A Guide to Health Insurance Exchanges

It seems like a simple idea: create new marketplaces, called exchanges, where consumers can comparison shop for health insurance, sort of like shopping online for a hotel room or airline ticket. But, like almost everything else connected with the health law, state-based insurance exchanges are embroiled in politics. If done well, proponents say, exchanges could make it easier to buy health insurance and possibly lead to lower prices because of increased competition. But, if designed poorly, experts warn, healthy people could avoid the exchanges, leaving them to sicker people with rising premiums.

Here are some answers to common questions about exchanges:

What is an exchange, as envisioned by the health law?
It's a marketplace where individuals and small employers will be able to shop for insurance coverage. They must be set up by Oct. 1 of this year for policies that will go into effect on Jan. 1, 2014. The exchanges will also direct people to Medicaid, the government health insurance program for the poor, if they're eligible.

Will all states have exchanges?
Yes. States have the option of setting up their own exchanges, partnering with the federal government to run an exchange, or opting out. In that case, the federal government will run the exchanges for their residents.

The Obama administration has approved applications for state-run exchanges in 17 states and the District of Columbia. The application deadline was Dec. 14. Those states are California, Colorado, Connecticut, Hawaii, Idaho, Kentucky, Massachusetts, Maryland, Minnesota, Nevada, New Mexico, New York, Oregon, Rhode Island, Utah, Vermont and Washington.

States that did not apply to set up their own exchange have until Feb. 15 to apply for a partnership with the federal government to run a local exchange. Two states, Arkansas and Delaware, have already been approved for a state-federal partnership. An application by Mississippi to start its own exchange is also pending.

Will anyone be allowed to buy from the exchanges?
No. Initially, exchanges will be open to individuals buying their own coverage and employees of firms with 100 or fewer workers (50 or fewer in some states). Most Americans will continue to get insurance through their jobs, not via the exchanges. Most will be people who are eligible for subsidies, which will average an estimated $4,600 per person in 2014. Undocumented immigrants will be barred from buying insurance on the exchanges.

Will exchanges be like travel websites or some existing health insurance sites?
In some ways, but they will be more complex. People will be able to compare policies sold by different companies. Purchasing insurance can be confusing, so information on the plan benefits will be standardized in an effort to make it easier to compare cost and quality. Plans will be divided into four different types, based on the level of benefits: bronze, silver, gold and platinum. The exchanges are also required to operate toll-free hotlines to help consumers choose a plan, determine eligibility for federal subsidies or Medicaid, rate plans based on quality and price and conduct outreach and education.

What will the coverage sold on the exchanges look like?
Plans will have to offer a set of “essential benefits.” Those details, still being developed by the Obama administration and states, will include hospital, emergency, maternity, pediatric, drug, lab services and other care. Annual cost-sharing, or the amount consumers must fork over before insurance payments kick in, will be capped at the amounts allowed for health savings accounts -- currently, nearly $6,000 for individual policies and $12,000 for family plans.

How much will the policies cost?
The premiums will vary by type of plan and location. Insurers won't be able to charge more based on gender or health status. They will be able to charge older people up to three times more than younger ones.
What if I can't afford the premiums?
The health law expands Medicaid to all people who earn less than 138 percent of the federal poverty level, $14,856 in 2012. However, the Supreme Court ruled in June 2012 that states have the ability to opt out of that Medicaid expansion, and it is not yet clear how many states will do that. Above the 138 percent level, sliding scale subsidies for private insurance on the exchanges will be available for residents who earn up to 400 percent of the poverty level, about $44,680. Most people will be required to have coverage of some sort beginning in 2014.

Will all insurers have to offer policies through the exchange?
No. Insurers won't be required to sell through the exchanges.

Will all state exchanges be the same?
No. States can design their exchanges differently, an issue that's sparking debate nationwide. Another important issue: The makeup and power of the governing boards overseeing the exchanges.

What will be the difference to consumers between a state and federal exchange?
In broad details, they should work the same way. Consumers shopping in either type of exchange will choose among insurer offerings that are standardized into four coverage levels: bronze, silver, gold and platinum. There will also be a young adults' plan. Rules on how much insurers can vary premiums based on age or geography are set in the federal law, although states could adopt rules making them stricter.

Differences between federal and state exchanges are likely to be subtle, but important to some consumers.

States that establish their own exchanges, for example, can decide which insurers participate and whether to require benefits beyond those set under federal law. They can accept all insurers whose policies meet the law's requirements, for instance, or limit participation by requiring that insurers meet specific quality or pricing guidelines.

California, for example, has chosen to limit the number of insurers, which they say allows them to choose the highest value plans, while Colorado's model will accept all plans that meet the requirements. The federal exchanges will accept all qualifying plans.

States that build their own exchanges can also decide whether to be more proactive in selecting insurers that offer benefits targeted to a state's particular needs. For example, a state with a high rate of diabetes might select insurers with special programs to combat diabetes.

Some exchanges and state insurance commissioners will be able to recommend whether specific insurers should be allowed to sell in the exchange, partly based on their patterns of rate increases.

What about federal workers?
Members of Congress and their staffs will be required to buy through exchanges if they want coverage from the federal government. Other federal employees will continue to be covered by the Federal Employees Health Benefits Plan (FEHBP).

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