



Key Ingredients to Creating a Viable Individual Market That Works for Consumers

LESSONS FROM CALIFORNIA

Introduction

There is much discussion nationally and in California about how health care policies should be potentially adjusted and changed, whether under the rubric of repeal, reform, replace or repair. The federal changes in financial support for individuals to afford health care and in the structure and rules governing health insurance that took effect in 2014 have been historic. They have also demonstrated two key facts. First, that while the Patient Protection and Affordable Care Act was large and detailed, it was not “self-implementing.” Rather, it required an array of decisions and actions to take effect at the federal and state levels. Second, in the context of the broad federal structures, health care is local. The success of that implementation across the nation is largely a product of how states have or have not chosen to shape the law to meet the needs of their residents.

This issue brief provides a high-level overview of the key ingredients to California’s success in expanding coverage and creating a competitive marketplace that has made a difference for millions of Californians. In many ways, California is an example of a state that embraced the Affordable Care Act and sought to use all of the tools offered to expand health care coverage and create markets that work for consumers. While far from perfect, that implementation has had dramatic and positive results that can inform efforts

Highlights:

- By expanding its Medicaid program and creating a robust health insurance market with low premium increases and effective delivery of tax credits, California has decreased the rate of uninsured to historic lows and fostered a competitive marketplace where consumers have benefited from lower premiums.
- Covered California built a market for individuals that provides a broad choice of plans, by only selecting the best health insurance companies to participate in Covered California and working with them to offer common patient-centered benefit designs that mean most care is not subject to deductibles and plans compete on price, value and the doctors and hospitals in their networks.
- As an independent state agency, now operating with no state or federal funding, Covered California operates with private-sector nimbleness, public-sector accountability and an eye toward maximizing every dollar spent to promote good customer service and a healthy risk mix.
- Extensive marketing and outreach — where the average Californian saw or heard about Covered California 49 times during the last open enrollment — complements over 14,000 independent insurance agents and more than 800 privately run Covered California “storefronts” to help consumers understand and enroll in coverage, all leading to a better risk mix and lower costs for all consumers.
- Through contracting, Covered California ensures its participating plans focus on delivering the right care at the right time — including a focus on health disparities — to bring costs down across the market.

This analysis was prepared by Covered California for its ongoing planning and to inform policy making in California and nationally.

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to transform and improve upon the current health care system nationally and in states across the country.

What California Has Done

Since the launch of the Affordable Care Act, California has reduced the state's uninsured rate for all ages to a historic low of 7.1 percent, down from 17 percent in 2013. (See Figure 1: California's Rate of Uninsured Compared to the Nation).¹ These decreases are even more remarkable considering that they do not reflect the impact of the 2017 open-enrollment period in which more than 400,000 new people signed up for coverage. In addition, about 1.5 million of the remaining uninsured are estimated to be undocumented residents who are ineligible for federal assistance in getting health insurance. When the undocumented are excluded from the number of uninsured, California has an "eligible uninsured" rate of about 3.6 percent.

The reduction in the uninsured is the product of two complementary state actions. First, California expanded its Medicaid program (known as "Medi-Cal") and with that expansion added about 3.7 million Californians to coverage who were newly eligible.² The second component is that California launched its state-based marketplace, Covered California, to foster consumer-centered support to both help consumers understand their ability to get financial help and to create a competitive marketplace

