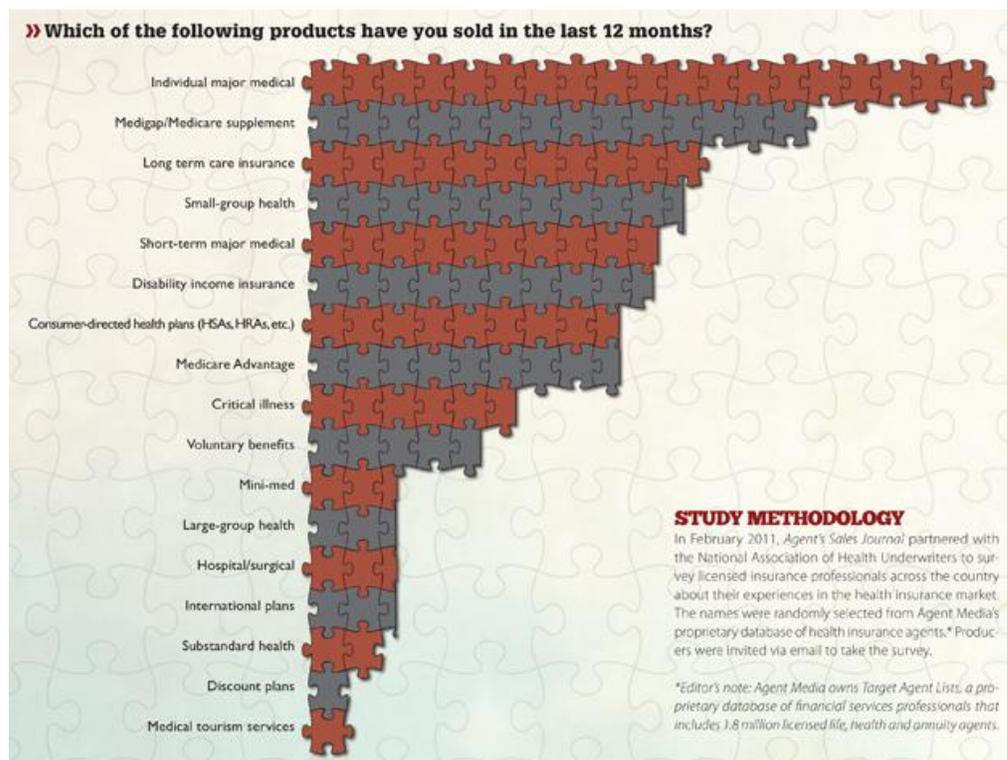


## In the Spotlight: Health Care Reform and Insurance Brokers

The Affordable Care Act (ACA) makes many broad, overarching changes to the way health insurance is purchased. New requirements on medical spending for insurers, exchanges, and changing roles for traditional health insurance agents will all contribute to a very different health care insurance landscape. Brokers will be at the forefront of these changes, as the primary actors between health insurance issuers and consumers.

One provision in ACA is to establish a new marketplace to shop for health insurance coverage called an [Exchange](#). The Exchange is an online marketplace that enables consumers to shop and compare similar health insurance products in a standardized format. Some have wondered if, due to the self-serve nature of the Exchanges, consumers will continue to need local brokers to help shop for insurance. Many comparisons have been drawn to the changing role of travel agents since the advent of similar web-based marketplaces, like Orbitz®. For many travel agents, surviving in this new environment has meant changing their business model on how they charge for services, or to specialize in certain ends of the market. Similarly, brokers will also need to make changes to their business models going forward.

Currently, brokers are engaged in all different types of health insurance products and serve many different purposes in the health insurance world. The chart below represents a survey taken in February of 2011 and shows their involvement in a range of insurance products:



## A Changing Future: Exchange Navigators

ACA requires Exchanges to establish a program where navigators will be awarded grants to perform various functions including:

- Conduct public education activities to raise awareness about qualified health plans;
- Distribute fair and impartial information about plan enrollment and the availability of tax credits and cost-sharing reductions;
- Facilitate enrollment in plans;
- Provide referrals to the right public authorities for questions or complaints;
- Provide information in a culturally and linguistically appropriate way for the populations the Exchanges are serving.

