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HEALTH REFORM NEEDS BETTER INSURANCE EXCHANGES

Committee for Economic Development Releases Study on Exchanges and Competition

Washington, D.C. December 16, 2009 – The Committee for Economic Development (CED) today released a study showing that the exchanges in the Senate health-reform bill are likely to fail as currently structured. The exchanges are health-insurance marketplaces where individuals without employer coverage and employees of some small businesses would go to obtain coverage. CED believes that exchanges are central to managing healthcare costs effectively and increasing access to care, particularly for the uninsured. They are also, potentially and with substantial improvement and expansion, the best way to force insurers to compete on quality and price. CED believes that, without such competition, costs will not be contained and American health care will not be truly reformed.

“The exchanges are the key to true health reform. They force competition among insurers and providers to deliver quality care at the lowest possible cost. All our experience shows that competition is a far better way to improve quality and contain costs than the regulatory approach which predominates in the Senate bill. Such competition is totally absent from the current health-care system, and would transform that entire system fundamentally. This study provides specific, practical recommendations to improve the Senate bill to achieve true health reform – if the political system can overcome the special interests favoring the status quo,” said William W. Lewis, Trustee of the Committee for Economic Development and founding director emeritus of the McKinsey Global Institute.

The Senate bill has taken some, but not all, necessary regulatory precautions against adverse risk selection that could discourage insurers from offering plans in the exchange and from competing vigorously. Adverse risk selection would occur if the exchange attracts more sick people than a cross-section of the population, for whatever reason. Under such circumstances, the exchanges would fail. The Congress should do more, and this study offers specific recommendations:

- Include language from the House bill prohibiting “improper steering” of high risks into the exchange; and
- Require that providers have adequate networks to care for people with expensive health conditions.

CED is also concerned that many of the exchanges – the default territory of each exchange would be one state, and in some states the exchanges would be subdivided – are likely to be too small to avoid adverse risk selection, or to encourage competition among competing health insurers. Again, without competition, the nation cannot “bend the health-care cost curve” downward. The study provides a standard for the necessary sizes

of the exchanges, and suggests specific, practical steps to make the exchanges larger and more stable, and therefore more likely to survive:

- Empower the Secretary of Health and Human Services to consolidate counties, regions, or states to achieve a minimum exchange size (100,000);
- Require that all uninsured individuals who are not eligible for Medicaid, Medicare, or another existing federal program use the exchange;
- Combine the individual and small-group exchanges; and
- Require that all employers with fewer than 100 employees use the exchange.

“If the exchanges do not get off on the right foot, not only will the current uninsured be poorly served, but health-care costs will grow faster, not slower. The insurance exchanges can and should be tomorrow’s health insurance in a successful system. We must not set them up to fail,” said CED President Charles Kolb.

Amendments have been offered that move toward a similar objective of expanding choices to more Americans. CED supports the objective of expanding choice and access to the health exchanges, where exchange participants have a strong economic incentive to select lower-cost plans.

The CED study is available in [full text](#) and in [summary](#) formats. The authors of the study are:

- Alain Enthoven, Graduate School of Business at Stanford University
- William E. Kramer, Kramer Health Care Consulting
- Joseph J. Minarik, Senior Vice President and Director of Research at the Committee for Economic Development
- David R. Riemer, Director of Policy & Planning, Community Advocates, Inc. at the Community Advocates Public Policy Institute

For more information on CED’s work on health-care reform, please visit www.ced.org.

CED is a non-profit, non-partisan organization of more than 200 business leaders and university presidents. Since 1942, its research and policy programs have addressed many of the nation’s most pressing economic and social issues, including education reform, workforce competitiveness, campaign finance, health care, and global trade and finance. CED promotes policies to produce increased productivity and living standards, greater and more equal opportunity for every citizen, and an improved quality of life for all.