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Robert Wood Johnson Foundation



Health Policy Brief

UPDATED: FEBRUARY 6, 2014

Small Business Insurance Exchanges. States and the federal government have created new marketplaces to help small companies buy coverage more easily and cheaply.

WHAT'S THE ISSUE?

The Affordable Care Act (ACA) requires states to create health insurance exchanges, or Marketplaces, where small businesses can review, compare, and purchase health insurance, and provide their employees with more options, similar to those of larger employers.

The small-business exchanges, created under the law's Small Business Health Options Program (SHOP), offer group health plans to small companies. The exchanges offer a variety of group health plans; provide comparative information on benefits, costs, and quality; facilitate employee enrollment in a plan of choice; and reduce administrative burdens on employers. Employers with fewer than twenty-five employees must purchase coverage through a SHOP if they wish to take advantage of the small-business tax credit for health insurance established in the ACA.

States had the option of creating these as separate exchanges or combining the individual and small-business insurance markets into one exchange. Although both types of exchanges have similar functions, they have unique attributes reflecting the needs of the populations they serve. This Health Policy Brief focuses on issues that states have had to confront in designing and operating SHOP

exchanges as well as challenges that these exchanges are likely to face in the future.

WHAT'S THE BACKGROUND?

Policy makers have long been concerned about small businesses' access to affordable health insurance. The smaller the number of employees, the less likely a firm is to offer health benefits. Premiums for small-business coverage tend to be more expensive per worker because of the higher costs of marketing and administering a health plan for a small group of people. Adverse selection can also raise costs when a disproportionate number of higher-risk people purchase coverage, potentially driving up costs, and discouraging healthier people to enroll.

Small companies often have difficulty "shopping" for health insurance because health plans can vary greatly in the benefits they cover; the cost sharing that they require; and the providers that are included in a plan's network, if it has one. Because small companies usually lack expertise in managing health insurance benefits, they often rely on agents and brokers to help them select a plan. What's more, small businesses must often pick only one plan for all of their workers because insurance companies typically impose rules that require a minimum number of workers to participate.

“While a SHOP does exist in each state, the online eligibility determinations and enrollment functions have been lacking if not nonexistent.”

The Affordable Care Act’s SHOP provisions seek to make it easier for small employers to compare health care plans and offer their employees choices in coverage without making premiums more expensive. The Congressional Budget Office estimates that by 2019, an estimated 29 million Americans will be covered through the individual and SHOP exchanges. This will give the exchange markets the same market power that large employers have, or more, according to a recent report by the National Academy of Social Insurance.

WHAT’S IN THE LAW?

Every state was required to have both individual and SHOP exchanges available for open enrollment by October 2013 and be fully functional as of January 2014. States may establish separate individual and small-business exchanges or combine these into a single entity (with separate risk pools, if the state prefers). SHOP exchanges will serve small companies, defined as those having no more than one hundred full-time-equivalent (FTE) employees. During the first two years of the program, states may limit participation to companies with fifty or fewer employees. In addition, beginning in 2017 states have the option to expand participation to employers with more than one hundred employees. There is no

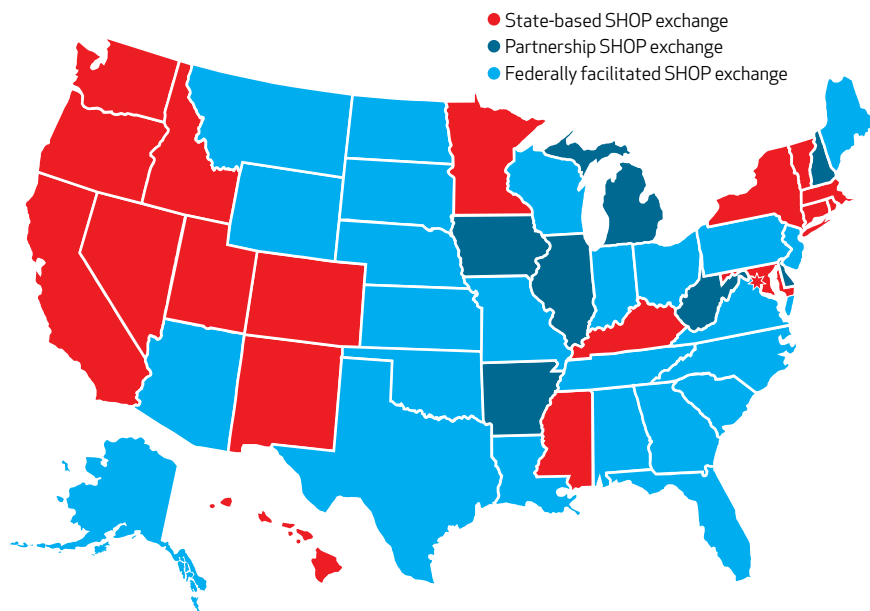
requirement that individuals or small businesses use the exchanges, as there will continue to be an insurance market outside of the exchanges. Employers may also continue to self-insure, thereby avoiding many market regulations and community rating, which requires premiums to be the same for everyone, regardless of age or health status.

