Lessons from the Small Business Health Options Program

The SHOP Experience in California and Colorado

Leif Wellington Haase, David Chase, and Tim Gaudette

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ABSTRACT

The Small Business Health Options Program (SHOP) got off to a slow start, with lower-than-expected enrollment and a public perception problem. This report examines California and Colorado's small-business marketplaces, which opened on schedule in October 2013. For business owners, employee choice was the most important reason cited for considering SHOP, with ease of administration a distant second. Several owners see SHOP as a viable alternative to the private exchanges now taking root among large and midsize employers. Interviews also revealed that business owners consider insurance brokers to be an important source of enrollment assistance. Those in the insurance and policy communities perceived small-business owners to be poorly informed about available tax credits; business owners disagreed, saying the credits were simply not key to their decision to elect SHOP. Potential growth areas for SHOP include developing alternative benefit designs, contracting with Medicaid plans, and offering ancillary products, such as wellness programs.

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EXECUTIVE SUMMARY

The Small Business Health Options Program (SHOP) was established by the Affordable Care Act to provide small firms in each state with greater access to a range of affordable health plans through new insurance exchanges, or marketplaces, and tax credits. The program is designed to allow businesses to pool their buying power and shed burdensome administrative tasks, while enabling owners and workers alike to easily compare coverage options. The program, however, got off to a slow start, and it has been plagued by lower-than-expected enrollment and a public perception problem.

Based on findings from interviews and surveys with business owners, policymakers, and other industry insiders, this report takes a close look at California and Colorado's SHOP exchanges, which both opened on schedule in October 2013.

Key Findings

In both states, the SHOP exchange took a back seat to the individual insurance marketplace in terms of staff time and resources. Colorado devoted more time and money than California did to outreach activities, both through its SHOP website and through community meetings, and for the most part its website for enrolling small groups functioned adequately from day one. California's SHOP portal, on the other hand, proved difficult to use and, in February 2014, was shut down after numerous agents and businesses complained they were unable to complete their applications. Responsibility for the SHOP enrollment process in California was ultimately turned over to a third-party administrator that was already handling sales operations.

Virtually everyone we interviewed agreed that SHOP's operational problems must be addressed to make the enrollment process more comparable to that for purchasing health plans outside the SHOP exchange. For their part, brokers and agents are wary that customers will use the SHOP websites to bypass their services, or that business will be driven through counselors and navigators. Despite these misgivings, however, brokers have signed up in droves to become certified to sell through the individual and SHOP exchanges.

Colorado paid more attention to the broker distribution channel from the start, setting up a call center with lines dedicated specifically to brokers. California chose instead to publicize the possibility that businesses could self-enroll in SHOP and, at least at the outset, kept brokers and agents at arm's length. In California and Colorado, agents are now prominently featured as trusted sources both on the SHOP websites and in statewide radio and television advertisements.

For business owners, employee choice was by far the most important reason for electing SHOP or considering doing so. Ease of administration was a distant second. Several owners interviewed saw SHOP as a viable alternative to the private exchanges that are now taking root among large and midsize employers.

According to those in the insurer and policy communities, small-business owners were not well informed about available tax credits, although our surveys of owners show nearly all were aware of the credits. Nevertheless, most business owners reported the tax credits were not key to their decision to elect SHOP.

Our research indicates that a future growth area for SHOP may be experimentation with alternative benefit designs and the inclusion of ancillary products with coverage. For instance, wellness programs and explicit human-resources assistance could conceivably be bundled with SHOP plans. In addition, SHOP could provide greater value for lower-income workers by contracting with Medicaid health plans, which otherwise are not available in the commercial market.

In the end, most insurers and agents are willing to take a wait-and-see approach toward SHOP's potential. Carriers, meanwhile, appear to be in it for the long haul: most of the same insurers renewed for the second year in both California and Colorado.

LESSONS FROM THE SMALL BUSINESS HEALTH OPTIONS PROGRAM: THE SHOP EXPERIENCE IN CALIFORNIA AND COLORADO

BACKGROUND

The Small Business Health Options Program (SHOP) got off to a slow and problem-filled start. SHOP marketplaces, which every state was required to establish under the Affordable Care Act (ACA), promised a wider choice of health insurance plans for employees than offered in existing small-group markets, as well as fewer administrative hassles and more competitive premiums. But even before the rocky launch of the HealthCare.gov website, several decisions took the wind out of SHOP's sails. In summer 2013, the Obama administration announced that small businesses could keep their non-ACA-compliant plans for an additional year. In spring 2014, the administration offered states the option to continue this transitional policy through October 2016.

