



# **2014 Seal of Approval Introduction (II): Product Strategy & Employee Choice**

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**Board of Directors Meeting  
November 8, 2012**



# Agenda

- Health Connector 2014 Product Strategy
  - Medical insurance products
  - Dental insurance products
- Employee Choice



# Summary

- The ACA requires all non-grandfathered plans sold in the small and non-group market (both inside and outside the Exchange) to be classified into metallic tiers meeting certain actuarial value requirements
- Besides the need to meet ACA requirements, we believe that this creates an opportunity for the Health Connector to continue refining its product strategy to ensure that we offer products to individuals and small businesses with market appeal
- For 2014, the Health Connector intends to continue its offering of standardized plans, supplemented by non-standardized options to expand choice



# Commonwealth Choice Product History

2007

2008

2009

2010

2011

2012

2013

★ Commonwealth Choice was launched in 2007. Early focus was on the non-group market

★ We started to serve small groups in 2009 with the Contributory Plan...

★ ...Followed by Business Express in 2010

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★ Initially, products were not standardized; they were organized by metallic tiers based on actuarial value

★ For the 2009-2010 Seal of Approval (SoA), product standardization was introduced to streamline the portfolio and promote direct comparison shopping

★ The 2013 SoA continued to maintain standardization while introducing some non-standardized products



# Relevant ACA Requirements

- Starting in 2014, all non-grandfathered health benefit plans sold in the small and non-group market must be classified by “metallic tiers” based on actuarial value (AV)
  - This model will apply *marketwide* – both inside and outside the Exchange
  - In order to be classified into metallic tiers, the actuarial value of a plan must fit within one of the defined ranges

ACA Metallic Tier	AV Requirement
Platinum	90% +/- 2%
Gold	80% +/- 2%
Silver	70% +/- 2%
Bronze	60% +/- 2%
Catastrophic	TBD (Pending federal guidance)

- To ensure a consistent approach to determining AV, HHS plans to release a “federal AV calculator,” which is expected in November 2012



# Relevant ACA Requirements (cont'd)

- The ACA metallic tier requirement is in concept similar to the current structure of Commonwealth Choice
  - Commonwealth Choice offers a portfolio of standardized products with defined parameters for the majority of cost-sharing categories

ACA		Commonwealth Choice	
<b>Platinum</b>	Determined by Actuarial Value	<b>Gold</b>	Determined by: 1) For standardized plans, cost-sharing parameters 2) For non-standardized plans, AV and cost-sharing proximity to standardized plans
<b>Gold</b>		<b>Silver</b> (Hi, Lo, Other)	
<b>Silver</b>		<b>Bronze</b> (Hi, Med, Lo, Other)	
<b>Bronze</b>		<b>YAP</b> (with Rx, w/o Rx)	
<b>Catastrophic</b>			

- Beyond complying with the metallic tier structure, Exchanges are permitted by the ACA to prescribe additional product design requirements for QHPs, including standardization of cost-sharing



# Key Considerations for 2014

- **Product standardization remains a core principle of our strategy and should be maintained for 2014**
- A significant portion of our customers, especially those in the non-group market, highly value and depend on the simple and transparent shopping experience provided by the Health Connector
  - Many people are wary of too many choices and the challenge of comparing complex health insurance products
- Standardization can maximize price competition among carriers
- Standardization helps move the product market in the direction of being more streamlined and consumer-friendly
- We believe that a standardized product portfolio that is well designed can meet a wide range of consumer needs



# Key Considerations for 2014 (cont'd)

- **Incorporating some non-standardized products, however, is workable, and there are important reasons to do so**
- The Health Connector has frequently received market feedback – particularly from the small-group segment – that suggests desire for more product choice on our shelf
- The market increasingly demands plan designs that help lower costs and/or improve value; certain products that are responsive to this demand (*e.g.*, tiered network products) can be difficult to fit within standardized product parameters
- In the past, several carriers have expressed interest in offering non-standardized products through Commonwealth Choice, including plans that have demonstrated market appeal



