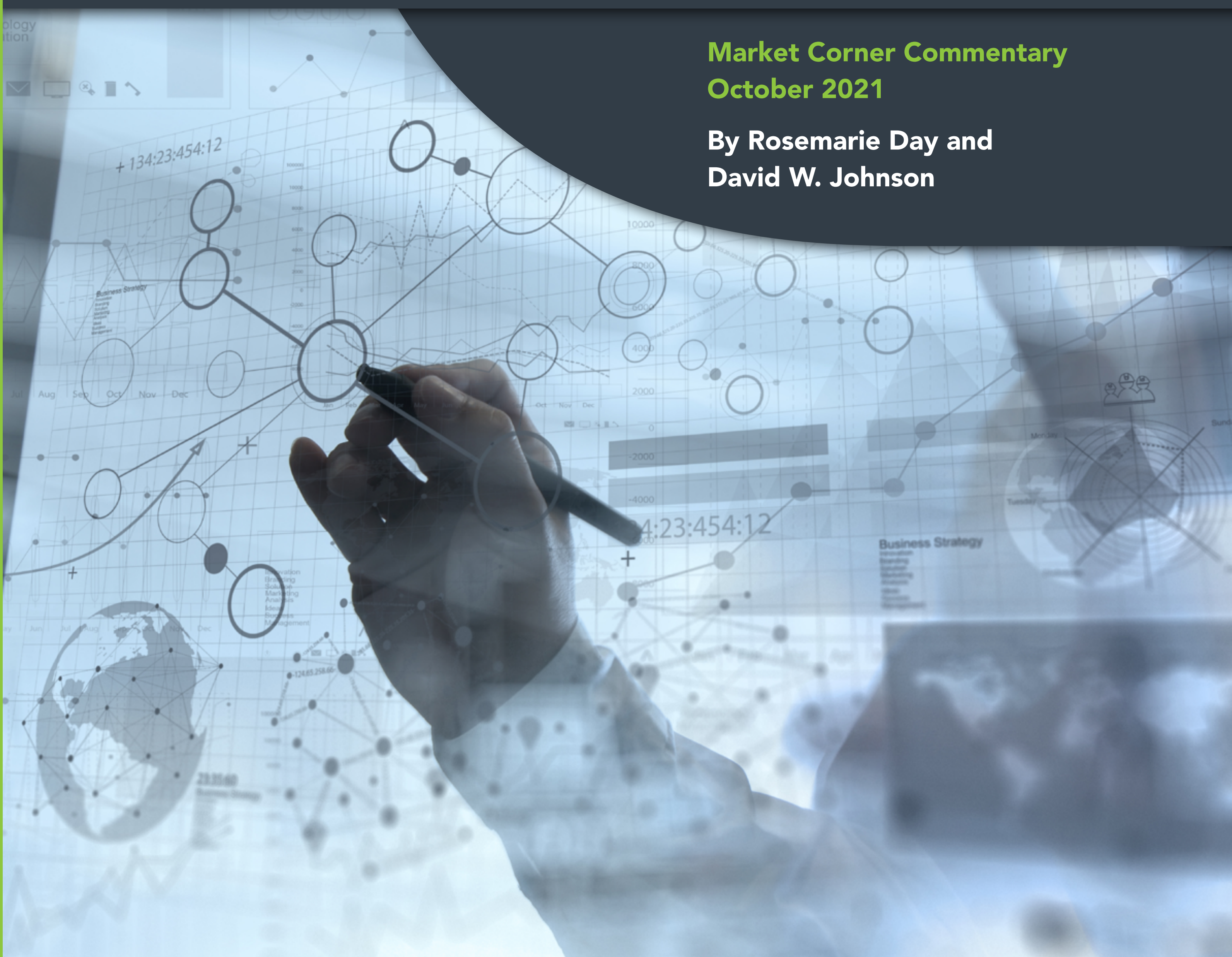
4sight HEALTH
expect better healthcare

State-Based Marketplaces 2.0

Engines of Innovation: The Coming Expansion in Access, Affordability and Value

Market Corner Commentary
October 2021

By Rosemarie Day and David W. Johnson



The Affordable Care Act (ACA) survived its third challenge at the Supreme Court on June 18, 2021, by a 7-2 vote, signaling that Obamacare is here to stay. With a divided Congress and a Biden administration challenged by multiple urgencies, there is little hope for national legislation to address healthcare's access, cost and quality deficiencies comprehensively.

