1. A. Should the Colorado Health Benefit Exchange operate as one or two entities and

Goal/Objective

Create a successful individual and SHOP Exchange as defined by SB11-200

Create a self-sustaining COHBE by 1/1/2015

Minimize ongoing expenses of Exchange operations

SB11-200

"Consider the desirability of structuring the Exchange as one entity that includes two underlying entities to operate in the individual and the small employer markets, respectively."

Federal Law

"*Merger of individual and shop exchanges.--A State may elect to provide only one Exchange in the State for providing both Exchange and SHOP Exchange services to both qualified individuals and qualified small employers, but only if the Exchange has adequate resources to assist such individuals and employers."*

Considerations of Combined Exchange Administration

- Separate and duplicative administrative and operational structure will drive additional costs and inefficiencies.
- Two Exchanges would guarantee equal focus on the business issues of each Exchange.

Recommendation

We recommend that at an administrative level there be one Exchange in the State for providing both Exchange and SHOP Exchange services to both qualified individuals and qualified small employers. Staff will have separate goals and objectives tied to the success of each Exchange. This approach will minimize ongoing operational costs, gain efficiencies of scale and ensure appropriate attention to each Exchange.

1 B. Should the Colorado Health Benefit Exchange have separate or combined risk pools for the individual and small employer market?

Goals/Objectives

- Affordability
- Reduce premium volatility
- Reduce adverse selection

- Increase carrier participation
- Control costs

Federal Law

Single Risk Pool --

(1) Individual market.--A health insurance issuer shall consider all enrollees in all health plans (other than grandfathered health plans) offered by such issuer in the individual market, including those enrollees who do not enroll in such plans through the Exchange, to be members of a single risk pool.

(2) Small group market.--A health insurance issuer shall consider all enrollees in all health plans (other than grandfathered health plans) offered by such issuer in the small group market, including those enrollees who do not enroll in such plans through the Exchange, to be members of a single risk pool.

(3) Merger of markets.--A State may require the individual and small group insurance markets within a State to be merged if the State determines appropriate.

(4) State law.--A State law requiring grandfathered health plans to be included in a pool described in paragraph (1) or (2) shall not apply.

Key Data

Currently, the individual and small group markets are distinctively different populations and have different rating structures. The individual market allows underwriting for health status as well a variety of other rating factors while small group is guaranteed issue and uses adjusted community rating.

Insurance Category	2011	% of CO population
Employer-Sponsored Insurance (ESI)	2,656,000	62.4%
Small Firm ESI (1-50 employees)	298,000	7%
Large Group ESI	2,358,000	55.4%
Individual Market Insurance	308,000	7.2%
Public Insurance	465,000	10.9%
Uninsured	830,000	19.4%

Source: Colorado Household Survey 2008-2009

"The minimum size for a credible risk pool is generally perceived to be about 100,000 lives."

Source: Linda J. Blumberg, *Timely Analysis of Immediate Health Policy Issues: Multi-state Health Insurance Exchanges*, Urban Institute & Robert Wood Johnson Foundation (RWJF), April 2011 http://www.rwjf.org/files/research/72109multistateexchanges201104.pdf

Considerations of Combined Risk Pools

Attachment A contains the findings of a series of different organizations that have reviewed this issue, from the American Academy of Actuaries, National Association of Health Underwriters to a series of states implementing Health Benefit Exchanges. The document outlines the organization, their recommendation, any actuarial studies provided and a summary of their research and findings.

At the highest level, the advantages to combining the risk pools include:

- Combining the risk pools could create a larger risk pool over time.
- Combining functions of certification and rating of qualified health plans could be cost effective.
- A larger risk pool may attract new insurers to enter the market.
- It could ease the transition for groups who move between individual and employer coverage as circumstances change.

Disadvantages:

- Moving to guaranteed issue in the individual market as required 1/1/14 will have a large impact by itself. Merging the markets at the same time will add additional disruption and create instability in both markets.
- Merging of risk pools creates additional uncertainty for premium rating.
- There will be initial administrative costs to insurers.
- Operations such as employer contributions to premiums, billing and enrollment processes are different for employer groups which would result in additional operational changes, changes to processes and procedures and disruption to the market.
- It is difficult to predict the net effect on the risk pool if they were combined.
- It could discourage insurers from offering coverage if they don't want to offer coverage for individual and small group.

