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Impact of National Health Reform and State-Based Exchanges on the Level of Competition in the Nongroup Market

Prepared by Jon Kingsdale and Jason Aurori, Wakely Consulting Group

One of the objectives of the Affordable Care Act (ACA) reform of the nongroup insurance market, including new market and rating rules and reliance on public health insurance exchanges, is to enhance competition. More competing health plans increases consumer choice, as well as the market pressure on health plans to manage administrative costs, improve their service and contract with clinical providers at optimal rates. Especially in the context of health plans contracting selectively with providers in order to hold down payment rates, a choice of more health plans serves consumers well and signals a vibrant market. This brief provides an early indicator of the level of competition among health insurers that market reforms and state-based exchanges are generating.

While the concept of enhanced competition is multi-faceted and some competitive dynamics may elude quantification, one clear measure of the ACA's impact on competition in the nongroup market is the number of health plan issuers competing on exchanges. An early indicator should be the number of issuers which make a significant commitment to competing for nongroup enrollment, as measured by applications to participate on exchanges, compared to the number of carriers with a significant presence in the same nongroup markets prior to the reform. Given the considerable uncertainty among health plans over how the ACA will play out, as well as the significant effort required of them to apply to participate on exchanges, the number of issuers applying is a reasonably good indicator of how many issuers are seriously committed to competing for this market segment. As of mid-June, we now have such data for 10 state-based exchanges.

We focus on the nongroup market for two reasons: first, this is the market that reformers consider to have been most dysfunctional and therefore is most radically altered by the ACA; and second, because premium tax credits for individual coverage are tied exclusively to public exchanges, most issuers committed to the nongroup market will have to participate on exchanges. Public exchanges are expected to represent the bulk of nongroup enrollment.¹ By contrast, how much of the small-group market the Small Business Health Options Program (SHOP) exchanges will attract is unclear, and existing projections are modest. Therefore, issuer participation in SHOP probably does not equate to carrier participation in the small group market.

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For more information, please contact Jon Kingsdale at jonk@wakely.com or 617.939.2008.



¹ Congressional Budget Office and the staff of the Joint Committee on Taxation, "CBO's March 2011 Baseline: Health Insurance Exchanges" projects nongroup enrollment in exchanges to be 3-to-6 times as large as group enrollment in exchanges, despite the fact that there are many more small-group than direct enrollees in total.

Determining a baseline comparator for pre-reform competition entails some judgment calls. There are many carriers licensed across the country who do not have much presence anywhere, or may be licensed in some states where they make little effort to market locally. Indeed, so-called "shell licenses" for life companies—the licensure category for health, life, disability and other lines that are distinguished for property and casualty insurance—are often traded or sold for relatively modest consideration. So, a count of licensed entities in a state, many of which may have negligible enrollment, is not a credible indicator of the level of competition. Therefore, we assume that any issuer with (a) 3,000 or more covered lives or, (b) in small states, 5 percent of the state's total nongroup enrollment, is a significant competitor in that market. This threshold is very inclusive: it almost certainly includes some "marginal" players in the larger markets, such as California's multi-million member, nongroup sector.

While the number of issuers on state-based exchanges may grow or shrink over time—in Massachusetts, the number tripled in the first year of reform, from two to six competitors,² and has increased again by 50 percent since then—issuers which have applied for certification for 2014 will provide the earliest indication of the level of competition post-reform. For a pre-reform baseline, we use the number of carriers with a significant commitment to the nongroup market in these same states in 2011, except in Massachusetts. In Massachusetts, ACA-like reform was implemented in 2006, and an exchange for licensed commercial health plans began in 2007, so we use 2005 as the base year. For the relevant methodological assumptions, please see the section on "Methodology Assumptions" at the end of this brief.

The Centers for Medicare & Medicaid Services (CMS) has released some information on applicants to the federally facilitated exchange (FFE) that is expected to serve at least 33 states in 2014, but not a state-by-state count for individual enrollment, which would be needed to compare the number of competitors pre-reform with applicants for 2014. Seventeen states plus the District of Columbia have requested applications from issuers, but three of those states (Utah, Idaho and New Mexico) will rely on the FFE in 2014 to run their individual exchanges.

For the remaining 15 state-based exchanges, we took baseline data from Citi Research's state compendium of carriers and their enrollment in each market sector.³ We were able to assemble from state announcements and websites, and confirm with state officials, the names of all applicants to participate as issuers of medical plans (excluding issuers of stand-alone dental plans only) on 10 nongroup exchanges. Five of the 15 state-based exchanges have not yet made all the requisite data publicly available. Thus, the data currently available for 10 state-based exchanges are summarized below.

