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Analyzing Vermont's Health Insurance Market

Informing operation of the state's Health Insurance Exchange

SUMMARY

From October 2011 through June 2012, the Vermont Department of Financial Regulation, along with two other state agencies, analyzed Vermont's health insurance market to inform the development of the state's health insurance exchange.

The 2010 federal Patient Protection and Affordable Care Act (ACA) requires that each state implement a health insurance exchange for individuals and small businesses (small groups) by 2014. Exchanges are a way to organize health insurance plans so individuals and small businesses can compare them and buy high-quality, affordable health insurance. All health insurance plans sold through the exchange must be "qualified health plans," that is they must provide essential health benefits, follow limits on cost-sharing, and meet other requirements.

The study of Vermont's insurance market focused on assessing the impact of:

- Allowing small group health insurance plans to be sold outside the health insurance exchange as both "qualified" (plans that meet the requirements for the exchange) and "nonqualified"(plans that do not meet exchange requirements but could still be sold outside of the exchange) or only as "qualified" plans
- Requiring all small group health insurance plans to be sold through the exchange
- Merging the individual and small group insurance markets under one exchange

Project consultants from the Wakely Consulting Group in Boston used existing data, primarily from large health insurance carriers in the state, along with state census data and state health insurance enrollment data, to conduct the analysis under a subcontract from the Vermont Department of Financial Regulation.

Key Recommendations

Based on the analysis conducted by the Wakely Consulting Group (see Findings), Robin Lunge, JD, Vermont director of health care reform and project director, presented these recommendations from the study to the 2012 Vermont legislature:

- Vermont should keep the definition of small groups to 50 or fewer employees until 2016, when it will expand under the ACA.
  - This will provide familiarity and result in a gradual transition of the market.
  - Expanding the definition to 100 or fewer employees results in very small premium decreases for many groups.
- Individual and small group purchasing in Vermont should occur exclusively within the state exchange.
  - The ACA has certain requirements that apply to all markets, including essential health benefit plans, rating pools, and mandated services.
  - Premium and cost-sharing subsidies under the ACA for individuals, as well as the small group tax credit for the first two years, are only available within the exchange.
  - There is no issue between "qualified" and "unqualified" plans in the state since Vermont insurance requirements are very similar to "qualified health plans" under the ACA.
- Individual and small group plans should be merged into one market in the exchange, since individuals and small groups not in associations would experience premium decreases.

The legislature adopted all of the study's recommendations in Vermont Act 171 (2012), which amended state insurance law to comply with the ACA and established how the health insurance exchange in Vermont would work.

Funding

The Robert Wood Johnson Foundation (RWJF) provided a $90,000 grant to support this project.

CONTEXT

The ACA requires each state to implement a health insurance exchange for individuals and small businesses by 2014. Exchanges are a way to organize health insurance plans so individuals and small businesses can compare options, and select and enroll in high-quality, affordable, competitively priced private health plans. They will also help eligible individuals and small businesses get premium tax credits to ensure that their health

insurance is affordable or help eligible individuals obtain coverage through other federal or state health care programs.

Each health insurance plan sold through an exchange must be certified as "a qualified health plan," which means that it provides essential health benefits, follows established limits on cost-sharing (e.g., deductibles and copayments), and meets other requirements.

The ACA requires states to define small groups in their health insurance exchanges as businesses with 100 employees or fewer by 2016. Before then, states have the option to define small groups as 50 or fewer employees. The ACA also allows states to merge the individual and small group markets in their health insurance exchanges. It requires insurers to:

- Merge all of their small groups into a single rating pool (so that premium and rate changes do not vary based on whether the small group plan was purchased inside or outside of the exchange
- Vary their premium rates only based on limited factors not including health status, known as adjusted community rating, for individuals and small groups
- Charge individuals and small groups the same premium for the same insurance plans whether they are inside or outside the exchange.

RWJF's Interest in This Area

The Foundation's Coverage team has adopted the strategic objective to achieve stable and affordable health insurance coverage for 95 percent of all Americans by 2020. Fundamental to achieving this objective will be the success of the states in creating sustainable health insurance exchanges that will help consumers navigate the private health insurance market. Much of the team's funding is thus committed to helping states implement the ACA.

THE PROJECT

The Vermont Department of Financial Regulation was required by state law[1] to present "a factual report and make recommendations" to the Vermont legislature by January 15, 2012, on issues related to the operation of the state's health insurance exchange. The department partnered with two other state agencies also responsible for health care reform— the Agency of Administration and the Department of Vermont Health Access— to form an interdisciplinary working group to identify key areas of study and make recommendations to the legislature to inform its policy decisions.

[1] Vermont Act 48, S.8(a) (2011).

The Department of Financial Regulation subcontracted with the Wakely Consulting Group in Boston to model the impact of moving various groups in and out of Vermont's exchange and the types of coverage that would be available to these groups. Using existing data, primarily from large health insurance carriers in the state, along with state census data and state health insurance enrollment data, they conducted actuarial and policy analyses of the Vermont insurance market.

Wakely consultants assessed the impact of the following three policy options on the health insurance exchange, the state of Vermont, employers, and employees:

- Allow small group health plans to be sold outside the exchange as both "qualified" (plans that meet the requirements for the exchange) and "nonqualified" (plans that do not meet exchange requirements but could still be sold outside of the exchange)
- Allow only "qualified" small group health plans to be sold outside the exchange
- Require the sale of small group, health insurance products solely through the exchange

They also assessed the impact on associations[2] if Vermont decided to merge the individual and small group insurance markets under one exchange. Currently in Vermont, associations are separately rated risk pools, similar to large employers, regardless of size. Under the ACA, employers that buy health insurance from an association will now get insurance from the small or large group, depending on its size.

