

Lessons from State-Based Exchanges for Future Health Reform Initiatives

by W. David Helms, PhD

Message from the President

The decision to establish state-based insurance exchanges in response to the Affordable Care Act (ACA) was a major policy and operational commitment by 16 states and the District of Columbia. Financial, technical, management, and governance resources had to be marshaled and new functions developed and implemented under demanding circumstances. It will not be the last time state officials are called upon to respond to changes in the external environment because of significant changes in government policies and operations.

Learning from past experience is an important opportunity for future efforts. In 2016, a gathering of most of the original leaders of these exchanges provided a chance for them to reflect on the lessons learned and the implications for future health system reform efforts by state policymakers. The Milbank Memorial Fund was pleased to support the facilitation of the meeting and the publication of this issue brief, which attempts to capture these lessons. The brief uses the policy capacities framework developed in a recently published Milbank Memorial Fund report, [State Policy Capacity and Leadership for Health Reform](#).

State officials will continue to wrestle with how to define and implement the roles of state government in assuring that the health system delivers on the goals of improved population health, efficient care, and a better patient experience of care. Regardless of the policy decisions made, state governments will need to develop and maintain the capacities to implement those policy decisions.

We hope the evidence and experience compiled here are useful for state leaders as they do this vital work. We appreciate the open, constructive comments of the participants in the session and the careful facilitation of the meeting and compilation of the issue brief by its author, W. David Helms.

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Introduction

In April 2016, the original directors of state-based exchanges came together in Denver, Colorado, to reflect on their experiences in pursuing the implementation of this option under the Affordable Care Act (ACA). Nine original directors participated in the retreat; some of those not able to participate provided written responses to a follow-up survey about the lessons they had learned implementing their state exchange.

To inform future state health reform initiatives, this Milbank Memorial Fund issue brief summarizes their collective lessons, using the state health policies capacities framework developed by Forest and Helms,¹ and identifies what the directors believe to be the critical success factors for any major state-based health policy implementation activity.

Sixteen states and the District of Columbia sought certification from the Department of Health and Human Services as state-based exchanges. These states selected chief executive officers or executive directors for their exchanges between 2010 and 2012, before the launch date of October 1, 2013. All were experienced health care or health policy executives, and many had public sector backgrounds. States also selected executives from the private sector, including some with private health insurance experience.

The ACA provided three options for a state-based exchange's legal structure: public agency, quasi-governmental agency, or nonprofit organization. Of the original 17 entities that sought certification as state-based agencies, eight were operating as either a separate state agency or within a current state agency, seven as quasi-governmental agencies, and two as new nonprofit organizations, as shown in Table 1.

It should be noted that while these states continued to operate as state-based exchanges throughout the period, some replaced their information technology (IT) platforms with the federal platform—healthcare.gov. States adopting the quasi-governmental option for their

¹ Forest PG, Helms WD. Milbank Memorial Fund. State policy capacity and leadership for health reform. <https://www.milbank.org/publications/state-policy-capacity-leadership-health-reform/>. Published April 2017. Accessed April 14, 2017.

legal structure varied greatly in several key areas such as governance structure, authorizing environment (e.g., reporting as an executive branch agency to the governor or to an independent governing board), and adherence to state procurement and contracting rules. As befitting the range of legal authority among the state-based exchanges, some executives were appointed by the governor or were current state officials, while others were recruited and selected by governing boards.

Table 1. States Electing to Pursue the State-Based Exchange Option and the Director's Prior Experience

States and District of Columbia	Exchange Model Implemented	State Exchange Governance Model	Director's Prior Experience
California	State-based exchange	Independent state agency	Public and private nonprofit
Colorado	State-based exchange	Nonprofit organization	Private sector
Connecticut	State-based exchange	Quasi-governmental	Public sector
District of Columbia	State-based exchange	Quasi-governmental	Public and private nonprofit
Hawaii	State-based exchange; federal platform	Nonprofit organization	Public and private sector
Idaho	State-based exchange; federal platform	Quasi-governmental	Private sector
Kentucky	State-based exchange; federal platform	State agency	Public sector
Maryland	State-based exchange	Quasi-governmental	Private sector
Massachusetts	State-based exchange	State agency	Public sector
Minnesota	State-based exchange	Quasi-governmental	Public and private sector

Nevada	State-based exchange; federal platform	Independent state agency	Private sector
New Mexico	State-based exchange; federal platform	Quasi-governmental	Private sector
New York	State-based exchange	State agency	Public sector
Oregon	State-based exchange; federal platform	State agency	Public sector
Rhode Island	State-based exchange	State agency	Public sector
Vermont	State-based exchange	State agency	Public and private nonprofit
Washington	State-based exchange	Quasi-governmental	Public and private sector

Source: National Conference of State Legislatures, *Health Insurance Exchanges or Marketplaces: State Profiles and Actions, as of October 31, 2016*.