Across the 10 states, the total number of carriers increased substantially, from 52 to 70, or by 35 percent. Six of the 10 states experienced an increase in the number of issuers applying to be on the nongroup exchange versus the number of significant competitors in the pre-reform, base year; and four states report no change. Among the six states reporting an increase of one or more in the number of competitors, the largest increase is for Massachusetts, which has seen an increase of seven health plans. California, Oregon and Washington each reported increases of three issuers.

How competition will evolve in most of these states is not yet known. However, there is reason to expect that in states where competition is now hardy, reform will encourage it to grow more intense. Massachusetts is the only state for which we have a measure of the long-term impact of reform on competition: not only have the number of competitors more than quadrupled over the seven years since reform, but market share is now far more evenly distributed as well. In the year before reform (2005), Blue Cross Blue Shield of Massachusetts (BCBSM) dominated this segment as the so-called "insurer of last resort," with an 80 percent share. In 2013 it has less than 40 percent of nongroup enrollment. And, with the restructuring of that state's exchange to comply with the ACA for 2014, five issuers are expected to have nearly as much or more nongroup enrollment as BCBSM.

² Report to the Massachusetts Legislature: Implementation of the Health Care Reform Law, Chapter 58, 2006-2008 (The Massachusetts Health Insurance Connector Authority: October 2, 2008), p. 28.

³ McDonald, Carl, CFA. "A Good Lawyer Knows The Law, A Great Lawyer Knows The Judge - 2011 Commercial Risk Analysis" Citi Investment Research. January 28, 2013.

Summary of Results

	State	# of Issuers Pre-reform	# of Issuers Post-reform	Net Change
	California	10	13	+3
	Colorado	9	10	+1
	Massachusetts	2	9	+7
Increase	Oregon	9	12	+3
	Rhode Island	1	2	+1
	Washington	6	9	+3
	Connecticut	4	4	0
	District of Columbia	3	3	0
Unchanged	Maryland	6	6	0
	Vermont	2	2	0
Total		52	70	+18

Methodology Assumptions

For statewide nongroup markets with at least 100,000 enrollees in the base year, we use enrollment of 3,000 nongroup members as the minimum threshold for indicating that the carrier had made a significant commitment to competing in that market (many carriers are licensed in states where they have little enrollment or active presence). For nongroup markets with fewer than 100,000 enrollees, we use 5 percent share as the minimum threshold for counting a carrier (market share is based on enrollment).

Except for Massachusetts, the source of pre-reform figures is a report by Carl McDonald of Citi Research on commercial health insurance risk analysis, which cites the National Association of Insurance Commissioners (NAIC) and Citi Research.⁴ Issuers listed under post-reform represent issuers that have applied to offer or will be offering qualified health plans on the nongroup exchange for the full set of required Essential Health Benefits (with the possible exception of dental benefits, which can be offered separately as stand-alone plans or in conjunction with the medical coverage).

⁴ McDonald, Carl, CFA. "A Good Lawyer Knows The Law, A Great Lawyer Knows The Judge - 2011 Commercial Risk Analysis" Citi Investment Research. January 28, 2013.

Appendix: Results by State-Based Exchange

California

Pre-Reform (2011)		Issuers Accepted by the Exchange (2014) ^{5,6}
Total Issuers: 10		Total Issuers: 13
lssuer	Market Share	lssuer
WellPoint	47.1%	Alameda Alliance for Health
Blue Shield of California	20.8%	Anthem Blue Cross of California
Kaiser Permanente	19.0%	Blue Shield of California
Aetna, Inc.	5.2%	Chinese Community Health Plan
Health Net	3.3%	Contra Costa Health Services
HealthMarkets, Inc.	1.4%	Health Net
UnitedHealth Group	1.1%	Kaiser Permanente
CIGNA Corp.	0.7%	L.A. Care Health Plan
Assurant, Inc.	0.4%	Molina Healthcare, Inc.
New York Life Insurance Group	0.2%	Sharp Health Plan
		Valley Health Plan
		Ventura County Health Care Plan
		Western Health Advantage

