feasible choice for Vermont.

Coordination with other state programs and agencies

The PPACA requires coordination of eligibility determination for Medicaid, CHIP, and premium tax credits. In addition, a state may desire enhanced coordination with other public programs,

with benefits and health insurance plans, and for transitions from public-to-private and individual-to-employer coverage. Overall coordination is less complex if the Exchange is located within a state entity.

The Exchange will require interface with other state operations, including other programs run by DVHA such as Medicaid and Catamount Health, and BISCHA. Data sharing between the Exchange and the federal government, and between the Exchange and other state agencies, is easier to facilitate if the Exchange is within the state's infrastructure. Moving outside that realm to a quasi-state agency, or to a non-profit organization, these arrangements, although not impossible, become much more complex, not only due to technical issues such as differing computing standards, but also due to significant privacy concerns.

Amount of desired accountability and transparency

The PPACA contains a host of requirements on plans participating in Exchanges that should significantly improve the transparency of insurance products. Such provisions include: information on claims-payment policies and practices, financial information, data on enrollment and disenrollment, data on claims denials and rating practices, information on cost-sharing and out-of-network coverage, and data on enrollees' rights. A fully governmental organization is subject to the greatest level of accountability and transparency.

Degree of state authority preferred

The PPACA provides significant flexibility in this area. The PPACA requires that the Exchange be housed either within a state organization or a non-profit, but provides no guidance on how the governing boards are constituted and appointed, nor on how state Exchanges are expected to relate to and interact with other state entities.

It is recommended that Vermont will operate its Exchange within an executive branch agency. This government-agency model provides the greatest degree of state authority, but also might be significantly influenced by changes in administration.

6. Vermont's Exchange will include as many individuals and businesses as possible

The PPACA allows states to limit participation in the Exchange to employers with <50 employees from 2014 to 2016. Because Vermont wants as many people as possible purchasing insurance through the Exchange as soon as possible to prepare for its transition to single payer, the administration recommended that will it's the Exchange provide plans to businesses with up to <100 employees upon launch and to all businesses, in 2017. The House Health Care Committee has made an initial decision to postpone the decision until next year pending additional information. Issues regarding rating and selection will also need to be considered during the planning phase to ensure the least amount of disruption in the markets. Vermont will also include Medicaid and Medicare beneficiaries to the extent feasible and upon approval from the Centers for Medicare and Medicaid Services.

Conclusion

The decisions described above put Vermont on firm ground regarding planning for its Exchange. There are many policy and operational decisions that need to occur over the course of the Exchange Benefit Design planning process, including decisions regarding integration of the Exchange with Vermont's public programs and insurance market and development of business operations.