

**To:** Edith Ramirez, Chairwoman of the Federal Trade Commission (FTC)

**From:** Katelyn Yoo, Columbia University

**Re:** A Call for Reforming the Health Insurance Exchange Program

**Date:** April 20<sup>th</sup>, 2015

## **Executive summary**

In October 2013, the Obama administration introduced an online health insurance marketplace, called the ObamaCare Exchange (also known as the Marketplace), which allowed people to have additional access and more opportunity to buy insurance by establishing an exchange where people could shop for health insurance. Before the Affordable Care Act, most states' individual insurance markets were highly concentrated, and thus, the exchange was created to promote competition and to make health insurance more affordable and easier to purchase for small business and individuals, and it has allowed more than 8 millions of Americans to buy insurance through this platform.<sup>[i]</sup>

The Health Exchange, however, has been controversial as it not only had technical glitches during the first year of roll-out, but also was not consumer-friendly for the public. According to the National Insurance Crime Bureau (NCBI), more than 40% found the plan information difficult to understand, and needed assistance to navigate the exchange.<sup>[ii]</sup> Many were overwhelmed while shopping for insurance among 90+ plans offered by the marketplace. Many of them wished they had received help narrowing plan choices among countless of other private health insurance options.<sup>[iii]</sup> For instance, Colorado's website had difficulty determining whether people were eligible for tax credits, which has troubled many consumers to find the appropriate health insurance plan for them.<sup>[iv]</sup>

Exchange's cost effectiveness was also challenged. Exchange's implementation cost was extremely high, and the government decided to implement it to provide with a more organized and competitive market for health insurance by offering a choice of health plans for the public. This high expectation did not meet the standards of the many, and left with a legacy of skyrocketing bill. The exchange amounted to approximately 4.8 billion dollars just for planning, establishment, and early innovator grants funded by HHS, and additional 5.2 billion dollars was incurred to support Federally Facilitated Exchange (FFE) operations.<sup>[v]</sup> Consequently, it is critical to reform the current marketplace which is both cost-effective and user-friendly for customers.

This memo attempts to provide several recommendations in simplifying the Marketplace (Health Insurance Exchange) where people will choose plans best suited to their needs and preferences. We contend that the FTC considers the options and recommendations, and urge the law enforcement partners to prevent biased, unfair practices, protect the consumers, and promote competition in the U.S. First, simplify the Exchange through user-friendly options: Reduce the bias in the Exchange, limit the number of plans or benefit design insurers may offer, and adopt meaningful difference standard. Second, create a centralized Exchange platform where all states adopts a standardized framework, which can be accessed through one website instead of having all different state's marketplace. Third, establish a group of trained health insurance brokers and agencies to help consumers shop for and enroll in health coverage in the insurance marketplace. It is recommended that the FTC put forth the first option which is further elaborated in this memo; however,

please note that these recommendations are not exclusive of one another but may be complementary, and in the long run, mutually reinforcing.

The current inefficiencies and waste from the current exchange is substantial. It is critical for the FTC to urge the government to reform the current health insurance online marketplace for consumer to make optimal purchasing decisions and set the stage for future refinements. Due to the reasons provided in the report, the FTC should assist in simplifying the exchange to protect consumers and promote competition through reducing bias in Exchange, limiting the number of plans or benefit design insurers may offer, and adopting meaningful difference standard.<sup>[vi]</sup> The two options should not be disregarded; the three options are multi-tiered and they may compete for resources in the coming years.

## **Issue Statement**

The ObamaCare Exchange has been causing troubles since the launch, from technical problems in a number of states, to confusing insurance exchange plans which inadequately placed many consumers to an ill-fitting insurance plans: more than 40 percent found exchange plan difficult to understand, and many couldn't receive help and ended up uninsured or inadequately insured.<sup>[vii]</sup> These enrollees were more likely to report negative experiences related to plan understanding, satisfaction with affordability and coverage, and unexpected costs.<sup>[viii]</sup> Moreover, the information on exchange has been misleading. The health plan categories with names such as bronze (for low monthly premiums and high out-of-pocket costs) and gold (for higher monthly premiums and lower out-of-pocket costs) have had unintended effects on people's attitudes toward which plans are best.<sup>[ix]</sup> For instance, gold, silver, and bronze convey best, second best, and third best, respectively. In addition, in Washington State, the system was not correctly determining tax subsidy amount, where the system couldn't run for a few months.<sup>[x]</sup> In order to insure the 41 million uninsured individuals and to renew coverage for those who already have insurance in the U.S., it is urgent to reform the health insurance exchange program.