If you take each of COHBE's goals and objectives stated above, there is uncertainty regarding the effect that merging the risk pools will have on premium affordability within each market, that it may increase volatility and that it may have the potential to increase adverse selection.

There are conflicting views on the impact on carrier participation and although there may be cost savings in the long term – the general consensus is that the additional changes will increase administrative costs in the short run.

The Small Employer Workgroup, composed of key stakeholders from throughout our state, studied this issue and recommended that the risk pools should not be combined.

Recommendation

Given that the current individual and small group market risk pools individually exceed the anticipated size needed to maintain a stable risk pool, merging the markets at this time brings greater potential disruption than benefit. We recommend that Colorado keep the risk pools separate while the exchange is in the process of implementation and revisit the decision at a later date.

Attachment A
Review of Risk Pool Studies and Recommendations for COHBE Board of Directors

(February 27, 2012)

Organization/Entity
National Association of Health Underwriters
Summary
The National Association of Health Underwriters concluded that not requiring health insurance carriers to mix market types within their underlying exchange risk pools will promote greater long-term health insurance market and exchange stability than if the markets were merged. Combining the individual and small-group market risk pools would likely cause adverse selection to the small-group pool. This would lead to higher costs to the exchange's participating consumers and health plans and the insurance marketplace in general.
Source Information
"Policy Recommendations for Establishing a Health Insurance Exchange", National Association of Health Underwriters, September 2010 http://www.nahu.org/legislative/connector/Exchange%20Recommendations.pdf
Recommendation
The individual and small group risk pools should remain separate.

Organization/Entity
American Academy of Actuaries
Summary
The American Academy of Actuaries paper states that if a guaranteed-issue individual market is merged with the existing small-group market rates in the combined market can be expected to increase. These rates may increase rapidly if employers and individuals realize that they can defer the purchase of insurance until there is a need for care resulting in adverse selection.
Source Information
"Critical Issues in Health Reform: Merging the Small Group and Individual Markets", American Academy of Actuaries, September 2009 http://www.actuary.org/pdf/health/merging_markets_sept09.pdf
Recommendation
No clear recommendation was made because of the difficulty to predict how merging markets would react. Projections related to increases in rates do not support merging the markets based on COHBE's outlined goals.

Organization/Entity
Center on Budget and Policy Priorities
Summary
Due to the large number of anticipated changes in the individual and small group markets required 1/1/2014, The Center on Budget and Policy Priorities stated it would be a good approach to first implement federal premium rating rules in the two markets separately before considering merging the markets. After the new rules are in place in both the individual and small-group markets it may be easier for a state to merge these markets. Because the new premium rating rules will be consistent across the individual and small-group markets and will have been in effect for several years, these markets could be merged within an exchange at that time with less risk of market disruption. Eventually merging the markets would lead to a larger pool of people to spread risk between the health and sick and overall stability.
Source Information
"States Should Structure Insurance Exchanges to Minimize Adverse Selection", Center on Budget and Policy Priorities, August 2010 http://www.cbpp.org/cms/index.cfm?fa=view&id=3267
Recommendation
There has been no explicit recommendation, but Center on Budget and Policy Priorities did state it would be a good approach to first implement federal premium rating rules in the two markets separately before considering merging the markets.

Organization/Entity
Urban Institute Health Policy Center
Summary
Researchers at the Urban Institute Health Policy Center developed a Health Insurance Policy Simulation Model to determine different outcomes resulting from various exchange design options. One design option involved merging the small and individual risk pools. The Simulation Model showed that merging the small-group and individual markets would result in 1.7 million more people nationwide participating in the exchanges. The merger would also result in greater affordability of individual coverage and thus more people would gain coverage (approximately 1.0 million more than if the risk pools were not merged). Premiums were expected to decrease by 10 percent in the individual market and remain relatively unchanged in the small group market.
Source Information
"How Choices In Exchange Design For States Could Affect Insurance Premiums And Levels Of Coverage" Urban Institute Health Policy Center, 2012, *Health Affairs* 31(2): 290–298 http://content.healthaffairs.org/content/31/2/290.abstract
Recommendation
Merging the risk pools as simulated in the model would result in decreased uninsurance and lower premiums in the individual market.

