Colorado
Legislative
Council
Staff

Room 029 State Capitol, Denver, CO 80203-1784
(303) 866-3521 FAX: 866-3855 TDD: 866-3472

MEMORANDUM

October 29, 2012

TO: Interested Persons

FROM: Bill Zepernick, Fiscal Analyst, 303-866-4777

SUBJECT: Health Insurance Exchange Implementation in Colorado

Under federal health care reform, also known as the Patient Protection and Affordable Care Act (PPACA), the implementation of state-based health insurance exchanges is a key strategy for expanding access to health coverage, providing more information to consumers about health insurance options, and ensuring minimum standards for cost and quality of health insurance. This memorandum provides an overview of health insurance exchanges under federal health care reform and tracks Colorado's progress in establishing its health insurance exchange, the Colorado Health Benefit Exchange (COHBE).

Overview

Health exchanges are marketplaces in which individuals and small businesses can shop for health insurance. Under federal health care reform, states may choose to establish their own exchange, or allow the federal government to operate an exchange in that state. Individuals purchasing insurance through an exchange may be eligible to receive federal subsidies to buy health insurance if they are not offered affordable insurance through their employer and are not eligible for public programs such as Medicaid or Medicare.

Colorado Health Benefit Exchange

States may choose how to structure, operate, and fund health insurance exchanges, within certain federal guidelines. In 2011, Senate Bill 11-200 became law and created the COHBE in Colorado. COHBE is a statutorily created nonprofit organization and is not part of any state agency. The exchange does not receive state funding. The COHBE is governed by a board of directors appointed by the Governor and members of legislative leadership. The Legislative Health Benefit Exchange Implementation Review Committee provides oversight to the board of directors and the exchange by approving grant applications and reviewing the operational and financial plans of the exchange. COHBE is scheduled to begin operating in October 2013, with insurance policies sold through the exchange taking effect beginning in January 2014.

Funding

To date, Colorado has received $61.9 million in federal funding to establish its health exchange ($1.0 million to the Governor's Office for initial planning and $60.9 million in establishment grants to COHBE for planning and implementation). Current grant funding will support the exchange's operations through July 2013, at which time additional grant funding will be required. The COHBE board anticipates requesting approximately $40 million in additional federal grant funding in early 2013, which would extend implementation through October 2013 and help fund the first year of operations in 2014. Total federal funding to establish the exchange is estimated to be about $100 million over three grants.

According to federal law, state health insurance exchanges, including COHBE, must be self-sufficient by 2015. Given that SB 11-200 prohibits state funding for the exchange, COHBE must generate revenue from the insurance policies sold through the exchange. While the exact funding mechanism and rates have not been decided, it is likely that an assessment or fee will be charged for insurance policies listed or sold through the exchange.

Markets Served by the Exchange

The COHBE will serve two segments of the health insurance market in Colorado: the individual market and the small group market. All health insurance sold on the exchange must meet minimum standards for cost and quality, and cover certain benefits, known as essential health benefits. For persons in the individual market, to purchase health insurance through the exchange and qualify for federal premium assistance, they must:

- have household incomes between 100 percent and 400 percent of the federal poverty level (FPL);
- not be eligible for public health care programs; and
- not have access to affordable, comprehensive health insurance through their employer.

Persons who have incomes above 400 percent of the FPL may also purchase through the exchange, but are not eligible for federal subsidies. Health plans for individuals, couples, and families will be available through the exchange on the individual market. The small group market will be served by COHBE through a separate exchange called the Small Employer Options Program (SHOP), which is discussed later in this memorandum.

Key Functions of the Exchange

The primary purpose of the exchange is to serve as a marketplace for consumers to shop for and purchase health insurance. COHBE is developing a web-based interface that will enable users to search for insurance plans, compare prices and benefits in a standardized format, and purchase insurance online. Individuals and small businesses wishing to purchase health insurance through the exchange will also be able to contact a call center for assistance by telephone. Additionally, COHBE staff has stated that it will work with insurance brokers and agents to sell qualified health insurance plans listed on the exchange through these existing sales channels. In addition to its marketplace

function, the COHBE has several other responsibilities under federal health care reform, as highlighted below.

Eligibility screening for state programs. When a person applies to purchase health insurance through the exchange, the system will pre-screen applicants for eligibility for public programs such as Medicaid and the Children's Health Plan Plus (CHP+) by collecting information on income, number of persons in their household, and other factors. If a person is potentially eligible for a public program, his or her information is used to complete on online application for public health care assistance and eligibility is determined by the Colorado Benefits Management System (CBMS). COHBE does not determine eligibility for these programs. Persons determined eligible for public programs are then enrolled in the appropriate state program, and persons who are not eligible for public programs (either based on the pre-screening or an application processed by CBMS) are able to continue in the exchange's system to select and purchase a private health care plan.