## **Goal**

Simplify the Marketplace (Health Insurance Exchange) where people will choose plans best suited to their needs and preferences. People would not be biased due to the design and information in the exchange; people would not find the information difficult to understand, rather would be user-friendly; and people would receive both online and in-person, easily accessible assistance when they need help navigating the exchange.

## **Policy alternatives to address the problem**

There are three different yet philosophically consistent options for FTC. We urge that FTC should prioritize these three strategies, yet prioritizing one over the other does not necessarily exclude the other options; these options are multi-tiered and they may compete for resources in the coming years. The options could be simultaneously implemented.

### **Option 1**

Simplify the Exchange through user-friendly options to improve consumers' purchasing experience by: a) Reduce the bias in Exchange, b) limit the number of plans or benefit design insurers may offer, c) standardize benefit designs, and d) adopt meaningful difference standard with in-person assistance or navigator's support. Through simplification, it would allow consumers to choose appropriate and cost-

effective insurance plan. Obama administration, state-based marketplace administrators, and FTC should work collaboratively to improve the operations of exchange.

#### **Advantages:**

1. It would simplify the exchange to be more user-friendly where people would readily understand the key details about estimate total annual costs under a series of plausible scenarios, such as expected utilization based on previous spending history, as well as under best-case and worst-case scenarios, and less focus on premiums, copayments, deductibles, and out-of-pocket maximums. [\[xi\]](#) This would allow people to easily navigate the exchange and maximize the chances that consumers will choose plans best suited to their needs and preferences.
2. The current exchange program embed biases that affects people's attitudes and choices. Consequently, this recommendation would reduce the unintended effects on people's attitudes toward which plans are best through influence of design architecture on people's choices, for instance, changing the labels (gold, silver, and bronze), and allow to pick an adequate insurance plan.
3. The exchange would increase the coverage of insured in the U.S by simplifying the marketplace which allows to be more accessible, user-friendly, and easy to understand.

#### **Disadvantages:**

1. This reformation would involve many stakeholders, which requires approval and support from them; thus, it would be an extremely difficult and lengthy process.
2. As it involves many changes in the exchange system, it not only would take a while to change, educate, and adapt the system in place, but also would be costly to implement and disseminate the revised exchange.

#### **Option 2**

Create a centralized Exchange platform where all states adopts a standardized framework which limits a number of plans or benefit design insurers may offer. This new exchange would provide all states' insurance programs and information so that it is easily accessible and comparable with different states. In order this to happen, it would need support and approval from all states to be on board, and have a focal point of the exchange from each states to communicate with different partners and states to implement this centralized platform.

#### **Advantages:**

1. The centralized exchange platform would eventually simply the current problems; it would create a user-friendly online website which is available for everyone in the U.S. with a standardized framework.
2. Easier to manage in the long run; training manual for agents of the marketplace would be standardized, insurance programs and information would be centralized in one place which is easily accessible and understood by customers.
3. It also allows the public and experts to easily compare the insurance programs within and among different states which would also encourage a more competitive and cost-conscious market.

## **Disadvantages:**

1. It would be extremely expensive to create a new, centralized exchange platform. For instance, for the current exchange program, Massachusetts' Commonwealth Connector spent more than \$26 million on vendors and contractors in 2009, \$3.4 million on employee compensation, and bloated administrative costs that already burden our health insurance.<sup>[xiii]</sup> Creating a new centralized exchange platform would be more costly, and thus need to question the value feasibility.
2. It requires all states to agree to have a centralized exchange with a standardized framework, which would be extremely difficult. All states have different health insurance exchange websites and different standards, and thus, it would be challenging to have different states and diverse stakeholders to come to one conclusion.
3. People usually do not like changes, according to the status quo bias, and thus, this plan is expected to overcome this massive inertia. This option questions the feasibility of implementation whether its existence of actual mechanisms by which the idea would be brought into practical use.<sup>[xiv]</sup>

## **Option 3**

Establish an effective Exchange Task Force of trained health insurance brokers and agencies to ensure consumers are shopping for and enrolling in adequate health plan and coverage in the insurance marketplace. The Task Force would readily support and provide consultation for consumers who needs help within 24 hours, and ensure that they would choose a fitting insurance plan.

