The Vermont Insurance Market Post ACA Repeal

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Overview

- Agree with Legislative Counsel memos dated February 1, 2017 and February 2, 2017
- Overall BCBSVT believes that the Affordable Care Act has been good for consumers, although the law is not perfect
- We are proud of what Vermont accomplished under the ACA
- The ACA is made up of multiple policy levers all intended to work together to make insurance more comprehensive, yet more affordable
  - When pieces of the ACA are removed, but other pieces remain in place, there is significant risk that the market will destabilize
- Although it is impossible predict what is going to happen in Washington, it does appear possible that the federal government will push more decision making back to the states, giving states more discretion
  - Prior to the ACA, with some exceptions (ERISA, HIPAA), virtually all health insurance regulation was at the state level
- More state flexibility is an opportunity for Vermont
- Obviously, the biggest issue is the potential elimination of significant federal funding. We do not address that issue in these slides as it is not something the state Legislature can address.

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Guaranteed Issue/Pre-Existing Conditions

- Vermont has long had guaranteed issue in the individual and small group market and presumably this would continue even in the event of ACA repeal
  - The ACA mandated guaranteed issue in the large group market, which VT does not have.
- Note, however, that prior to the ACA, both the small group and the individual market allowed the imposition of pre-existing condition exclusions. This helped alleviate adverse selection
- Adverse selection is what happens when people are allowed to go without coverage until they are sick
  - When only people who have high claims purchase insurance, premium rates increase dramatically because the experience of the risk pool is much worse
  - Pre-existing condition exclusions reduce the impact of these known high cost claims on the risk pool, reducing their impact on premiums overall
  - However, pre-existing condition exclusions were complicated to administer and often felt like a "gotcha" to the consumer – very unpopular

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Guaranteed Issue/Pre-Existing Conditions

- In order to eliminate the pre-existing condition exclusions, the ACA implemented various mechanisms to prevent people from only purchasing insurance when they were sick
  - The individual mandate
  - Open enrollment periods
- If the ACA is repealed, the state will need to determine how to prevent adverse selection from increasing the costs of premiums for those who maintain insurance
- How to ensure people maintain continuous coverage?
  - Note – not only good for the premiums, but also for ensuring people get care at the appropriate time
- Ideas being considered in Washington:
  - Higher premiums if you haven't maintained continuous coverage
  - Sign up for coverage during open enrollment, but it's not effective for six months
  - More complex guaranteed issue rules (only entitled to guaranteed issue if meet certain continuous coverage requirements)
- In the event states are given flexibility, at a minimum BCBSVT would like to see open enrollment rules maintained

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Market Stabilization

- The ACA initially implemented three programs to ensure that the marketplace was protected from adverse selection, thus stabilizing premiums and reducing price volatility
- These programs are sometimes referred to as the "Three Rs" and two of them were concluded in 2016:
  - Reinsurance – ended 2016
  - Risk corridors – ended 2016
    - Limits losses and gains for QHP issuers
  - Risk adjustment – intended to be permanent
    - Transfers funds from lower risk plans to higher risk plans

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Market Stabilization

- It is possible that ACA replacement will also provide market stabilization mechanisms – such mechanisms are required if the premiums are going to be affordable for everyone
- There is some discussion about states implementing high risk pools
  - High risk pools take the worst risk out of the general risk pool and fund it separately. This allows premiums to be reduced for the general risk pool
  - Historically high risk pools have had difficulty being adequately funded
    - A high risk pool does nothing to reduce overall costs
  - High risk pools can be expensive to administer and difficult for consumers to navigate (sometimes you are in and sometimes you are out)
- It's possible, however, that states will be given flexibility to administer a high risk pool as an "invisible" high risk pool, i.e. reinsurance

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Community Rating

- Prior to the ACA, Vermont had "pure" community rating in the individual and small group markets
- However, the small group market and the individual market were not combined
- Additionally, there were exceptions to how the community rating rules were applied (see next slides)
  - The current integrated QHP market replaced a fragmented market
- Note, the ACA required that the individual market (on exchange and off exchange) and the small group market (on exchange and off exchange) each be a single risk pool. The ACA also gave states the choice to combine the individual and small group markets into one risk pool, which Vermont did
  - With the repeal of the ACA, states may be able to consider whether they want to have risk pools structured differently in the individual and small group market

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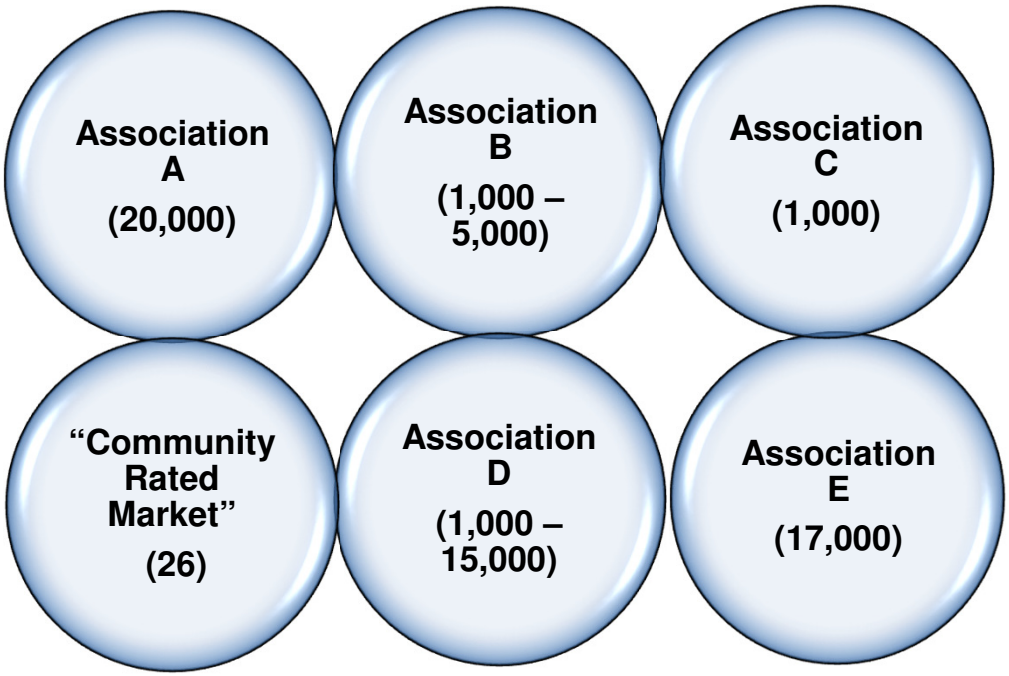
Before ACA: Fragmented Vermont Small Group & Individual Market

