



The Exchanges Are Coming

Hardly a day goes by without a client asking questions about how the creation of the Individual Exchanges might affect their personal or group health insurance situation. Most often the primary concern is whether they might be able to obtain health insurance coverage through the Exchange at a more affordable rate. The answer to that question is simply just not available yet, as the insurance carrier rates in the vast majority of states have not yet been released. However, there are some rules and regulations in place which provide a glimpse of the methodology that will be used to set these rates. Here are some of the key provisions of the rate setting regulations:

Guarantee Issue and Community Rating

Health care reform requires health insurance companies to offer coverage to all people and businesses. This is called guaranteed issue. Beginning on January 1, 2014, applicants cannot be denied the ability to obtain health insurance coverage in the Exchange for any reason.

Along with guaranteed issue, health care reform requires health insurance companies to move to a modified community rating methodology for individuals and small businesses. This is the practice of charging premiums that aren't based on the health history of the individual or business applying for coverage. Insurance companies must base rates on the cost of care for a group of people (a risk pool). By pooling a group of people together, healthy people help balance health care costs for people who are not healthy. The risk and cost is shared among everyone in the pool.

Health care reform has introduced some new rules to the traditional community rating model, which is why it's called modified community rating. The new rules state that insurance companies can't base rates on any person's health history. Instead, rates can only be based on age, tobacco use, family size and location. The law limits also how much coverage can cost. The highest rate (typically for older applicants) can't be more than three times the lowest rate for a pool of people. Currently, rates for older applicants can be as much as 7 times higher than those charged for younger applicants.

How it works

All individual customers in a state will be in one risk pool and all small business customers will be in another risk pool. In addition:

- States will be able to keep individual and small business risk pools separate.
- Rates will be based on the health risk of the entire pool.
- Rates can only vary based on age, tobacco use, family size and location.

These laws prevent insurance companies from creating separate risk pools for groups of individuals or businesses that charge higher or lower rates.

Summary

Despite the fact that implementation of some components of Health Care Reform have been delayed, such as the Employer Mandate, it appears at this point that the Exchange marketplace

will be open for business on January 1st, 2014. Given the rating methodology described above, there will be a significant number of people who will benefit from the Exchange offerings. Clearly older individuals with current health problems should be able to find a more attractive alternative if they are currently insured under an individual policy. However, if that same person is currently insured through their employer, it is doubtful that the Exchange would offer a better deal, as most employers subsidize the cost of health insurance for their employees.

On the other end of the spectrum, the methodology would most likely have a negative result for younger, healthy individuals. Essentially, these groups of participants will most likely pay higher rates to help offset the lower premiums charged for older plan enrollees. Again, this would only be true if the person is currently covered on an individual policy. If a person in this younger, healthy category is currently covered under an employer's plan, taking advantage of the employer subsidy will undoubtedly be the best alternative.

The Exchange rates are due to be published by October 1, 2014. Once available, we will provide more commentary and insights in an effort to make the new marketplace less confusing for all.