The project originally included focus groups of small employers or their employees to gain additional feedback. However, the project managers from the three state agencies determined the focus groups should be held later so additional topics could be addressed.

FINDINGS

Lunge presented the following findings to the 2012 Vermont legislature and in reports to RWJF. "There was a lot of confusion about the health care reform, a lack of understanding about the insurance component especially," Lunge said. "It was helpful to be able to explain [the issues] with in-depth information and not politics."

- **Keeping the small group size at 50 or fewer employees (the current size under Vermont law) until 2016 would be easier for small groups during the first two years of the exchange and allow for a more gradual transition into the exchange, but may result in less people in the exchange and make it less sustainable.**

[2] Associations such as the Vermont Education Health Initiative and the Vermont League of Cities and Towns were included.

- **Expanding small group size to 100 or fewer employees before 2016 would result in a larger pool in the exchange and very slight reductions in premiums for many groups**:
  - Individual premiums would decrease.
  - Small groups, not including associations, would experience a slightly smaller decrease.
  - Association premiums would generally increase, but the impact on premiums would vary widely, with some associations experiencing large increases and others experiencing large decreases.

  Expansion would also make the exchange more sustainable.
- **Based on the ACA information available at the time,[3] the requirements for "qualified health plans" were very similar to Vermont requirements already in place**. Thus, there is no issue of qualified or unqualified health plans inside or outside the exchange.
- In relation to whether to allow the sale of health insurance outside of, or only within, the exchange:
  - **Fees are likely to be higher when an individual or small group purchases health insurance through a broker inside or outside the exchange, but this requires further analysis.**
  - **Otherwise, plans are in the same rating pool and must therefore have the same premium.** ACA risk adjustment provisions mitigate against adverse selection between insurers to help prevent the disproportionate enrollment of less healthy people into a risk pool.
  - **The number of insurers in the state is unlikely to vary regardless of how purchasing is structured**. However, allowing individuals and small businesses to purchase health insurance plans outside of the exchange slightly reduces the chance that insurance carriers will leave the market.
  - **There could be more variation in product offerings with the same out-of-pocket costs for covered services within certain categories[4] of qualified health plans if purchasing also takes place outside of the exchange.** Variation increases administrative costs.

[3] The federal rules had not been developed yet.

[4] The ACA requires exchanges to use four categories—bronze, silver, gold, and platinum—to label qualified health plans, based on the average portion of eligible health care costs that a plan will cover ("actuarial value"). For example, bronze plans, which have actuarial value of 60 percent, would cover 60 percent of health care costs, with members being responsible, on average, for 40 percent. The other actuarial values are 70 percent for silver, 80 percent for gold, and 90 percent for platinum.

- **The ACA premium and cost-sharing subsidies for individuals, as well as the small business tax credit for the first two years, are only available within the exchange.**

- **Under a merged insurance market combining both the individual and small group markets individual and non-association small groups would experience premium decreases and small group associations would experience premium increases compared to their current premium rates, not including any premium subsidies under the ACA.**

RECOMMENDATIONS

Based on these findings, the Vermont Department of Financial Regulation, Agency of Administration, and Department of Vermont Health Access made the following recommendations to the legislature:

- **Vermont should keep the definition of small groups to 50 or fewer employees until 2016, when it will expand under the ACA.**

  - This will provide familiarity and result in a gradual transition of the market.

  - Expanding the definition to 100 or fewer employees results in very small premium decreases for many groups.

  The initial recommendation was for 100 or fewer employees by 2014, but project staff changed this after the state got more information from employers.

- **Individual and small group purchasing in Vermont should occur exclusively within the state exchange.**

  - The ACA has certain requirements that apply to all markets, including essential health benefit plans, rating pools, and mandated services.

  - Premium and cost-sharing subsidies under the ACA for individuals, as well as the small group tax credit for the first two years, are only available within the exchange.

  - There is no issue between "qualified" and "unqualified" plans in the state since Vermont insurance requirements are very similar to "qualified health plans" under the ACA.

- **Individual and small group plans should be merged into one market in the exchange, since individuals and non-association small groups would experience premium decreases.**

SIGNIFICANCE OF THE PROJECT

The legislature adopted all of the recommendations provided by the Vermont Department of Financial Regulation, Agency of Administration, and Department of Vermont Health Access. In May 2012, Vermont enacted Act 171, which amended state insurance law to comply with the ACA and established the way that the health insurance exchange in Vermont would work. At the time the law passed, Vermont was the only state in the nation to structure its exchange to contain all individual and small group market purchasing in the state.

"The work funded under this project was instrumental in ensuring that the state [agencies responsible for health care reform] had the information necessary," stated Lunge in a report to RWJF.

LESSONS LEARNED

1. **Be careful when presenting complex information to minimize its use out of context for political purposes.** Some of the information presented to the legislature was taken out of context and used as an argument against merging the individual and small group markets. "Think through the political dynamics in advance," stated Lunge. It may be better to present the findings at a higher level with less detail.

2. **Engage key stakeholders who can effectively communicate the findings of intricate analysis**. The department held regular phone calls and meetings with legislators to discuss the findings, beginning prior to and throughout the 2012 legislative session. Also, the department made the consultants available by telephone to answer legislators' questions. (Project Director/Lunge)

AFTERWARD

The project ended with this grant. As of November 2012, Vermont was continuing to develop its health insurance exchange.

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