

Written Testimony by

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Thank you for inviting us to offer written testimony to the Senate Interim Committee on Health Insurance Exchanges. The Health Care Foundation of Greater Kansas City was created in 2003 and seeks to provide leadership, advocacy and resources to eliminate barriers and promote quality health for uninsured and underserved. Our grantmaking focuses on safety net, mental health, and healthy lifestyles in six counties in the Kansas City-area, including Cass, Jackson, and Lafayette in Missouri. Since we began our grant making in June 2005 we have invested over \$125 million into the KC region in support of programs and initiatives that benefit the uninsured and underserved.

Given that our target population is the uninsured and underserved, we have an interest in advancing policy solutions that will reduce the number of people in our service area who are uninsured. We believe that health insurance exchanges hold the promise to do just that.

### **Why Do We Have Health Insurance at All?**

Before we address the issue of health insurance exchanges, it is important to understand what health insurance really is. I know many of us view health insurance as a product – something we buy, trying to get the most coverage for the best price. Historically, health insurance is not a product at all – it is a way to share risk among people. Before health insurance, people simply paid doctors and other professionals for health care when they received it. But, as you might imagine, illness and injury is not very predictable, so this structure was tough on people’s pocketbooks. They might have five years without major medical expenses and then suddenly incur massive expenses.

This was the impetus for “mutual protection societies. These were groups of people who jointly paid monthly “premiums”. If someone in the society fell ill or was injured, they were able to pay their health care bills out of the society’s shared pot of money. This worked because the risk of getting sick was spread evenly among members. This is a very important concept, as it relates to health insurance exchanges. We need health insurance because it’s difficult to predict who will get sick when. Insurers who offer coverage to large groups are able to do so at lower premiums because the group will likely contain many healthy people and some who will get sick. When insurers cover individuals and small groups, it is much riskier since the pool is smaller and they can’t predict who will and won’t be sick in any given year.

### **Health Insurance Exchanges Promote Choice and Competition in a Streamlined Market**

Health Insurance Exchanges take the existing private insurance market as their starting point and simply attempt to organize the market in a way that promotes greater choice and competition. They seek to create a streamlined, responsive and competitive health insurance market. Initially, individuals and small businesses will be eligible to buy health insurance through the exchanges. Currently, these groups

are only able to purchase insurance in the individual and small group markets, where coverage is notoriously expensive and difficult to find.

A health insurance exchange will open up competition in insurance markets to bring down insurance prices and improve quality. It invites competition and choice by bringing people to a central marketplace where small business and self employed individuals can shop for insurance. It allows for interstate compacts to authorize insurance sales across state lines, further increasing choice and competition. It invites new insurers to enter our market to compete for our business.

Perhaps most importantly, the Health Insurance Exchange is a risk-pooling mechanism. We know that there are many individuals and small businesses that are currently purchasing insurance on their own or on the small group market. They pay significantly more in premiums because there are such small groups sharing the risk. Large employers, on the other hand, have lower insurance premiums because they spread risk over a large group of people. Health Insurance Exchanges are a mechanism to pool individuals and small businesses into a much larger risk pool, which will result in lower annual costs.

Health insurance exchanges will make it easier for consumers to shop for insurance products, since it will create a clearinghouse of viable insurance options. This easy-to-navigate marketplace will make it easier for consumers to make apples-to-apples comparisons between their health insurance choices. It will also spur competition among insurers.

### **Missouri Needs a Local Solution to a Local Problem**

The Affordable Care Act requires creation of a health insurance exchange that is operational by January 1, 2014. On January 1, 2013, the federal government will certify state-based exchanges to verify that they have made sufficient progress such that they are likely to be operational by the January 1, 2014 deadline. If states have not made adequate progress toward the creation of a state-based exchange, the federal government will step in and create one for them.

Some say this is a states' rights issue. It is incumbent upon the Missouri General Assembly to create a state-based health insurance exchange that will address the unique health needs of Missourians. Missouri is not the same as Utah or Massachusetts and the health exchange that makes sense for us will be unique. If the Missouri General Assembly does not act soon, we are at risk for being covered by a federal health insurance exchange. There are still many unanswered questions about federal exchanges. We don't know how they will be structured, governed, or who will be included. It makes sense for Missouri to be proactive and craft a local solution to our local health care problems.

Finally, I would like to note that this hearing is taking place in Kansas City, my hometown. Kansas City is a perfect example of why a state-based exchange is necessary. This is a unique community, unlike virtually any other in the nation. Our community is divided in half by State Line Road, which separates us into Kansas and Missouri. It's a border that hundreds of thousands of Kansas Citians cross each day to get to and from work, school, friends, and family. While Kansas Governor Brownback chose to send his exchange establishment grant money back, I understand that Kansas state legislators, stakeholders and the Kansas Insurance Commissioner are still looking for ways to establish an exchange that will work for Kansans. I encourage the state of Missouri, through Director Huff, to work in partnership with the state of Kansas and Commissioner Sandy Praeger, to develop a state-based exchange that will consider the unique issues facing Kansas City and the state of Missouri.