Despite this lack of dramatic progress or sweeping change at the federal level, reformers need not lose hope. Quietly, state-based marketplaces are making health insurance provision more accessible, affordable and effective.

A Biden Administration's executive order signed in January, 2021, reopened the federal health insurance marketplace to individuals seeking to purchase or modify health insurance policies.[1] The fifteen state-based marketplaces (SBMs) followed suit by enacting their own versions of this special enrollment period.

The Administration's $1.9 trillion American Rescue Plan, enacted on March 11, 2021, includes a narrow but powerful provision that temporarily grants premium subsidies to higher-income Americans and reduces premium costs for lower-income Americans.[2] The "Build Back Better Act" currently moving through the House of Representatives would make these subsidies permanent. It would also provide funding for more experimentation with state-based health insurance affordability programs.

These new policies align with measures undertaken by many SBMs during the past eight years to improve the quality, affordability, and marketability of their health insurance offerings. In this decentralized, real-world way, SBMs have operated as experimental policy laboratories to assess programming modifications for stabilizing local markets, expanding consumer choice, increasing access to vital healthcare services, and lowering premiums.

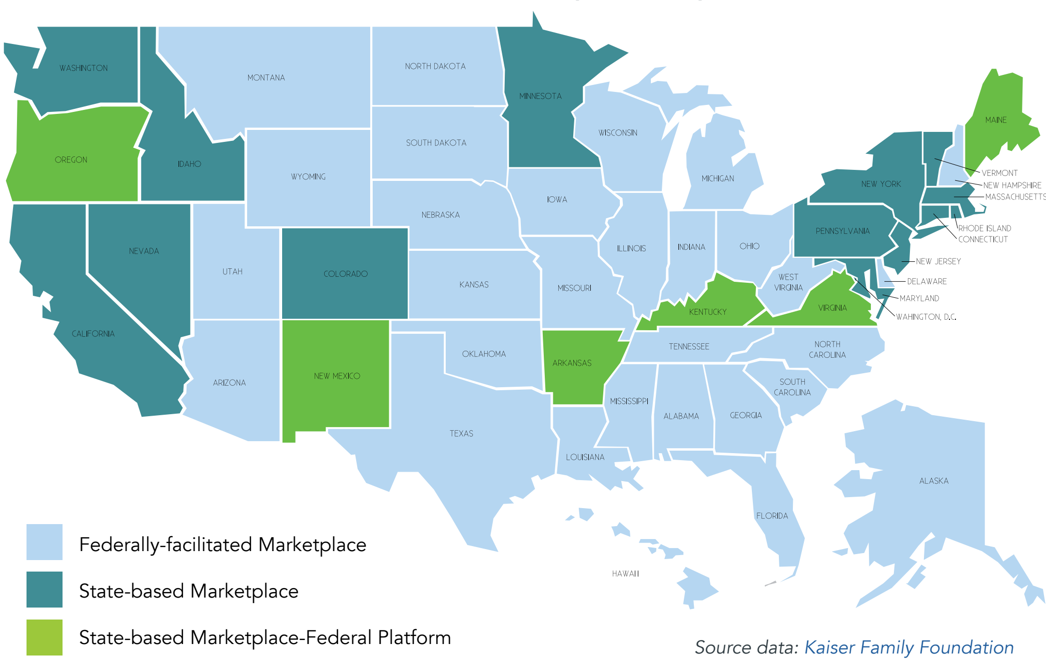
Successful SBM innovations have demonstrated that insurance marketplaces can adapt and thrive by responding to consumer preferences. By expanding to more states, adopting proven remedies, and more effectively overseeing plan sponsors, SBMs can provide even more Americans with access to the affordable health and wellness services they need.

THE EVOLUTION OF STATE-BASED MARKETPLACES

Enacted in 2010, the ACA introduced guidelines and provided start-up funding for SBMs. The legislation's aim was to create affordable health insurance options that Americans lacking health insurance coverage could purchase on market-based exchanges.

Inspired by Massachusetts healthcare reform (aka "Romneycare"), the framework built on non-ACA purchasing cooperatives offering "small group" health insurance plans. The new marketplaces enabled individual consumers to purchase ACA-compliant health insurance coverage online. The ACA also provided income-based subsidies for qualified enrollees.

