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State-Based Marketplaces 2.0

Part 2: Engines of Innovation, Competition and Consumerism

Market Corner Commentary
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Within the current political reality, how can America implement policies that increase access to health insurance while also reducing premium costs and enhancing responsiveness to consumer priorities and needs?

Large-scale healthcare reform appears off-the-table for the Biden Administration. Yet, given the impact of the COVID pandemic on people who have lost (or have worried about losing) their employer-based insurance coverage and the intensifying pressure to reduce overall healthcare costs, solutions that increase health insurance access and affordability have become more important than ever. A significant answer to this complex puzzle can be found at the state level.

Enabled by the Affordable Care Act (ACA) in 2010, state-based marketplaces (SBMs) currently operate in 14 states and the District of Columbia. Another six states operate as SBMs using the federal government's HealthCare.gov's technology platform. Three states, Kentucky, Maine and New Mexico, will become full SBMs by 2022.

While federal measures to improve insurance access have stalled or been reversed over the past eight years, SBMs have quietly implemented programming modifications for stabilizing local markets that improve the quality and marketability of health insurance offerings to the benefit of consumers.

In Part 2 of our series on marketplace health plan innovations, we examine how SBMs have operated as experimental policy laboratories. They've taken their own paths to expanding consumer choice, increasing access to vital healthcare services, and lowering premiums.

*Read **Part 1, The Coming Expansion in Access, Affordability and Value** here.*

OPTIMIZING SBM OFFERINGS

Despite significant political and economic upheaval over the past decade, state-based marketplaces have had ongoing success reducing premium costs and maintaining higher levels of enrollment for local consumers.[1]

To make their marketplaces more efficient and effective, SBMs have implemented a range of mechanisms. These modifications include:

- Offering reinsurance
- Expanding premium subsidies
- Adjusting age-rating ratios for premiums
- Establishing standard benefit designs (in some cases limiting deductibles)
- Adjusting/expanding the range of plan-offered benefits and services

Going forward, SBMs can become even more active facilitators of innovation, driving improvements internally while adopting successful tools, approaches, models, and goals from other states.

Here are four ways states can improve their SBMs.

1) Making Offerings More Competitive

SBMs can become true marketplaces and one-stop-shopping destinations if their offerings are made more competitive. Such a marketplace could expand current offerings to include Medicare Advantage plans, ICHRAS (Individual Coverage Health Reimbursement Arrangements that enable employers to pay for individual market premiums), and a Medicare public option should one become available.

SBMs can also curate offerings more actively by selecting which health insurance carriers and plans they allow and setting standards for participation, competition, quality, access and affordability.

2) Increasing Premium Affordability Through Risk and Cost Reduction

SBMs are already working to reduce premiums through cost-sharing reduction measures, reinsurance programs and active-purchaser approaches. They also can increase affordability through enhanced subsidies (as embodied in the American Rescue Plan) or with wraparound subsidies (covering additional benefits beyond cost sharing) like those employed in Massachusetts.

Moreover, SBMs can reduce premiums by developing healthier risk pools. This happens when marketplaces increase enrollment by attracting younger and healthier individuals. In addition, as value-based payment reforms advance, health

insurers will have incentives to achieve better healthcare outcomes at lower costs. SBMs could become a powerful vehicle for expanding the adoption of value-driven payment models. Their market-power could push and incentivize more providers to adopt value-based care.

3) Expanding and Deepening Consumer Engagement

SBMs have the opportunity to engage with consumers during and after enrollment. Many SBMs have expanded marketing to increase enrollment with modest success.

At present, most SBMs have little interaction with consumers beyond the open enrollment period. Ultimately, SBMs could become a "coverage home" for consumers, offering continuity and security through different stages of life and employment. Students could enroll for their health insurance. Professionals could enroll during a period of unemployment or when launching an entrepreneurial venture. Seniors would find it easier to select plans and benefits through a marketplace they already know well. Such a system would also create longitudinal data for health plans to tailor offerings to consumer needs and preferences, and offer plans the opportunity to "secure" members over a lifetime.

4) Improving State and Population Health

COVID has exposed profound gaps in healthcare access, service delivery and effectiveness in medically underserved communities. SBMs can address these gaps through program design, outreach, educational exchange and advocacy. They also can collect and analyze marketplace data to inform policy debate among state agencies, legislative bodies and key stakeholders.

AS CALIFORNIA GOES, SO GOES THE NATION?

