Appendix 3

Health Plan Advisory Group

Employer/Employee Choice Architecture Recommendations

Summary

Below are a series of recommendations on the various options available to employers offering coverage to their employees in the SHOP Exchange. The main theme of discussion was finding a balance between the following:

- Ensuring that plans offered in the SHOP are priced affordably by limiting the impact adverse selection
- Ensuring that the SHOP does not have a competitive disadvantage with the outside market
- Ensuring that employers and employees have a level of choice not currently available to them

There was a general consensus that requiring a minimum participation rate for employers (i.e. a certain percentage of eligible employees must purchase through the SHOP) was a good idea to ensure that the SHOP is not selected against as an entity. The group did not discuss specific percentages. Similarly, there was a general consensus that a minimum contribution rate should be required for employers offering coverage to their employees through the SHOP. Again, specific contribute rates were not discussed.

Recommendations for employer options for providing coverage:

Option 1 – Absolute Employer Choice

- Majority– Recommend that Option 1 is provided to employers
    - If an employer has traditionally provided coverage to their employees by picking the specific plan, then that option should not be denied to employers in the SHOP
    - This option helps the SHOP remain competitive with the outside market because this option will be available to employers outside of the SHOP
    - This option allows employers to know their exact costs for the specifically chosen plan
    - If consumers are viewed as employers (those purchasing coverage), then this option in combination with the federal default does provide more choice for consumers
- Minority – Recommend that Option 1 is not provide to employers
    - The spirit of PPACA and the requirements of SB200 dictate that the SHOP provide consumers more choice than they previously had. If consumers are viewed as the employees (those using the coverage), then this option does not expand on the choices available to consumers.

    - This option limits the portability for employees who make wish to utilize specific providers and networks

Option 2 – One Insurer Option

- This option generated a significant amount of conversation. The two main points were:
    - Carriers are not comfortable offering coverage across all four tiers, even if all employees from one employer are utilizing the same carrier. The difference in the actuarial value across the four tiers is simply too great to adequately control premiums assuming that sicker employees are selecting platinum and healthy employees are selecting bronze.
    - The 3 Rs (namely Risk Adjustment) may reduce the adverse selection to the point where carriers are comfortable offering across all the tiers
- Everyone in the Advisory Group wants the SHOP to be able to mimic the market today to the extent that the SHOP is not put at a competitive disadvantage with the outside market
    - However, carriers indicated that although 4 or 5 different plans may be offered to a single employer today, the difference in the actuarial value of those plans is not as significant as the spread in actuarial value across the four tier levels
- <u>Majority (Almost entire group</u>) - Recommends that this option be available to employers (see caveat below)
    - CAVEAT – This option will only be available to employers if a carrier is willing to offer plans across all four metal tiers. COHBE should in no way require carriers to make such an offering.
    - It should be noted that no plan in attendance indicated that they'd likely offer across all four tiers, even with an effective risk adjustment system because the adverse selection concerns across the tiers is too great. As such, the recommendation of the group may carry not practical application.
- <u>Minority Opinion</u> – This option should not be available to employers in the SHOP because it does not increase consumers choice as is required by SB200

Option 3 – One Insurer Limited Option

- <u>Opinion 1</u> – This option (One carrier, Three consecutive tiers) should be available to employers in the SHOP
    - Choosing between three tiers from a single carrier is more choice than is available today
    - Some of the adverse selection concerns found in Option 2 are alleviated by limiting the offering to three consecutive tiers
    - As stated in Option 2, an effective Risk Adjustment system can alleviate the adverse selection concerns and make this a more attractive option for carriers

    - Employers are used to having multiple plan options from one carrier in today's market and excluding this option may place the SHOP at a competitive disadvantage.
- Opinion 2 – This option should be available to employers in the SHOP, but *ONLY IF* there is a mandatory minimum size for employers wishing to use this option
    - If an employer has 5 or fewer employees enrolling through the SHOP, then there is simply not a large enough group to spread throughout the three tiers available. If there is not an adequate spread among the employees, it is harder to competitively price the plans and keep premiums down due to the adverse selection between the tiers.
    - Therefore, for this option to be viable, an employer must have a minimum number of employees
        - The exact minimum number was not decided upon. Some carriers are comfortable with 5, while others were more comfortable with 10. If the minimum goes much past 10, it becomes problematic because most small employers only have about 10 employees. The group agrees that a minimum number can be decided later after a more detailed actuarial analysis of the option.
- Minority Opinion – This option should not be provided to employers
    - The spread in actuarial value across three tiers is too great to control premium costs and therefore this option is not recommended
    - If this option were limited to two consecutive tiers within the same carrier, it is much more viable and those with the minority opinion would then be comfortable with the option
- Combining opinions 1 and 2 would make for a sizeable majority opinion on this option, however it is unclear whether everyone is comfortable requiring a mandatory minimum employer size for the availability of this option

