Health Insurance Exchange: Addressing adverse selection

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To have a successful Exchange:

- You need a stable, viable and sustainable insurance market.
- Foster carrier competition based on quality, price and service.
- Establish a level playing field, creating a fair regulatory framework that encourages competition.
- Understand that consumers & carriers will act rationally, based on the rules of the market.
Adverse selection & why it matters

- Consumers & carriers will act in their own self interest:
  - If allowed, consumers will purchase coverage when they need it.
  - If allowed, carriers will avoid covering sicker and older consumers.
- “Bad” or adverse risk can be concentrated in one plan, one market or in one carrier.
- That plan, market or carrier becomes unstable:
  - Based on claims experience, premiums rise.
  - Those without health problems drop coverage.
  - Based on claims experience, premiums continue to rise, and so on.

Too much adverse selection can lead to a failure of the market.
ACA anticipates adverse selection

- Individuals must have coverage
- Individuals can only buy coverage during annual open enrollment periods
- Carriers have to pool risk
- Carriers have to charge the same price for the same plan
- Reinsurance, risk corridors, risk adjustment
- Carriers must offer the EHBs within tiers of coverage

But...wherever there is choice, there is risk of adverse selection.
Carriers not required to sell in the Exchange market

If they choose to sell in the Exchange, must offer at least one Silver & one Gold level plan

Carriers not required to sell in the External market

May sell any level of coverage in the External market
Exchange stability, viability & sustainability

- ACA provisions are inadequate to address this material adverse selection threat;
- Likely to result in failure of the Exchange;
- State policy solution is needed.
- HCA is drafting a policy brief with state policy options to consider;
- Action is needed in the 2012 Session.