Organization/Entity
Milliman, Actuarial and Consulting Firm
Summary
Both negative and positive consequences could result with the merger of the two markets. Merging the markets may create a hidden tax on small employers. On the other hand, this subsidy from small groups to the individual could help make individual policies more affordable. Merging the markets has the potential to decrease the number of uninsured people.
Source Information
"Top 10 Actuarial Issues for a Health Exchange", Milliman Healthcare Reform Briefing Paper, March 2011 http://www.ksinsurance.org/hbexplan/files/20110310_gpid4_top-10-actuarial-issues.pdf
Recommendation
No explicit recommendation was made. Merging the markets or keeping them separate both have their advantages and disadvantages.

Organization/Entity
Colorado Association of Commerce and Industry
Summary
CACI recommends that the Exchange would be better off keeping the individual and small group risk pools separate. The separation of the risk-pools is a necessary step to prevent adverse selection and small group rate increases.
Source Information
"Stakeholder Perspectives: Health Insurance Exchange Governance and Structure", State of Colorado, December 2010 http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251739332916&ssbinary=true
Recommendation
The individual and small group risk pools should remain separate.

Organization/Entity
Denver Metro Chamber of Commerce
Summary
The Denver Metro Chamber of Commerce concluded that having one administrative structure with separate risk pools for individual and small group markets is important.
Source Information
"Stakeholder Perspectives: Health Insurance Exchange Governance and Structure", State of Colorado, December 2010 http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251739332916&ssbinary=true
Recommendation
The individual and small group risk pools should remain separate.

Organization/Entity
Small Business Majority
Summary
Small Business Majority states that if the individual and small employer risk pools are merged, they should do so several years after the major market reforms, particularly after those related to premium rating rules are instituted in 2014. This would limit the premium rate disruption that might occur when the markets are combined.
Source Information
"Small Business Health Insurance Exchange Checklist", Small Business Majority, 2011 http://smallbusinessmajority.org/state-activity/toolkit/Small_Business_Health_Insurance_Exchange_Checklist.pdf
Recommendation
No explicit recommendation was given, however, the Small Business Majority did conclude that potential rate disruption is reason to defer the decision.

Organization/Entity
Colorado Association of Health Plans
Summary
The Colorado Association of Health Plans concluded that Exchanges can minimize market disruption through thoughtful, incremental implementation. Colorado should therefore keep the individual and small group risk pools separate.
Source Information
“Stakeholder Perspectives: Health Insurance Exchange Governance and Structure”, State of Colorado, December 2010 http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251739332916&ssbinary=true
Recommendation
The individual and small group risk pools should remain separate.

Organization/Entity
Colorado Group Insurance Association
Summary
CGIA determined that there should be separate risk pools for the individual and small group markets. Combining the two risk pools should not be done until such a time when the pricing differential is minimal. By combining risk pools, the impact to the small group market will be increased rates due to adverse selection present in the individual market.
Source Information
"Stakeholder Perspectives: Health Insurance Exchange Governance and Structure", State of Colorado, December 2010 http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251739332916&ssbinary=true
Recommendation
The individual and small group risk pools should remain separate.

Organization/Entity
Rocky Mountain Health Plans
Summary
Rocky Mountain Health Plans outlines that Colorado should not merge the markets until such time, if any, that premium differentials between the two become minimal. Small employers who continue to provide insurance for their employees should not bear any additional increased expense and premium that could result from the merging of the risk pools. Additionally, merging the two risk pools initially will eliminate all differences between the two and may encourage employers to stop providing health insurance and have their employees seek individual coverage though the Exchanges.
Source Information
"Stakeholder Perspectives: Health Insurance Exchange Governance and Structure", State of Colorado, December 2010 http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251739332916&ssbinary=true
Recommendation
The individual and small group risk pools should remain separate.