Colorado

Pre-Reform (2011) ⁷		Issuers Applying to the Exchange (2014) ⁸
Total Issuers: 9		Total Issuers: 10
lssuer	Market Share	lssuer
WellPoint, Inc.	33.4%	All Savers Insurance Company
Humana, Inc.	11.1%	Anthem Blue Cross Blue Shield
Assurant, Inc.	10.7%	Cigna Health and Life Insurance Company
UnitedHealth Group, Inc.	10.1%	Colorado Choice Health Plans
Kaiser Foundation Health Plan of Colorado	9.9%	Colorado Health Insurance Cooperative, Inc.
Rocky Mountain Health Maintenance Organization	7.4%	Denver Health Medical Plan, Inc.
Cigna Health and Life Insurance Company	5.6%	Humana Health Plan, Inc.
USHealth Group	1.6%	Kaiser Foundation Health Plan of Colorado
HealthMarkets, Inc.	1.4%	New Health Ventures, Inc.
		Rocky Mountain Health Maintenance Organization

Connecticut

Pre-Reform (2011)		Issuers Applying to the Exchange (2014) ⁹
Total Issuers: 4		Total Issuers: 4
lssuer	Market Share	lssuer
WellPoint	46.7%	Aetna
UnitedHealth Group	20.5%	Anthem
Aetna	17.1%	CTCare
EmblemHealth	8.0%	HealthyCT CO-OP

⁵ List of issuers includes only those that were selected by the exchange. More than 13 issuers had applied.

- ⁶ "Covered California Announces Plans and Rates for 2014" Covered California. May 23, 2013. http://coveredca.com/news/press-releases/pr-05-23-13-plans-anounced.html
- ⁷ Aetna, Inc. and American Enterprise Mutual Holding Co. were listed in the pre-reform source data as non-group issuers of sufficient scale to meet our threshold test, but the Colorado Division of Insurance confirmed that these two issuers exited the non-group market in 2011, and therefore these issuers are not counted in our pre-reform tally. Personal communication from Vincent Plymell, Communications Manager, Colorado Department of Regulatory Agencies, June 14, 2013.
- ⁸ "CEO's Update on Health Plan Prices and Competition" Connect for Health Colorado. June 7, 2013. http://www.connectforhealthco.com/news-events/news/ "Health Insurance Carriers - Plans Submitted for 2014" Colorado Division of Insurance. May 22, 2013.
- ⁹ Personal communication from Julie Lyons of Access Health CT on May 31, 2013.

District of Columbia

Pre-Reform (2011)		Issuers Applying to the Exchange (2014) ¹⁰
Total Issuers: 3		Total Issuers: 3
Issuer	Market Share	lssuer
CareFirst BlueCross Blue Shield	67.1%	Aetna
Aetna	11.9%	CareFirst BlueCross Blue Shield
Kaiser Permanente	8.0%	Kaiser Permanente

Maryland

Pre-Reform (2011)		Issuers Applying to the Exchange (2014) ^{11,12}
Total Issuers: 6		Total Issuers: 6
Issuer	Market Share	lssuer
CareFirst Blue Cross Blue Shield	68.1%	Aetna, Inc.
UnitedHealth Group, Inc.	17.2%	CareFirst Blue Cross Blue Shield
Aetna, Inc.	3.8%	Coventry Health Care
Kaiser Foundation Health Plan, Inc.	3.3%	Kaiser Foundation Health Plan, Inc.
Assurant, Inc.	3.1%	Evergreen of MD Cooperative
HealthMarkets, Inc.	1.7%	United Healthcare (All Savers Insurance Co.)

Massachusetts

Pre-Reform (2005) ¹³		Issuers in the Exchange (2013) ¹⁴
Total Issuers: 2		Total Issuers: 9
Issuer	Market Share	lssuer
Blue Cross Blue Shield of Massachusetts Harvard Pilgrim Health Care	80.0% 15.0%	Neighborhood Health Plan Harvard Pilgrim Health Care Blue Cross Blue Shield of Massachusetts Fallon Community Health Plan Tufts Health Plan Health New England
		Celticare Network Health BMC / HealthNet

¹⁰ "Private Insurers Submit 293 Health Insurance Policies for Approval to Offer to Individuals, Small Businesses on DC Exchange" DC Health Benefit Exchange Authority. May 17, 2013. http://hbx.dc.gov/release/private-insurers-submit-293-health-insurance-policies-approval-offer-individuals-small. "Proposed January 2014 Rates for Health Insurance Products to be Sold in D.C. Health Benefit Exchange - Individual" DC.gov. (Accessed June 10, 2013). http://disb.dc.gov/sites/default/files/dc/sites/disb/publication/attachments/Proposed_Rate_Comparisons_for_HBX_Plans_0.pdf.