In reviewing these functions it becomes obvious that ACA did not clearly distinguish between the roles that navigators and brokers will play in facilitating exchange enrollment. What is clear is that states will have to specifically outline the roles of brokers and navigators in the Exchange to prevent duplication and confusion in the marketplace.

## MLR, NAIC, and Brokers

The newly regulated [medical loss ratio \(MLR\)](#) requirements for health insurance issuers play a central role in how brokers' compensation [will change](#) once all ACA provisions have been implemented. Beginning January 1, 2011, the medical loss ratio required that a certain percentage of premium dollars collected by insurers are spent on medical costs (80% for the individual and small group markets and 85% for the large group market). This increases the pressure on insurers to keep their administrative costs at a minimum and, for many insurers, broker commissions are a potential target as broker commissions can make up a sizeable portion of administrative costs. The US Department of Health and Human Services (HHS) has allowed some states to request a transition period, easing the regulations until 2014 when all states and insurers must be compliant. In September of 2011, the North Carolina Department of Insurance [requested such a waiver](#).<sup>i</sup>

The [National Association of Insurance Commissioners \(NAIC\)](#) was charged with creating a model for MLR and determining whether or not to include broker commissions. If broker commissions are included in the MLR calculation and counted toward the newly restricted administrative costs, many brokers fear that insurance companies will be faced with the need to reduce or cut them entirely.

## Possibility and Pitfalls

As is the case for insurers, there are opportunities and pitfalls for insurance brokers in a post-reform world. There is an expected addition of 32 million currently uninsured individuals into the insurance market through Exchanges. In 2014, once the Exchange is in full operation, health insurance companies will be competing against each other in a highly regulated market.

The Medicare Advantage and Part D plans are similarly regulated insurance markets to Exchanges and brokers have proved their viability despite a shift in commission structure. These [government managed plans](#) have commissions structured to discourage selling plans with excessive levels of coverage. Beginning in 2009, compensation was limited and these limits are evaluated and updated yearly, but could indicate how brokers will

function in the future marketplace. However, this is only one alternative and there is still much unknown about how brokers will be compensated.

## Changes Ahead

There will be an increased demand for transparency of costs in all aspects of the health care industry – including broker commissions. As a result, further consolidation may occur as brokers begin to look for ways to lower their costs of doing business. There is also a strong likelihood that many brokers will diversify their business. Selling ancillary and voluntary products like life, disability or even auto and property insurances, may ensure viability in the changing markets of the future. In a [recent survey](#) by the National Association of Health Underwriters (NAHU), more than 70 percent of respondents reported diversifying their business.

## BCBSNC Views

Blue Cross and Blue Shield of North Carolina (BCBSNC) is supportive of brokers continuing to play their essential role in serving customers and businesses. We believe that health care reform must result in preserving this role and ensuring that the system enables brokers to adapt and thrive. As navigators are introduced, it is important that these new players be appropriately trained and certified due to the important role they will play in guiding consumers on their health care coverage. On the issue of medical loss ratio, we hold that it is important that the final methodology both protects consumers and preserves the role of brokers and agents. Currently, BCBSNC meets the MLR standards required by ACA, including our brokers' commissions. As health care costs continue to rise, making the affordability of insurance more difficult, the pressure on brokers and insurers to prove their value will continue to increase. We believe both brokers and insurers must be willing to be open and transparent about our own costs.

### For More Information:

Health Reform GPS: State Health Insurance Exchange Navigators:  
<http://www.healthreformgps.org/resources/state-health-insurance-exchange-navigators/>

NAIC: The Comparative Roles of Navigators and Producers in an Exchange:  
[http://www.naic.org/documents/committees\\_b\\_exchanges\\_exposures\\_navigator\\_producer.pdf](http://www.naic.org/documents/committees_b_exchanges_exposures_navigator_producer.pdf)

NAI Report on MLR: [http://www.naic.org/documents/committees\\_b\\_exposure\\_110607\\_phia\\_charge\\_report.pdf](http://www.naic.org/documents/committees_b_exposure_110607_phia_charge_report.pdf)

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<sup>i</sup> MLR waiver decisions by CCIIO have modified the requests of four out of five states and denied the request of North Dakota, Delaware, and Guam. Maine is the only state to receive the full adjustment requested in their waiver submissions to date.