



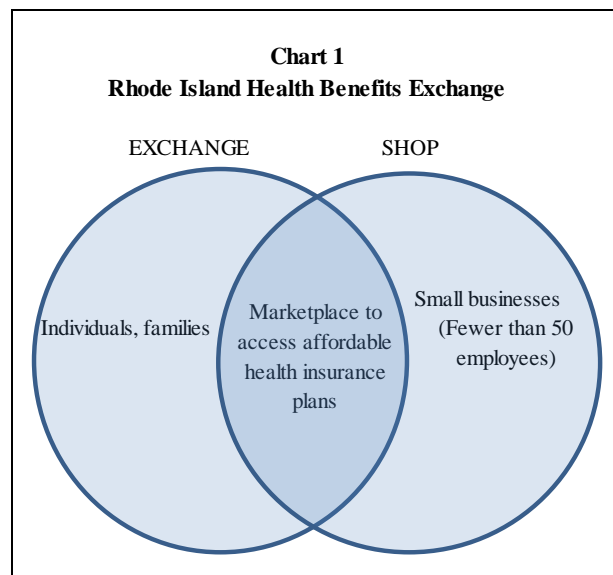
Small Business Health Options Program (SHOP)

These RIPEC comments provide an overview of the implementation of the Small Business Health Options Program (SHOP) as an element of Rhode Island's health benefit exchange, and the role of SHOP in expanding access to affordable health insurance plans for small businesses. The report concludes with issues to consider for the state's successful implementation of SHOP.

Introduction

In December of 2012, the federal government granted Rhode Island conditional approval for the state's exchange blueprint. As part of the Patient Protection and Affordable Care Act (ACA), health benefits exchanges serve as mechanisms of access to a wider selection of more affordable health insurance coverage. The state-based exchange will contain two components, a market for individual purchasers, and a market for small business employers and their employees, called the Small Business Health Options Program (SHOP).

The exchange is intended to function as one marketplace with an integrated small business portal, as opposed to two distinct entities. Similar plans at comparable price-points will be offered to both groups of consumers, though the method of purchasing depends on the method of entry. The purpose of SHOP is to mitigate the impact of increasing health coverage costs on small businesses by combining the buying power of eligible Rhode Island small employers. With a greater ability to negotiate plans and rates, and to spread administrative costs, small businesses will potentially be able to select from more affordable health coverage options for their employees.



The concentration of small businesses in Rhode Island, and the reliance on employer-based health plans, makes SHOP a necessary component of expanding health coverage. Rhode Island's small size makes success contingent on participation. However, the restrictive nature of the program, open only to small businesses with fewer than 50 employees according to state statute, and the as yet undetermined method of financing associated with exchange operations, could impact plan affordability and thus, participation.

By restricting Rhode Island's SHOP to firms with fewer than 50 employees, the exchange

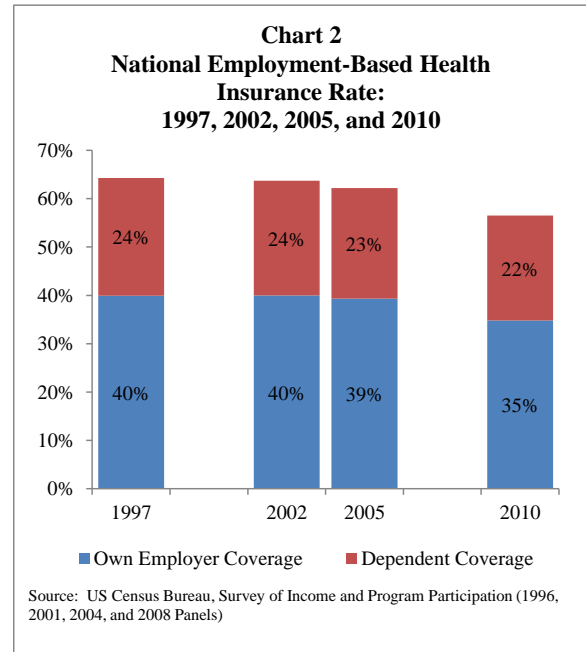
may not accommodate the population of businesses with limited economies of scale still required to provide affordable insurance. Nationally, businesses with fewer than 100 employees are eligible for SHOP. In order to fulfill the overarching aims of the ACA to extend affordable health insurance coverage, consideration for expansion to up to 100 employees will be crucial to the success of SHOP in Rhode Island. This may happen automatically in 2016, when federal regulations trump state laws related to ACA implementation. Outreach, coordination with existing broker relationships, and appealing plans could also reinforce the effectiveness of SHOP.