¹¹ Personal communication with staff of Maryland Insurance Administration on May 17, 2013.

¹² Maryland Health Benefit Exchange Announces Insurance Companies Authorized to Sell Qualified Health Plans Through Maryland Health Connection" Maryland Health Connection. May 28, 2013. http://marylandhbe.com/wp-content/uploads/2013/05/CarrierAnnouncementRelease.pdf.

¹³ Carey, Robert and Gruber, Jonathan. "A Health Insurance Exchange For Maryland? – Comparing Massachusetts and Maryland", The Maryland Association of Health Underwriters and the National Association of Insurance and Financial Advisors of Maryland. 2010.

¹⁴ Personal communication with Jean Yang of the Massachusetts Health Connector on June 4, 2013.

Oregon

Pre-Reform (2011)		Issuers Applying to the Exchange (2014) ¹⁵
Total Issuers: 9		Total Issuers: 12
Issuer	Market Share	lssuer
Cambia Health Solutions, Inc.	34.5%	Atrio Health Plans, Inc.
Oregon Dental Service	16.5%	Bridgespan Health Company
PREMERA	13.3%	Familycare Health Plans, Inc.
Kaiser Foundation Health Plan of Northwest	9.1%	Freelancers CO-OP Oregon, Inc.
PacificSource Health Plans	8.1%	Health Net Health Plan of Oregon, Inc.
Providence Health Plan	7.6%	Kaiser Foundation Health Plan of Northwest
Assurant, Inc.	5.2%	Lifewise Health Plan of Oregon, Inc.
Health Net, Inc.	2.3%	Moda Health Plan, Inc.
HealthMarkets, Inc.	2.3%	Oregon's Health CO-OP
		Pacificsource Health Plans
		Providence Health Plan
		Trillium Community Health Plan, Inc.

Rhode Island

Pre-Reform (2011)		Issuers Applying to the Exchange (2014) ¹⁶
Total Issuers: 1		Total Issuers: 2
lssuer	Market Share	lssuer
Blue Cross Blue Shield of Rhode Island	93.9%	Blue Cross Blue Shield of Rhode Island
		Neighborhood Health Plan of Rhode Island

Vermont

Pre-Reform (2011)		Issuers Applying to the Exchange (2014) ¹⁷
Total Issuers: 2		Total Issuers: 2
Issuer	Market Share	Issuer
Blue Cross Blue Shield of Vermont	74.1%	Blue Cross Blue Shield of Vermont
MVP Health Care, Inc.	11.7%	MVP Health Care, Inc.

Washington

Pre-Reform (2011)		Issuers Applying to the Exchange (2014) ¹⁸
Total Issuers: 6		Total Issuers: 9
Issuer	Market Share	lssuer
PREMERA	36.2%	Community Health Plan of Washington
Cambia Health Solutions, Inc.	32.6%	Coordinated Care Corp
Group Health Cooperative	21.3%	Group Health Cooperative
HealthMarkets, Inc.	4.4%	Molina Healthcare of Washington
Assurant, Inc.	1.7%	BridgeSpan Health Company
Kaiser Foundation Healthplan of the Northwest	1.3%	Premera BlueCross
		LifeWise of Washington
		Kaiser Foundation Healthplan of the Northwest
		MODA

¹⁵ Personal communication from Katie Button of Cover Oregon on June 10, 2013. "Proposed Rates for 2014 Health Plans" Oregon Insurance Division. (Accessed on June 10, 2013) http://www.oregonhealthrates.org/?pg=proposed_rates.html.

¹⁶ "2013 Health Insurance Premium Rate Review Process" Office of the Health Insurance Commissioner State of Rhode Island. (Accessed on May 17, 2013). http://www.ohic.ri.gov/2013%20Rate%20Factor%20Review.php.

- ¹⁷ "Preliminary Rates Filings for Vermont Health Connect" Department of Financial Regulation. (Accessed on May 17, 2013). http://www.dfr.vermont.gov/insurance/preliminary-rate-filings-vermont-health-connect.
- ¹⁸ "Washington Healthplanfinder Sees Competitive Health Plan Options for Consumers" Washington Healthplanfinder. (Accessed June 10, 2013). http://wahbexchange.org/press/press-releases/plans/.