EDITORIAL

Opinion   Op-Ed

Obamacare works in California. Here's why.

Covered California executive director Peter V. Lee speaks at an event for open enrollment for Covered California in Los Angeles on Feb. 12.

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By PETER V. LEE, JAMES C. ROBINSON

Early reports that 2016 health insurance premiums would increase in double digits brought out the usual cadre of critics to claim — once again — that Obamacare is not financially sustainable. These proposed premiums were neither finalized nor did they reflect the full picture of rates in most states.

We now have the full picture in California, where we are proving that health insurance exchanges can keep prices in check. Residents who enroll through Covered California, our statewide exchange, will see only modest 4% increases in 2016. Those selecting the lowest-priced plans actually will save 4.5%.

When 'innovation' means rule-breaking

These low premiums were made possible because California law gave Covered California the power to actively negotiate on behalf of its 1.3 million consumers. The board and staff of Covered California have used this authority. That's helping the Affordable Care Act work as intended — using market forces to hold down costs.

So how exactly is California getting such good results? First, Covered California selects which plans can be sold through the exchange. This gives it leverage with the insurers, which want to reach this source of new customers. Those insurers then are able to negotiate better deals from hospitals and doctors. In contrast, the federal health insurance marketplace and other state exchanges take all comers and do not force insurers to improve plans to get their products onto the exchanges.

In 2014 and 2015, Covered California turned away several plans because of serious concerns about high prices, inadequate physician networks or weak administrative capabilities. It is now expanding its offerings. For 2016, Covered California will add two new plans: UnitedHealthcare, the largest insurer in the nation, will target rural areas that lack adequate choices; and Oscar, an Internet-based start-up, will bring innovative consumer tools to urban Southern California.

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Covered California also negotiates directly with health insurers on prices. We pressure carriers to keep premiums as low as possible and offer robust networks of doctors and hospitals. Passive insurance exchanges, including the 37 states that are part of the federal marketplace, allow insurers to charge whichever rates pass regulatory muster and cover however many doctors they want.

Equally important, Covered California standardizes the deductibles and other characteristics of plans offered. That empowers consumers, who can make apples-to-apples comparisons. Standardization also allays fears that low-premium plans might be complicated or rife with coverage exclusions. Californians can rest assured that their coverage means they can get the treatment they need without first paying a deductible that can be thousands of dollars.

Moreover, the benefit of standard plans and negotiated prices accrue to anyone who buys individual health insurance. Again, because of how California law implemented the ACA, the rates Covered California negotiates must also apply to policies those plans sell outside the exchange.

Covered California is using its heft to improve patient care and outcomes too. Contracts with insurers require that they participate in quality improvement programs, reduce ethnic and geographic disparities in access to care, and provide patients with access to doctors and hospitals that meet their needs.

Taken together, this process generates a better set of insurance options than do the federal and state insurance exchanges that adopt a passive market approach. Consider the choices available in Miami-Dade County — which, like much of the nation, has a passive insurance exchange. Consumers there face a dizzying array of choices. Just within the "silver tier" — by far the most popular category — that exchange contains 33 differently designed plans. In principle, silver products should feature moderate premiums and moderate deductibles. In Miami-Dade, however, the annual deductible ranges from $0 to an exorbitant $11,500. Monthly premiums for two 35-year-olds with two kids range from $546 to an unaffordable $1,274 — even after applying their income tax credit.

In a central Los Angeles ZIP Code, by contrast, Covered California offers only seven silver products, and subjects all of them to standardized benefits. Most of the care patients receive under these plans would not be subject to a deductible at all. And for that same family, the monthly premiums after the tax credit fall between $498 and $759.

Free market forces can be a powerful tool to contain health costs. But for that tool to work, consumers need the support of an active purchaser that can go toe-to-toe with the insurers. Other states and the federal exchange would be wise to look at what's working in California.

Peter V. Lee is the executive director of Covered California. James C. Robinson is a professor of health economics at UC Berkeley.