Organization/Entity
WellPoint
Summary
WellPoint states that it is important for states to maintain separate and distinct markets for individuals and small groups. These separate markets would include separate risk pools, as combining risk pools for the individual and small group markets is likely to lead to higher rates for small groups due to adverse selection.
Source Information
"Stakeholder Perspectives: Health Insurance Exchange Governance and Structure", State of Colorado, December 2010 http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251739332916&ssbinary=true
Recommendation
The individual and small group risk pools should remain separate.

Organization/Entity
State of Maryland
Summary
Maryland formed an advisory committee to conduct background research on the risks associated with merging the individual and small group risk pools. They identified significant risks to merging the markets in 2014, including increased premiums, small groups switching to self-insurance, and small groups dropping coverage. The committee concluded merging the markets in 2014 would have a negative impact on premium rates. There was too much uncertainty to merge at this time and keeping the markets separate would allow the Exchange to focus on core deliverables without adding potentially disruptive requirements.
Source Information
"Recommendations for a Successful Maryland Health Benefit Exchange: A Report to the Governor and Maryland General Assembly", Maryland Health Benefit Exchange, December 2011 http://dhmh.maryland.gov/healthreform/exchange/pdf/HB0166_MHBE-Report_of_2of2_12-23-11_OGA_1204.pdf
Recommendation
The individual and small group risk pools should remain separate.

Organization/Entity
State of Ohio (Milliman Study)
Summary
Milliman, Inc. was retained by the Ohio Department of Insurance to assist in the first-year planning of a Health Benefit Exchange. Actuarial analyses showed health benefit plan costs (premium plus member cost-sharing) in Ohio would decrease 3% to 7% for individuals and increase 4% to 8% for small groups if the markets were to merge. These changes were made in comparison to the expected health benefit plan costs in a mature year after the required changes are made to the market, if the markets were not merged. Milliman estimated that merging the ESI-small group and individual health insurance markets in Ohio would result in a 30,000-50,000 decrease in enrollment for the ESI-small group market and a 20,000-40,000 increase in enrollment for the individual health insurance market. Merging the markets would also impact carrier participation in the exchange. "If the markets were to merge, a requirement for carriers to participate in the merged market may be necessary to avoid a situation where carriers choose to participate in only the preferred health status ESI-small group market. Some carriers may not have the capability or desire to serve both markets and therefore may choose to exit if the markets were merged. Merging the markets may also limit new carrier entry. Fewer carriers in the market may lead to less competition and higher premiums."
Source Information
"Assist with the first year of planning for design and implementation of a federally mandated American Health Benefit Exchange", Milliman Client Report prepared for the Ohio Department of Insurance, August 2011 http://www.ohioexchange.ohio.gov/Documents/MillimanReport.pdf
Recommendation
"Monitor the emerging experience resulting from the changes to the markets before making a decision to merge them."

Organization/Entity
State of Indiana (Milliman Study)
Summary
Milliman, Inc. prepared an issue brief for the Indiana Health Care Exchange Policy Committee in which it suggests that Indiana may wish to experience the changes to the markets before making a decision to merge them. Milliman estimated that health benefit plan costs (premium plus member cost-sharing) in Indiana will decrease 1% to 2% for individuals and increase 4% to 6% for small groups if the markets were merged, in comparison to the expected health benefit plan costs in 2019 if the markets are not merged. Milliman estimated that merging the individual and small group markets in Indiana was expected to result in a 30,000 to 60,000 decrease in enrollment for the small group insured market and a 20,000 to 40,000 increase in enrollment for the individual market.
Source Information
"Merging the Individual and Small Group Markets", Milliman Health Care Exchange Issue Brief: Indiana Exchange Policy Committee, May 2011 http://www.in.gov/aca/files/Merge_Ind_SG.PDF
Recommendation
"Monitor the emerging experience resulting from the changes to the markets before making a decision to merge them."

