



# Making the Health Insurance Exchange Work

This analysis is based on the direct experience with Liazon's Benefits Marketplace, a health insurance exchange for small businesses and their employees that uses a proprietary decision-support system to recommend health insurance for each consumer.

A great deal of the health insurance policy discussion today, and the reform proposed based on that policy, centers around the idea of consumer choice – providing individuals with options as a way to stimulate competition and reduce costs. In conjunction with this concept of choice is the idea that Americans will buy their coverage on a Health Insurance Exchange.

Choice of health insurance *will* help bring down the cost. We know that when individuals make their own purchase decisions about their health insurance, they tend to pick lower cost coverage. A comprehensive Aetna Insurance study in 2006 of over 2 million individual health insurance policies demonstrated the average cost of purchased insurance is 42% (single coverage) and 52% (family coverage) *less* than the average employer-paid health insurance cost. The data does not suggest that they get better coverage, but it does show that when consumers have control they routinely choose lower cost options.

This raises an important question which has to be answered if we are going to develop an effective Health Insurance Exchange, as has been proposed. Is the lowest cost health insurance the best policy for each consumer? There is evidence that when employers pick the insurance plan, a majority of employees are over-insured, but it does not logically follow that selecting insurance solely on the basis of the premium cost will yield a more acceptable result. We could end up under-insuring huge segments of the population. It's hard enough to select the right insurance when there are just two or maybe three plans to consider. What happens when there are many more choices?

The usual side-by-side comparisons of coverage features will not be sufficient. The average consumer is ill-equipped to make these complex, multifaceted comparisons and, on top of that, is insufficiently engaged in the selection process to put in the necessary time. Experience has shown, in employer-sponsored group benefits programs where the total costs of the health insurance are veiled from the employee, that without the right decision support, employee tend to disassociate from the process and merely select the plan closest to the one they are already in. The new Health Insurance Exchange needs to be supported by a sophisticated decision support engine that combines and weighs a number of factors, and actually *recommends* the appropriate insurance policy for each insurance consumer. In fact, a recent McKinsey Report (“Realizing the Potential of the Retail Revolution in Health Insurance”, McKinsey, 2009) called recommendations “a powerful determinant of choice” when consumers buy health insurance.

Every exchange – the stock market, commodities exchanges, etc. – is based on *futures*. On the Health Insurance Exchange, those futures must be established for each

consumer based on their consumption of healthcare. No one can know how much health insurance to buy until they know how much they're going to need. To get the healthcare policy that is right for them, consumers cannot merely go on premium cost. Instead, the Health Insurance Exchange needs to help the consumer pick the most cost-effective policy based on total healthcare cost, including premium and out-of-pocket expenses for the coming year. Most consumers cannot accurately predict their annual healthcare expenses, much less apply that number across the dizzying array of co-payments, deductibles, tax advantages, and other complex calculation in the policies that make up the Exchange.

Early in the recommendation process, the decision support system needs to ask them how healthy they feel they are; it has been shown that this one piece of information is a statistically valid predictor of how much health care they will use. Next, we need to know their tolerance for risk. Health insurance, like all insurance, is based on the degree of risk a person is prepared to assume. Another important measure is how engaged the consumer is in managing their healthcare, which again tells us how much they are likely to spend in the coming year on their health. All of this information about the consumer can then be applied to the vast database of government statistics about who spends how much on healthcare. This gives us an accurate projection of each consumer's cost. And of course, we need to give them a chance to look at and adjust out cost projections, telling us what they think they'll spend next year and on what.

Equipped with this expense projection, the Health Insurance Exchange can now analyze each available plan against this need and recommend the policy with the lowest total cost – premium plus out-of-pocket expenses. It can also show the consumer which policy offers the most predictable costs and the one that will cost the least if something catastrophic were to happen. The process, the calculation and all the costs should be transparent to the consumer. And of course, the educated consumer is then free to select any health insurance policy that is available on the exchange.