Covered California is the nation's largest state-based marketplace with over 1.6 million enrollees. It is also among the most robust, active and innovative SBMs. As an active purchaser, Covered California has taken steps to grow its enrollment and build a balanced risk pool that helps restrain premium growth while holding its contracted health plans accountable for improving care delivery and quality. Its success is a function of effective policy and marketing choices.

Covered California devotes about 1% of premium dollars (approximately one-third of its annual budget funded by an assessment on health plans) to marketing. Furthermore, by playing the role of an active purchaser, it limits the number of health insurers who can sell plans in its marketplace. It then works closely with its member carriers to shape benefit design and expand program enrollment. For example, Covered California requires participating carriers to invest in marketing and support private insurance agents in boosting community outreach and expanding the pool of potential enrollees.

On the policy front, California implemented an individual mandate in 2020. This contributed to a 40% increase in enrollment with a year-over-year premium increase of just 0.9%.[2] The state is currently studying the feasibility of implementing a unified financing system, including, but not limited to, a single-payer financing system, that provides healthcare coverage and access for all Californians.[3]

Peter Lee, the Executive Director of Covered California, believes that state-based marketplaces should help consumers do the following three things:

- Gain access to high quality, affordable coverage
- Pick the right coverage for their needs
- Get the right care at the right time

To increase access to high quality, affordable coverage, California expanded subsidies in 2019 for people with incomes up to 600% of the federal poverty level. This made it the first state to provide subsidies above the 400% "cliff" in the ACA, even before such policy measures were adopted under the American Rescue Plan. It also caps some prescription drug out-of-pocket costs, bans the sale of short-term health insurance plans and limits association health plan offerings.

To help consumers select the right level of coverage, Covered California offers a financial tool that spells out the total annual cost of care, not just premium costs. Covered California also curates plan offerings on behalf of its enrollees. Carriers must

offer the same patient-centered benefits at each pricing level (gold, silver, bronze, etc.). They must also offer identical products at the same price "off-exchange" so that unsubsidized, price-sensitive consumers benefit from Covered California's negotiating leverage.

In 2021, eleven carriers serve Californians but those plan offerings and carriers vary by region in accordance with local needs. This means 75% of consumers have a choice of four or more carriers and dozens of easily comparable products.[4]

Reflecting a deep understanding of behavioral economics, Covered California intentionally limits the number of plan offerings. Lee notes, "After four to five choices, value declines significantly for the consumer. With apples-to-apples comparisons of targeted offerings available to consumers, carriers know they need to price to get enrollment."[5]

Finally, to encourage the right care, Covered California employs an array of contractual requirements on its carriers and applies data analytics to assess care needs across racial, ethnic and other lines. Dedicated full-time staff includes a Chief Medical Officer and experts focused on alleviating health disparities. Consultants oversee that work and assess how care is delivered statewide. The goal is to work with member insurers to influence the healthcare delivery system and improve how care is delivered.

Covered California's approach works. An expanding enrollee base and a more stable risk pool entice health plans to participate with competitive offerings. As a result, prospective enrollees have clear choices based on price and service provision. Lee believes that encouraging consumerism and curating options engages enrollees in their health, drives better health outcomes and improves community well-being.

CONCLUSION: MEANINGFUL PROGRESS IN A TURBULENT ERA

Healthcare policy has dominated American politics for decades. Despite the intense policy debate, providing better, tailored healthcare services for more people at lower costs is not controversial. Properly designed and managed, SBMs can achieve these aims.

States have an inherent advantage over the federal government in responding to their citizens' needs because they can be more nimble in designing programs and making changes. There are multiple models for states to follow and plenty of lessons to build upon.

Using these lessons, states that already have an SBM can improve upon what they've built. To date, SBMs have only realized a fraction of their potential to deliver affordable access to comprehensive health insurance. With relatively minor improvements, SBMs can become a powerful force in optimizing public and private resources while addressing the most vexing problems of American healthcare. It's time for more states to consider creating their own SBMs.

SOURCES

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5. Interview with Peter Lee, Executive Director of Covered California (May, 2021).

AUTHORS

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A graduate of Stanford University and Harvard Kennedy School, Rosemarie has bridged gaps between the public, private and non-profit sectors throughout her career. As a founding leader of the Health Connector in Massachusetts, Rosemarie played a significant role in launching the award-winning organization that established the first state-run health insurance exchange in the United States and brought the uninsured rate down to 2%, the lowest in the country. During her tenure, the Health Connector became a model for national health reform. She is the author of *Marching Toward Coverage: How Women Can Lead the Fight for Universal Healthcare* (Beacon Press, 2020), available for purchase online, in stores, and at www.Rosemarieday.com.