# Key Considerations for 2014 (cont'd)

- **Moreover, new requirements/tools that apply in 2014 will address some of the concerns with regard to offering non-standardized products**
- The Health Connector has launched decision support tools to help consumers navigate health plan choices and will augment these for 2014
- A market-wide risk adjustment program will help to mitigate some of the adverse risk selection concerns that were part of the rationale for standardization
- The ACA-required metallic tier structure and the federal AV calculator will constrain products within somewhat narrow AV ranges, which will likely move the market as a whole towards less variation



# Decision Support Tools

To support the Health Connector's 2013 product expansion, a plan helper was added to help shoppers navigate among different products

- The goal was to provide a tool that helps educate the user on specific health insurance concepts and allow them to easily find the best Benefit Package(s) or plan(s) based on their preferences
- The Plan Helper, which includes pre-filters, tutorials and educational videos, was implemented to help educate the user, and filter options based on Provider Network, Annual Deductible, Co-Insurance and Out-of-Pocket Maximum

The screenshots illustrate the Plan Helper tool's interface, which guides users through key decision points: starting the tool, selecting a provider to keep, choosing an annual deductible level, and deciding on co-insurance cost-sharing. Each step includes educational text and interactive elements like sliders and radio buttons.



# Decision Support Tools (cont'd)

- Placeholder Slide for Decision Support Tool Video



# Decision Support Tools (cont'd)

Additional decision support tool options are currently under development as part of the HIX-IES project

*(Example of potential consumer flexibility to sort plans based on individualized coverage needs)*

INFORMED ENROLLMENT FOR ABC GLOBAL CLOSE

## HEALTHCARE NEEDS

PROGRESS: ██████████

The levels shown below are based on your recent healthcare and any service(s) you added. You can move the sliders if you want to adjust them.



	Low	Medium	High
JULIE	██████████	██████████	██████████
ED	██████████	██████████	██████████
HANNA	██████████	██████████	██████████
NICK	██████████	██████████	██████████

Inguinal hernia repair Remove

Starting point before you added services or moved the slider

Back Reset this page Continue

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INFORMED ENROLLMENT FOR ABC GLOBAL CLOSE

## THE RIGHT PLAN

Your 2011 Health Plan Cost Comparison

PROGRESS: ██████████ EDIT PRINT

Compare the estimated total costs for your health plan options for 2011.  
(Reminder: Your 2010 health plan is PreferredNet PPO)

Plan (Insurer)	Your estimated total cost (Family coverage)	Your annual premiums	Your estimated out-of-pocket costs
★ HealthMax HDHP (Consumers Health)	<b>\$7,670</b>	* \$1,900	* \$5,770
PreferredNet PPO (National Health)	<b>\$8,520</b>	* \$3,900	\$4,620
PreferredNet PPO+ (National Health)	<b>\$9,270</b>	* \$6,900	\$2,370

★ = plan option with lowest estimated total cost      \* Credits applied. Click the links in the Your estimated total cost column for details.

**Things to Think About**

It's important to consider premium amounts AND the potential out-of-pocket amounts you would pay to get a fuller picture of your healthcare costs.

More »

**Useful Documents**

- 2011 Health Plan Summary Comparison
- 2011 Health Plan Changes

Back Continue

*Users can input their health care needs for their family*

*Based on expected healthcare needs, plan benefit details and real-world claims analytics, out-of-pocket costs are summarized by plan*