Most health insurance brokers urged firms to take early renewal—that is, they encouraged them to renew coverage on existing terms before the typical 12-month expiration period—to avoid ACA-related changes, like modified community rating, which denies insurers the ability to use health status to set premiums, and new standardized health plan benefits. Industry sources suggest that some 70 percent to 80 percent of small businesses retained these so-called "grandmothered" plans. As a result, most small employers in a majority of states will not be purchasing plans that meet ACA standards until 2017. In California and Colorado—the two states that are the focus of this report—this will happen in late 2015.[1]

To the sharp disappointment of SHOP's proponents, the administration also suspended the employee-choice feature of SHOP, which would have allowed workers to choose among multiple insurers and insurance policies.[2] It allowed 18 states to suspend this requirement again for the 2014–15 plan year.

These decisions depressed enrollment and contributed to the public perception that SHOP was on life support. Both the trade and popular press ran stories with headlines such as "SHOP Flop" and "Are Obamacare's SHOP Exchanges Doomed?"[3] One senior staff member with Colorado's marketplace, Connect for Health Colorado, remarked that "negative national stories set the context for the exchange rollout and especially for SHOP."

While falling far short of the initially optimistic projections for enrollment, the SHOP marketplaces in California and Colorado have enrolled thousands of small businesses and workers.[4] As of February 2015, SHOP in California had 2,311 participating businesses and 15,671 employees enrolled. In Colorado, 1,860 employees from 220 small firms signed up by March 2014; by October 2014, 2,521 employees were enrolled.

In this report, we examine these two states to gain an early view of the implementation of the SHOP program. We interviewed more than 50 SHOP small-business owners, insurance executives, insurance brokers, consumer advocates, and policymakers and surveyed dozens of business owners in both states.

WHY SHOP IS PART OF THE AFFORDABLE CARE ACT

Small businesses are less likely to offer health care coverage than larger firms. Those that do offer coverage typically do not offer a choice of plans, nor do they typically offer the same kind of benefits as do larger employers. Before the passage of the Affordable Care Act, owners of small businesses had comparatively low rates of offering insurance coverage and, consequently, their employees had higher rates of being uninsured. Ninety-seven percent of all large companies with over 100 employees in the U.S. offered health insurance benefits to employees in 2011, while just 57 percent of small businesses with 50 or fewer workers did the same.[5] In 2012, just over 20 percent of firms with fewer than 50 employees offered two or more health insurance plans, compared with more than two-thirds of companies with 50 or more employees.[6]

Proponents of SHOP believed that these marketplaces would widen access to a range of affordable plans, allow small businesses to pool their buying power, and let owners and workers easily compare options and shed burdensome administrative tasks–features they believe are widely lacking in many existing small-group insurance markets.

HEALTH CARE REFORM AND THE SHOP MARKETPLACE IN CALIFORNIA AND COLORADO

Prior to the passage of the Affordable Care Act, California and Colorado had embarked on comprehensive health care reform efforts; both were among the earliest state adopters of federal health care reform.[7] Each state set up SHOP-specific advisory boards that met several times a year and made recommendations to the marketplace staff and trustees. After years of formal planning and informal dialogue among exchange and agency staff and insurers, hospitals, and business groups, California and Colorado's small-business exchanges both opened on schedule in October 2013.

Despite showing interest in SHOP, most small businesses in California and Colorado stayed on the sidelines. Employers were affected by the negative media stories about the ACA and were unsure SHOP would offer superior benefits. As a result, most small businesses that already purchase insurance coverage stayed with the status quo.

The CEO of one Northern California employer, which has been paying 100 percent of employee coverage for more than 25 years, summed up the reasons most companies decided on early renewal:

> There were too many unknowns going into SHOP. Our renewal came up at a time when I was aware of SHOP but it was still in flux. It was so much easier to renew and to wait for the dust to settle and then make a decision in a more stable environment.…What we have now is about the same as what was offered in SHOP, so why would I change?

Peter Lee, executive director of Covered California, the state's marketplace, strongly endorsed keeping employee choice even when the federally facilitated SHOP marketplaces dropped it.

Originally, Covered California required all insurers participating in the individual marketplace to submit bids to participate in SHOP. In July 2013, Anthem Blue Cross, which held the second-largest share of the California group market as of 2011, dropped out of SHOP after this requirement was relaxed.[8] Six insurers participated in the California SHOP marketplace, compared with 11 on the individual exchange. Six insurers participated in Colorado, compared with 10 in the individual market.[9]

Limited Outreach

Even for the strongest backers of small-business marketplaces, it was clear that the daunting task of establishing an individual marketplace would make launching SHOP a secondary priority.[10] Most respondents in both states told us this decision regarding priority-setting was made for understandable though regrettable operational and political reasons.

