

## Addressing Health Care Market Reform Through an Insurance Exchange: Essential Policy Components, the Public Plan Option, and Other Issues to Consider

By Paul Fronstin, EBRI, and Murray N. Ross, Kaiser Permanente Institute for Health Policy

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### EXECUTIVE SUMMARY

**HEALTH INSURANCE EXCHANGE:** This *Issue Brief* examines issues related to managed competition and the use of a health insurance exchange for the purpose of addressing cost, quality, and access to health care services. It discusses issues that must be addressed when designing an exchange in order to reform the health insurance market and also examines state efforts at health reform that use an exchange.

**RISK VS. PRICE COMPETITION:** The basic component of managed competition is the creation of an organized marketplace that brings together health insurers and consumers (either as individuals or through their employers). The sponsor of the exchange would set "rules of engagement" for participating insurers and offer consumers a menu of choices among different plans. Ultimately, the goal of a health insurance exchange is to shift the market from competition based on risk to competition based on price and quality.

**ADVERSE SELECTION AND AFFORDABILITY:** Among the issues that need to be addressed if an exchange that uses managed competition has a realistic chance of reducing costs, improving quality, and expanding coverage: Everyone needs to be in the risk pool, with individuals required to purchase insurance or face significant financial consequences; effective risk adjustment is essential to eliminate risk selection as an insurance business model—forcing competition on costs and quality; the insurance benefit must be specific and clear—without standards governing cost sharing, covered services, and network coverage there is no way to assess whether a requirement to purchase or issue coverage has been met; and subsidies would be necessary for low-income individuals to purchase insurance.

**THE PUBLIC PLAN OPTION:** The public plan option is shaping up to be one of the most contentious issues in the health reform debate. Proponents also believe a public plan is necessary to drive private insurers toward true competition. Opponents view it as a step toward government-run health care and are wary of cost shifting from the public plan to private insurers.

**FUTURE OF EMPLOYMENT-BASED COVERAGE:** The availability of a health insurance exchange may have implications for the future of the employment-based health benefits system, and raises major questions for workers. Will employers provide a fixed contribution for the purchase of insurance through an exchange? Would that be large enough to purchase coverage? Would it be flat or vary by such factors as worker health status, age, and/or marital status or the presence of children? Would it be taxed? For both employers and workers, the implications are enormous.

Paul Fronstin is director of the Health Research and Education Program at EBRI. Murray N. Ross is vice president, Kaiser Foundation Health Plan, Inc., Kaiser Permanente Institute for Health Policy. This *Issue Brief* was written with assistance from the Institute's research and editorial staffs. Any views expressed in this report are those of the authors and should not be ascribed to the officers, trustees, or other sponsors of EBRI, EBRI-ERF, or their staffs. Neither EBRI nor EBRI-ERF lobbies or takes positions on specific policy proposals. EBRI invites comment on this research.

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