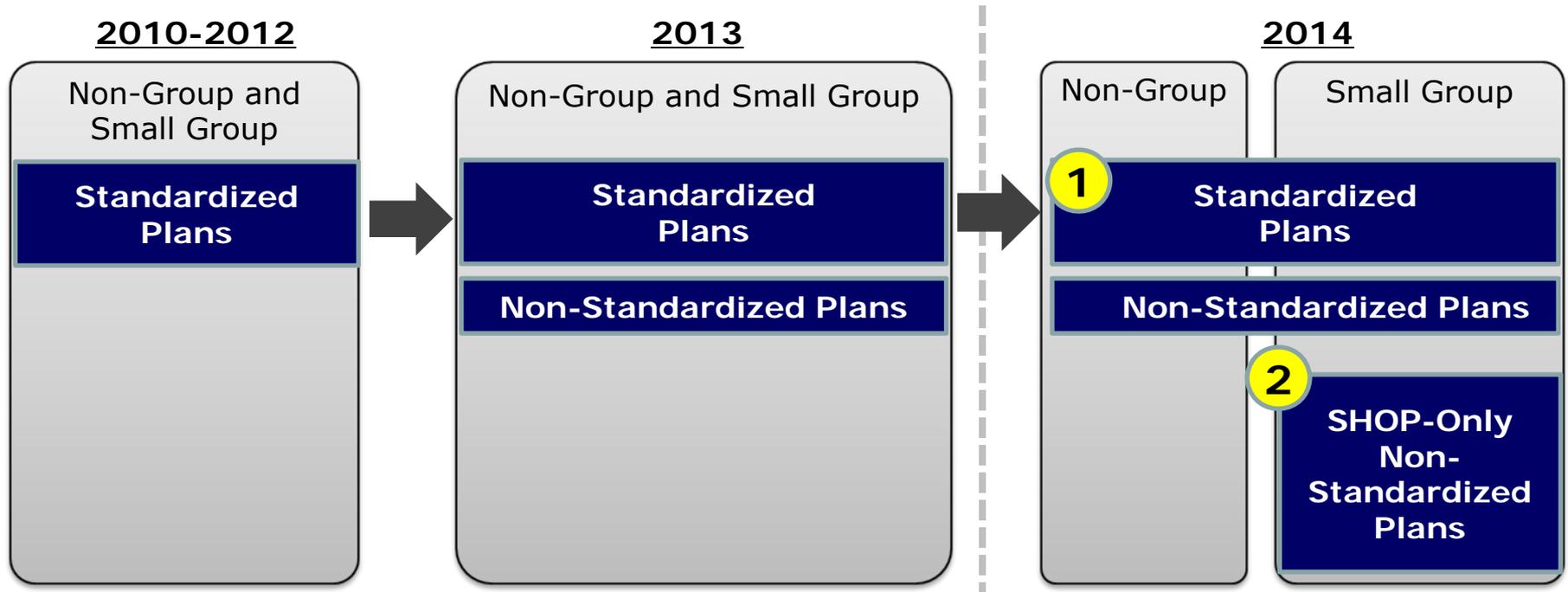
# Key Considerations for 2014 (cont'd)

- **We believe that the right strategy is to seek a balance of standardization and choice**
- There is a natural tradeoff between simplicity and variety; our customers are not homogeneous and may have varying preferences
  - Non-group shoppers tend to rely more on the simple shopping experience and prefer products that are standardized
  - Small group customers, many of them shopping through brokers, depend to a lesser degree on simplicity and place more value on choice
- The appropriate balance, therefore, is to provide a standardized product platform as the core of our offering, and supplement it with additional options for customers who look for expanded choice
  - Decision support tools will be available to aid consumers in navigating their choices
- This concept is consistent with the approach that we tested with the 2013 Seal of Approval



# Proposed Strategy

1. Maintain a “base” of standardized plans for both the non-group and small-group product offering
  - Retain the option to supplement with a select number of “high-value” non-standardized plans for both shelves (*e.g.*, tiered cost-sharing products)
2. Include additional non-standardized plans for the small-group shelf only, to further enhance the breadth of the SHOP portfolio





# Proposed Strategy (cont'd)

1. **Maintain a “base” of standardized plans for both non-group and small-group**
  - All carriers will be required to offer standardized plans
  - The Health Connector will define required cost-sharing parameters to be applied to the standardized product shelf for 2014
    - Refresh the current Commonwealth Choice plan design
    - Conform to AV requirements per the ACA
    - Incorporate analysis of “popular” plan designs that indicate market preferences
    - Engage carriers to solicit inputs and feedback
  - Subject to Board approval, for both the non-group and small-group shelves, we intend to retain the option of supplementing standardized products with a select number of non-standardized plans that add value to the portfolio



