

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.

Adverse Selection Challenge: Two Insurance Markets

- 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.

Questions?

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