In reflecting on the experiences of implementation and launch, the directors expressed an overwhelming feeling of privilege and gratitude on being chosen to lead their state’s historic efforts at building a state-based exchange. At the same time, many reported being challenged by the level of scrutiny, media attention, and political divisiveness that accompanied their every move. While there was the inevitable sense of competition among the states, this group emphasized the tremendous collaboration and sharing of information as everyone built and progressed at their own pace, all targeted toward the launch of their exchanges on October 1, 2013.

The 17 original exchange directors operated with varying degrees of state political support. Most states that implemented a state-based exchange had their governor and at least one branch of the legislature in support of this approach. Even states in which the governor and legislature supported the implementation of a state-based exchange encountered significant challenges and political opposition during development and implementation. The directors emphasized the importance of having national and state political backing, both to support the launch of the new exchange and to build the broad public support needed to enroll those eligible for coverage.

States with divided political control of the governor’s office and legislature noted that the absence of unified support made implementing a state-based exchange more difficult. They operated in an environment where the staff was under constant scrutiny, and their actions were repeatedly questioned.

A director from a state with prior successful health reforms noted that “the lack of national support for ACA health reforms played out in our state, where we also lacked bipartisan support for these reforms.” He went on to explain that the lack of political consensus nationally and at the state level made implementing the ACA reforms much more difficult than when states had implemented prior health reforms “where we had the level of bipartisan support needed to be successful.”

Another state leader reported that “with the ACA, Republicans hated the reform, and Democrats didn’t like it because it limited the state’s ability to do the reform as we would have preferred. The uncertainties about whether the ACA would survive politically and what our state would do if that didn’t happen meant that our assignment came with a federal mandate that wasn’t fully supported.”

One director emphasized that the “lack of harmonization between federal and state laws resulted in a misaligned vision and strategy for our health insurance marketplace.”

Another stated that given the need to integrate federal and state laws and regulations, the federal government needs to be more willing “to grant flexibility and be more reality based.”

While all involved were deeply grateful for the opportunity to serve as an exchange director, they acknowledged that this was a very intense, 24/7 responsibility. That only a relatively small number of the original directors remain in the role today reflects the demands of the position and the changing political support for this reform.

The next time states undertake major health system reform it will be important to remember that the executives recruited for these roles will need strong support from their state leaders. It is with this experience in mind that these directors offer the lessons they learned to inform future challenges states may face in implementing major national and state health reforms.

Lessons to Guide Future Health Reform

Regardless of the political context and the policy positions, certain capacities are needed to develop and implement major health reforms: clearly defined leadership, governance, roles, and mechanisms; staff capacity; and federal resources and assistance from other sources.¹ This section applies these principles to the development and implementation of state-based exchanges.

Leadership, Governance, Roles, and Mechanisms

Leadership: Exercising and Cultivating It

State directors said leadership was especially challenging because of what they described as working in a fishbowl-type environment, where they often faced a contentious political

environment. Their strategy for dealing with this was to strive for bipartisan support. One state executive sought to address this situation by having “bipartisan representation on the exchange board and making significant efforts to engage all stakeholders.”

Regardless of the exchange structure—whether state government, quasi-governmental, or nonprofit corporation—state directors agreed that, as one director said, they “must have a great relationship with and support from the governor’s office.” It was also important to secure the governor’s leadership to “prioritize operational practicality over political opportunity.”

Another director said the need for “clear, early, consistent risk communications up the leadership chain of command is essential. If your message isn’t being heard, you need to alter your process and the language for delivering it.”

Support of elected officials is clearly needed to manage the scope of the project. One director said, “We conveyed early and often the need for support to manage stakeholders’ expectations in order to meet the launch deadline.” Countless times stakeholders heard from exchange staff, the exchange board, the governor’s office, and, finally, legislators that things they’d like to have in the exchange would have to wait.

Another state director emphasized the importance of instilling legislators’ support and a sense of ownership when using an independent entity such as an exchange with a separate governance structure.

Several state directors stressed the importance and value of their stakeholder engagement process. One director said, “Our upfront investment in reaching out to stakeholders certainly paid off for us when we encountered pressing implementation issues; they were willing to work with us on their resolution.”

