Wait-And-See On California's Health Care Exchange

By: Dan Mangan – May 29, 2013

The much-anticipated California's health insurance exchange may well end up being a model for other states to follow—but there's no guarantee they will rush to imitate the Golden State's handling of that key aspect of Obamacare, health care analysts said

Instead, observers said, other states that are already on track to implement their own insurance exchanges are likely to take a wait-and-see approach on whether they should adopt details of California's exchange—which to much fanfare last week revealed the names of 13 insurance plans that will begin proving coverage to individuals in 2014.

Those details include a so-called "active" approach by the state in negotiating with insurance providers to make premiums for individuals more affordable. They also include California's making sure there are standard benefits within four coverage categories so people can make an "apples-to-apples" comparison when deciding which plan makes the most sense price-wise.

"In terms of replicability, I don't know if it [California's insurance exchange] will replicated in year one, because the cake is sort of baked in year one, and it will take some time for other states to get over not just their technical but their political hurdles," said Anthony Wright, executive director of Health Access California, a statewide health-care consumer advocacy coalition.

"There's stuff that can be replicated, but it may not be this year. My hope is that for at least some of the exchanges, they can see what California did out of the box and make some changes," Wright said.

California was early to announce it would implement a state-based marketplace for health insurance under the Affordable Care Act.

And it is just one of 16 states, along with the District of Columbia, on track to operate such an exchange—which is supposed to give people and small businesses a choice of competitive and affordable health insurance packages.

Other states opted out of that state-based model—at least for now—and are relying on a federally-facilitated exchange to provide people with that coverage, or entering into a partnership with the federal exchange.

The Golden State's size, its early embrace of Obamacare and the fact that it will represent a significant fraction of Americans eligible for state-based insurance exchanges have focused attention on California's exchange. Up to five million people could sign up under California's exchange.

"Over the past year or two of the process leading up, I've had more awareness of what's going on in California than in other states," said Paul Ginsburg, president of the Center for Studying Health System Change, based in Washington, DC.

Ginsburg noted that most states planning a state-based exchange "so far have used the passive model" in choosing insurance plans to participate, letting plans decide whether they want to opt in to their exchange, instead of setting up hurdles such as negotiated rates that could keep them out or discourage them from participating.

In California's active model, state regulators negotiated rates with insurance companies, keeping some from participating in the exchange. UnitedHealth,Aetna and Cigna all chose not to participate in the first year.

"I think we're a long way out from being able to draw any conclusion of how California is doing by using the active model compared to states that are using a passive model -- a couple of years out," Ginsburg said.

He also said that unlike California's model -- which will give consumers a choice of standard benefits from different plans to choose from within a given tier -- "I think we'll see a whole lot of variation" in the plans offered by other states' exchanges.

He said that could well mean higher costs for consumers in those states, and bigger profits for insurers.

"I anticipate there will be less guidance [for consumers] in benefits decisions, and I think that's going to make the market less competitive," Ginsburg said.

But Gary Claxton, vice president of the Henry J. Kaiser Family Foundation, said that while "there's a lot of natural inclination against regulation" in many states, "my guess is that over time there's going to be some sort of constraint" on variations between benefits offered by plans in state exchanges.

Claxton predicted that consumer demand will spur a trend toward more standard benefits for plans competing on exchanges.

Claxton said "there's an argument on both sides" on the question of whether California's policy of negotiating with plans over premiums is better than other states' policy of letting an "open exchange" provide competition between plans.

But, he added, if California's model "ends up producing lower premiums" for consumers, "then more states will do it."

Covered California, which is administering the exchange, last week boasted about the premiums when they were announced last week.

"These rates are way below the worst-case gloom-and-doom scenarios we have heard," said Covered California Executive Director Peter Lee. He nonetheless conceded "some consumers will have prices that go up . . . There may be some sticker shock."

Covered California said that next year's premiums for individuals who buy insurance from the exchange will range from 2 percent above to 29 percent less than the average premium in 2013 for plans offered by small employers in California's more populous regions.

Covered California called that comparison "a valuable frame of reference" because both markets are competitive and bar denial of coverage for pre-existing conditions.

But Michael Cannon, director of health policy studies for the Washington, DC-based Cato Institute, said California's estimates of costs to consumers are misleading by comparing apples-to-oranges, and also by using already-outdated premiums for small employers as a reference.

"What they did with the numbers they released, was they used the average impact, rather than the impact on individuals," Cannon said. "Healthy folks in California are going to be seeing the biggest jumps" in premiums offered through the exchange, he said.

"One way that other states are likely to follow California's lead is they're going to be providing misleading estimates of the costs of health under Obamacare," Cannon predicted.

Cannon, who opposes Obamacare altogether, said states with an exchange would be unwise to adopt California's "policy lever" of pressuring companies to offer reduced premiums to individuals.

"That's providing another incentive for providers to skimp on care of the sick," Cannon said. "They've got to make up the gap somewhere."