Health Insurance Marketplace Types, By State



Source data: Kaiser Family Foundation

The ACA's designers believed that most states would develop their own marketplaces. They established HealthCare.gov, a federally operated alternative, to provide access to ACA plans in states that chose not to create SBMs.

Political resistance impeded widespread adoption of SBMs at the outset. Yet, SBMs have not only thrived in the years since, they are now poised to expand. Kentucky, Maine, and New Mexico are launching their own state-run marketplaces this fall for operation in Plan Year 2022. Others, including Virginia, will likely follow.

SBMs operate as marketplaces for insurers to compete in offering plans that meet ACA-regulated standards. SBMs also promote enrollment, pool risk to lower premiums, and facilitate comparison shopping.

A CRITICAL SAFETY NET

Including HealthCare.gov, 12 million consumers have enrolled in market-based plans for calendar year 2021, an increase of 600,000 from 2020. Over 3.8 million of the 12 million enrolled through SBMs. The vast majority of enrollees (including 88% of the consumers enrolled through HealthCare.gov) receive some financial assistance in the form of subsidies.[3]

Despite the increased enrollment, more than 30 million Americans remain uninsured[4] and 43.4% of the population has inadequate health insurance coverage.[5] The number of uninsured people in America declined significantly with implementation of the ACA in 2014, then began to rise in 2017 as the Trump Administration reduced support for enrollment.

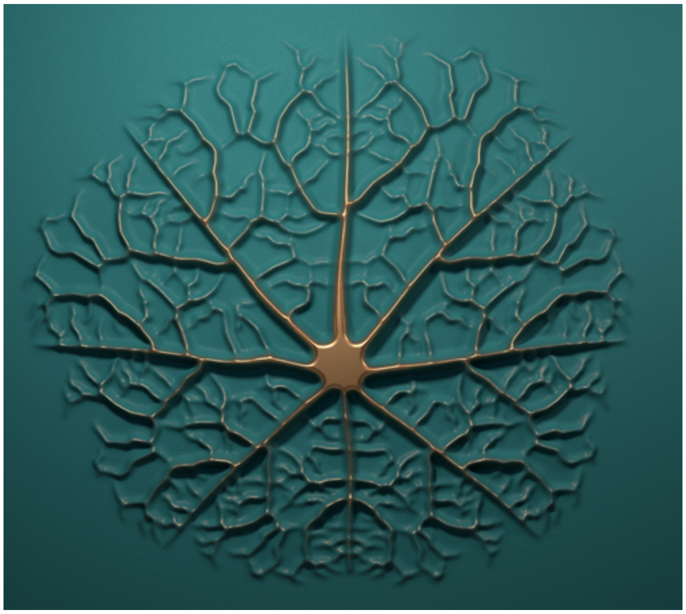
The pandemic-related economic shutdown seemed likely to balloon the ranks of the uninsured. Instead, employer-based coverage largely held and many who found themselves suddenly uninsured secured coverage through Medicaid or marketplace health plans.

The extension of the open enrollment period and the enhanced subsidies have facilitated enrollment in SBMs and HealthCare.gov this year. For an estimated one million people, marketplace health plans provided a critical safety net.[6]

CONTINUED GROWTH & IMPROVEMENT

Despite the charged political debate since the ACA's passage, SBMs have shown great promise and resilience. Many SBMs have adopted targeted solutions to make health plan premiums more attractive and affordable. Some have enabled consumers to shop and compare plans more easily. Others have included reinsurance, enhanced subsidies and/or individual mandates that strengthen the risk pool and help to reduce prices.

Different approaches among states can lead to drastic differences in the affordability and attractiveness of health plan offerings. Minnesota's decision to offer reinsurance to insurers with health plans on its SBM lowered its 2021 monthly benchmark rate to $292. Across the state line in Wisconsin, the monthly benchmark rate jumped to $782. The 2021 national average benchmark premium is $443 per month.[7]



Analysts, administrators and policy makers are studying these different approaches to better understand the factors influencing elasticity of demand in state and federal marketplaces. The results can be striking.

One study showed that the existence of individual mandates in state-based marketplaces increases the likelihood that individuals will purchase health insurance policies, regardless of financial penalties.[8] Other studies confirm that individual tolerance for higher premiums increases with a greater perceived need for health insurance, as occurs with factors such as poor health and older age. Such priorities increase demand for health insurance and reduce price elasticity.

That said, a standardized menu of affordable options increases consumer sensitivity to price.[9] States can adopt an evidence-based approach by using this type of knowledge to tweak program offerings and make them more attractive to marketplace consumers.