Another director noted that identifying “stakeholders early and empowering them with policy decisions was important to building buy-in, trust, and ownership.” Yet another director said that its “stakeholder working group process that used consensus-based policy development was critical to our success.”

Another director emphasized the need to balance the consumer advocates’ objectives for the new exchanges with demands insurers were making before they would agree to participate. In the end, “we need to have enough insurers to be willing to offer plans on our exchange!”

Governance

Regardless of the exchange structure selected, managing governance was crucial. One state director reported that four entities were critical to the success of its exchange and expanded Medicaid: two executive agencies that reported to the governor; an insurance commissioner’s office, which was a separate elective office; and the exchange with its own board. With the strong support of the exchange board, the state director explained that “we

were able to hold the line on requests from the other entities to revisit decisions that would prevent us from staying on schedule.” When new challenges emerged, “I would set the direction, communicate that with the key partners, and manage the consequences.”

A state director with an exchange with a quasi-governmental structure emphasized that ideally you “want a small board with ‘independent’ board members who are invested in the success of the exchange.”

Another director cautioned that it is very important “to avoid having both politically appointed members with a conflict of interest and issuers [insurers] serve on this marketplace board.”

One director also urged states “to avoid having large boards made up of representatives of different perspectives, such as hospitals and insurers.” It is far better to have a “skills-based board with critical expertise in policy, marketing, and business.”

Having strong advisory processes is critical to overall leadership and to governance. As one director emphasized, “Advisory processes and engagement are crucial. You cannot over-engage or be too transparent.”

Roles

Whatever the structure, the directors were unified in their view that the exchange structure must have “clear accountability with a single point of authority.” One director emphasized the importance of clarifying roles and responsibilities early on across the state policy, business, and IT leadership and then “stick to ‘swim lanes’ and understand who has decision-making responsibility and authority for which issues and questions.”

State directors emphasized the need for a clear and effective partnership with the Medicaid program without “being swallowed or subsumed by it,” as one director said. While the need for effective linkage between the exchange and Medicaid made good policy sense, this required the “melding of Medicaid and its government health plans to the commercial world with private health plans.” This director noted that it was a challenge to prevent state officials and legislators from viewing the exchange “as a version of Medicaid or another public program rather than as self-sufficient businesses that need to sell products (even with subsidies).”

Speaking about the relationship with Medicaid, one director of an exchange with a separate quasi-governmental structure said, “We have very different cultures stemming from our being a small nimble organization with a modest budget as compared to Medicaid with its large bureaucracy and a multibillion-dollar budget. To get the exchange up and running with a good shopping experience and integrated eligibility, we had to defer some of the Medicaid functionality and that, in turn, caused problems in our relationship with Medicaid.”

The director of an exchange that was part of state government noted that the “upside of having the marketplace and Medicaid being co-located in the same public agency is that we already had excellent working relationships, in contrast to other states where the marketplace and Medicaid have very separate reporting relationships.”

Prioritizing financial sustainability from day one was very important for successful implementation. First, stand-alone state exchanges needed to be self-sustaining once federal grants were no longer available. Second, political opponents of the ACA often cited high cost of implementation as a key reason for their opposition to the law. Given that health care is often one of the largest costs in state budgets, “attention to the financial aspects of a major new policy will always need to be addressed.”

Mechanisms: Data, Analysis, and Information Technology

One state director noted the importance of having access to sufficient data to demonstrate progress to legislators and other stakeholders. This became a critical component of this exchange’s implementation to maintain the legislative backing that was required to stay in business.

With the extensive attention given to the problems many states encountered with the IT systems they were developing, state directors noted that this challenge was made even more difficult by the slow issuance of federal guidance. When states made decisions before federal guidelines were issued, several states reported that they had to retrofit their systems, which caused significant challenges.

Several state directors noted that IT development for their exchanges got caught up in an across-the-board standardization of IT that their states were undertaking. “This caused delays that our launch timeline could not afford,” said one director.

States learned the importance of getting outside technical expertise to assist with their requests for proposal for development of their exchange IT system and to help review the responses.

After the launch, several states began making longer-term investments in systems development. These developments were needed for the premium aggregation function and to move from the “choice and eligibility IT system” to investing in claims analysis and utilization data. As one state director said, “If we hadn’t done this, we would not have been doing our job of understanding what we were getting for our money.”

Staff Capacity

Recruiting qualified and committed staff was a major challenge for all directors. One director said he had to quickly “recruit a team that could hit the ground running with the ability to execute under pressure.” Regardless of the exchange structure, states needed to move quickly and flexibly to meet aggressive implementation timelines.