# Proposed Strategy (cont'd)

## 2. Include additional non-standardized plans for the small-group shelf only\*

- Building upon our effort with the 2013 Seal of Approval, all non-standardized plans will be subject to review by the Health Connector and approval by the Board
- Key considerations that drive our product selection will likely encompass the following areas:
  - Meaningful diversification of the Exchange product portfolio
  - Pricing competitiveness
  - Demonstrated market success
  - The Health Connector may consider requiring or precluding certain specific plan design features/thresholds
  - Balance between choice and complexity – the goal is to keep the size of our shelf at a reasonable level

\*Consistent with merged market rules and other state regulations, these products must be available to individuals through other distribution channels (*e.g.*, directly from the carrier).



# Network Requirement

- Since 2011, we have required that all carriers offer at least one plan for each of the standardized benefit packages on their broadest commercial network
  - The objective is to ensure our product shelf has market appeal, while mitigating adverse risk selection among carriers
- At the same time, we also invite carriers to offer narrower and/or tiered network products to augment their broadest network products
- For 2014, we propose to maintain the requirement that carriers offer at least one plan for each of the standardized benefit packages on their broadest commercial network
- We plan to monitor the impact of market-wide risk adjustment that starts in 2014 and calibrate our strategy as appropriate



# Next Steps

- Currently working with actuarial consultants to develop 2014 product parameters
  - Standardized plan design (subject to federal AV calculator)
  - Framework for selecting non-standardized plans
- Preparing to engage carriers in the coming weeks to collect inputs as we narrow down options
- We plan to review final product requirements with the Board prior to the RFR release in January



# Agenda

- Health Connector 2014 Product Strategy
  - Medical insurance products
  - Dental insurance products
- Employee Choice



# Summary

- The Health Connector intends to expand its product shelf to include dental plans starting in 2014
- The ACA Essential Health Benefit (EHB) package includes pediatric dental coverage. To ensure robust access to dental EHB through the Exchange, the vision of the ACA is to offer stand-alone dental plans through the Exchange
- In addition to meeting the ACA requirement, there are opportunities for the Health Connector to play a constructive role in promoting access to affordable dental coverage
  - Connect more individuals and small businesses with affordable dental insurance
  - Promote transparent and consumer-centric shopping
  - Streamline distribution by leveraging centralized operations



# ACA Requirement

- The ACA requires that pediatric dental coverage be included in in the EHB package, which the Exchange is required to offer
- A medical health plan that does not cover dental EHB may be certified as a Qualified Health Plan (QHP) so long as the Exchange also offers stand-alone dental plans that include the required pediatric benefits
  - Consumers are not mandated to purchase a plan that includes the dental EHB to avoid a penalty; they must show that they have obtained “Minimum Essential Coverage,” which does not require the complete set of EHBs



# ACA and Market Implications

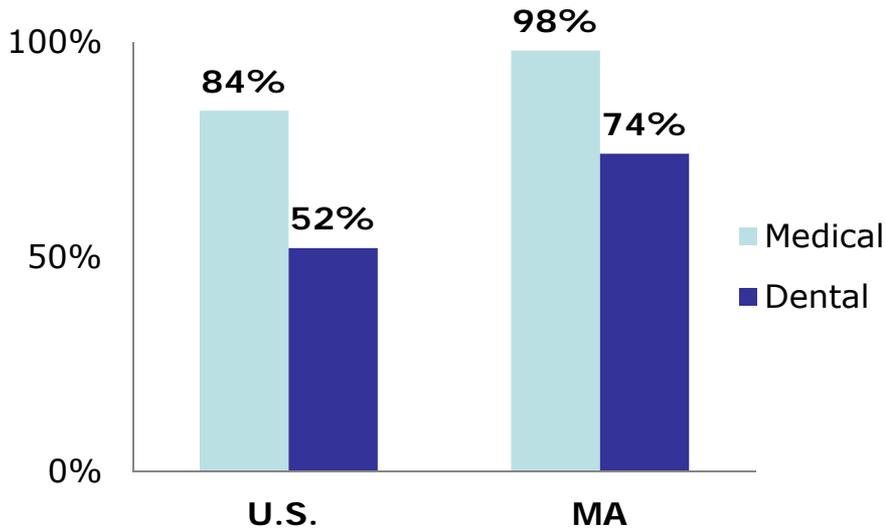
- **We believe that the Health Connector needs to make stand-alone dental plans available on its shelf**
  - State law was updated earlier this year to authorize the Health Connector to sell stand-alone dental plans
- Most medical plans in our market do not offer extensive dental coverage
  - Per DOI annual report, more than 90% of dental coverage in Massachusetts is through stand-alone carriers
  - It may require a significant lift for many medical carriers to acquire the dental offering capability that is comparable to stand-alone carriers (*e.g.*, network development, operational infrastructure)
- As such, offering stand-alone dental plans will allow the Health Connector to better serve the needs of its customers
  - Provide greater choice of carriers and products through the Exchange