Figure 1
California's Rate of Uninsured Compared to the Nation

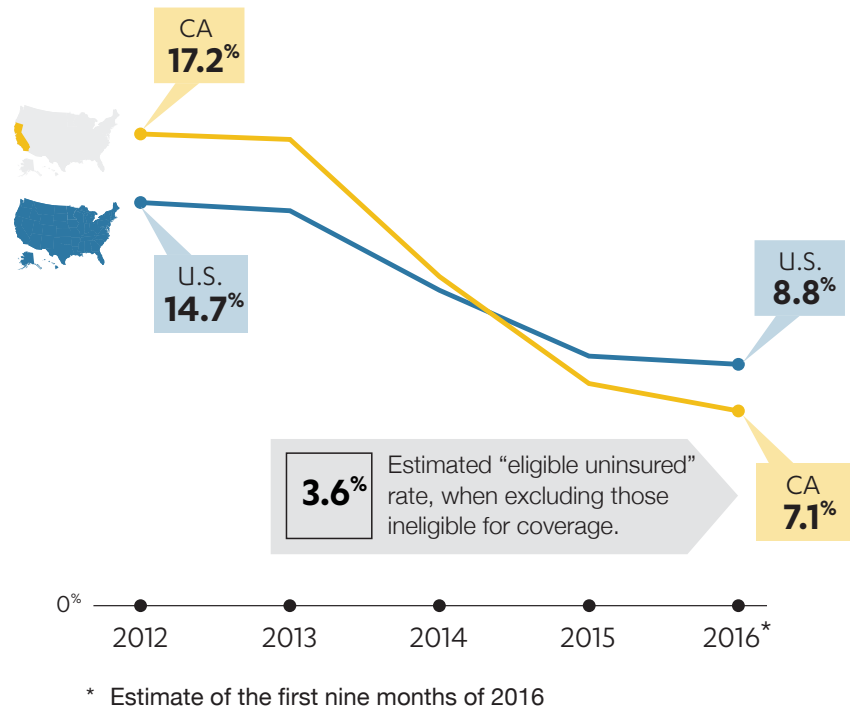
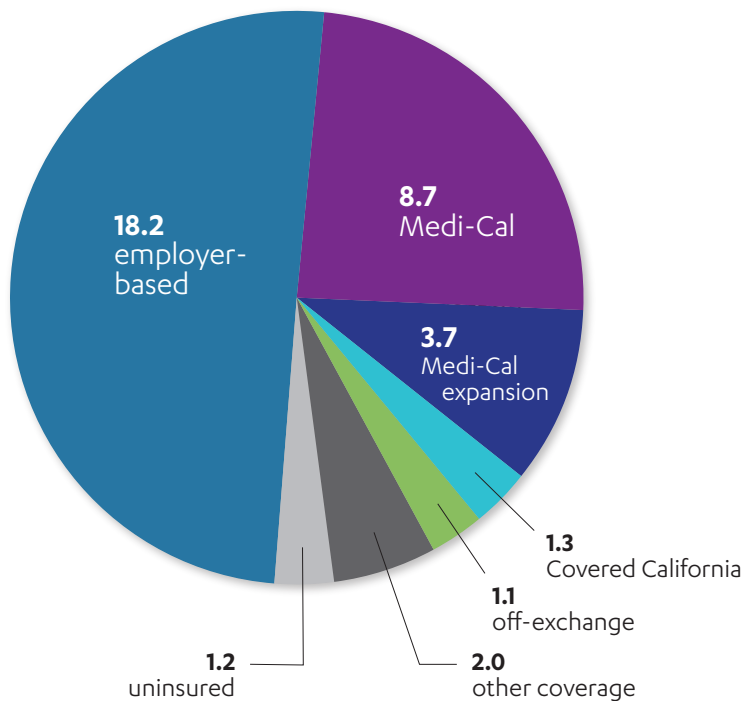


Figure 2
California's 2015 Health Care Market



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that would lower costs for everyone in the individual market — including the more than 1.1 million people who receive no financial assistance. (See Figure 2: California’s 2015 Health Care Market).

The insurance and health care delivery markets in California have responded well to the changes. The growth in coverage has meant that uncompensated care in hospitals has dropped by more than half, from \$3.1 billion in 2013 to \$1.5 billion in 2015,³ and employer premium increases have grown at a relatively low average rate of 5.4 percent over the past three years.⁴ In addition, employer-provided health insurance has stayed robust — without the decreases that some forecasted prior to the law’s implementation.

The story of the individual market has also been broadly positive. Covered California has played an active role in shaping the overall individual market — for the benefit of both those who buy coverage through it and for those who buy directly from health insurance companies outside of Covered California with no tax credits. Of the 2.4 million people who are in the individual market in California, 1.9 million are in products created through Covered California’s work to construct a patient-centered health care market. These products offer the same price, benefits, networks and other plan features inside and outside Covered California. Also, of the 2.4 million people in the individual market, 300,000 plans are “grandfathered” plans that are no longer available for purchase.

Due to Covered California’s role in shaping the individual market, there is active competition for consumers who enroll through Covered California and outside of it among the 11 participating health insurance companies. Ninety-two percent of the more than 1.4 million consumers in Covered California have three or more health insurance companies to choose from and no consumer has fewer than two choices.

Not only were the initial premiums offered in the individual market lower than what many experts had predicted when Covered California opened its doors in 2014, but it has held rate changes down to 4.2 percent and 4 percent over its first two years, and an average rate change of 7 percent over its first three years. These rate changes are far lower than the double-digit increases California’s individual market saw before 2014. The higher-than-average increase in 2017 — 13.2 percent — was largely the product of the removal of the federal reinsurance program. In the absence of federal policy changes and uncertainty, Covered California was looking forward to seeing a return to single-digit premium increases in 2018.

