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May 14, 2012

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To: Peter Lee, Executive Director, California Health Benefits Exchange
David Maxwell-Jolly
David Panush

From: Anthony Wright, Executive Director, Health Access California
Beth Capell, Advocate

Re: Premium Aggregation "Direct Pay" Proposal: Oppose

Health Access California, the statewide health care consumer advocacy coalition, opposes the proposal to allow carriers to collect premiums directly from consumers, a proposal referred to as the "direct payment approach".

We oppose this proposal because we believe it undermines the success of the Exchange.

Health Access is very respectful of the administrative burdens faced by the Exchange.

However, we also want it to succeed. Here are some of our initial concerns:

First, and foremost, it undermines brand loyalty to the Exchange: the consumer connects with the Exchange only briefly during eligibility determination, rather than having an ongoing relationship during the period of coverage.

Second, the individual market and the uninsured population are both high turnover populations: if we recall correctly, about half the individual market turns over in under two years and about half the uninsured are uninsured for less than a year. To reach high turnover populations, the Exchange needs high visibility. Consumers paying directly to the carriers will minimize the visibility of the Exchange rather than maximizing it.

Third, there is no obligation for insurers to tell individuals about the availability of subsidies and significant incentives to avoid doing so, particularly for carriers with significant market share outside the Exchange—which will be virtually all carriers given the large group and small group markets.

Fourth, consumers paying the premiums directly to the carriers means there is little reason for anyone over 400%FPL to use the Exchange: E-Health will appear to provide comparable service. Even if someone vaguely remembers that they got a subsidy through the Exchange, there will be no reason to return if the payment is made directly to the carrier: why not just deal with the carrier? Repetition is the key to marketing.

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Fifth, even for those under 400%FPL, the subsidies are pretty thin for those under age 40 and 250%FPL-400%FPL. Carriers will be able to compete with Exchange standard products by marketing “look-alike” products with similar cost sharing (but higher on something that is used rarely) and lower premiums to skim off this market segment. Nothing in the law prevents this, despite the best efforts of Health Access and others.

This is why from our perspective there is literally no amount of money that can be spent on marketing which will make up for this single decision. It may seem as if it is merely simpler administratively but does the sacrifice in terms of marketing drown the administrative advantages?

Our view is that this choice condemns the Exchange to a subset of the subsidy-eligible individuals and closes the door on the Exchange serving the majority of the individual market. Administrative burden matters. So does market share. So does marketing. So does the nature of the market and of the competitors in the market.

We certainly understand why the carriers would very much prefer this approach. It builds brand loyalty to the carrier, it allows the carrier to grab the customer early and hold onto them as long as possible, it creates direct marketing opportunities to skim healthy lives by offering slimmer products, and it minimizes the role of the Exchange both operationally and in terms of visibility to the consumer—and the carrier gets the money sooner. For all these reasons, direct pay to the carriers works well for the carriers. Whether it works well for the Exchange or for consumers are different questions.

Thank you for your consideration of our opposition to this proposal. We would be happy to work with you on alternatives that mitigate these concerns.