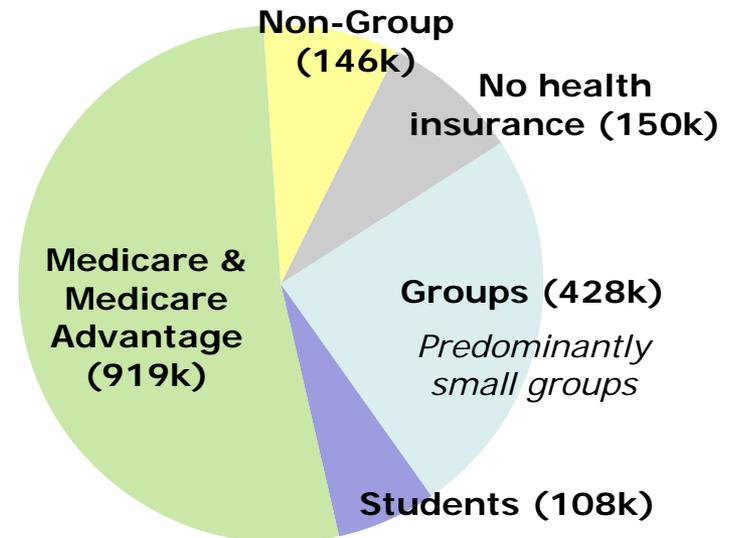
# Current Market

- Nationally, the dental coverage rate substantially lags the medical coverage rate
- Dental insurance is more prevalent in Massachusetts compared with national average, but there are still 1.7M people in the state that do not have dental coverage

US vs. MA Dental Insurance Rate



MA Residents without Dental Insurance





# Current Market (cont'd)

## Evidence suggests that lack of dental coverage leads to unmet health needs

### People without dental insurance are less likely to seek preventive oral care

- People without dental coverage are:
  - 33% less likely to have had a check up or cleaning in the past 6 months;
  - 25% less likely to get periodontal maintenance treatment; and
  - 30% less likely to take their children to dental visits

### There are wide-spread dental health issues due to insufficient care

- 31% of children under 19 in families with income <200% FPL have untreated cavities (14% for families >200% FPL)
- One in four non-elderly adults have untreated tooth decay
- Studies have demonstrated associations between dental diseases and diabetes, cardiovascular diseases, stroke and adverse pregnancy outcomes

*(Survey data reflects national statistics)*

Sources: The Pew Center on the States, "Costly Dental Destination: Hospital Care Means States Pay Dearly"; Kaiser Commission, "Medicaid and the Uninsured"; 2012 NADP/August 2012 DDPA Joint Dental Benefits Report; Delta Dental, "America's Oral Health: The Role of Dental Benefits"; NADP, "Dental Benefits Improve Access to Dental Care"; Health and Human Services, "Health of Nation Report"; Kaiser Family Foundation, "Oral Health in the United States"



# Current Market (cont'd)

Compared with medical plans, dental product design is fairly standard, with limited variation in the market

