Work Group Assumptions Regarding the "Core" Population in the Exchange

- The exchange's core population is made up of individuals accessing financial assistance:
  - 150-300% FPL via premium assistance
  - 300-400% FPL via affordability tax credits
- To these groups could be added all other workers and dependents of "pay" employers
- Coverage must be affordable and accessible for these populations.
- The exchange is mandatory for these populations, which makes it possible for the exchange to act at Tier 2 or 3 – working with insurers to contract for quality products/good prices for the core population.
- Insurers will want to offer good prices to the exchange in order to enroll people who can only be reached through the exchange.
- The core population will access "mainstream" products (the same products available to unsubsidized individuals using the exchange).

Discussion Item

The Exchange Work Group has expressed support for the following:

- Include "self-pay" individuals above 400% (self-employed or non-employed) in the exchange on a voluntary basis.
- Utilize one cohesive risk-spreading pool for all enrollees in the individual market, with rates based on each carrier's medical experience for all enrollees. The medical component of rates would be the same for the same product offered inside and outside the exchange.
- Allow the exchange to function at Tier 2 or 3 (set standards for carrier participation and/or negotiate with carriers regarding standards for participation).

But: allowing unsubsidized individuals to voluntarily enter the exchange causes technical problems for an exchange expected to function at Tier 2 or 3.

- In order for the exchange to succeed with voluntary entry, rates must be the same inside and outside the exchange. Otherwise, adverse selection will very likely occur.
- However, to function most effectively at Tier 2 or 3, the exchange would need the flexibility to negotiate different rates.
- The state, like a very large employer, has purchasing clout because it requires people to obtain coverage through the applicable program. This gives the state "cohesion". Insurers contract with the State in order to reach a large enrollee population that cannot otherwise be reached. Such purchasing power can not be achieved merely by having the exchange declare itself a purchasing venue for individuals and small groups that can still contract directly with an insurers.
- In a voluntary market, the exchange has reduced clout. Insurers may not want to offer a reduced administrative rate component to the exchange for people they already enroll

directly in the market. Insurers also do not have an incentive to establish cost containment strategies that would reduce costs within the exchange. If the exchange wanted to innovate on the medical delivery component, would insurers want to participate in such efforts?

- Higher prices for the non-subsidized population, if applicable to the core exchange population, will increase state subsidy costs. However, separating subsidized and unsubsidized populations into two risk pools could lead to overall higher premiums for subsidized individuals, depending on the risk profiles of the various groups.
- The only ways for the exchange to have clout on cost management are: (1) for the exchange to have a separate risk pool for the subsidized group or (2) by having the exchange drive the market with changes in the subsidized arena that then affected the rest of the individual market, to the benefit of the direct market consumer.
- If the "core" population for the exchange was much bigger than the individual and small employer markets, the impact of a voluntary market would not be so problematic. Initial estimates of the various populations involved do not suggest that the subsidized population is large enough to outweigh the effect of voluntary unsubsidized individual and small employer markets.
- One option is for the exchange to run two separate programs: one for individuals accessing subsidies and other financial assistance (tax credits, 125 plan funds); the other for unsubsidized individuals and small employer groups. The subsidized population in this first group is mandated to use the exchange, which gives the exchange the power to negotiate on their behalf. For the voluntary, unsubsidized population, the exchange will act mostly in a "tier 1" capacity.

Options

Option	Population	Voluntary/ Mandatory	Exchange Operates at What Tier	Considerations
A	150-400% FPL	Mandatory	Tier 1	Unlikely to drive value in the system
	400%+ FPL	Voluntary	Tier 1	
B	150-400% FPL	Mandatory	Tier 2-3	If Tier 2-3 for subsidized population and Tier 1 for others, could have separate "doors" with separate product offerings (like MA's Commonwealth Care vs. Choice).
	400%+ FPL	Voluntary	Tier 1 or 2-3	
C	150-400% FPL	Mandatory	Tier 2-3	Would exclude a population that the work group would like included.
	400%+ FPL	Excluded	Not Applicable	
D	150-400% FPL	Mandatory	Tier 2 – 3	Reduces choice for 400%+ FPL population, lets exchange negotiate on behalf of whole population
	400%+ FPL	Mandatory	Tier 2 – 3	