As the November 2014 individual marketplace deadline neared, there was diminished staff time and resources available for SHOP. It was hard for exchange and state agency staff in either state to focus on the individual marketplace and other high priorities, such as integrating Medicaid enrollment with marketplace operations.[11] A Colorado nonprofit insurance executive said SHOP "grew a reasonable amount given the reality of the enrollment process"—a reality that included early renewals, the balky rollout, and real and imagined concerns about the ACA.

"SHOP was the ignored little brother of the individual exchange," said one business representative to California's SHOP advisory board, echoing the sentiments of many other stakeholders. "Little money was available for marketing and outreach, compared to tens of millions of dollars for the individual exchange. When we complained, we were told that Covered California didn't have the bandwidth to do these things right now."

> "SHOP was the ignored little brother of the individual exchange."

Colorado appears to have devoted more time and money to direct outreach on behalf of SHOP, both through its online portal and in face-to-face meetings with stakeholders. The Colorado exchange put together a small business development center and reached out to the ethnic Chambers of Commerce, particularly the Hispanic and Asian ones.

Colorado prominently featured SHOP on its marketplace website from the outset. Covered California was much slower to promote SHOP on its site. There was no prominent link to SHOP or to brokers on the site's front page until early 2014, months after the beginning of the individual marketplace's open enrollment period. California did not develop a SHOP marketing plan until mid-2014, and it was quite bare-bones.[12]

Website Woes

Colorado's website for enrolling small groups into SHOP functioned adequately from the beginning of open enrollment. As explained by Colorado's marketplace outreach director, "We relied on a small team actively managing its own vendors. Many difficult decisions were made to simplify functionality. We knew exactly what our system could do and could not do. We knew we wouldn't bring out the Cadillac on October 1." This approach embodied the no-frills approach used in most states that had relatively smooth website launches.[13]

Praise for the Colorado SHOP website, despite its basic functionality, was far from universal. A trustee at Connect for Health Colorado—the state's health insurance marketplace—felt that despite the best efforts of marketplace staff, CGI (the vendor that built the Colorado website) tended to drive the policies and to raise fees without providing appropriate value in return. Some brokers and insurers felt considerable dissatisfaction with the website and believed it was less than fully functional. One insurer representative said CGI greatly underestimated the problem of producing "834s"—the notifications sent to insurers to indicate a customer is enrolled—and was poor at doing manual workarounds. He also felt frustrated in his efforts to have useful dialogues about technology problems either with CGI or with the exchange.

California's SHOP portal proved extremely difficult to use and was eventually shut down in February 2014 after numerous complaints from agents and businesses who were unable to use it to complete applications.[14] Accenture, which did a workmanlike job constructing the web portal for the individual marketplace and federal data link known as the California Healthcare Eligibility, Enrollment, and Retention System, or CalHEERS, had little incentive to focus on building a dedicated online portal devoted to SHOP. Its personnel lacked knowledge of the small-group market and its particular needs. Far from being easy to navigate and allowing direct enrollment by employers, as some agents had feared, the process was time-consuming and practically impossible to complete even by the most dedicated and tech-savvy small businesses. Agents and employers alike unanimously described California's online SHOP enrollment system as "horrible" and "a total mess."

One general agent described his firm's experience trying to enroll businesses:

> The portal relied on CalHEERS, which is a system aimed at the individual market. Tweaks were based on the coding for individuals and there was apparently no testing ahead of time. You couldn't input a group into the system cleanly without hours of work with CalHEERS directly. As the system came to market there was a wholesale failure of online applications, which were scrapped by the end of the first quarter. For example, if I added a new employee the carrier didn't recognize me. The system was built on the assumption that everyone shows up on day one.

In the wake of the website's failure, Covered California turned over responsibility for the entire SHOP enrollment process to Pinnacle Claims Management, a Southern California–based third-party administrator that already handled sales operations for SHOP. Pinnacle began enrolling groups in its system in March 2014 and by September had shifted all groups originally hosted in CalHEERS to the Pinnacle system.

> "This is a whole sales team that is not doing sales."

Shifting administrative functions to Pinnacle has improved relations between most brokers and SHOP. However, this change has not yet brought about the fully streamlined enrollment process that was envisioned during the initial rollout. Pinnacle, for instance, still relies on paper forms. No specific date has been set for rebuilding a fully operational web portal within CalHEERS. Additionally, the sales team at Pinnacle has spent its first year scrambling to keep abreast with these operational hitches rather than promoting new business. As one agent commented, "This is a whole sales team that is not doing sales."