“Average” premium increases, however, tell only part of the story. Many consumers saw very small rate increases. Others, however, may have seen increases in 2017 of far higher rates — from 15 to 20 percent. Even for these individuals, the fact that Covered California has created a competitive market means that by shopping for the best value, consumers are saving between 11 and 15 percent off the average price of the plans offered.⁵ In addition, because Covered California ensures that all plans offer common patient-centered benefit designs, most consumers (all those who select Silver, Gold and Platinum plans) access all outpatient services without their care being subject to a deductible. Consumers who choose a Bronze plan can also see their primary care doctor or specialist three times without being subject to a deductible.

* Under the Affordable Care Act, health plans that were in effect when the law passed were eligible to be “grandfathered” and consumers are permitted to keep that coverage provided the carrier continues to offer the policy. These policies are not required to conform to the requirements on coverage under the Affordable Care Act. No new consumers may enter these plans, and over time they are slowly losing membership.

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Ingredients of California's Progress

The historic improvements that resulted from the changes to insurance regulations and the financial resources made available to expand coverage have had big impacts across the nation. Some of the ingredients that have contributed to those successes are common across all states, such as the availability of the tax credits (including cost-sharing reductions), prohibiting the denial of coverage based on health status, and providing the potential to expand Medicaid.

But health care is local. Some states have implemented the law in ways that are responsive to their local realities, while consumers in states in the Federally Facilitated Marketplace have had nationally consistent policies with their local options framed by the health plans' decisions in their region. The information that follows represents some of the major elements that have been critical ingredients for California.

Policy Decisions Benefited Consumers — At the center of California's efforts is that it has generally “put politics aside” and focused on making tough policy decisions based on what works for consumers. Examples of these policies include:

- In 2010, California — with a Republican governor and Democratic Legislature — created an independent state entity, Covered California, as the state-based marketplace. Covered California was established with a Board of Directors responsible for crafting its mission and overseeing its operation; a requirement that upon getting up and running it operate without using any state or federal funds; and public-sector accountability but early flexibility to allow it to be nimble in the early start-up period.
- California expanded its Medicaid program, known as Medi-Cal, thus allowing millions to access coverage. One study found that states that expanded Medicaid helped reduce premiums in the individual market by an estimated 7 percent.⁶
- Covered California decided against opting for a “clearinghouse” model — in which any health insurance company and plan design are accepted — and instead chose to take a more active role in fostering competition in the marketplace and value among plan choices for consumers.
- In 2014, California converted all plans in the individual market into Affordable Care Act-compliant coverage, which helped create a common risk pool and a more stable market in California. Conversely, 35 states around the nation did not convert their transition plans, meaning that substantial portions of the individual market plans that had previously been underwritten were not part of a common risk pool.

Financial Help Makes Coverage Affordable — Health insurance is expensive, and most Americans would not be able to afford it without a financial leg up through tax credits. For many, that financial support comes from their getting job-based coverage, while many others benefit from Medicaid or Medicare. The Affordable Care Act created a system that provides financial help for those Americans not getting coverage through an employer or other means by providing tax credits that are based on a consumer's age, income and where he or she lives. The law also established reinsurance funding to initially help keep premiums lower than they would have been otherwise, which promoted enrollment and helped stabilize the market by “priming the pump” to get more people enrolled. Costs to consumers in California are made more affordable in the following ways:

- The Affordable Care Act limits individuals' premium contributions on a sliding scale between 2 and 9.5 percent of income and provides “advanceable” tax credits to cover any premium costs above the limit. In 2016, about 1.3 million Californians received this financial help. The average Covered California household received \$5,300

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in tax credits and the average individual received \$3,500 to help bring health care within reach.⁷

- Tax credits based on a person's age, income and where they live mean that lower-income consumers who live in high-cost regions can still afford coverage. This results in a better risk mix and thus lower premiums for all. For example, a 62-year-old making \$30,000 a year living in Oakland would receive \$8,740 in premium assistance, making his portion of the annual premium \$2,448. By comparison, the same individual in Los Angeles would receive \$6,041 in premium assistance, making his portion of the premium the same (\$2,494). By taking into account the regional variation in the cost of insurance, the level of financial assistance provided is adjusted depending on where someone lives. Covered California analyzed what would happen to Californians if they received tax credits based only on their age. Looking at the proposed language in the American Health Care Act, Covered California found that while some consumers would benefit — particularly some higher-income and younger consumers — there would be many who would face far higher costs and likely be priced out of the market.⁸
- For about half of Covered California's enrollees, costs at the point of care are kept low through cost-sharing reduction subsidies. These cost-sharing reductions mean hundreds of thousands of Californians have primary care visit copays of as little as \$5 per visit and deductibles for inpatient services that are only \$150 per year. These savings are critical to improving access to care and reducing the household's out-of-pocket expenses by an average of \$1,500 per year.
- Even those who do not qualify for financial assistance because their income is too high have benefited from now being part of a broad and healthy risk pool, which has kept rate increases to historically low levels. Those with pre-existing conditions have benefited the most, but all those in the individual market are beneficiaries of the competitive market, common risk pool and patient-centered benefit designs.