Organization/Entity
State of Rhode Island
Summary
According to the Urban Institute, Rhode Island initially declined to pursue a merger, but the state will likely commission another study to determine if the markets can be merged in a way that avoids significant premium increases for low-risk individuals in the individual market.
Source Information
"ACA Implementation—Monitoring and Tracking, Rhode Island Site Visit Report", Urban Institute and Georgetown University, February 2012 http://www.urban.org/UploadedPDF/412502-ACA-Implementation-Monitoring-and-Tracking-Rhode-Island-Site-Visit-Report.pdf
Recommendation
The decision was made to not merge at this time and conduct future analyses to determine if a merger would negatively impact populations in the individual market.

Organization/Entity
State of California (Institute for Health Policy Solutions)
Summary
The Institute for Health Policy Solutions considered California's Exchange legislation (AB 1601) a prudent approach to deciding whether or not to merge the risk pools. In the legislation there is a requirement to conduct study and offer a recommendation about keeping the risk pools separate or merged based on at least two years of data after the Exchange begins operation. Small business groups across the state almost invariably believed that merging the markets would increase their premiums.
Source Information
"Small-Employer ("SHOP") Exchange Issues", Institute for Health Policy Solutions, May 2011 http://www.healthexchange.ca.gov/Documents/Small%20Employer%20%28SHOP%29%20Exchange%20Issues.pdf
Recommendation
The individual and small group risk pools should remain separate for the time being and a study should be done no sooner than two years after implementation of the exchange to determine if merging the markets would be beneficial.

Organization/Entity
State of Illinois
Summary
The Illinois Health Benefits Exchange Legislative Study Committee recommended that Illinois not merge the individual and small group markets immediately, but rather monitor the markets after implementation. Research estimates suggest rates and coverage in the individual market would likely increase significantly and rates in the small-group market would likely decrease minimally.
Source Information
"Illinois Exchange Needs Assessment Final Report and Findings", Wakely Consulting Group, Government Solutions, Health Management Associates, September 2011 http://www.ilga.gov/commission/cgfa2006/upload/09202011IHBELSCslides.pdf
Recommendation
Not to merge the individual and small group markets immediately and monitor markets after implementation.

Organization/Entity
State of Connecticut
Summary
The Speaker's Working Group on Small Business Health Care recommended that Connecticut strongly consider merging the individual and small group markets inside and outside the exchange. Their rationale was that aggregating risk creates efficiencies, enhances bargaining power and better distributes the cost of claims. This would result in more rate stability and predictability. Additionally, this change would enable individuals leaving small group plans to maintain their coverage. Individuals and small groups would benefit by being part of a larger pool, which can mitigate the potential for annual premium spikes. The exchange would still provide services to help small employers run their insurance plans.
Source Information
"Speaker's Working Group on Small Business Health Care: Report and Recommendations", State of Connecticut, January 2012 http://www.housedems.ct.gov/Megna/pubs/SBHC_Report_01-30-12-Fc.pdf
Recommendation
Connecticut should strongly consider merging the individual and small group markets.

Organization/Entity
State of Washington
Summary
"Merging the markets will impact enrollment and relative premium levels for (a) plans in the Exchange, (b) Individual and Small Group plans outside the exchange, (c) Association plans, and (d) a federal Basic Health program - if the state adopts one. Before making a decision to merge markets, Washington State and the Exchange may want to study these effects. " In Washington State, the Individual and Small Group markets have similar regulatory rules and therefore some barriers to merging do not apply in the state. However, there are still practical obstacles to merging the markets such as the impact merging may have on carrier administrative structures. Small employers might view a merged market as disadvantageous, and therefore would be more inclined to self-insure, move to "defined contribution" coverage and/or drop health insurance coverage.
Source Information
"Issue Brief #7: Managing Health Insurance Expenditure Risks for Washington State's Exchange", Washington State Health Benefit Exchange Program, January 2010 http://www.hca.wa.gov/hbe/documents/issue_briefs/exchange_riskmanagement.pdf
Recommendation
No explicit recommendation was given, but the report emphasized that the decision to merge markets can be delayed until the dynamics of Washington State's health insurance markets with an Exchange can be studied.