The ACA’s Health Insurance Marketplaces for Small Businesses: An Update on SHOP Implementation

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Small Employer Health Coverage, Prior to the ACA

- Compared to large and midsize businesses:
  - Employees of small firms are less likely to be offered or actually covered by their employer’s plan
  - Small group plans are usually more expensive, and costs are more volatile
    - Limited market power
    - Higher administrative costs
    - Smaller risk pools
  - Employees typically lack the option to choose among plans
SHOP Design Considerations: The Value Proposition

- Predictable eligibility and participation requirements
- Competition as a price driver
- Employee choice with predictable budgeting
- Convenient shopping experience

What Small Employers Want: 56% of small employers prefer “offering workers a choice of plans, with the employer paying a fixed amount, and the employee paying any extra cost for choosing a more expensive plan”... than in “offering workers one plan with less administrative work for your firm” (Gabel et al., Health Affairs, 2013)

But... Does it work? Is too much choice confusing? Will the price be right?

States Electing to Operate SHOP Marketplaces

| 17 states* plus DC elected to establish and operate a SHOP Marketplace in 2014 |
|------------------|------------------|
| California       | Mississippi      |
| Colorado         | Nevada           |
| Connecticut      | New Mexico       |
| District of Columbia | New York     |
| Hawaii           | Oregon           |
| Kentucky         | Rhode Island     |
| Maryland         | Utah             |
| Massachusetts    | Washington       |
| Minnesota        |                  |

* Idaho is a “supported SBM” for individual and SHOP in 2014; not included in count.
SHOP Marketplace Design Decisions

- Many states moved ahead of federal requirements in key design areas, especially employee choice, and attracted competitive selection of plans in most states.

- States sought mechanisms to allow predictable contributions regardless of employee’s age or plan choice, but technically challenging and approaches may evolve; information technology is in varying stages of functionality across states.

- Most states maintained status quo in other areas: all kept definition of "small employer" at 50 or fewer FTEs; very few merging individual and small group markets.

Predictable Eligibility Requirements

- States sought to reduce disruption to existing small-group market.
  - All states elected to open SHOP to 50 or fewer employees, in line with historical definition of small-group market
  - Few states (MA, VT, DC*) merged individual and small-group markets
  - VT and DC creating a single marketplace for all small-group coverage

- Many states established minimum participation requirements, which ACA specifies must be uniform across small-group market
  - Helps employers who were shut out of market because they could not get enough employees to participate to meet insurers’ minimum participation requirements
  - ACA creates a one-month enrollment period for small businesses that are not able to meet minimum participation or contribution levels.

*DC has a "modified merged market"
Plan Participation and Competition

- SHOPs attracted a wide range of insurers and plans
  - Participating insurers ranged from one (WA) to 10 (MA and NY)
  - Number of plans ranged from 5 (WA) to over 250 (DC)

- At least one of three largest insurers participated in every state but Washington
  - All three participated in MA, MD, and DC
  - Two of three participated in CA, CO, CT, HI, KY, MN, NM, RI, UT, VT
  - One of three participated in NV, NY, OR

- Importantly, there was choice of plans and insurers in nearly every county in nearly every state

Employee Choice

- ACA requires SHOPs to offer employee choice
  - Basic employee choice requirement: employer chooses a metal tier, employees choose a plan from different insurers (“horizontal choice”)
  - States can provide additional options: multiple metal tiers/insurers, up to “full employee choice”

- Employee choice constitutes a substantial departure from the options previously available to most small employers.

- Requirement has been implemented on a delayed schedule.
Employee Choice: Implementation

• 2014
  • 16 states plus DC planned to offer employee choice
    • Washington wanted to, but only attracted one carrier
  • Seven states (HI, MN, NY, OR, RI, UT, VT) allowed “full employee choice”—employees can choose any plan on SHOP
  • Delayed in the federally facilitated SHOP

• 2015
  • All state-based SHOPs are expected to offer it
  • 14 FF-SHOPs will offer employee choice
    • AR, FL, GA, IN, IA, MO, NE, ND, OH, TN, TX, VA, WI, WY
    • The remaining 18 states with FF-SHOPs will not

• 2016 – Full implementation expected

How SHOPs will Allow Employers to Contribute to Coverage under Employee Choice

• 14 states allowed employers to provide a fixed contribution towards coverage regardless of the plan selected by the employee; employee pays more for a more expensive plan.
  • Example: Employer selects a “reference plan” and a contribution level, translating to a dollar amount; employee applies that dollar amount to the coverage of their choice.

• Generally, states struggled to adopt premium allocation models that would mitigate the effect of age rating.
  • Contributions may vary by employee age in nine states plus DC
  • Example: Employee pays difference between age-rated (“list-bill”) premium for the plan he selects and the amount employer contributes towards the reference plan.
Creating an Easier Shopping Experience

• **First things first:** if the IT doesn’t work or is clunky, it will overshadow other consumer-friendly features.

• **But… states incorporated online tools to help employers shop and compare:**
  - 12 states plus DC (and FF-SHOP) allowed anonymous browsing of plan options
  - 10 states plus DC offered a small business tax credit calculator
  - 10 states plus DC created a portal for agents and brokers to manage small business accounts.

Eighty percent of offering firms use brokers. *(Gabel et al, Health Affairs, 2013)*

SHOP: Elements of Success

• **Getting off the ground**
  - Fully functioning, user-friendly IT incorporating key features (employee choice, agent/broker portals)

• **Selling the value proposition to small businesses**
  - Competing with non-SHOP options: early renewals, self-insurance, private exchanges, option to *not* offer coverage

• **Building the book of business**
  - Will take time
  - Will depend on agents and brokers selling the product
Trends to Watch

- **Policy and design questions:**
  - Will more states establish a state-based SHOP?
  - Expand to 100 FTE’s before 2016?
  - Merge individual and small-group markets?
  - Close the “outside” market or regulate renewals/self-insurance more aggressively?
  - Engage agents and brokers more effectively?
  - Create more effective IT?
- **Market analytics:**
  - Plan participation and competition
  - **Premiums** and plan design: inside vs. outside
  - What choices will small businesses make?
  - Role of private exchanges?

Will the Price be Right?

“More than 92 percent of non-offering small firms said that if they were to offer coverage, it would be “very” or “somewhat” important to them that premium costs be less than they are today.” (Gabel et al, *Health Affairs*, 2013)

Thank you!

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