A SHOP exchange is set up as an executive branch agency, an independent government authority, or a nonprofit corporation. States were also able to partner with other states to form a regional exchange or create subsidiaries within a state as long as the entire state was covered. SHOP exchanges were required to be operational by October 1, 2013, in time to conduct the first open enrollment period for coverage effective January 1, 2014.

If a state ultimately chose not to establish a SHOP exchange, or if it determined that an exchange would not be fully operational in time, the Department of Health and Human Services (HHS) would set up and operate a “federally facilitated” exchange. The federal government operates the exchange directly or through a contract with a nonprofit entity. There is also a hybrid option called a “partnership” exchange, where a state assumes primary responsibility for carrying out many of the functions of the federally facilitated exchange.

EXHIBIT 1

Small Business Health Options Program (SHOP) Exchanges, By State, 2014



As of December 31, 2013, eighteen states and the District of Columbia had HHS approval to operate state-based exchanges, including Utah and New Mexico, which only operate a SHOP exchange, while using the federally facilitated exchange for individuals. Seven states operate partnership exchanges. The remaining twenty-five states have deferred to a federally facilitated exchange. [See Exhibit 1.]

As discussed below, the core functions that a SHOP exchange must perform include selection and certification of the health plans that will be offered, consumer education and assistance, eligibility determinations, plan enrollment, and premium billing and collection.

• **Plan selection and certification.** A SHOP exchange must have a clear process for selecting health plans to be offered in the exchange. It must also certify that each insurance plan meets minimum federal requirements as a “qualified health plan” and complies with other requirements.

These include the benefits that must be offered; charging the same premium rate

26%

A survey of small employers found that 26 percent of small firms using brokers reported discussing self-insuring with their brokers.

“To be successful, SHOP exchanges need to attract sufficient participation among small businesses to establish a broad, stable risk pool.”

for a plan regardless of whether it is offered through the SHOP exchange, directly to consumers, or through agents; complying with quality improvement standards, including reporting of quality and outcome measures and enrollee satisfaction; and complying with marketing practices that do not discourage enrollment of people with significant health needs. States may also impose additional requirements to address state or local concerns, such as the adequacy of provider networks.

States may have adopted an “any-willing-plan” model, in which all plans that meet minimum certification requirements will be offered through the SHOP exchange. Or they may have decided to be “active purchasers,” offering only those plans determined to be in the interest of the people and employers served by the exchange. If they chose to be active purchasers, states may use competitive bidding, selective contracting, and even negotiating with specific plans over price.

Before the ACA implementation in the insurance market, plans for small businesses were priced according to the health status of employees in the plan. In small firms that had workers with significant health needs, the cost of coverage could be very high. Since small firms typically ask their employees to pay as much as half of the annual premium, workers who perceived themselves as healthy may have declined coverage, leaving only those who already had health expenses participating in the plan.

However, under the ACA, health insurance plans are not priced according to the health status of the people employed by each small business seeking coverage. Instead, premiums are set according to modified community rating, where every business in the small-group pool pays the same basic rate for insurance. Premiums may vary based only on geography, the ages of employees, and whether or not an insured person uses tobacco.

• **Consumer information and assistance.** A key function of the exchange is to provide standardized, “user-friendly” information that allows people to compare plans based on benefits, cost sharing, provider networks, premiums, and the degree to which plans meet quality measures, such as consumer satisfaction. This information must be made available through a website as well as a toll-free telephone call center. The exchange must also conduct community outreach and education activities.

SHOP exchanges also provide grants to public or private organizations, called navigators, which are intended to have established relationships with the small-business communities served by the exchange. Navigators provide impartial information, facilitate enrollment, answer questions, deal with complaints and grievances, and make referrals to consumer assistance or other state and local agencies as appropriate.

