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U.S. Health Insurance Exchanges: The Basics

On March 23, 2010, President Barack Obama signed into law the Patient Protection and Affordable Care Act of 2010 (PPACA) [1]. The purpose of this law is to provide a mechanism for millions of individuals and employees of small businesses to obtain access to health insurance [2]. If an individual currently has health insurance, they are permitted to maintain that coverage [3]. The PPACA includes many consumer safeguards, including: prohibiting individual and group plans from placing lifetime limits on coverage; prohibiting insurers from rescinding coverage of consumers, except in fraud cases; establishing a temporary high-risk pool to individuals that have pre-existing conditions; and requiring health plans to report the percentage of dollars spent on clinical services and quality for patients (also called "medical loss ratios") [3, 4].

The Exchanges are intended to create: a more organized and competitive health insurance market; offer a choice of health plans; establish common rules regarding the offering and pricing of insurance; and to provide better information to consumers on their options [8].

It is estimated the law will reduce the number of uninsured individuals by approximately 32 million persons [5]. This will leave another 23 million non-elderly (under age 65) individuals without health insurance, though approximately one-third of this group would be unauthorized immigrants [5]. States are required to have an Exchange operational by January 1, 2014 however they must give themselves legal authority to create these Exchanges [1, 6]. States must submit "Exchange plans" to the Federal government detailing how they will meet Federal regulations in operating the Exchange [7]. If a state fails to create an Exchange, or show sufficient progress in doing so, by January 1, 2013 the Secretary of Health and Human Services will implement and operate an Exchange in that state [1]. The Federal government has recently proposed new regulations to give states "conditional approval" to continue planning into 2013 if major steps have been made but are not ready for implementation [7].

What is an Exchange?

On January 1, 2014, PPACA will require most U.S. citizens and legal residents to have health insurance; this is commonly referred to as the "individual mandate" [4]. Individuals without qualifying coverage must pay a tax penalty, which will increase each year the person does not obtain qualifying coverage. Individuals wishing not to participate in the exchange must obtain an exemption certificate [1]. Exemptions may be granted for such things as financial hardship, religious objections, and undocumented immigrants [4].

Premium and cost-sharing subsidies will be available for low-income individuals or families that fall within an income level between 133-400% of the federal poverty level (FPL) (in 2009, the FPL was $18,310 for a family of three) [4].

Under PPACA health insurance coverage can be obtained by individuals through the American Health Benefit Exchanges and for employees of small businesses with up to 50 employees (100 by 2016) through the Small Business Health Options [8, 9]. By 2019, it is estimated that approximately 24 million people will purchase their own health insurance coverage through these Exchanges [8].

The Exchanges will include four tiers of benefits from which individuals and small businesses may choose: Bronze, Silver, Gold, or Platinum. A separate catastrophic plan will also be available [4].

- Bronze – This is minimum coverage and provides the essential health benefits. The plan will cover 60% of benefit costs and include out-of-pocket limits equivalent to that allowed by law for the Health Savings Account (HSA). The limit in 2010 was $5,950 for individuals, and $11,900 for families.
- Silver - This plan provides the essential health benefits and covers 70% of benefit costs. It also includes the HSA out-of-pocket limits.
- Gold – This plan provides the essential health benefits and covers 80% of benefit costs. It also includes the HSA out-of-pocket limits.
- Platinum - This plan provides the essential health benefits and covers 90% of benefit costs. It also includes the HSA out-of-pocket limits.
- Catastrophic – this plan is only available in the individual market for those under age 30 or exempt from the individual mandate to purchase coverage. It provides catastrophic coverage at HSA levels but prevention benefits and primary care visits are exempt from the deductible [4].

Expansion of Public Programs

To ensure that individuals below 133% of the FPL are covered, and because they are the least likely to be able to afford coverage, public programs such as Medicaid and the Children's Health Insurance Plan (CHIP), will be expanded under PPACA [4]. The PPACA will expand Medicaid to all non-Medicare individuals (under age 65) with incomes up to 133% of FPL. This will add approximately 16 to 20 million individuals to Medicaid, potentially reducing the number of uninsured in the U.S. by around 59% [10]. To expand Medicaid to cover this new group of individuals, the Federal government will provide 100% Federal funding for 2014 which will gradually reduce to 90% for 2020 and following years [4]. States will be required to maintain current incomes levels for both Medicaid and CHIP until 2019, and extend CHIP funding for children through 2015 [4]. Children unable to be enrolled in CHIP due to enrollment caps may be eligible to receive tax credits to obtain coverage in the state Exchanges [4]. Undocumented immigrants are not eligible for Medicaid [4].

Financing

The Congressional Budget Office (CBO) estimates that PPACA will reduce the Federal deficit by $124 billion over the years 2010-2019 [5]. Federal grants will be available from late 2010 to 2014 to assist the states in planning, establishing, and initially operating the Exchanges [9]. Grants will be non-renewable after December 31, 2014, and the Exchanges must be self-financing from 2015 and beyond [9]. Exchanges could generate revenues through either a portion of the premiums or from direct payments from participating insurance carriers [9].

Conclusion

Health insurance exchanges will provide states an opportunity to expand access and improve the affordability of health coverage. While the long-term impact of the exchanges on the overall cost of care will not be known for certain for many years, the health insurance exchange will have a dramatic effect on the healthcare market place by reducing the number of uninsured Americans.

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