Several states acknowledged the important role that personnel departments played in expediting the normal recruitment procedures to secure staff and contractors. One state director noted that because it was easier to hire contractors, “over half of our personnel were contractors at one point.”

State exchanges established as quasi-governmental entities had more flexibility to hire staff with expertise and qualifications needed to run an exchange. One director heading a quasi-governmental entity noted that the use of an external recruitment firm to locate staff for critical expertise areas was key to its success. This structure “allowed us to operate as a private organization and avoid having to go through state procurement and hiring.”

Another state director whose exchange had a quasi-governmental structure acknowledged that while recruiting and hiring posed challenges, “the lure of being involved with something historic was intriguing to many.” This director sought “risk-takers and those able to thrive within an environment of few rules, no blueprint, and even limited resources as we built an organization. I asked everyone I interviewed about being with a start-up organization, and those that found that enticing, challenging, and fun were who we hired.”

In a state where the exchange was part of an existing state agency, the director said, “We were able to use existing state systems for personnel and contracting. This meant we didn’t have to use our limited time before launch to develop those systems and could concentrate on building the new exchange mechanisms.” This director noted that the state staff had expertise and experience with the Medicaid and children’s health insurance programs and were familiar with approaches to expand coverage to the populations served by these programs. The state also provided strong expertise in regulation of the health insurance industry. “But we did need to add staff with expertise in small business, IT systems, and in marketing and outreach,” the director said.

State directors reported that they needed staff with both public- and private-sector experience. “Public-sector expertise was needed to operate with other public agencies and for accountability. Private-sector expertise was needed in the areas of marketing, sales, plan management, and contracting—all areas where deep experience in the public sector is rare. This meant that we had to be ready to pay more than traditional civil service compensation for key areas of need,” said one director.

The biggest recruiting challenge all exchanges faced was finding skilled IT professionals. As one director said, we had “an enormous IT build to start with.” Given the inability to compete with private-sector IT salaries, many states used outside consultants and contractors to provide IT expertise. Consultants and contractors also contributed expertise in actuarial analysis, marketing, financial planning, and business modeling.

Several states said it helped to have a staff that had worked together on previous state reforms. One director said its key staff had “extensive experience in working together—many of us for over 10 years. Staff had worked across the key agencies including Medicaid and insurance, so we already had the trust of key agency officials.”

Several directors emphasized that their “staff capacity had to evolve as the exchange moved from a start-up organization needed for launch to an operational organization.” To make that transition, one director said, “We needed a 20% changeover in the staffing to meet basic business functions such as accounting for time and managing our fixed budget.”

Another director said, “We didn’t know what we didn’t know and were overwhelmed, like other states, with the initial enrollment volume.” This created tremendous first-year staffing and resource burdens for the exchange which were needed to operate the call center, to deploy navigators and in-person assisters, and to strengthen relationships with agents and brokers.

Federal Resources and Assistance from Other Sources

State directors agreed that they had sufficient funding to develop their state-based exchanges. But some noted that while they had enough federal funding, it took time to get state authority to use those grant funds.

Another director noted that while they obtained the resources by following the usual steps to get federal funds, “The real challenge was managing the many ‘suggestions’ on how to use our federal grants from what seemed like everyone related to health care and continuing to keep our focus and direction on getting the exchange launched on schedule.”

The federal government, primarily through the Centers for Medicare and Medicaid Services and its Center for Consumer Information and Insurance Oversight, convened state directors frequently. Groups such as the Robert Wood Johnson Foundation, the National Academy for State Health Policy, and the National Governors Association also provided opportunities for state directors to share their challenges and obtain guidance.

Frequent national and regional conferences involved state directors as speakers and panelists. They used these opportunities to share their experiences and challenges and compare progress toward implementation.

State exchange directors report how much they valued the peer support network they established both to share updates and what they were learning about implementation issues. This network also provided an effective voice for representing the interests of state-based exchanges (as distinguished from the interests of those states participating under the partnership and federally facilitated exchange options) in deliberations with the Centers for Medicare and Medicaid Services and its Center for Consumer Information and Insurance Oversight. In early 2013, supported in part by a Robert Wood Johnson Foundation grant, the state directors organized the state health exchange leadership network staffed by the National Academy for State Health Policy.

Critical Success Factors

Reflecting on their experiences with implementing state-based exchanges under the ACA, state directors identified the following as most critical to the successful development of an exchange:

1. Leadership and governance
2. Management of scope
3. Experience and expertise of core staff

These lessons are not unique to state-based exchanges; they are relevant for any state health policy reform involving a significant operational and client-engaging component, notably Medicaid.