Competitive Markets Matter — Covered California created a competitive market where the consumer is in the driver's seat. Covered California puts interested health insurance companies through an extensive vetting process to ensure consumers have choice among plans that are stable and provide value. Covered California fosters broad competition while selecting health plans based on their networks, rates, capabilities and consumer-focus. Covered California also negotiates the rates and works with health insurance companies, consumer advocates and others to establish patient-centered benefit designs that promote access, retain a healthy risk pool and help consumers shop. To foster competition:

- Covered California initially supported only having health insurance companies join the exchange that demonstrated their readiness, invested in network development and were committed to helping ensure the initial and ongoing success of the individual market, while creating opportunities for them to expand into underserved areas. In general, new entrants were excluded from joining Covered California for the first three years.
- Covered California leverages state data to develop a risk profile for each health plan's membership as part of its annual negotiating. This analysis is shared with each of Covered California's participating health insurance companies to inform their rate development for the upcoming plan year, and it has contributed to lower-than-anticipated premium increases for Covered California's members, relative stability of premiums and health plans having a viable market.⁹
- Covered California has fostered choice where it matters most to consumers: the premium and point-of-care costs, and for some consumers whether the plan they chose has particular doctors, medical groups or

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hospitals. The vast majority of California’s hospitals (93 percent) participate in one of Covered California’s plans, and 74 percent are available in three or more plans. However, few hospitals are contracted with every health plan, and Covered California helps consumers make the choice that matters to them, whether they care about particular clinicians, hospitals or coverage of particular prescription drugs.

Designed Benefits to Meet Consumer Needs — Covered California worked with health insurance companies, consumers and clinicians to create patient-centered benefit designs where deductibles do not stand in the way of consumers getting the care they need. These benefits are common across all health insurance companies and empower consumers with the following elements:

- Outpatient services in Covered California’s Silver, Gold and Platinum plans are not subject to a deductible. These services include primary care visits, specialist visits, urgent care, lab tests, X-rays, imaging and other services. Even Bronze plan enrollees can have three primary care or specialist visits without needing to satisfy a deductible.
- By having common benefits, copays and deductibles across health plans — both in Covered California and “off exchange” in the individual market — consumers are able to make apples-to-apples comparisons on the things that matter most, including the cost of the premium and the doctors and hospitals that are in the plan’s network.
- Combining patient-centered benefit designs with the law’s essential health benefits means consumers are getting real coverage and are not subject to surprise “gaps” in their benefits.

Independence: Private-Sector Mentality and Public-Sector Accountability — Covered California is a state agency that operates independently of the executive branch and combines the mentality of a private-sector firm with the accountability of a public-sector organization.

- The exchange does not rely on any state general funds or federal funds for its ongoing operation, and therefore measures the return on investment for every decision it makes. It remains focused on making sound business decisions based on what provides the best return for California’s consumers.
- Covered California’s funding comes from a 4 percent assessment on the price of each member’s plan per month, which equates to only 2.6 percent when spread out across the entire individual market. This “load” is built into health plans’ premiums, and when taken with the total costs of health plans’ marketing and commission payments, reflects a dramatic reduction in what health plans need to spend to enroll and retain individuals in nongroup market.¹⁰

Extensive Marketing and Outreach — Health insurance is complicated, and consumers need it to be effectively explained and the products need to be sold. To be successful, an exchange needs to make significant and ongoing investments in marketing and outreach to promote the value of the product being offered and help educate consumers about their options and benefits. This is particularly true given the amount of “churn” in the individual market. About 40 percent of all enrollees turn over each year, with the vast majority of those leaving to get coverage elsewhere, such as through job-based insurance.¹¹ Among the strategies undertaken to promote and maintain broad enrollment and a healthy risk mix are the following:

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MARKETING

- Covered California spent more than \$120 million on marketing and outreach for fiscal year 2016-17 (for the 2017 open-enrollment period), which included extensive marketing on television, radio, print and digital platforms to promote enrollment by conveying the value of coverage.
- The campaign includes extensive “in-language” marketing — targeting consumers who speak Spanish, Mandarin, Cantonese, Korean, Vietnamese and other Asian languages. This has resulted in a demographic enrollment that matches the eligible population.
- Californians were exposed to one of Covered California’s television, radio, print, digital advertisements or billboards on average 50 times during the 2016-17 open-enrollment period, generating nearly 2 billion impressions statewide. Given the focused targeting of the marketing, this meant that some consumers who were most likely to need coverage were hearing about Covered California many, many times during both open enrollment and while appropriate enrollment was promoted during the special-enrollment period.