Putting Health Benefits to Work

The workplace has traditionally been a primary point of access for health insurance for non-poor and non-elderly Americans (who are otherwise covered by Medicaid and Medicare, respectively), and remains the prevailing source of coverage for most Americans. According to the most recent Census data, nearly half of all Americans, and just over a half of Rhode Islanders, rely on employer-based benefits for access to health insurance. Nevertheless, the share of Americans with health coverage has been trending downward, in large part due to the increasing cost of health insurance. Fewer firms are offering employer-sponsored insurance (ESI), and fewer workers are opting in due to increases in cost sharing.

The most recent Census data indicates a national decline in workers with ESI, from 69.2 percent in 2008 to 67.1 percent in 2010. During the same time period, the decline among Rhode Island workers was nearly double. Data from the Rhode Island Department of Labor and Training echoes this trend. By their estimates, there was a

6.0 percent decrease in Rhode Islanders receiving health insurance through employers between 2005 and 2011, from 79.0 to 73.0 percent.



Workplace-based insurance extends beyond employees directly receiving coverage, which comprise about two-thirds of the ESI covered population (chart 2). Roughly another third of individuals covered by employer-based health insurance are nonworking adults and dependent children. Historic trends also indicate a decline in the rate of employment-based health insurance in these groups, as shown in chart 2. In 1997, 64.3 percent of Americans (including dependents) received health insurance through an employer. By 2010, the rate of employment-based health insurance declined by 7.8 percentage points (5.1 percentage points from workers with their own coverage, and 2.7 percentage points from dependents), to 56.5 percent of all Americans.

Some of this decline can be attributed to the high cost of health insurance, coupled with rapid increases in premiums and cost-

Table 1
Change in Premium and Deductible by Firm Size, 2003-2010

	US			RI		
	2003	2010	Change	2003	2010	Change
Small Firm (< 50 employees)						
Single Premium	\$3,623	\$4,956	36.8%	\$3,946	\$5,607	42.1%
Family Premium	\$9,321	\$13,170	41.3%	\$10,159	\$14,668	44.4%
% with Deductible	60.0%	74.0%	14.0%	31.0%	63.0%	32.0%
Single Deductible	\$703	\$1,447	105.8%	\$393	\$993	152.7%
Family Deductible	\$1,575	\$2,857	81.4%	\$903	\$1,879	108.1%
Large Firm (50+ employees)						
Single Premium	\$3,438	\$4,935	43.5%	\$3,618	\$5,539	53.1%
Family Premium	\$9,235	\$13,999	51.6%	\$9,220	\$14,843	61.0%
% with Deductible	50.0%	74.0%	24.0%	32.0%	60.0%	28.0%
Single Deductible	\$452	\$917	102.9%	\$358	\$1,035	189.1%
Family Deductible	\$969	\$1,827	88.5%	\$879	\$2,033	131.3%

SOURCE: Commonwealth Fund "Realizing Health Reform's Potential"

sharing. As shown in table 1, the national average for premium costs increased by between 36.8 (single) and 41.3 percent (family) in small firms, and between 43.5 (single) and 51.6 percent (family) in large firms. In Rhode Island, cost increases were even more significant, growing by between 42.1 (single) and 44.4 percent (family) in small firms and by 53.1 (single) and 61.0 percent (family) in large firms. Of note, on an absolute basis, premiums in every category were higher in Rhode Island than they were nationally in 2010.

Cost-sharing has increased as well during this time period. While Rhode Island firms are less likely to have a deductible, the rate of growth in firms that require some measure of cost-sharing has increased faster than it has at the national level, regardless of firm size. Similarly, the size of the deductible has increased faster in Rhode Island than it has across the rest of the country during the same time period. In some cases, deductibles in Rhode Island

grew more than 50 percent faster than comparable deductibles nationwide.

SHOP Operations

As an active purchaser, the exchange is charged with negotiating high-quality and affordable options on behalf of small businesses and individuals. The ability to leverage greater purchasing power should generate economies of scale by distributing administrative costs and expanding the risk pool.

The exchange's negotiating power should attract products similar to current market offerings, as well as more innovative plans designed to be more attractive to cost-conscious consumers. Further, greater transparency between plans may allow the purchaser to play a more active role in selecting the best-fit option, improving the efficiency of enrollment and effectiveness of delivery.

An insurance group aggregates the risk of all participants, creating a "risk pool." The larger the "pool" the more the costs are distributed, reducing the relative cost per participant.

Small employers will have support from brokers in directing their employees through SHOP. As employers, they have the option to define a benefit or a contribution, by:

- Choosing a carrier and a plan for employees; or
- Choosing a dollar amount that reflects a baseline carrier/plan.