Premium subsidies. Persons who purchase insurance through COHBE may be eligible to receive federal premium assistance tax credits to assist in paying the cost of insurance purchased through the exchange. The tax credits are refundable and advanceable, which means that even persons with limited or no tax liability can receive the credits and that the credits are provided prior to filing a tax return at the end of the year. The credits are forwarded to the health insurance provider selling the policy on the exchange.

The amount of the subsidy depends on a person's household income, the number of persons in their household, and the type of health plan selected. Based on income level as a percent of the FPL, each person must make a specified contribution to the cost of health insurance coverage purchased through the exchange, ranging from 2 percent of household income for persons with incomes below 133 percent of the FPL to 9.5 percent of household income for persons with incomes between 300 and 400 percent of the FPL. Table 1 lists the required premium contribution by income level.

Table 1
Required Contribution When Buying Subsidized Health Insurance Through the Colorado Health Benefit Exchange

Household Income as a Percent of the Federal Poverty Level (Fpl)	Required Contribution to Premium Costs as a Percent of Household Income
Less than 133%	2.0%
133% - 150%	3.0% - 4.0%
150% - 200%	4.0% - 6.3%
200% - 250%	6.3% - 8.05%
250% - 300%	8.05% - 9.5%
300% - 400%	9.5%
Greater than 400%	Full premium

Source: 26 CFR §1.36B-3(g).

The subsidy amount is based on the difference between a person's required premium contribution and the cost of a benchmark plan. The benchmark plan is defined as the second least expensive "silver" plan available on the exchange.[1] If a health plan with higher or lower premium costs than the benchmark plan is selected, the premium subsidy remains the same and the portion of the premium paid by the customer is adjusted up or down.

Further, when setting premium costs, health insurers are allowed to take into account characteristics such as age, tobacco use, family size, and geographic location within a state. The benchmark plan used to determine the required contribution for an individual includes all of these rating factors, except for tobacco use. Therefore, for a given income level, older persons with higher premiums will receive higher subsidy amounts than younger persons for identical coverage. On the other hand, tobacco users and a non-tobacco users at the same income level will receive the same subsidy amount, but tobacco users would be required to pay any increased premium costs related to the use of tobacco themselves. Table 2 provides several examples by income, family size, and other factors to illustrate a person's required contribution toward premium costs and the premium subsidy provided.

Table 2
Examples of Premium Tax Credit Subsidies

Family Size and Income*	Scenario	Required Contribution	Premium Tax Credit	Total Costs
Individual $22,340 (200% FPL)	Benchmark plan (Non-smoker, Age 30)	$894 (4.0% of annual income)	$4,106	$5,000
	Less expensive plan (Non-smoker, Age 30)	$394	$4,106	$4,500
	More expensive plan (Non-smoker, Age 30)	$1,394	$4,106	$5,500
	Benchmark plan (Smoker, Age 30)	$1,894	$4,106	$6,000
	Benchmark plan (Non-smoker, Age 60)	$894	$5,106	$6,000
Family of 4 $92,200 (400% FPL)	Benchmark plan (Non-smokers)	$8,759 (9.5% of annual income)	$2,241	$11,000
	Less expensive plan (Non-smokers)	$7,759	$2,241	$10,000
	More expensive plan (Non-smokers)	$9,759	$2,241	$12,000
	Benchmark plan (Smokers)	$10,759	$2,241	$13,000

**Income level is in 2012 dollars and FPL is calculated using the 2012 Federal Poverty Guidelines. Health plan costs and scenarios are hypothetical and provided for illustrative purposes.*

[1] Health plans on the exchange are classified as bronze, silver, gold, or platinum on the basis of the actuarial value of the plan, which is a measure of how generous a plan is in covering the costs of health care services provided under the plan. Silver plans have an actuarial value of 70 percent. Bronze, gold, and platinum have an actuarial value of 60 percent, 80 percent, and 90 percent, respectively.

SHOP Exchange

Under federal health care reform, state-based insurance exchanges are required to include marketplaces for small businesses and nonprofit organizations called Small Employer Health Options Program (SHOP) exchanges. SHOP exchanges may be combined with the individual exchange or operated separately. COHBE has opted to operate Colorado's SHOP exchange for small employers separately from the individual market. Beginning in 2014, the SHOP exchange will serve small businesses and nonprofit organizations with fewer than 50 full-time equivalent employees (FTE). Federal law requires SHOP exchanges to include employers with up to 100 employees beginning in 2016. In 2017, states may choose to expand access to SHOP exchanges to employers with more than 100 employees.

Colorado's SHOP exchange will allow employees to compare a range of health plans offered on the exchange and select the plan that best fits their needs and budget. The SHOP exchange will collect premium contributions from the employer and the employee and forward the premiums to the health insurers selected by employees. Small employers with fewer than 25 employees that pay at least 50 percent of the premium costs for their employees purchasing on the SHOP exchange and that pay average annual wages of no more than $50,000 per year on an FTE basis are eligible for tax credits to assist in providing health insurance to employees. These tax credits for small businesses took effect in 2010, and the credits will increase and be limited only to plans sold through SHOP exchanges in 2014.