

NAR Frequently Asked Questions

Health Insurance Reform

HEALTH INSURANCE EXCHANGE AND SHOP

Q-1: How would people get health insurance in this reformed health insurance system?

A: Individuals and Very Small Businesses: Individuals, the self-employed and small businesses will buy policies from private insurance companies underwritten and rated using the new set of consumer-protective federal rules. These new policies will be available through state-based “Exchanges” and a “Small Business Health Option Programs” (SHOP) exchange. Individuals and small businesses can also choose to continue any insurance coverage that they already have. In the terms of the Act, those existing plans would be “grandfathered” and considered coverage that meets the terms of the Acts.

Larger Employers: Larger employers who purchase health insurance in the current small and large group market or who self-insure will continue to purchase coverage for their employees, dependents, and retirees in the existing state-regulated small and large group markets. Larger organizations who self-insure will continue to be bound by the federal ERISA statutes that have long governed self-insured plans.

Government Plans: Federal, state and local health insurance plans for employees, retirees, active duty military, veterans and other groups such as children (SCHIP), the elderly (Medicare) and low-income households (Medicaid) will continue to offer coverage to their covered participants.

Q-2: What is an “Exchange”?

A: A key provision of the Acts’ insurance reforms is the creation of “**Exchanges.**” The Exchanges will be state-based and serve as an aggregator of individual policies sold by private insurers and underwritten using the new federal underwriting and rating rules spelled out by the Acts. The Small Business Health Options Program (SHOP) exchange will serve a similar function for small employers and the self-employed. It should be noted that the self-employed independent contractor can choose to purchase coverage that best meets their needs in either the Exchange or in SHOP.

NAR Frequently Asked Questions

Health Insurance Reform

The Exchanges and SHOP will act much like an “Expedia or Orbitz for Health Insurance” system. Both will allow individuals and small firms to obtain information, compare and purchase private health insurance plans. The Exchange/SHOP will also be the entities that will evaluate whether or not a particular insurance policy meets the criteria set out by the new federal rules for policies offered to individuals and very small employers in the Exchange or SHOP.

Q-3: What types of individuals and small employers will be eligible to participate in an Exchange or SHOP?

A: The Exchange will be open to those who currently purchase insurance in the individual market. This group will include, for example, early retirees (pre-Medicare eligible retirees), the self-employed, individuals whose employers do not provide insurance, or those who cannot afford their employer’s insurance. The SHOP will be open to the self-employed individual and the employees of firms with 100 or fewer employees. The bill grants the Administrator (or states) the authority to allow larger firms to participate in the Exchange or SHOP in the future and/or to merge the Exchange and SHOP into one larger pool.

Q-4: Would the larger firms that aren’t eligible to participate in the Exchange be impacted by the proposed reforms?

A: No and Yes. Those businesses that are not eligible to participate in the Exchange will continue to purchase insurance as they have in the past. The state-regulated small group and large group markets will continue to exist and operate much as they do now. The ERISA regulated market of self-insured employer plans will also continue to exist and operate as they do now.

The Acts will require all insurance policies, including those sold to larger firms, to adopt many of the reforms that will apply to Exchange/SHOP policies including elimination of pre-existing conditions exclusions for children, prohibiting rescissions, eliminating lifetime limits, and restricting the use of annual limits.

Q-5: Why create an Exchange or SHOP? What’s the purpose?

A: The Exchanges and SHOP serve a number of purposes. First, they create larger individual and small employer insurance pools with many of the advantages (lower

NAR Frequently Asked Questions

Health Insurance Reform

costs, lower premiums, more policy choices) that a larger pool enjoys. Second, they provide individuals and very small employers with access to the new policies written using the new uniform set of national rules which are more consumer-friendly. Third, the Exchange/SHOP will also provide a “one-stop shop” for researching, comparing and purchasing health insurance coverage subject to the new rules, making the process of finding an appropriate health insurance policy easier and more efficient.

Some have drawn a comparison with Expedia.com or Orbitz.com, which provide a similar service for purchasing airline tickets. Just as these travel websites list the array of private airlines, flights and pricing, an Exchange/SHOP will list all of the private insurance policy options available to individuals and small employers in a given community, supply tools to compare these policies, and provide a means of purchasing a policy. The Exchange or SHOP, however, will not offer a government-run policy.

Q-6: When I compare the various plans offered in the Exchange or SHOP, can I compare them on an “apples to apples” basis?

A: Yes, that is the intent. Just as it is difficult to find a comprehensive listing of policies available in any given location, it is equally difficult for consumers and small business that lack a Human Resources department to make informed decisions on which plans best suit their needs. The Exchange/SHOP will not only provide access to the array of policies available in a given marketplace but will also provide assistance in identifying the policies that best fit an individual’s or family’s circumstances.

Q-7: Why would the new Exchange/SHOP underwriting and rating rules be any better than those that are already in place?

A: The Exchange/SHOP underwriting and rating rules in The Acts are much more consumer-protective than most, if not all, of the current state individual and very small group underwriting and rating rules they replace. Currently, most states have few or limited rules governing or restricting individual health insurance policy

NAR Frequently Asked Questions

Health Insurance Reform

practices. As a result, those who are dependent upon today's individual can be denied coverage, subject to pre-existing exclusions and experience sharp year-to-year increases in premiums. These same practices will not be allowed by the new rules spelled out in the Act.

Q-8: Do the Acts create a new government-run plan, a public insurance option, or so-called "public plan"?

A: No. The Acts approved do not include a government-run policy. Earlier bills considered by the House and one Senate Committee did include a public plan but the final Acts do not.

Q-9: What is a health insurance co-operative/co-op?

A: The Acts authorize the creation of private health insurance co-operatives. A health insurance co-operative is a non-profit, non-government, consumer-driven health plan that would serve as an alternative to the private health insurance programs. A health insurance co-op would be owned and controlled by the people and small businesses that purchase health coverage from the co-operative – not by an insurance company or outside investors. As proposed, a health co-op will be subject to all exchange rules and state laws that apply to other insurance products, i.e. licensure, solvency, capitalization, and consumer protections. The co-op model has been successfully used by farmers, ranchers, utility providers and other businesses to provide services to their members.

Q-10: Do the Acts allow consumers to purchase health insurance plans across state lines?

A: Yes, within certain guidelines. The Acts authorize the creation of state compacts that would allow insurers to offer plans across state lines. In addition, the Act allows non-profit insurers to contract with the exchanges to offer multi-state plans.