

# Blue Perspective



**BlueCross BlueShield  
Association**

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## BCBSA Position on Legislative and Regulatory Issues

### **Exchange Design Should Emphasize Effective Choice and Competition**

*A State-Based “Orbitz” Model Can Best Accomplish Reform Goals*

**Issue:** Recent healthcare reform proposals would create health insurance purchasing arrangements called “exchanges” or “gateways”. Some proposals would design exchanges under a competitive model, while others would take a highly regulatory approach. Several of these proposals would also provide strong incentives to purchase coverage through an exchange, such as making exchanges the sole source for obtaining subsidies.

**Position:** The Blue Cross Blue Shield Association (BCBSA) strongly supports comprehensive healthcare reform that extends coverage to all Americans, reduces costs, and improves quality. BCBSA believes reform goals can be achieved through state-based exchanges – State Insurance Marts (SIMs) – that promote competition, respect the role of states and preserve employer coverage that already works for 160 million Americans. We are concerned that certain proposals could:

- Force consumers to switch plans and erode employer coverage;
- Constrain competition by adopting an overly regulatory approach;
- Break up employers by permitting employee choice of plans;
- Create an unlevel playing field by exempting exchanges from state law; and
- Create costly, duplicative administrative structures.

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### **BCBSA’s Recommended Exchange Model**

BCBSA proposes State Insurance Marts as a less costly, less complex alternative to creating a new purchasing agency. The SIM model would leverage the regulatory infrastructure that exists today at the state level to ensure that exchanges can be implemented quickly while maintaining effective state regulation of insurance. The SIM model would provide a central point in each state where small employers and individuals could learn about coverage options and apply for coverage and subsidies. By encouraging all health plans to participate, the SIM model would maximize choice, transparency, and competition among health plans.

### **BCBSA Concerns with Specific Provisions in Other Proposals:**

- **Forcing Consumers to Switch Plans and Eroding Employer Coverage:** Some proposals would make the exchange the sole source for obtaining subsidies in the individual health insurance market. This would force millions of people to drop their current health plan to obtain subsidies, thereby violating the pledge many policymakers have made to assure constituents they can keep their current health plan. BCBSA recommends that subsidies be available both inside and outside of the exchange to minimize disruption for consumers.

Other proposals would allow employees to opt-out of employer coverage and alternatively collect a “credit” from an exchange to purchase individual coverage. This would cause employer-based coverage – currently enjoyed by over 160 million individuals – to erode and create severe adverse selection problems as healthier workers opt for the new credit.

- **Constraining Competition by Adopting an Overly Regulatory Approach:** Under some proposals, the exchange, rather than the marketplace, would determine what insurance products would be offered. This would stifle competition and ultimately fail to provide the choices consumers want. This is precisely what happened with state purchasing cooperatives in the 1990s, which were typically limited to HMOs and failed to attract significant numbers of small employers. A better approach is to adopt a competitive approach where all health plans could list qualifying coverage on the exchange, thus maximizing choice for small employers and individuals.
- **Breaking-up Employers by Permitting Employee Choice of Plans:** Exchanges that break up employers by permitting employee choice of plan would transform the group market into an individual market. There are 4.8 million small employers today with 32 million employees. Employee choice would result in increased costs as administrative functions would now have to be performed for each individual employee for a firm that joins an exchange. Moreover, employee choice would result in significant adverse selection problems, and choice would ultimately be limited to HMOs as products such as PPOs are driven from the exchange. BCBSA recommends that small employers continue to be permitted to select coverage from the exchange on behalf of their employees.
- **Creating an Unlevel Playing Field by Exempting Exchanges from State Law:** Some proposals would create special exemptions for coverage offered through an exchange that do not apply to the market outside of the exchange. For example, one proposal would exempt health plans sold in the exchange from state benefit mandates that would continue to apply to other health plans. There should be no differences in rating and benefit requirements inside and outside of the exchange to minimize the potential for adverse selection.
- **Creating Costly, Duplicative Administrative Structures:** It is unnecessary to build a costly, complex new infrastructure to facilitate purchasing insurance coverage. Importantly, these entities would increase premiums by duplicating administrative functions such as collecting premiums and marketing coverage. Essentially all of the proposed agencies’ functions are already performed by plans and state departments of insurance.

*The Blue Cross and Blue Shield Association is a national federation of 39 independent, community-based and locally operated Blue Cross and Blue Shield companies that collectively provide healthcare coverage for more than 100 million individuals – nearly one-in-three Americans. For more information on the Blue Cross and Blue Shield Association and its member companies, please visit [www.BCBS.com](http://www.BCBS.com).*