SBMs monitor each other's strategies closely, often adopting innovations appropriate to local needs. By using an evidence-based approach, they can make their offerings even stronger. Progress will also stimulate interest in other states for developing their own marketplaces. As noted above, SBMs' collective success has already influenced several traditionally red and purple states, including Kentucky, Maine, New Mexico, and Virginia, that are now implementing their own SBMs.[10]

With political headwinds now turning into tailwinds, SBMs are finding it easier to enact modest but practical structural improvements that can make their marketplaces even more robust and attractive. Growth will continue as more product offerings come to SBMs, consumers gain more choices, value-driven transactions increase, health outcomes improve and system-wide costs decrease.

Individual Marketplace and SBM Status, By State

The table highlights several provisions adopted by states operating a state-based exchange. Of note, this table calls out which states have implemented an individual mandate – the primary "stick" states may use to drive enrollment – as well as enhanced premium or cost-sharing subsidies, the main "carrot." In addition, the grid notes which states have extended their SBM's open enrollment period for 2021, among other consumer protections.

For additional detail, please see a summary of these and many other state actions to support access to health insurance coverage from the Commonwealth Fund.

	Federal Platform	Individual Mandate	Enhanced Premium or Cost Sharing Subsidies	Reinsurance	Limits on Sale of STLD Plans	Extended OE Period for 2021	Public Coverage Option
Arkansas	●						
California		●	●		●	●	
Colorado			●	●	●	●	
Connecticut					●	●	
D.C.		●			●	●	
Idaho						●	
Kentucky	●						
Maine	●			●			
Maryland				●	●	●	
Massachusetts		●	●		●	●	
Minnesota				●	●	●	●
Nevada					●	●	
New Jersey		●	●	●	●	●	
New Mexico	●				●		
New York					●	●	●
Oregon	●			●	●		
Pennsylvania				●		●	
Rhode Island		●		●	●	●	
Vermont		●	●		●	●	
Virginia	●				●		
Washington					●	●	●

LOCAL SOLUTIONS ADVANCING MEANINGFUL REFORM

The ACA gives states the flexibility to implement SBMs and encourage private sector participation. The federal government is responsible for establishing coverage standards, financing subsidies, and operating the HealthCare.gov platform. But it faces some challenges when it comes to innovating.

By contrast, states can be nimble. They can tailor program offerings to meet market demands and dynamics. Factors influencing program design could also include the state's urban/rural mix, the size of its employer base, the payer mix, social determinants of health, demographics and cultural attributes. This ability to accommodate market preferences and other factors validates the federalist approach that the ACA takes in granting SBM program design to the states.

This flexibility avoids the "one-size-fits-all" approach incorporated within the federally-run marketplace. By tailoring their SBMs to local circumstances, the states have become vital engines of experimentation and innovation for advancing the overall effectiveness of the nation's healthcare marketplaces.

With enhanced program design and expansion to more states, along with support from the Build Back Better Act, SBMs are well positioned to serve as a catalyst for meaningful healthcare reform. Not all progress is revolutionary. As SBMs have demonstrated, evolutionary improvements in benefit design, enrollee engagement, risk management and outreach enable millions of American consumers to gain affordable access to high-quality care.

ENGINES OF INNOVATION

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 the next section, 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.

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.[11]

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%.[12] 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.[13]

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.[14]

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."[15]

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.

4sight HEALTH
expect better healthcare

SOURCES

1. Andrews, M. (2021, February 15). As Biden Reopens ACA ENROLLMENT, are you eligible to sign up or switch HEALTH PLANS? NPR. https://www.npr.org/sections/health-shots/2021/02/15/967366282/as-biden-reopens-aca-enrollment-are-you-eligible-to-sign-up-or-switch-health-pla.

2. Kliff, S. (2021, January 16). One sentence In Biden stimulus Plan reveals his health care approach. The New York Times. https://www.nytimes.com/2021/01/16/upshot/biden-obamacare-stimulus.html; American rescue PLAN Act funding breakdown. NACo. (2021, July 29). https://www.naco.org/resources/featured/american-rescue-plan-act-funding-breakdown

3. HEALTH INSURANCE MARKETPLACES 2021 OPEN ENROLLMENT REPORT. CMS.gov. (n.d.). https://www.cms.gov/files/document/health-insurance-exchanges-2021-open-enrollment-report-final.pdf.

