ktp advisors

Public vs. Private Health Insurance Exchanges – How are they different?

Health Insurance Exchanges (HIXs) come in two basic flavors: Public Exchanges and Private Exchanges. Let's take a moment to define them and outline the stark differences between the two.

Both types of HIXs were originally created to allow individual people to pick their own health plans from a wide selection of offerings from multiple insurance carriers. More choice and greater competition are meant to bring the promise of lower rates.

Public exchanges were created as part of the Affordable Care Act (ACA). There is one public exchange for every state in the union. As of today, 17 states and the District of Columbia have chosen to run their own HIX, 33 states have HIXs run by the federal government and the remaining 7 states have agreed to some form of joint partnership with the federal government to run their HIX.

Private exchanges were not created as a result of the ACA but rather as a private sector response to it. Currently there are at least 22 private exchanges operating in the U.S. Some private HIXs planned to offer just individual plans while others planned to offer individual and group plans. A federal ruling back in January (see related article here) determined that plan sponsors cannot avoid the ACA penalties by offering a fixed dollar contribution and individual plans. This ruling squashed the idea of offering individual plans on private exchanges.

Below is a table outlined some of the bid differences between public and private exchanges:

38 Washington Square
Newport, RI 02840
p: 401.490.9350 | www.ktpadvisors.com

ktp advisors

	Public Exchanges	Private Exchanges
Policy/Plan Type:	Individual.	Group.
Plan Sponsor:	Federal Government.	Private Employer.
Plan Underwriting/Risk:	Fully Insured.	Fully Insured or Self-Funded.
Risk Rating Methodology/Restrictions:	Based only on geography, family status, tobacco use and age (age adjustment limited to 3:1).	No restrictions on underwriting including use of pre-existing conditions.
Cost of Plans Paid By:	Taxpayers (through ACA subsidies) and Individuals.	Employers and Employees.
Subsidy Reconciliation:	Yes, participants might be forced to re-pay the government subsidy if their annual salary is higher than expected.	No.
Benefit Tiers:	4 levels (Platinum, Gold, Silver and Bronze plus catastrophic for the young and healthy).	Plan Design fully customizable but must meet essential benefits requirements to avoid ACA penalties.
Penalties:	Employer mandate (delayed 1 year) and Individual mandate.	None.
Payroll Tax Change:	Yes, if employer raises salaries to compensate for loss of employer contribution toward group plan.	No.
Income Taxes:	Benefits paid for with after-tax dollars.	Tax write-off for employer sponsor and income tax free to employees.
Retention and Recruiting	Negative.	Neutral.

Impact for Employers:		
Regulations:	High.	Low.
Employer Administrative Burden:	High.	High.