Creating State Health Insurance Exchanges:
Lessons from the Federal Employee Health Benefit Plan

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Outline

- Health Reform the Health Exchanges
- The FEHBP Plan
  - What lessons can we learn from FEHBP program?
- Research Questions
- Data and Analysis Plan
- Results
- Conclusions and Policy Implications
- Future Plans
Health Reform and the Health Insurance Exchanges

- By January 1, 2014, states will establish American Health Benefit Exchanges for individuals and Small Business Health Options Program Exchanges for small business employees
  - If not, the DHHS Secretary will establish and operate an Exchange in the state

- Exchanges are entities for purchasing health insurance in a structured and competitive market, emphasizing choice of health plans, rules for offering and pricing of insurance, and transparency – providing information to help consumers better understand and navigate through options available to them.

- Eligibility: U.S. citizens, Legal immigrants, Small business employees

- Legal Obligations: Certify qualified health plans (QHP), Transparency, Communicate with beneficiaries, Administrative Tasks, Consult with stakeholders

- Design Issues for States: Eligibility, Competition with carriers outside exchange, insurer participation, benefit packages, risk adjustment, geographic scope, governance

- Subsidies available and Benefits offered through the Exchange
OPM is directed to administer and negotiate with plans similar to the way it does for FEHBP contracts.

OPM shall contract to offer at least two multi-state qualified health plans through every state Exchange:
- Must be offered nationwide
- Uniform benefit package nationwide that meets ACA requirements for “qualified health plans”
- Must be licensed in every state and in compliance with all state laws not inconsistent with ACA §1334
- For individuals and small groups
- A least one must be with a non-profit entity
FEHBP has been seen as a model for Exchanges for years

- “The HIE concept is broadly similar to the popular and successful Federal Employees Health Benefits Program (FEHBP), the consumer-driven system that covers Members of Congress, federal workers and retirees, and their families…

- The FEHBP is the only large group insurance system in the nation in which individuals can choose the plans and benefits that they want at prices they wish to pay.

- As state officials work to reform their health insurance markets, they should take the best features of the FEHBP and apply them to their own markets…”

Can FEHBP help the uninsured?
10 “Experts” Weigh in…

- “I think it makes a lot of sense.”
  -- Jonathan Gruber, MIT

- “Any strategy that allows the process to move forward, in my opinion, is a good thing.”
  -- Gail Wilensky, Project HOPE

- “The operation of the FEHBP is something of a model.”
  -- Joseph Antos, American Enterprise Institute

- “I advocated an idea like this 14 years ago, so I think it has potential…”
  -- Frank McArdle, Hewitt Associates

- “What this plan brings is … competitive markets. It’s why it works. It’s very consumer friendly. There’s all kinds of positive results.”
  -- Walt Francis, Consumer Checkbook

- “It’s just such a nutty idea.”
  -- Grace Marie Turner, Galen Institute.

- “.This I think is largely a meaningless thing…. who is going to play in the system?”
  -- Michael Tanner, CATO

- “The question is how will we hold plans accountable? There needs to be a lot of oversight.”
  -- Marilyn Moon, American Institutes of Research

- “It may have potential merit, but as a substitute for a public option that produces major savings, it’s a joke…. I think it’s quite likely that one or more large national insurers would be willing to do this, particularly the Blue Cross/Blue Shield Association.”
  -- Jacob Hacker, Yale University

FEHBP Plans

- **Nationwide Fee-For-Service Open to All**
  - Blue Cross/Blue Shield Service Benefit Plans
    - Standard Option PPO
    - Basic Option Closed Network PPPO
  - PPO Plans sponsored by unions, employee associations
    - GEHA (various insurers provide network)
    - NALC (Cigna Network)
    - APWU (Cigna Network)
    - SAMBA Nationwide (Cigna Network)
    - Mail Handlers (Coventry Network in all states except NJ and OH)

- **Nationwide Fee-For-Service for Specific Groups**
  - Rural Carrier Benefit Plan
  - + 3 others (Foreign Service, Panama Canal, Compass Ross)

- **State Specific HMOs, HDHPs and CDHPs**
Question: What lessons can we learn from FEHBP program?