As states continue efforts to improve the quality, accessibility, and affordability of health care and prepare for potential changes in the ACA, these critical areas serve as important reminders, born of hard experience, of what will be required for success.

Leadership and Governance

Strong leadership and clear lines of governance and accountability were consistently mentioned as the critical success factors. Regardless of legal structure (e.g., state agency, quasi-governmental, or nonprofit), clear authority was essential to determining design requirements to meet implementation deadlines and the launch date of October 1, 2013.

Most states noted the critical role governors played throughout the start-up phase to secure the cooperation of key state agencies, legislative leaders, major stakeholders, and the public. State exchange directors emphasized that a strong relationship with the governor's office was essential, regardless of whether the exchange was part of state government or a quasi-governmental entity.

In many states, the governor set the overall direction and provided political support, but some states established coordinating committees comprised of relevant state agency directors to guide the exchange's development. Directors emphasized that having the authority to make key decisions in a timely manner was essential for a successful launch.

Even though many exchanges were established as separate from existing government agencies, the successful implementation of an exchange required "support from and collaboration with state officials and agencies including the governor, state Medicaid agency and Department of Insurance, policymakers, federal regulatory agencies, and the media."

Maintaining legislative support for the implementation of a state-based exchange required establishing strong relationships and open channels of communication with legislators who demanded immediate results and data as evidence as the new system became operational.

Management of Scope

“Managing governance and scope were our key success factors,” one director said, adding that this was “what separated successful launches from challenged ones—along with picking the right vendor!”

Another director noted that given the short timeline from the appointment of the exchange board and hiring of the director, it was not possible to build all the desired components for the individual and small-group marketplaces. This director said they had to “right shift” some functions to the second and third years.

Another director noted that the success of the new independent structure grew out of the “discipline of knowing from day one that we would need to stand on our own as a business.” It was also “critical that our initial board members were savvy and committed to the success of our exchange and willing to make tough calls,” said the director.

Effective governance requires fostering strong public-private partnerships and community engagement. Several directors reported that their extensive working group processes, which involved both key stakeholders and community groups, were critical to developing broad-based support for their exchanges. Stakeholders assisted with marketing and outreach and provided expertise to address technical insurance issues. Several directors said the decision to invest in building these relationships was critical to success.

Community engagement is a key part of effective management. “You can’t just sit back and wait for them to bring you issues,” one director said. “You need to be engaging them early on because they will have good ideas and will be more supportive if you have involved them early on.”

Relying on a public-private partnership model requires a clearly articulated and shared vision to enable its success. Partnership models must align accountability and responsibility to optimize success.

Experience and Expertise of Core Staff

A director from a state with extensive experience with health reform initiatives emphasized the need to start with a core staff that has capable technical skills and relevant experience. This staff must be willing to take on the challenge of implementing major reforms and must have energy and passion for the reform process.

“There was not one person on our leadership team that didn’t want to expand health insurance coverage,” the director said. “Everybody needs to understand that there will be risks in the reform and that there will be bumps in road. In order for an exchange to survive, the director must maintain positive relationships on behalf of the exchange with key public and private stakeholders in order for this new mechanism to thrive.”

Most directors said a strong core staff was critical to their success. Several directors noted that resources are needed to supplement this staff with specialized expertise. It is important to recognize that there is expertise outside of government, which several states found in their state's health insurance industry.

The staff implementing an exchange needs to “understand insurance market dynamics and invest in solutions to address them, such as the need for a good risk mix,” one director said. That director attributes early success to “our engagement with health plans on design and pricing and on their support for big marketing budgets.”

Several directors noted that staff expertise must evolve throughout the implementation process. “The questions we had before launch are really different than the questions faced post launch,” a director said. “Now we are facing the real issues consumers face as they begin getting their coverage—which is, after all, what this is all about!”

Several directors attributed their success with implementing their state-based exchanges to what they learned from their experience implementing state health reforms.

Conclusion

Reflections by the original leaders of state health insurance exchanges provide critical insights into what is required for effective reforms of the individual and small group markets. With the ACA, the federal and state governments were tasked with working together to blend their respective roles, resources, and capabilities. The experience of these state leaders illustrates the inherent difficulties of making significant changes in providing affordable health coverage to those obtaining health insurance in the individual and small group markets. Exchange directors' reflections and unflagging commitment to improving access to health care also provide an example of the capacities and leadership skills that state leaders will need to undertake in future health reforms.¹

The Author

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