Insurance Exchanges: Why New York needs active purchasing

The Affordable Care Act requires each state to set up an insurance exchanges—a marketplace where individuals and employers can shop for health insurance and apply for public programs and subsidies. Exchanges must be accessible via telephone, the internet, or on a walk-in basis.

States have a significant discretion on how these exchanges will function. The simplest exchanges could act as "clearinghouses" and allow any and all plans to operate on the exchange (provided they meet the minimum requirements set forth by the federal government).

Or, an exchange could be an "active purchaser" and act on behalf of enrollees to negotiate the best possible plans for the lowest possible prices by. This is done by leveraging the exchange's purchasing power, much like a large employer would for its employees, to selectively contract with health plans.

How does active purchasing work?

As an active purchaser, an exchange could:

- Set additional criteria, on top of the minimum federal requirements;
- negotiate with plans on prices and benefits, or allowing plans to bid for exchange business; and
- require greater standardization of product choices so enrollees can make smart choices.

These forms of active purchasing are commonplace in much of today's insurance industry. States already selectively contract with commercial plans for public health insurance programs. Likewise, large employers and unions also negotiate with health plans to secure better prices and benefits for enrollees.

Why is active purchasing so important?

Small businesses and individuals do not typically have much power to actively negotiate with health insurers, unlike big businesses, states, and unions.

The new health insurance exchanges offer these groups the means to have the exchange actively negotiate for them. But, a state must choose to do so.

An active purchaser can potentially provide enrollees with:

- greater plan quality;
- stronger consumer protections;
- wider provider networks;
- better benefits;
- lower prices;
- easier purchasing choices by further standardizing plans and plan options; and
- the best value for their money.

How has active purchasing worked in other states?

Massachusetts' Commonwealth Care is a good example of an insurance exchange that serves as an active purchaser. Through this exchange, the Massachusetts Connector Authority is able to selectively contract using a bidding process. The result is that the exchange has been able to control the annual rate growth in health insurance premiums that is roughly half the rate of growth outside of the exchange.

New York needs an Exchange that is an active purchaser!

HCFANY recommends that New York's insurance exchange legislation grant it the following powers:

- **to undertake all other acts, not specifically prohibited by the statute, which are necessary and proper to the execution of its stated duties;**
- **to leverage its market share and utilize an aggressive bidding process, or actively negotiate with plans; and**
- **to mandate standardization of products in the exchange and to require, as a condition of sale in the Exchange, the offering of policies in geographic regions which may otherwise be underserved.**

An Exchange that is an active purchaser can lower prices for individuals and small businesses, much like large employers do for their employees.