## **Advantages:**

1. Creating an exchange Task Force would be the easiest option to implement involving the least risk, which does not require much support/approval from stakeholders, and does not affect the budget as much, compared to other options.
2. Consumers would receive readily available support from the task force if consumers are confused and need guidance for navigating the exchange. Consumers are also expected to receive consultation from the task force if they need help choosing an appropriate plan for them.

## **Disadvantages:**

1. Merely creating a task force would not change the fundamental problem. Since the structure and design of exchange do not change, many consumers would still find the information difficult to understand.
2. If the plan doesn't work out, it would be a waste of money for extra administration costs, training and implementation costs, without attempting to change the fundamental issue; thus, this option alone might not be sufficient.

## **Recommendation**

We recommend that the FTC to advocate in simplifying the Exchange through user-friendly options to improve consumers' purchasing experiences by: a) reducing bias in Exchange, b) limiting the number of plans or benefit design insurers may offer, c) standardizing benefit designs, and d) adopting meaningful difference standard with in-person assistance or navigator's support.

It is recommended that the FTC pursue a strategy that will:

- Reduce bias by taking advantage of insights from behavioral science regarding the influence of design architecture on people's choices.<sup>[xv]</sup> For instance, the website could amend the labels of bronze, silver, and gold. They could also include the estimate total annual costs under a series of scenarios instead of providing overwhelming details about premiums, copayments, deductibles, out-of-pocket maximums, and the like.<sup>[xvi]</sup>
- Limit the number of plans that insurers may offer within a specified geographic area within an individual or Small Business Health Options Program (SHOP) exchange, or limit the number of benefit designs while allowing insurers to offer multiple plans for each benefit design within the same area using different product types.<sup>[xvii]</sup>
- Standardize the benefit designs: require insurers to offer plans that reflect, at minimum, predefined deductibles, out-of-pocket maximums, and in-network cost-sharing amounts for some or all essential health benefit; insurers may vary plan features that are not included in the standardized design, such as product type and networks.<sup>[xviii]</sup>
- Adopt meaningful difference standard: require a plan's features, such as cost-sharing levels, scope of covered services, or networks, to be substantially distinct from those of other plans offered in the same area by the same insurer.<sup>[xix]</sup>

This simplification of the exchange would not only allow people to easily navigate the information and plans, but also allow people to choose the best suited plan they need and prefer. In addition, this option would also reduce the unintended effect of people's attitudes towards certain plans that have been labelled as gold, silver, and bronze. Overall, this option aims to decrease the number of uninsured in the U.S. through providing a standardized framework.

Some states, including California, Connecticut, Massachusetts, and Vermont, already have adopted these plan choices to simplify plan choices in their marketplaces. However, consumers in many states are still having difficult time understanding and navigating the exchange. We urge that the current exchange should provide a consumer-friendly choices and information where the new exchange is redesigned to avoid features known to bias people's decisions. Through simplification, it would allow consumers to choose appropriate and cost-effective insurance plan. We are not shutting doors of other two options, yet we encourage your team to review them carefully and prioritize them as needed. For instance, creating Exchange Task Force could be done in tandem with the option chosen, and also consider creating a centralized exchange platform down the road.

Healthcare insurance exchange, with appropriate and adequate design and information, has so much potential to revolutionize U.S health care markets. To maximize its potential, simplification of the exchange it urgently needed, and the FTC should put forth a policy and research tools through hearings, workshops, and conferences, and collaborate with law enforcement partners to advance encourage health insurance exchange consumer protection and competition.<sup>[xx]</sup> With the adequate resources in place, the revised exchange would not only help consumers choose the right plan for them, but also aim to reduce the number of uninsured in the U.S through cost-effective measures.

## CITATION

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[viii] Ibid.

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[xiv] Kingdon J. W. *Agendas, Alternatives and Public Policies*. London: Longman; 1995.

[xv] Ubel, Peter A., David A. Comerford, and Eric Johnson. "Healthcare.gov 3.0 - Behavioral Economics and Insurance Exchanges — NEJM." *New England Journal of Medicine*. NEJM, n.d. Web. 12 Apr. 2015.

[xvi] Ibid.

[xvii] Monahan, Christine H., Sarah J. Dash, Kevin W. Lucia, and Sabrina Corlette. "What States Are Doing to Simplify Health Plan Choice in the Insurance Marketplaces." - *The Commonwealth Fund*. N.p., n.d. Web. 12 Apr. 2015.

[xviii] Ibid.

[xix] Ibid.

[xx] "What We Do." *What We Do*. Federal Trade Commission, n.d. Web. 14 Apr. 2015.