4. Finegold, K., Conmy, A., Chu, R. C., Bosworth, A., & Sommers, B. D. (2021, February 11). TRENDS IN THE U.S. UNINSURED POPULATION, 2010-2020. HHS.gov. https://aspe.hhs.gov/sites/default/files/private/pdf/265041/trends-in-the-us-uninsured.pdf

5. Collins, S. R., Gunja, M. Z., & Aboulafia, G. N. (2020, August 19). U.S. health insurance coverage in 2020: A looming crisis in affordability. Health Coverage Affordability Crisis 2020 Biennial Survey | Commonwealth Fund. https://www.commonwealthfund.org/publications/issue-briefs/2020/aug/looming-crisis-health-coverage-2020-biennial.

6. COVID enrollment period. ACA Signups. (n.d.). https://acasignups.net/covid-enrollment-period.

7. Minemyer, P. (2021, May 24). Average benchmark premiums for ACA exchange Plans decline again IN 2021: Report. FierceHealthcare. https://www.fiercehealthcare.com/payer/average-benchmark-premiums-for-aca-exchange-plans-decline-again-2021-report#:~:text=Average%20benchmark%20premiums%20for%20plans,fell%20by%201.7%25%20for%202021.

8. Saltzman, E. (2017). Demand for Health Insurance: Evidence from the California and Washington ACA Marketplaces. University of Pennsylvania Scholarly Commons. https://repository.upenn.edu/cgi/viewcontent.cgi?article=1140&context=hcmg_papers

9. Abraham, J., Drake, C., Sacks, D. W., & Simon, K. I. (2017, July 24). Demand for health insurance marketplace plans was highly elastic in 2014-2015. NBER. https://www.nber.org/papers/w23597.

10. It's worth noting that states that establish their own marketplaces can recapture the user fee that they must pay to the federal government for participating in HealthCare.gov. This is a sizeable assessment that can save states millions of dollars. See: Schwab, R., & Volk, J. A. (2019, June 28). States looking to run their own health insurance marketplace see opportunity for funding, flexibility. States Looking to Run Own Insurance Marketplace See Opportunity | Commonwealth Fund. https://www.commonwealthfund.org/blog/2019/states-looking-to-run-their-own-health-insurance-marketplace-see-opportunity.

11. Kaiser Family Foundation. (2020, December 10). Marketplace average benchmark premiums. KFF. https://www.kff.org/health-reform/state-indicator/marketplace-average-benchmark-premiums/?currentTimeframe=0; National Academy for State Health Policy. (2019, April 1). State Marketplaces Outperform the Federal Marketplace. NASHP. https://www.nashp.org/wp-content/uploads/2019/04/SBM-FFM-Comparison-Data_4_1_2019.pdf.

12. Norris, L. (2021, August 3). California health insurance marketplace: History and news of the state's exchange. healthinsurance.org. https://www.healthinsurance.org/health-insurance-marketplaces/california/#subsidy.

13. Bill Text - SB-104 Health. (ca.gov)

14. Health insurance companies in CALIFORNIA: Covered California. Health for California Insurance Center. (n.d.). https://www.healthforcalifornia.com/covered-california/health-insurance-companies#:~:text=California%20was%20the%20first%20.

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

AUTHORS

David Johnson is the CEO of 4sight Health, a thought leadership and advisory company working at the intersection of strategy, economics, innovation and capital formation. Dave wakes up every morning trying to fix America's broken healthcare system. Prior to founding 4sight Health in 2014, Dave had a long and successful career in healthcare investment banking. He is a graduate of Colgate University and earned a Masters in Public Policy from Harvard Kennedy School. Employing his knowledge and experience in health policy, economics, statistics, behavioral finance, disruptive innovation, organizational change and complexity theory, Dave writes and speaks on pro-market healthcare reform. His first book ***Market vs. Medicine: America's Epic Fight for Better, Affordable Healthcare***, and his second book, ***The Customer Revolution in Healthcare: Delivering Kinder, Smarter, Affordable Care for All*** (McGraw-Hill 2019), are available for purchase on www.4sighthealth.com.

Rosemarie Day is the founder and CEO of Day Health Strategies (www.dayhealthstrategies.com), a consulting firm dedicated to transforming the US healthcare system. She is a health reform pioneer who has worked through the value chain of the healthcare industry, from start-ups to major corporations to government.

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.