OUTREACH AND SALES

- Covered California works with partners in the public as well as private sector in every community. This includes more than 14,000 independent insurance agents, 46 Navigator grantees and 5,000 certified enrollers.
- Effectively supporting the agent and non-agent certified enroller community across the state has been critical to successful enrollment efforts and has led to more than 50 percent of all consumers being enrolled with the support of person-to-person assistance from agents and other enrollers. By providing field-based outreach support staff, enhanced training and communications programs and a high-functioning certified agent and enroller service center, Covered California has gained the full support of the network of agents and certified enrollers throughout the state.
- Providing agents and certified enrollers with many opportunities to work with Covered California in the outreach effort has resulted in significant enrollment. Opportunities are provided through special programs, including the storefront and events program; Help on Demand, the mobile-enhanced consumer referral tool; and by providing access to branded collateral. Covered California’s brand is represented in more than 800 storefronts operated by insurance agencies and Navigator grantees, which support enrollment in cities and towns across the state.
- Online outreach tools help consumers find enrollment assistance. Covered California’s “Find Local Help” web page offers consumers tools to find help in their community, including a storefront and event finder and a new mobile enhanced referral tool (“Help on Demand”), that lets consumers quickly get a call back from a certified enroller



A storefront in southern California, one of more than 800 owned and operated by independent insurance agents or community groups.

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Creating Value and Reducing Underlying Delivery System Costs — Covered California’s mission includes an explicit charge to make sure consumers get the right care when they need it and aims to reduce the underlying costs of care while promoting improvements in quality and addressing health care disparities. Covered California has a major Healthcare Evidence Initiative through which it uses data to evaluate and improve the care its members receive, using its market role to stimulate innovative strategies for providing high-quality health care at the lowest cost for all Californians.

The contracts with Covered California’s participating health insurance companies include a range of provisions that seek to foster lower health care costs and the promotion of better care.¹² These requirements include that all health insurance companies must:

- Ensure all consumers either select or are matched with a primary care clinician within 60 days of their becoming a member, so consumers have an established source of care who can help them navigate the health care system. While this is normal for consumers in HMOs, for consumers in more loosely managed PPOs, this requirement is a novel way to assure they know how to navigate a complex system without having any “gatekeeper” barriers to access.
- Confirm that providers meet quality standards to provide safe and effective care for all, including various racial and ethnic groups.
- Adopt payment strategies — with increasing portions of payments being tied to quality and value — that are aligned with those of the Centers for Medicare and Medicaid Services and other purchasers aimed at promoting better quality, care coordination and patient engagement.
- Adopt and expand their contracting with proven models of primary care and integrated delivery models to enhance communication, efficiency and teamwork for better care delivery.

About Covered California

Covered California is an independent part of the state government whose job is to make the health insurance marketplace work for California’s consumers. It is overseen by a five-member board appointed by the governor and the Legislature. For more information about Covered California, please visit CoveredCA.com.

¹ <http://news.coveredca.com/2017/02/happy-valentines-day-news-for.html>

² http://www.dhcs.ca.gov/dataandstats/statistics/Documents/Fast_Facts_October_16_ADA.pdf 4

³ <http://www.chcf.org/aca-411/insights/uncompensated-hospital-care-costs>

⁴ <http://www.chcf.org/publications/2017/03/employer-health-benefits>

⁵ <http://news.coveredca.com/2017/01/new-study-shows-covered-california.html>

⁶ <https://aspe.hhs.gov/system/files/pdf/206761/McaidExpMktplPrem.pdf>

⁷ <http://news.coveredca.com/2017/03/covered-california-releases-analysis-of.html>

⁸ <http://news.coveredca.com/2017/03/covered-california-releases-regional.html>

⁹ <http://healthaffairs.org/blog/2015/10/26/health-risk-continues-to-improve-in-covered-california>

¹⁰ http://board.coveredca.com/meetings/2016/5-12/Covered%20CA%20and%20PwC%20Market%20Planning%20and%20Analysis_Board%20Draft.pdf#page=5

¹¹ <http://hbex.coveredca.com/data-research/library/Active-Membership-Slides.pdf#page=2>

¹² <http://hbex.coveredca.com/insurance-companies/PDFs/2017-2019-Individual-Model-Contract.pdf>