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ALLOWING MULTIPLE INSURANCE EXCHANGES IN A SINGLE AREA WOULD MAKE IT HARDER TO OBTAIN AFFORDABLE, GOOD-QUALITY COVERAGE

by Sarah Lueck

The new insurance exchanges that policymakers are contemplating as part of national health reform could greatly improve people's access to affordable, decent-quality health insurance, reduce insurers' ability to "cherry pick" healthy enrollees, and help reduce administrative costs within the health insurance market. But allowing *multiple* exchanges to participate in the *same* geographic area, as some have recommended,[1] would undermine these goals by complicating consumers' decision-making, permitting continued cherry picking, and increasing administrative costs. Multiple exchanges would also diminish the ability of an exchange to improve efficiency by creating a well-functioning marketplace.

An insurance exchange would be a new entity that would organize a choice of health insurance plans for individuals. If properly designed, an exchange could help individuals — particularly those who lack the aid of an intermediary such as an employer — to compare multiple health insurance plan options. The exchange should facilitate such comparisons by making plans available only if they meet minimum standards for benefits and have benefit designs with a limited degree of variation. The exchange should operate at a national level; or, if exchanges operate at state or regional levels, they should follow uniform national standards that guarantee decent-quality coverage no matter where a person lives. The exchange should protect people against exorbitant out-of-pocket costs and should not permit insurers to use benefit design or other methods to avoid sick enrollees or attract only the healthy.[2]

Allowing multiple exchanges within the same area, however, would:

- **Complicate consumer decision-making.** In addition to having to consider multiple insurance plans from different companies, people would have to select which exchange to use before they even begin comparing plans. This would add an unnecessary layer of complexity to

[1] Stuart M. Butler, "Coverage Issues in Health Reform," The Heritage Foundation, Statement to the Senate Finance Committee Roundtable, May 5, 2009. See also Senate Finance Committee, "Description of Policy Options, Expanding Health Care Coverage: Proposals to Provide Affordable Coverage to All Americans," May 14, 2009 (which included multiple exchanges as a policy option).

[2] Sarah Lueck, "Rules of the Road: How an Insurance Exchange Can Pool Risk and Protect Enrollees," Center on Budget and Policy Priorities, March 31, 2009.

the already complicated endeavor of ensuring that individuals make informed choices about health coverage.

- **Permit continued cherry picking.** Multiple exchanges also would make it easier for insurers to continue to engage in cherry picking. If insurers can choose which exchange to participate in, they are likely to opt for exchanges that are more attractive to healthier enrollees with lower medical costs. That may discourage sicker people from purchasing coverage through those exchanges.

  For example, an exchange could market itself primarily to younger, healthier people and thus allow participating insurers to enroll primarily those individuals, while avoiding costlier groups. If insurers can make money simply by attracting customers with lower health costs, they are less likely to compete based on the price and quality of their products — the sort of competition that is essential to improving the value of coverage options and reducing costs.

  Even if insurers were required to participate in each of the multiple exchanges available in an area, insurers still could cherry pick if they were able to offer different products or vary the premiums they charge in different exchanges. For example, an insurer could attract a healthier group of enrollees by selling insurance products aggressively, including by offering very low premiums, in an exchange with a pool of healthier individuals. Meanwhile, in exchanges more likely to attract sicker people, the insurer could sell higher-priced products or plans that provide less-comprehensive coverage of the services that people in poorer health are likely to need.

- **Increase administrative costs.** If there were multiple exchanges in the same area, the exchanges would have to spend money on marketing and advertising in order to attract customers. Insurers, too, would likely have to spend more on marketing than they otherwise would. These additional expenses would increase the cost of health insurance without broadening benefits or otherwise improving coverage.

Establishing a strong regulatory regime and consistent rules for all exchanges might reduce (though not eliminate) the problematic marketing tactics described above. Nevertheless, allowing multiple exchanges in a single area would unnecessarily complicate regulators' task and make it more difficult for them to protect consumers from harm. In addition to making sure insurance companies and the products they sell meet the necessary requirements, regulators would have to see that the exchanges in the area played by the rules as well.

Also, permitting multiple exchanges in a single area would require a vastly more complex risk-adjustment system. Risk adjustment provides higher payments to insurers enrolling higher-cost beneficiaries, while lowering payments to plans enrolling healthier individuals with lower-than-average costs. In areas with multiple exchanges, the risk-adjustment mechanism would have to compensate for risk differentials across the various exchanges, as well as among the insurers within each exchange. This would make it more difficult to risk-adjust accurately.

Permitting multiple exchanges in a single area would also create a need for rules to reduce insurers' ability to selectively participate in the exchange or take other steps that would segment people into separate exchanges based on health risk and other factors. Requiring insurers to offer the same products at the same prices in all competing exchanges would help address this problem, but then what would be the benefit of having multiple exchanges? People would face more complexity when searching for health insurance, and regulators would have more difficulty protecting consumers, but the existence of competing exchanges would do nothing to drive insurers to offer better benefits at lower prices.

Finally, one important reason to create an exchange is the hope that it will reduce costs by allowing insurers to reduce their marketing budgets and diminishing the destabilizing effect of "churning" as individuals search across markets for lower premiums.[3] Multiple, competing exchanges would dilute the ability of any one exchange to reduce costs in these ways.

For all of these reasons, policymakers should reject the idea of allowing multiple exchanges in a single area and focus instead on creating one well-organized marketplace that will help achieve the goals of health reform.

[3] Linda J. Blumberg and Karen Pollitz, "Health Insurance Exchanges: Organizing Health Insurance Marketplaces to Promote Health Reform Goals," Robert Wood Johnson Foundation and the Urban Institute, April 2009.