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Health Exchanges: Cautious Optimism, Concern for Brokers

By Adam S. Beck, Esq.

With adoption of health insurance exchanges, what does the agent/broker landscape look like?

THE AMERICAN COLLEGE SITS just a few miles outside Philadelphia, home to the Reading Terminal Market, a large and historic public market where thousands of locals and visitors daily peruse fresh produce, meats, fish, baked goods and almost any specialty food you can imagine. It is a bustling place with long lines at lunch and low prices on basic goods, attracting shoppers from all walks of life. The market makes comparison shopping a dream; customers scout the lowest price for the same items merely by walking a few feet. It also provides a great backdrop for explaining the health insurance exchanges that are now open as full implementation of the Affordable Care Act (ACA) moves forward.

The individual and small group exchanges created by the ACA opened on October 1, and plans purchased through the exchange are active beginning January 1, 2014. Many people—in-
sured individuals, employers, insurance agents and the uninsured—have questions about what happens now, including how many people and what demographics will actually seek coverage through the exchanges. Attempting to give conclusive answers to such questions would be like attempting to say definitively how much apples will cost at the market next summer; nobody can say for certain, but both past models and critical analysis give us some good clues.

A VIRTUAL, VARIED EXPERIENCE
First, each exchange is unique, including different names and operators. Some states run their own exchanges, some have joint control with the federal government and other states have left everything to the feds. Private insurers have the option of whether to participate, but all plans available must meet certain minimum qualifications and comply with federal regulations. Many are participating now and many are waiting to see what happens. For the 19 states where the federal government is running the exchanges, more than 120 private plans applied to participate, and the White House anticipates that 90 percent of exchange customers will have at least five insurance companies from which to choose. The nation’s largest insurance companies—household names such as Aetna and UnitedHealth—are participating in many exchanges but proceeding with caution, joining only a fraction of the 51 exchanges now enrolling customers. In turn, new insurance companies are emerging to take advantage of being placed side-by-side on a screen next to established giants.

Beyond the different names and insurance providers participating, each exchange has its own appearance and functionality. These are all online exchanges (although mail-in and in-person options are available). Expanding on the allegory, rather than walking from one produce vendor to another, consumers will be able to compare plans on their screen and select different options to find the right fit. Think of the exchanges as an Expedia or Priceline.com for health insurance. The eventual goal is to create exchange sites that are user-friendly, easy to navigate and rely on graphic interfaces, but many state exchanges have been pressed for time and today offer only a bare-bones version of the ultimate vision. Once on the site, consumers can enter information about themselves—their age, household size, how much they earn, where they live—and then view and select tiered plans that include bronze, silver, gold and platinum levels.

OPPORTUNITIES FOR SMALL BUSINESSES AND THE UNINSURED
The federal government expects 7 million Americans to purchase plans through the exchange next year, increasing annually to 24 million by 2023. That’s a lot of people, but the latter represents only 8 percent of the population, so a relatively small portion of the market. Those who earn up to four times the poverty level will qualify for premium subsidies to make their plans more affordable. Regardless of any subsidy, many exchange plans have lower premiums than nonexchange plans.

Those lower-priced premiums and greater competition are also meant to attract small businesses, which will be able to purchase plans for their employees through a small business marketplace exchange. The law considers small businesses to be those with up to 50 employees, although certain states are including those with up to 100 employees. For the next two years, if a small business purchases plans through an exchange, it can also claim a tax credit for 50 percent of what it spends on premiums. The cost of health insurance also remains tax deductible.

REWARDS FOR INSURANCE COMPANIES; REAL RISKS FOR INSURANCE BROKERS
While the prospect of lower premiums for millions of Americans, lower costs for small businesses and more customers for insurance companies may seem like a win-win scenario if all goals are met, the exchanges pose real risks for insurance brokers. For the insurance companies themselves, the increased competition that will drive down premium costs will also result in decreased revenue. This negative impact may be offset by the increased company value for large insurance companies. The brokers who sell their product could find themselves going the way of the travel agent. When consumers log on to
the exchange websites, they will find not only price comparisons, but answers to frequently asked questions. Consumers will have the ability to tailor plans to meet their needs, replacing many of the tasks now performed by brokers. In theory, brokers could choose to become “navigators” who educate and provide enrollment assistance to those purchasing individual or small business plans through an exchange. However, they could only be compensated by navigator grants, as a navigator cannot receive any compensation from an insurance provider.

The larger concern for insurance agents is the potential loss of small group clients, as the portion of the population purchasing through the individual exchange will be relatively small. Take New York State, for example, where 88 percent of small group coverage is purchased through brokers, leading to nearly $700 million annually in commissions. States may set up their exchanges to allow brokers to enroll both individuals and small businesses in plans, and New York is one state that has said it wants to protect brokers and keep them involved in the process. The state has set up guidelines through which licensed brokers can enter into agreements with the exchange. The specifics of how, exactly, that will play out remain unclear. Experts who have looked at two existing exchanges believe there is hope for agents and brokers to retain their small group clients—and perhaps even to expand, particularly for those knowledgeable about the law. Insurance brokers have not gone by the wayside in either Massachusetts or Utah, where exchanges have existed for years.

**TIME WILL TELL**

For most people, the opening of the exchanges is not likely to do anything except perhaps drive down the cost of premiums, even for those with nonexchange-based plans. Most Americans will continue to get employer-based coverage outside an exchange or benefit from a government program such as Medicare or Medicaid. A tremendous opportunity, however, exists for small businesses to find plans with lower costs and receive tax credits, not to mention for the self-employed to have access to a wide range of affordable plans. The greatest risk on the horizon is for insurance brokers and agents facing reduced commissions if not obsolescence, but the influx of new small group customers could offer hope. Above all, with the open enrollment period only days old and many exchange websites still troubleshooting page errors, the health insurance exchanges ushered in by the Affordable Care Act now present high ambitions to the unpredictable nature of the free market.

Much like at the Reading Terminal Market, some will go home with delicious and fresh produce at a discount, but someone will inevitably bite into a bruised apple.