Why? FEHBP program is:
- Nationwide
- Offers private plans
- Broad choice of plans and benefits
- Not as heavily regulated as other models (e.g. Medicare Advantage)
- Provision of consumer information
- Offered to a mixed set of enrollees (individuals, families)

Key differences?
- FEHBP not as bound by state benefit mandates
- FEHBP is group purchasing agent
- FEHBP does restrict entry of plans
- Federal employees: not much exposure to low-income population

Research and Policy Questions

- What is the range of choice of plans offered in FEHBP in states and counties?
- How much competition and concentration do we see in plans, in terms of how individuals enroll in the plans?
- What is the variation in plan premiums and benefits, across the country, and in relation to plan characteristics?
Data sources and methods

- **Data sources**
  - **Federal Employees Health Benefits Program (FEHBP)**
    - Enrollment data obtained from U.S. Office of Personnel Management (OPM) in response to a FOIA request
    - FEHBP premium and benefits data obtained from OPM website and participating plan brochures
  
  - **County level data:**
    - Area Resources File (ARF)
    - US Department of HHS, Health Resources and Services Administration

- **Methods**
  - Files merged at county level
  - Descriptive analysis shown here today
  - Leading towards multivariate analysis
A potential limitation?

- FEHBP enrollees includes a good number of “annuitants”, that is retirees
  - 2.8 million out of 7.9 million FEHBP enrollees are retirees
- Thinking forward, the uninsured population entering Exchanges will not include retirees
  - Only 676,000 out of the 50.7 million uninsured are over age 65.
- However, note that we still have a large number (5.1 million of non-retirees in the FEHBP data)
  - And 7.6 million outside of the D.C. area, and 4.9 million non-retirees.
Concentration by Plans

- FEHBP Enrollment by Type of Plan

Total Enrollment = 7.942 million

- BCBS National Plans: 63%
- Other National Plans: 21%
- State Specific Plans: 15%
- National Plans - Limited Enrollment: 1%
FEHBP Enrollment
By Region and Plan Type

**Northeast**
- National Plans: 79%
- State Specific Plans: 20%
- National Plans-Limited Enrollment: 1%

**Midwest**
- National Plans: 83%
- State Specific Plans: 15%
- National Plans-Limited Enrollment: 2%

**South**
- National Plans: 84%
- State Specific Plans: 15%
- National Plans-Limited Enrollment: 1%

**West**
- National Plans: 61%
- State Specific Plans: 38%
- National Plans-Limited Enrollment: 1%
Concentration by Rural/Urban

Urban
Enrollment = 6,869,000 (86%)
- BCBS Plans: 61%
- Other National Plans: 15%
- State Specific Plans: 23%
- National - Limited Enrollment Plans: 1%

Rural
Enrollment = 1,072,000 (14%)
- BCBS Plans: 72%
- Other National Plans: 19%
- State Specific Plans: 6%
- National - Limited Enrollment Plans: 3%
Why so much concentration?

- Limited Availability of State-Specific Offerings
  - While consumer-directed health plans and high-deductible health plans are offered in all states
  - 11 States have no HMO offered
    - AK, AL, MS, NE, NC, SC, CT, RI, VT, NH, ME
  - 12 states have only one HMO offered
    - OR, NV, MT, WY, CO, OK, AR, LA, TN, WV, DE, MA
Availability of FEHBP State-Specific HMO Plans by County in Missouri

Most counties have few choices of state-specific plans available.

About 30 counties have no state-specific HMO plans available.

99% of enrollees in counties with no state-specific plans are in nationwide plans.

74% of enrollees in counties with state-specific plans are in nationwide plans.

Not shown are nationwide plans, one high-deductible plan (Aetna) available in most counties in the state, and one consumer-directed plan available in 10 counties.
Summary of Findings

- FEHBP is one of the widest examples of a nationwide health insurance program
  - A wide array of plan choices are ostensibly offered
  - But in fact most enroll in just the nationwide plans, and the majority enroll in the Blue Cross/Blue Shield plan
- This likely reflects the choices facing many enrollees
  - Only nationwide plans or HDHP/CDHP available in all locations
  - 11 states have no HMO option and 12 states have only one HMO which is probably not offered state-wide
- There is also likely a historical connection of BC/BS organization with FEHBP
  - Providers long association with the plan -- possible large network size?
  - Workers may have a tendency to stay in plans rather than switching
Policy Implications

- ACA assures that there will be at least two national plans in every area
  - FEHBP offers a cautionary tale that this may not be enough competition to prompt variation in benefits and premiums and provider choice and access

- State and federal policymakers may need to require at least a few state-specific plans be offered in every area to make sure that all areas have a minimum amount of choice to prompt competition

- Current models of State Exchanges (e.g. Massachusetts, Utah) do not have this problem, but they have not had a national plan option in their offerings.
Future Work

- Our future work will focus on the variation in plan premiums and benefits
  - How do plan premiums and benefits (that is, copayments, coinsurance and coverage) vary across geography and other characteristics of the area?
- Does less competition lead to higher premiums and less generous benefit packages?
  - We will use measures of concentration of enrollment (such as the economic measures of concentration, the Herfindahl index) and relate this to FEHBP premiums and benefits
- What does all this portend for Health Insurance Exchanges?
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Discussion and Questions