Option 4 – Two Insurers Option

- Vast Majority – Recommends that this option is not available to employers
    - Adding in a second carrier offering across all four tiers exacerbates the adverse selection concerns outlined under Option 2 even further.
        - Traditionally carriers require exclusivity from an employer. Carriers understand that this is not allowed in the SHOP under the federal default, however it's unlikely any carrier would offer plans under this option given the adverse selection discussed in Option 2 in addition to the added adverse selection issues associated with a lack of exclusivity from the employer
    - It will be very hard to keep premiums from increasing significantly under this option
    - If the SHOP effectively allows employers to compare carriers, there will be less of a need for employers to provide two insurer options. For employers hoping to offer more than one insurer to their employees, the federal default option is available.

- Small Minority – Recommends that this option stays on the table in a similar manner to Option 2
    - If an adequate Risk Adjustment system alleviates the concerns of carriers who wish to provide across all four tiers, the same Risk Adjustment system may allow carriers to offer in the option even with a lack of exclusivity from the employer

Option 5 – Two Insurers Limited Option

- There was no clear majority opinion (this was also the most divergent option in the SHOP Advisory Group discussion). The conversation focused on the need to balance providing choice, giving the SHOP a competitive advantage over the outside market, and having an option in which carriers would be willing to offer plans
- Opinion 1 – This option (2 Carriers, 3 Consecutive Tiers) should be available to employers in the SHOP
    - This option provides a level of choice that does not currently exist in the market and some of the adverse selection concerns with Option 4 are limited by limiting the number of tiers
    - Some employees really like the idea of being able to choose between two carriers, especially if those carriers provide distinctly different coverage (think Kasier vs. Anthem for example – both provide sound coverage, but in a different manner)
    - This option would provide employers a level of choice in the SHOP that is not available in the outside market
- Opinion 2 – This option should not be allowed to employers in the SHOP
    - The spread across three tiers is too great, especially considering that the exclusivity to a particular carrier (like Option 3) no longer exists
    - Between the adverse selection across three tiers and the additional concern by having two carriers, premiums will be hard to stabilize and keep down under this option
    - All carriers would prefer that the tier spread is limited to two consecutive tiers. If that were the case, most carriers would be alright with allowing this option to employers.
- Minority Opinion – This option should not be allowed to employers in the SHOP
    - Limiting the option to two carriers is not preferable to the federal default and therefore should not be permitted

Option 6 – Two Insurers, Two Tiers

- Assuming that this option allows an employer to select two carriers and two consecutive tiers (without regard as to how employers contribute to the various tiers), then this option become a derivation of either Option 5 or Option 8. See those two options for further discussion.

Option 7 – Two Metal Tiers Option

- Consensus – This option should not be available to employers in the SHOP assuming:
    - If the two tiers are not consecutive, then spread between the two tiers will create adverse selection concerns that cannot be accounted for without raising premiums significantly
    - If the two tiers are consecutive, then this option becomes Option 8.

Option 8 – Two Consecutive Tier Option (Federal Default Plus)

- The Advisory Group worked under the assumption that an employer selects two consecutive tiers
    - There are various mechanisms by which an employee could end up choosing (and paying) for a higher or lower tier, but that is an employer contribution question that will be answered later
    - There were some dissenting opinions; no formal vote was taken on this option
- Majority Opinion – This option should be allowed to employers
    - This option closely resembles the federal default, but allows for even more choice
    - The adverse selection concerns seen in Options 2-5 are alleviated to a great extent by limiting the choice to two consecutive tiers. Additionally, it is more likely that a risk adjustment can account for the negative consequences of adverse selection under this option since the spread in available choices is limited.
    - This option will put the SHOP at a competitive advantage over the outside market by offering a level of choice that will not be available in the outside market

Option 9 – Popcorn Option

- Consensus – This option should not be allowed to employers in the SHOP
    - There is too much adverse selection and randomness to this option
    - It is unclear how an employer would select the various plans
    - There are other options that provide choice that provide carriers much more predictability and enable premiums to stay more stable

Option 10 – Absolute Employee Choice

- Consensus- This option should not be allowed to employers in the SHOP
    - There is too much potential adverse selection in this option
        - One estimate shows that the adverse selection component of this option would raise premiums 10-15% across the board for all plans
    - States that have allowed this option typically have active purchaser Exchange models and are structured around the Exchange picking plans – SB 200 specifically prohibits active purchasing