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Fulfilling the Promise of Health Reform: **Creating a Fair & Transparent Exchange**

Background

- Over 1.7 million Californians purchase health coverage on their own in the individual market,[1] where there is a confusing myriad of plan choices with varying benefit levels and overall more costly than employer-sponsored coverage.

- Many people are concerned that there coverage won't be there for them when they need it. In particular, many "junk" or sub-standard insurance products leave insured people with coverage gaps, significant out-of-pocket costs, medical debt, and risk of bankruptcy.

- Another 8.2 million Californians are uninsured[2] and cannot afford health coverage, cannot figure out the right coverage for them, or have already been denied coverage (usually due to a pre-existing condition).

Federal Health Reform

The historic federal health reform legislation signed by President Obama in late March 2010 creates new opportunities for Californians to obtain quality, affordable health coverage.[3] With respect to establishing a fair, transparent, and consumer-friendly marketplace, federal health reform provides for the following:

- Beginning in 2014 an Exchange will be available to consumers, where an estimated 4.1 million Californians will be able to purchase coverage quality, affordable coverage;[4]

- Premium subsidies (affordability credits) will be available in the Exchange to an estimated 2.2 million Californians with incomes under 400 percent of the federal poverty level ($73,240 for a family of three in 2009),[5] so that no family pays more than a percent of their income (a sliding scale up to 9.5 percent) on premiums;

- Coverage on the Exchange will be required to provide a minimum standard of benefits (including doctor, hospital, prescription drugs, and mental health and substance abuse parity) that have an actuarial value of at least 60 percent; Subsidies for cost-sharing will also be available, which will have the effect of increasing the actuarial value of plans from 70 percent to 94 percent for the lowest income families;

- Insurers will be required to offer coverage in the Exchange (a.k.a. guaranteed issue) and will be limited in how premiums vary (i.e., modified community rating where premiums can only vary by age, family size, tobacco use, and geographic region);

- Coverage on the Exchange will not be allowed to impose lifetime or annual limits on benefits and maximum out-of-pocket costs can be no more than $5,950 for an individual or $11,900 for a family;

- The Exchange is where some small businesses would get a tax credit made available to help make coverage affordable for small businesses and their employees.

Fulfilling the Promise in California

In order to fulfill the promise of health reform in California, the state will be required to create an Exchange marketplace and ensure that plans offered on the exchange meet the (at least the minimum) standards set forth in federal law. In order to achieve this, there are several bills in the state Legislature that would:

- **Create an Exchange**: Both the Senate and Assembly have bills to create an exchange. **AB 1602** (Bass) would create the California Cooperative Health Insurance Purchasing Exchange (Cal-CHIPE) and also expand dependent coverage in private insurance to age 26. Similarly, **SB 900** (Alquist) would establish the California Health Insurance Exchange within the California Health and Human Services Agency, and create the California Health Insurance Exchange Fund to be governed by a board appointed by the Legislature. Key issues will be how such an exchange will be governed, and its authority to negotiate for the best possible price and value for those in the Exchange.

- **Standardize the insurance market**: **SB 890** (Alquist) would create rules in the individual market so consumers can make apples-to-apples comparisons when purchasing plans, and be secure that all plans include basic benefits. This approach is similar to what consumers experience in Medi-Gap and large employers, and it would prevent insurers from gaming the market, and "cherry-picking" patients based on health risk status. **AB 786** (Jones), sponsored by Health Access California, would help implement elements of health reform early, labeling health insurance policies into a number of categories, based on benefit comprehensiveness and cost-sharing, while also setting a minimum standard that requires coverage of doctor and hospital care and an overall limit on out-of-pocket costs, thus eliminating deceptive "junk" insurance.

- **Ensure robust benefits**: Most all plans on the Exchange must cover "essential health benefits", and in order to meet those requirements **AB 1825** (De La Torre) would require health plans to cover maternity services, and **AB 1600** (Beall) would require mental health parity, including coverage for the diagnoses and treatment of a mental illness.

This factsheet was prepared by Health Access, a statewide coalition of consumer, labor, ethnic, senior, faith, and other organizations that has been dedicated to achieving quality, affordable health care for all Californians for over 20 years. Please visit our website and read our daily blog at www.health-access.org

[1] S. A. Lavarreda, *et al.*, "Number of Uninsured Jumped to More Than Eight Million from 2007 to 2009," UCLA Center for Health Policy Research (March 2010).
[2] S. A. Lavarreda, *et al.*, "Number of Uninsured Jumped to More Than Eight Million from 2007 to 2009," UCLA Center for Health Policy Research (March 2010).
[3] The Patient Protection and Affordable Care Act (P.L. 111-148 signed into law on March 23, 2010) and the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152 signed into law on March 30, 2010).
[4] K. Jacobs, et al., "The President's Health Reform Proposal: Impact on Access and Affordability in California," UC Berkeley Labor Center (February 2010).
[5] K. Jacobs, et al., "The President's Health Reform Proposal: Impact on Access and Affordability in California," UC Berkeley Labor Center (February 2010).