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Statement of John C. Ruoff, Ph.D., Program Director

**Benefits of the Affordable Care Act for Consumers
South Carolina Senate Banking and Insurance Committee
March 23, 2011**

Outlining the benefits of the Affordable Care Act for consumers, in even outline form, typically takes from 30 minutes to an hour because there are so many. They include: coverage of young people on their parents insurance up to age 26; a much more affordable high-risk pool for those unable to get coverage because of a preexisting condition; elimination of lifetime caps on coverage; elimination of copays and deductibles on preventive care and screenings and the reduction of drug costs to seniors who fall into the doughnut hole. Eventually they will include elimination of preexisting condition exclusions, guaranteed issue, guaranteed renewability and new limits on premium rating.

Since I have only five minutes, I will not attempt so ambitious an effort and, instead, focus on designing the Health Benefits Exchange, the competitive health insurance marketplace, to benefit consumers. I am distributing with this statement a two-pager outlining some of the direct benefits of the ACA to consumers.

The Exchange will be where eligible South Carolinians with incomes between 138 % of the Federal Poverty Level (\$25,571 for a family of three) and 400 % of the Federal Poverty Level (\$74,120 for that family of three) will access premium tax credits to purchase private health insurance and subsidies for out of pocket expenses and a competitive marketplace in which individuals and small businesses can purchase that insurance.

For that Exchange to function effectively on behalf of consumers, it must be designed to address problems consumers face in the health insurance market today, the features of that market which undermine its efficiency and effectiveness.

Economists advocating the freest possible markets assume certain features in those markets, especially that all parties have equal bargaining power and equal information. In the real world, those circumstances rarely exist. However, the Exchange, together with appropriate regulation of extra-Exchange health insurance, can be designed to ensure an efficient market by protecting against:

1. a power imbalance between consumers and insurers;
2. what economists call information asymmetry, that is, the insurers know so much more than the consumers about both products and pricing; and

3. adverse selection, through which health insurers operating outside the Exchange cherry-pick the best risks, leaving the Exchange only with expensive bad risks. South Carolina should ensure meaningful consumer participation in the governance of the Exchange. The governance of the Exchange should include key consumer stakeholders such as small businesses in addition to those representing individual consumers.

That governance should not be tainted by conflicts of interest, especially representation on the Board of insurers and producers (agents), whose policy guidance will distort markets in their own self-interest. The Exchange should be neutral.

A properly-designed Exchange will not just offer plans, but will match the power of insurers with the combined bargaining power of consumers by being an Active Purchaser, negotiating with health insurers based on quality, premium and other factors.

That Exchange should require qualified health plans to meet high standards. The ACA requires certain minimum standards for Exchange certification of plans, but our Exchange should be allowed to go beyond those standards. For example, the Exchange could add certification measures including payment incentives for high-quality care and reduction of hospital readmissions, delivery system reforms and reductions in health disparities and improvements in language access.

To ensure that market clout, an Exchange should have as many covered lives as possible. Especially in a relatively small state, that means covering the whole state rather than being broken into regions. We should seriously explore combining the individual and small business Exchanges.

The complexity of plan offerings and policies and plan documents written in insuranceese, a dialect of Greek, contributes to the information imbalance undermining efficient markets. One of the main goals of this competitive health insurance marketplace is to provide easy-to-understand information about health plans that helps consumers make informed decisions about health plans. That is best accomplished through standardized plans, a strong system of Navigators and outreach. Those standardized plans, using criteria beyond actuarial values, allow apple-to-apple comparisons.

Outreach is vital and the Exchange should:

- Develop online tools, ensure access via toll-free numbers, and maintain appropriate staffing levels for one-on-one, both face-to-face and voice-to-voice, assistance;
- Develop tools for diverse populations, as well as those lacking familiarity with health insurance;
- Establish systems to assist consumers with disputes or problems regarding coverage, access to care, quality, and customer service; and

- Provide consumers with concise, comparative information on the benefits, costs, quality, and service of the options offered.

A vital piece of a consumer education will be fully utilizing a variety of communication streams: electronic, mail, radio/TV advertisements, targeted community outreach programs, and so forth. The Exchange and its Navigators should partner with community-based organizations with experience working with uninsured and vulnerable communities.

Establishing an easy-to-use and access online presence, along with telephone and in-person opportunities to gather information and enroll in the Exchange will be valuable in reaching out to the targeted populations and ensuring that compliance and enrollment is as simple as possible. This is particularly important for populations that will be eligible for public programs, both state and federally funded, as streamlined enrollments and applications are an aspect of the ACA.

If the Exchange is only a web-portal, we will have dismally failed the people of our state.

We support a state-organized, rather than a federally-organized Exchange, in no small part because of the critical importance of creating a seamless interface with the Medicaid program. That goes to first, a “no wrong door” enrollment system to ensure that, no matter where you initially apply, you will sign up for the right program.

It is equally important to ensure that, as incomes fluctuate and eligibility for Medicaid and CHIP and the Exchange changes, South Carolina consumers will retain coverage during those transitions. That requires significant coordination and may argue for integrating Medicaid coordinated care plans with the Exchange and including Medicaid providers in plans to ensure continuity of care.

Adverse selection—cherry-picking good risks and leaving only bad risks in the Exchange—creates a significant threat to the ability of this competitive health insurance marketplace to function effectively and efficiently for consumers. Certain rules under the ACA will help reduce the threat of adverse selection. However, the best protection against adverse selection is to apply the same private insurance standards to plans inside and outside the Exchange. South Carolina should not allow health plans outside the Exchange to offer lower quality products or have more limited patient protections. Insurers should not use marketing practices or brokers to steer enrollees to particular plans inside or outside the Exchange. South Carolina should prohibit any of the most limited plans offered outside the market to be sold outside the Exchange unless they are sold inside the Exchange for the same price.

This competitive health insurance market is only as strong as the private rules that surround it and the enforcement of those rules. Allowing the private market outside the Exchange to operate under less stringent rules will undermine the success of the Exchange in reorganizing

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the market to a more efficient, competitive market in which consumers and insurers have more equal power and more equal information. Private insurance rules must provide oversight and enforcement of the fair treatment of consumers who purchase insurance, include enforcement of the new limits on premium rating, guaranteed issue and guaranteed renewability.

The Exchange offers an opportunity for South Carolina to create a competitive health insurance market that gives our state's consumers meaningful power to negotiate with private insurers and to purchase plans which are readily comparable and understandable. This is an opportunity which you should take on behalf of your constituents to give them [the full benefit of a truly competitive marketplace. We look forward to working with you to that end.