Covered Benefits			<i>Typical Levels of Coverage</i> <i>(Annual limit often applies)</i>
<u>Preventive &amp; Emergency only</u>	<u>Basic</u>	<u>Comprehensive</u>	
<ul style="list-style-type: none"><li>• Oral exams and cleaning</li><li>• Preventive treatments (<i>e.g.</i>, Fluoride, sealants)</li><li>• Bitewing X-rays</li><li>• Emergency services</li></ul>			100%
	<ul style="list-style-type: none"><li>• Cavity fillings</li><li>• Periodontal treatment</li><li>• Root canal</li><li>• Uncomplicated extractions</li></ul>		80%
		<ul style="list-style-type: none"><li>• Major oral surgery</li><li>• Crowns and dentures</li><li>• Implants</li><li>• Orthodontia (often as a rider)</li></ul>	50%



# Current Market (cont'd)

- Price and network are the two main drivers of competition
  - Dental PPO (DPPO) products are the most prevalent; they typically have networks that include 40-90% of the dentists in the market
  - Dental HMO (DHMO) products have smaller, more restrictive networks. Notwithstanding a 20-25% price advantage relative to DPPO products, DHMO take-up is low (~8% nationally)
- Unlike medical, the dental insurance market in Massachusetts remains separate for individuals and small groups
  - Not all carriers that offer small group coverage also serve the individual market

Leading Dental Carriers in MA	Altus	Ameritas	BCBSMA	Delta	Guardian	Metlife
Small group	√	√	√	√	√	√
Individual	√	√	√	√		



# Market Interest

- The majority of leading dental carriers have expressed interest in working with the Health Connector
  - Pursue more volume through easier access to customers
  - Leverage the Exchange to centralize certain distribution functions and potentially gain efficiencies
  - Some carriers are interested in seeing more price competition
- Small employers are generally interested in the idea of offering dental coverage to their employees
  - The key barrier to small group dental insurance take-up is affordability



# Key Considerations for 2014

- It is necessary for the Health Connector to offer stand-alone dental plans starting 2014 to ensure compliance with the ACA
- Besides meeting ACA requirements, we should explore ways to address a broader range of market needs:
  - Potentially bring dental coverage to more individuals and small businesses
  - Coverage for adults and families in addition to child-only
  - Customers seeking both medical and dental products, as well as those who need dental coverage only
- Affordability must be a priority, particularly given that purchasing dental coverage will remain voluntary
- We should take advantage of unique strengths of the Exchange, *e.g.*, technology platform and integrated shopping experience



# Proposed Approach

- Pursue a broad portfolio of products to meet the needs of a diverse and price-sensitive customer base
  - Include “low-end” products that cover basic, including preventive services at affordable price points
  - Provide child-only plans that allow families to prioritize children’s coverage
- Procure for a reasonable number of carriers to seek a balance between choice and price competition
- Design and implement a consumer-friendly shopping and servicing platform that incorporates dental offering
  - Will support integrated shopping for both medical and dental products, as well as “dental express” for those customers seeking dental coverage only

**We plan to launch the 2014 dental Seal of Approval in parallel with medical, targeting RFR release in January 2013**



# Agenda

- Health Connector 2014 Product Strategy
  - Medical insurance products
  - Dental insurance products
- Employee Choice



# Summary

- Employee Choice is an ACA-required function of the SHOP (small group) Exchange, which allows employers to select a level (metallic tier) of coverage and employees to choose from all QHPs within the selected level
- To meet the ACA requirement, the Health Connector is envisioning an approach that leverages a refined version of the Contributory Plan (CP) model
- In addition to the ACA-mandated Employee Choice, we also plan to offer other permissible types of options in an effort to meet broader employer needs/preference



# History of Health Connector's Small-Group Offering

2007    2008    2009    2010    2011    2012    2013    2014

- ★ Commonwealth Choice was initially launched with non-group offering only
  - ★ The Contributory Plan (CP) pilot was launched in Jan 2009
    - The Health Connector's first attempt to serve small groups
    - Offered as a closed pilot, distributed exclusively through 25 brokers
  - ★ The CP pilot was frozen for new enrollment in late 2009...
  - ★ ...Shortly followed by the launch of Business Express in early 2010
  - ★ CP was closed down in late 2011 in preparation for ACA transition
  - ★ Go-live of ACA-compliant SHOP Exchange



# ACA Requirement On Employee Choice

## ACA SEC. 1312. CONSUMER CHOICE.

(a) CHOICE.