Table 2 Hypothetical Employee Plan Selection
<p>Carrier A Plan 3</p> <p>Cost of Plan = \$X+\$1500</p> <p>Employer Contribution = \$X</p> <p>Employee Contribution = \$1500</p>
<p>Carrier B Plan 2</p> <p>Cost of Plan = \$X+\$1000</p> <p>Employer Contribution = \$X</p> <p>Employee Contribution = \$1000</p>
<p>Carrier A Plan 2</p> <p>Cost of Plan = \$X+\$1000</p> <p>Employer Contribution = \$X</p> <p>Employee Contribution = \$1000</p>
<p>Employer Baseline Plan Carrier B Plan 1</p> <p>Cost of Plan = \$X</p> <p>Employer Contribution = \$X</p> <p>Employee Contribution = \$0</p>

If an employer opts to send an employee to SHOP with a fixed dollar amount, the employee can choose any plan and pay the difference (see table 2). This flexibility

gives an employee the ability to select a plan that accommodates their individual health needs. For example, if an employer selected Carrier B Plan 1 as the baseline plan in table 2, and funded the contribution in full, the employee would not have an additional required contribution to enroll in this plan. If the employee instead opted for Carrier A Plan 2 or Carrier B Plan 2, the employee would contribute an additional \$1,000 to enroll in the plan. Conversely, if the employee selected a plan less costly than the defined contribution, the employer contribution would be reduced (with the excess refunded to the employer).

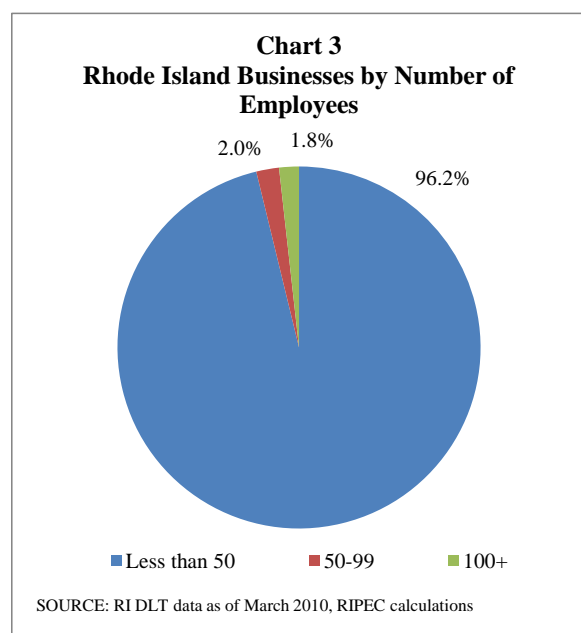
Expanding coverage, positively impacting cost, and streamlining efficiency are some of the key goals of SHOP implementation. Outcome and quality metrics will be instituted as a part of the development of SHOP to determine the value that is added for consumers who participate in the exchange and SHOP. Data to assess these outcomes will become increasingly available with participation, and will demonstrate the overall effectiveness of the system.

Eligibility

The ACA makes SHOP available to firms with up to 100 employees nationally. However, Rhode Island’s legislative definition of a “small group” is one that consists of fewer than 50 employees. As such, only small businesses with fewer than 50 employees will be eligible to enroll employees in Rhode Island’s SHOP beginning in October 2013 (with coverage effective beginning January 1, 2014), at least until 2016. The SHOP portal will determine small businesses’ qualification for potential federal tax subsidies for contributions to employer-based health coverage; for example, a credit aimed at small businesses

that primarily employ 25 or fewer workers with average incomes of \$50,000 or less.

Although small firms are exempted from any explicit ACA mandate, businesses with 50 or more FTE's face a penalty for failing to provide affordable, minimum value health coverage for their employees. A statutory change would be required to expand the state's definition of small group, in the future, allowing businesses with 50-100 employees to enroll in employer-based plans offered via SHOP, consistent with federal legislation. Using Rhode Island's current SHOP eligibility standard of fewer than 50 employees, 96.2 percent of Rhode Island firms, employing 154,719 Rhode Islanders (40.4 percent), will be able to access SHOP.



Considerations for Implementation

Rapid health care inflation over the past decade has made affordable insurance a difficult goal to attain, not just for individuals, but for businesses. Although the majority of individuals continue to access the health insurance market through their employer in the form of ESI, the

escalation of health insurance costs has resulted in more limited offerings, increased cost-sharing, and fewer firms offering these benefits. The cost of, and access to, health insurance is an important component of the cost of doing business – affecting not only a firm's ability to expand, but its ability to offer competitive benefits, and, potentially, location decisions. The structure of SHOP will have an impact on the shape of the cost curve of these benefits and, consequently, firm responsiveness.

The target population of Rhode Island that is expected to purchase health insurance through SHOP, as a component of the larger statewide health benefits exchange, could benefit from the increased access to affordable and potentially more innovative plans. However, in Massachusetts the exchange accounted for only 2.0 percent of small employer health coverage purchasing in 2011.¹ If Rhode Island's exchange seeks to be economically viable and add positive value to the purchasing experience, it must be able to reach a larger pool of consumers.