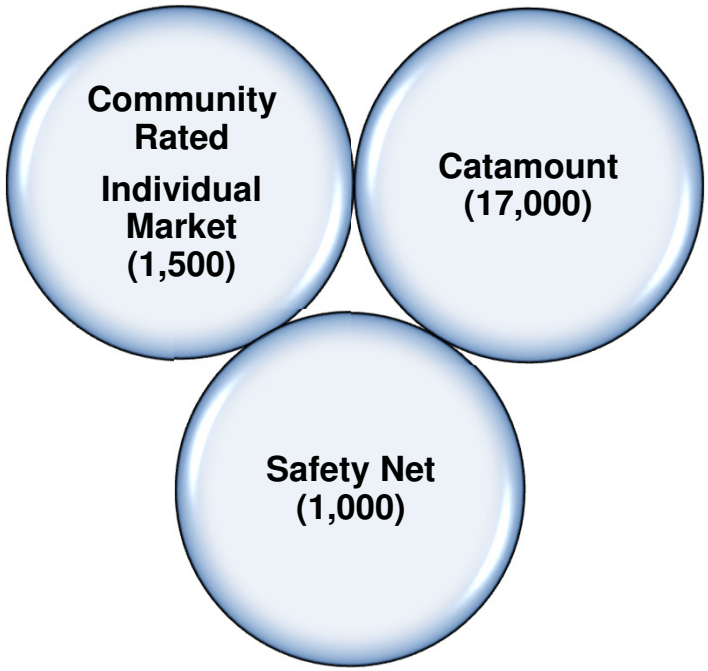
Small Group Risk Pools

Made up of multiple associations, each with own products & premiums



Individual Market Risk Pools

Generally volatile premiums



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After ACA: Integrated Small Group & Individual Market in Vermont Today

- All small group and individual market risk is combined into one risk pool with same set of benefit packages and the same premiums
- Individuals can move between the two markets – and between employers – and maintain their same coverage and cost share
- The structure facilitates APM and/or ACO implementation

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Consumer Protections

- The ACA implemented many consumer benefit protections
  - As noted in Legislative Counsel memos, some of these have been incorporated into (or already existed in) Vermont law, some have not
- From BCBSVT perspective, consumer protections are good for the marketplace because insurers must compete on service and innovation – not by creating benefit packages that look like they provide coverage they don't
- However, consumer protections must be evenly applied. Requiring all insurers to provide the same protections is important, particularly because consumers rarely know how to shop for such protections and will mostly focus on price
- Nonetheless, if group coverage becomes too expensive, groups will seek to self-insure, avoiding state mandates
  - The ACA greatly increased regulation and protections for those covered under plans that were not subject to state regulatory protections. If these federal protections are eliminated, state policymakers will need to consider the dynamic of pushing groups into self-funded arrangements.

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Consumer Protections

- The ACA implemented a few consumer protections that have driven up the cost of coverage and are difficult for consumers to understand
  - Annual out of pocket maximums: consumers are confused by this protection (often adding it to the deductible). Further, if you don't use a lot of care, this protection seems worthless
  - Similarly, no annual or lifetime limit on services is not a benefit most people ever appreciate
- BCBSVT supports these consumer protections, but it's important to recognize that they come with a cost. If these protections are no longer required in the self-funded market, this will create new dynamics in the market overall that may be adverse for those that are fully insured

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Consumer Protections

- The ACA mandates no cost share on “preventive services” as identified by the United States Preventive Services Task Force
- BCBSVT supports these rules
- Before the ACA, even if there were special incentives for preventive services, there was a wide latitude in how these services were defined
- The USPTF examines evidence to determine which services are actually effective and worth the investment
  - Not ever “preventive service” actually prevents disease or reduces overall costs
- However, again, such rules are much more effective if they are applied to all plans

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Benefit Design

- The ACA mandated that all plans have "essential health benefits" (EHB) that included very broad service categories
  - Through HHS implementation this rule simply required that one of the most common plans in the market pre-ACA serve as "benchmark"
  - In Vermont the "EHB" mandate didn't really create many differences in traditional health insurance (with the exception of pediatric dental/vision)
- The ACA mandated that all plans in the small group and individual market (on exchange or off exchange) fall into specified metal levels (platinum, gold, silver or bronze)
  - As implemented by the federal government, these are limiting rules
- As implemented in Vermont, the ACA standardized benefit designs available in the small group and individual markets
  - PROS: Consumers have more of an opportunity to compare apples to apples, not as confusing
  - CONS: Stifles creativity – particularly problematic for the larger small groups
    - Group over 50 really do not like this limitation – choose to self-insure in response

QUESTIONS?

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