(2) QUALIFIED EMPLOYERS.

- (A) EMPLOYER MAY SPECIFY LEVEL—A qualified employer may provide support for coverage of employees under a qualified health plan by selecting any level of coverage under section 1302(d) to be made available to employees through an Exchange.
- (B) EMPLOYEE MAY CHOOSE PLANS WITHIN A LEVEL.— Each employee of a qualified employer that elects a level of coverage under subparagraph (A) may choose to enroll in a qualified health plan that offers coverage at that level.

## ACA EXCHANGE FINAL RULES: § 155.705 Functions of a SHOP

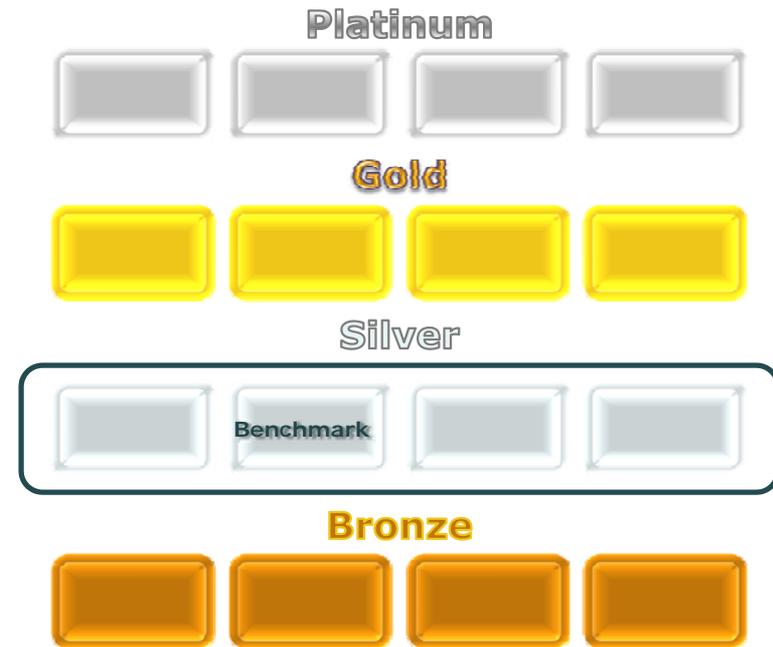
- (2) Employer choice requirements. With regard to QHPs offered through the SHOP, the SHOP must allow a qualified employer to select a level of coverage as described in section 1302(d)(1) of the Affordable Care Act, in which **all QHPs within that level are made available** to the qualified employees of the employer
- (3) SHOP options with respect to employer choice requirements. With regard to QHPs offered through the SHOP, **the SHOP may allow a qualified employer to make one or more QHPs available** to qualified employees by a method other than the method described in paragraph (b)(2) of this section

- A model that allows employees to choose from all QHPs within an employer-selected level of coverage is a minimum requirement of the ACA
- The ACA does not preclude the Exchange from offering additional forms of options, including the sole-source model as provided by Business Express



# The Contributory Plan Model

- We are contemplating an approach that leverages the Health Connector's former Contributory Plan (CP) model as a foundation for the ACA-mandated Employee Choice
  - CP fits the model required by the federal law (choice within a metallic tier)
  - It gives the employer the opportunity to fix their contribution while affording their employees choice of carriers and plans
  - CP is to a degree already known to the market, which helps avoid difficult policy and operational/IT work required to pursue a substantially different path
  - We believe CP provides a reasonable platform to experiment with a relatively new concept and learn from the experience





# The Contributory Plan Model (cont'd)

## The CP framework fits with requirement of the law

### Benchmark Plan

Composite Premium per Employee	Average Employer Contribution	Per-Employee Share
\$400	\$300 (75%)	\$100