In order to achieve the desired level of participation, this process must be manageable for small employers, already responsible for day-to-day operations within their firms. Taking advantage of preexisting broker relationships could prove attractive to small businesses and ease the transition to SHOP. Employees may gain more flexibility in the spending of their pre-tax health benefit dollars if an employer opts to fund a baseline option instead of singling out a one-size-fits-all plan. Educating consumers through the transparent comparison of plan options could also increase the efficiency of coverage purchasing decisions. Health care utility could profit from these more individualized spending options.

¹ Turnbull, Nancy. "Implementing the Affordable Care Act: Lessons from Massachusetts," February 2013.

Table 3
Employer Responsibility/Access to SHOP Continuum

	1-49 Employees	50-100 Employees	101+ Employees
	No employer responsibility	Required to provide affordable insurance	
Nationally	Access to SHOP	Access to SHOP	Ineligible for SHOP
Rhode Island	Access to SHOP	Ineligible for SHOP	

Another key consideration is the fact that firms with more than 50 employees, that is, those subject to employer mandate to provide affordable health insurance, are the same population currently excluded from the benefits of SHOP in Rhode Island (see table 3). Although not defined as “small businesses” for health insurance purposes under state law, these companies have a great deal to gain in an exchange with a greater risk pool, distributed administrative costs, and potentially more affordable options, as acknowledged by their inclusion in national legislation. More specifically, Rhode Island’s current definition of “small group” and the subsequent exclusion of firms with 50-100 employees both appears to go against the intent of the federal legislation, and may have additional unintended consequences. Rhode Island could act to change the statute in advance of federal law superseding the state definition before 2016.

The restriction of the SHOP population to firms with fewer than 50 employees in Rhode Island could be the biggest challenge to the success of SHOP. This limitation restricts access to SHOP for a segment of the employer population that falls under the employer mandate – a population that could most benefit from access to a marketplace with potentially more affordable options for the purchase of health insurance. This paradox could have an impact on ACA compliance and hiring decisions as businesses confront the threshold of FTE’s

requiring the provision of health benefits. Expanding the definition of small group to businesses with up to 100 employees could increase participation in the exchange and make SHOP a tool for small employers seeking compliance with ACA mandates.

Although only 2.0 percent of the state’s businesses employ 50-100 persons, these firms employ 11.6 percent of the workforce in Rhode Island. Extending eligibility to these companies could mean a needed expansion to the SHOP population, which would serve to increase exchange viability when it becomes a self-sustaining operation. Conversely, excluding this population limits the pool of individuals from which SHOP may draw. As a result, the exchange may require higher user fees to support operations. Similarly, a smaller participating population may limit the offerings or affordability of the exchange.

At the same time, the eligibility limitations of SHOP, combined with the employer responsibility for small businesses with 50 or more employees, may have some unintended consequences in terms of hiring decisions made at the margin. Companies below 50 FTEs must weigh the benefit of added productivity against the cost of providing employer-based health benefits (or paying a penalty) if adding these positions would exceed the threshold to provide coverage. Allowing companies with more than 50-100 employees to enter SHOP could provide a lower-cost alternative to

independently arranging health coverage. More affordable employer-based health insurance effectively reduces the cost of employment, lowering barriers to hiring.

Finally, the state must be aware of the impact federal decisions will have on SHOP operations and businesses required to comply with ACA regulations. For example, an employer's responsibility to provide affordable health coverage is predicated on the number of FTE's. The consensus definition of an FTE is an individual averaging at least 30 hours per week over a certain "look-back period" (from three months to a year). However, the duration of this "look-back period" is flexible, and the method counting of FTE's continues to be refined on the federal level. The exchange and SHOP must ensure there is clear and timely communication of federal decisions to businesses in order to allow them time to comply or adjust as needed.

Small businesses could profit through SHOP enrollment if the exchange delivers affordable plans that promote predictable health care costs and more effective spending of health care dollars. In order to measure this progress, it will be crucial to identify appropriate metrics to capture and assess health outcomes, productivity, savings, and other accountability benchmarks for exchange success. By carefully observing trends in health outcomes and spending, there may be value-added to the purchasing process of small businesses as well as consumers and taxpayers.

There are several important issues, specific to the implementation of SHOP, which must be reconciled going forward:

- Exchange fees assessed through SHOP must not negate savings from available plans;
- The effect of the current definition of small group, paradoxically excludes businesses subject to the employer mandate from the state's SHOP;
- Expansion to firms up to 100 employees could increase participation and provide greater access to affordable employer-based coverage;
- The enrollment process must be manageable for small employers already responsible for daily operations, with clear navigation and eligibility for incentives; and
- Improvements in health outcomes, worker productivity, cost savings, etc., must be assessed regularly to determine the value-added for small business purchasers and taxpayers.