• **Eligibility determinations and enrollment.** SHOP exchanges must verify the eligibility of employers applying to participate in the exchange. To be eligible, an employer must meet the definition of small employer, make all full-time employees eligible for coverage, and be located in the exchange service area. The exchange must also verify that people applying for coverage have an offer of coverage by a qualified employer, as either an employee or a dependent.

SHOP exchanges must conduct initial, annual, and special open enrollment periods for each employer, during which time the employer and employees may begin or change coverage in a health plan. Enrollment in qualified health plans by SHOP exchanges will be done on a rolling basis based on each employer’s plan year rather than a single annual open enrollment period, as is the case for the individual exchanges.

A significant design issue for the SHOP exchanges is how much choice employees will have in selecting a plan. Qualified health plans (QHPs) are available at four different levels of so-called actuarial value: bronze, silver, gold, and platinum. The law requires exchanges to allow employers to choose one of these levels of coverage, and then have their employees choose from among all QHPs offered by the SHOP at that level. The employer contribution would then be applied to the premium of the plan selected.

Regulations issued by the HHS would allow other alternatives as well. For example, an exchange could decide to allow employees to enroll in any QHP at any level offered by the exchange; allow employers to select specific QHPs from different levels of coverage from which employees could choose; or allow an employer to select a single health plan to offer its employees. In March 2013, citing operational issues, HHS announced a transitional policy that delays the employee plan choice option for a year. In the federally facilitated SHOPS, employers may only offer employees

29 million

The Congressional Budget Office estimates that, by 2019, an estimated 29 million Americans will be covered through the individual and SHOP exchanges.

coverage under a single QHP for plan years beginning in 2014. State-based SHOPs have the option of whether or not to implement the employee choice provision in 2014. HHS noted that this change could also reduce adverse selection.

- **Premium billing and collection.** A unique function of SHOP exchanges is to administer a streamlined premium billing and collection system. The SHOP must prepare and issue a single bill to each participating employer that reflects premiums owed for all plans in which its employees are enrolled. The employer makes a single payment to the exchange, and the exchange is responsible for paying the various plan issuers. Because of the transitional policy on employee choice discussed above, the premium aggregation requirement is also optional until 2015.

- **SHOP exchange financing.** States have received federal grants to fund the development and initial operations of SHOP exchanges. The health care law requires, however, that the exchanges be self-sustaining operationally as of January 1, 2015. How this is achieved will be left to the states' discretion. As one potential means of funding, the law authorizes the exchanges to assess fees on health insurers offering plans through the exchange.

CHALLENGES: To be successful, SHOP exchanges need to attract sufficient participation among small businesses to establish a broad, stable risk pool and to be self-sustaining. To this end, they will need to demonstrate value by relieving employers of some administrative burdens and, more important, by moderating cost increases. States will also need to ensure that there is a level playing field in terms of regulations and premium rating for plans sold both inside and outside of the exchange.

In addition, some small companies may opt to avoid regulations by maintaining a “grandfathered” health insurance plan (one in effect at the time the ACA was passed and allowed to continue) or by choosing to self-insure and thus avoid certain requirements. A survey of small employers in 2013 by Gabel et al. found that 26 percent of small firms using brokers reported discussing self-insuring with their brokers. Such an increase in the number of self-insured small employers could pose a threat to the success of SHOP exchanges and other small-group insurance reforms.

WHAT'S NEXT?

The implementation of the exchanges that began on October 1, 2013, has been fraught with problems. While a SHOP does exist in each state, the online eligibility determinations and enrollment functions have been lacking if not nonexistent. For the federally facilitated SHOPs, HHS delayed online enrollment until November 2014 and instituted a direct enrollment process through agents, brokers, or insurance companies that offer QHPs through the SHOP. Employers may also submit paper applications themselves or use the Small Employer Call Center set up by HHS. Employers can still shop for plans online, comparing premium rates, based on the ages of their employees. State-run SHOP experiences vary, and whether or not they use online enrollment is left to the state's discretion.

The problems with the online exchange systems have left many potential SHOP customers confused and discouraged. It remains to be seen how much these setbacks will affect how many small employers offer health benefits and whether or not they choose to purchase insurance through the SHOP. ■

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Health Policy Briefs are produced under a partnership of *Health Affairs* and the Robert Wood Johnson Foundation.

Cite as:
“Health Policy Brief: Small Business Insurance Exchanges,” *Health Affairs*, updated February 6, 2014.

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RESOURCES

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