List Bill Premium		Employer Contribution	Employee Share
Employee (age)	Premium		
A (55)	\$550	\$450	\$100
<b>B (35)</b>	<b>\$350</b>	<b>\$250</b>	<b>\$100</b>
C (25)	\$300	\$200	\$100
Average	\$400	\$300	\$100

### Alternative Plans (Employee B)

Alternative Plans	List Bill Premium	Employer Contribution	Employee Share
1	\$450	\$250	\$200
2	\$280	\$250	\$30

- The employer selects a Benchmark plan
- A group composite rate is generated
- Employer aggregate contribution is fixed



- Composite premium is converted to list bill rates in a budget-neutral fashion
- Employee share remains uniform
- Employer contribution varies by employee



- Employees have the option to choose among alternative plans in the same tier as the benchmark plan
- For a given employee, employer contribution remains fixed; employee cost varies accordingly

The benchmark plan approach – which has employees of all ages paying the same contribution for the benchmark plan – mitigates age discrimination concerns with other alternatives (particularly “defined contribution” models)



# The Contributory Plan Model (cont'd)

- **CP allows employers to fix their contribution while providing meaningful plan choice to employees**
- Given the diversity of carrier pricing, networks and service models, employees can access a wide range of options within a benefit level
- Our experience from the CP pilot in 2009 suggests that the concept of CP could be appealing to employers

## Findings from the 2009 CP Survey

- The employee choice feature of CP was deemed "important" or "very important" for 81% of employers
- 88% of employers were "more" or "much more" satisfied with the choice allowed by CP compared with the "traditional" model
- 91% of employees "liked" or "really liked" being able to choose a plan other than the benchmark plan and pay or pocket the difference in premiums
- 40% of brokers reported that "all" or "most" of their clients who were aware of CP were interested in his product
- 66% of brokers were "generally satisfied" with CP overall



# The Contributory Plan Model (cont'd)

The market already has some experience with CP, and there are opportunities to learn from the pilot and make improvements

## CP Challenges in 2009

- Some customers found the model confusing
- The process was insufficiently automated which led to operational difficulties
- Service was not robust and left questions unanswered

## Opportunities for Improvement

- Work with carriers to define a consistent rating methodology
  - Comply with ACA rating rules, which mandate certain areas of simplification
- Redesign shopping experience to make it simple and intuitive
- Develop a robust back end that supports dependable end-to-end automation – a key area of ongoing HIX design
- Invest in upfront education to minimize confusion and ensure smooth adoption
  - *E.g.*, built-in educational tools (*e.g.*, interactive video) as part of the shopping platform
- Strengthen support capability through focused training of the customer service team



# Additional Options

- Per the ACA, Exchanges are not precluded from offering other forms of options for employers, so long as the ACA-required model is available



- To meet a wider range of potential employer preferences, we plan to make two additional models available through the Health Connector:
  1. Business Express – the traditional sole-source model
  2. Choice within products offered by a single carrier
    - Often referred to as the “dual/triple” option
    - Designed to serve employers who wish to provide choice to their employees while working with the same carrier
    - Carriers will be able to work with the Health Connector to define “bundles of plans” (*e.g.*, pairs or trios) for employers to choose from
    - An Employer can pick a bundle of products from one carrier and allow employees to choose from within the set



# Other Considerations

- Employee Choice leverages unique capabilities of the Exchange. It is a requirement of the ACA and potentially presents opportunities for the Health Connector to better serve small businesses
- Employee Choice is also a relatively new concept, and we anticipate that there will be continued challenges in our path forward
  - An inherently more complex model, Employee Choice will require carriers, brokers, employers and employees to adapt to new processes
  - The bar will be higher for our operations and servicing to meet customer expectations and ensure their satisfaction
  - There will be carrier questions around adverse risk selection – although the market-wide risk adjustment mechanism will substantially mitigate the issue – which we will carefully observe and manage
- We believe that we have identified a thoughtful and balanced approach to launching Employee Choice, which we intend to pursue with broad collaboration with the market
- Longer term, we expect to continuously learn from our experience and refine our strategy