Health Insurance Exchanges

Background
One of the major provisions of The Patient Protection and Affordable Care Act (PPACA) is the establishment of Health Insurance Exchanges (HIX) in every state. HIX are designed to be state-based, competitive health insurance marketplaces. They are neither a private insurance company nor a government-run health plan. Rather, they provide a forum for individuals and small businesses to shop for private health insurance in a way that facilitates easy comparisons of available plans based on price, benefits, services, and quality.

Supporters of PPACA claim that by pooling individuals and small business together, reducing transaction costs, and increasing transparency, exchanges create a more efficient and more competitive marketplace for individuals and small employers.

The PPACA initially provides resources for states to develop and operate their own exchanges. States may create their own exchanges, but they must meet numerous federal standards under PPACA. The federal government will provide funds for states to implement and run the exchanges until January 1, 2015. However, if a state chooses not to develop its own exchange, the federal government will build one for them in 2014, with seemingly no penalty to the state.

Alabama’s Actions
In December, 2011, the Alabama Health Insurance Exchange Study Commission (AHIESC), which was established through Executive Order by Governor Robert Bentley and paid for with a grant from the federal government, recommended that Alabama establish a HIX called the “Alabama Health Insurance Marketplace.”

The Alabama Health Insurance Marketplace would function as a new quasi-governmental entity run by a board comprised of members from a wide variety of sectors, but with “sufficient and diverse expertise” to operate the HIX. The AHIESC voted to recommend that representatives from the Alabama Department of Insurance, the Alabama Medicaid Agency, legislators, actuaries, accountants, insurance brokers, and consumers be on the board controlling the Marketplace.

Depending on the number of enrollees (estimated to be between 206,000 and 460,000 Alabamians), the AHIESC projected the administrative costs of establishing and running the Alabama Health Insurance Marketplace to be $34-$50 million annually.

ISSUE SNAPSHOT
According to the AHIESC, the Alabama Health Insurance Exchange would cost $34-$50 million annually.

Setting up a Health Insurance Exchange (HIX) in Alabama does little to protect from federal overreach because even a state exchange must meet federal standards.
The AHIESC recommended that the Marketplace be funded by assessing fees on “all products sold in the small group and individual markets, including those sold inside and outside the Exchange.” (Emphasis added.) Additionally, the federal government will provide subsidies for those purchasing health insurance whose income falls below 400% of the poverty line, or $92,200 for a family of four.

On November 13, 2012, in recognition of the possibility of a huge fiscal burden on the families of Alabama, Governor Bentley announced that Alabama will neither set up a HIX nor expand Medicaid.

Policy Considerations
In view of the Supreme Court’s decision effectively upholding PPACA, states are now faced with a major decision: set up their own HIX or refuse to implement the HIX at state-taxpayer expense, defaulting to the federally-run exchange. Unfortunately, PPACA gives the federal government the final say on any HIX in Alabama, regardless of whether the HIX is created by the federal government or Alabama.

There are currently eight states opting out of establishing their own HIX: Alaska, Florida, Georgia, Kansas, Louisiana, Maine, Missouri, New Hampshire, South Carolina, South Dakota, Texas, and Virginia. Alabama recently adopted an amendment to the Alabama Constitution which expressly prohibits mandatory participation in any health care system.

One of the concerns raised by Alabama policymakers is one of control. When the federal government establishes its own HIX, called a Federally-Facilitated Exchange (FFE), will coverage of certain options not currently legal in Alabama such as abortion be forced? General Guidance of Federally-facilitated Exchanges, a paper released by the Centers for Medicare and Medicaid Services, specifically states “States will continue to perform their traditional regulatory role for issuers and health plans, and an issuer that wishes to offer QHPs (qualified health plans) through an FFE must meet both applicable State laws and requirements and QHP certification standards.” (Emphasis added.) Essentially, the state will still have input into what will and will not be covered under the FFE, outside of what have been defined as Essential Health Benefits (EHBs).

The EHBs are listed as the following:

1. Ambulatory patient services
2. Emergency services
3. Hospitalization
4. Maternity and newborn care
5. Mental health and substance use disorder services, including behavioral treatment
6. Prescription drugs
7. Rehabilitative and habilitative services and devices
8. Laboratory services
9. Preventative and wellness services and chronic disease management
10. Pediatric services, including oral and vision care

The PPACA is filled with graduated financial incentives which effectively bribe states to implement the unpopular law. The federal government uses cash to entice states to begin the implementation process.

Should states choose to set up their own exchange, the influx of cash from the federal government to establish and run these exchanges is set to dry up in 2014. This will leave states on the hook to pay for a program that was forced upon them. With strapped budgets, lawmakers could be left with little choice to fund the HIX, other than imposing taxes or fees on Alabamians.
Conclusion
Alabama should continue with its plan to not implement a HIX. While the allure of federal subsidies to set up a HIX is understandable, the consequences are far-reaching.

The HIX recommended by the AHIESC would be paid for through fees imposed on insurance policies issued outside of the HIX. In other words, Alabamians who gain no benefit from the HIX would be charged for its continued operation. If fees are not sufficient to keep the HIX operating, all Alabamians could face tax increases in the future.

In short, Alabama should explore other options for improving competition in the health insurance marketplace without government intervention.

---

iii Id.
vii Id.