The spokesman for one small firm in California listed dozens of problems he and his employees encountered while trying to enroll—even while armed with considerable knowledge and a broker's help. For instance, his company found consistent discrepancies between the agent's quote and the actual amount billed by Covered California. Adding new employees and those from another rating area was an ordeal, even though the ease of such features was supposed to be among SHOP's selling points. "The hassles we were trying to avoid ended up being multiplied," he said. While he and others cautioned that these problems went along with being first adopters and would be ironed out in time, he felt that they contributed greatly to negative impressions of the small-business exchange.

Virtually everyone with whom we spoke felt strongly that the operational problems must be solved. Employers surveyed in Colorado were unanimous in picking ease of enrollment and better access to information as the most important thing to improve as SHOP entered its second season. Most small-business owners are much more receptive toward SHOP when they are able easily to compare specific premium costs and benefits with those of off-exchange plans. Enrolling in SHOP needs to be straightforward, comparable in difficulty to seeking products outside the exchange.

Policymakers, insurers, and agents generally feel that SHOP has a small margin for error, and that it must recover from the loss in reputation stemming from the operational foul-ups in the early days. But most experts in insurance markets told us these kind of mistakes tend to be forgiven.

HOW BROKERS AND AGENTS HAVE RESPONDED

Brokers and general agents are a vital part of the small-group insurance market.[15] As much as 80 percent of small businesses in California, Colorado, and other states use brokers to purchase group coverage.[16]

In both states, brokers were wary of the ACA. Attitudes in the broker community ranged from mild interest to outright antagonism.[17] Despite the fact that former insurance agents with decades of experience were being tapped to head up the SHOP marketplaces, brokers felt their expertise was given short shrift. Early assertions that customers could use websites to bypass agents—like travelers using Expedia—stung in particular. "Brokers are paranoid, but they have a right to be," said one Connect for Health Colorado trustee.

A general agent put it this way: "SHOP seemed like a total afterthought. There was a predisposition against the broker community: all business was supposed to be driven through the counselors and navigators and there was little sense of the role that brokers play or resources devoted initially to getting brokers up to speed." The most neglected part of their role, brokers frequently told us, was following up on questions about how policies worked once they were sold—a service that the navigators and certified enrollment counselors created under the ACA usually do not provide.

Despite their misgivings, brokers signed up in large numbers to become certified to sell through the individual and SHOP exchanges. California marketplace staff had expected perhaps 6,000 brokers to sign up. In reality, more than 14,000 have sought certification to date. Nearly 700 brokers actively sold SHOP policies during roughly the first year of operations.[18] In Colorado, the SHOP director estimated that 1,200 brokers had qualified to participate in SHOP, of which some 300 were active producers. Many of these were property and casualty agents seeking an occasional line of work as well as health care–focused brokers acting defensively.

> “We want SHOP to succeed–we really do. But we need a functioning product for us to sell.”

Colorado paid more attention to the broker distribution channel from the start. The marketplace set up a dedicated call center with lines specifically for brokers and enlisted an internal broker team that targeted small-business owners. California, on the other hand, publicized the possibility that businesses could self-enroll in SHOP and at the outset kept brokers and agents at arm's length.[19] However, once it soon became apparent that brokers were a vital distribution channel in both the individual and small-group markets, there was a belated rapprochement between California brokers and Covered California. Brokers proved to be one of the most reliable sources for attracting enrollees to the individual marketplace—some 40 percent of enrollees used a broker—as well as the principal channel for selling through SHOP.[20] Both in California and Colorado, agents are now mentioned prominently as a trusted source on the websites and in statewide radio and television advertisements.

"We want SHOP to succeed, we really do," one Colorado agent said. "But we need a functioning product for us to sell." He cited difficulties across the board, including hurdles to adding new employees, adopted dependents, or domestic partners to existing plans.

In California the challenges were greater. Brokers reported, for instance, not being paid for their work more than nine months after they had enrolled groups. Brokers generally agreed it is considerably more work for a broker to write a SHOP policy and for the employer to elect it than for a product from outside the marketplace.

Insurers and general agents questioned whether SHOP helped solve a genuine access-to-coverage problem. In Colorado, one agent noted that even prior to SHOP there were four insurers offering small-group policies in the least competitive areas of the state. Likewise in California, several agents and brokers felt the presence of California Choice, a private exchange, diminished the necessity of SHOP.

One owner of a California footwear company testified to the importance of brokers and wished for a better direct online experience as well: "Going through a broker was tough because they're all swamped. The website was not user-friendly and it was very vague. You really had to use a broker. I wanted more information as a small-business owner than I could get online."

It appears that obtaining buy-in from brokers and agents is a high priority, as is timely payment. Brokers can heavily influence existing small-business owners' choice of coverage. Although direct enrollment by small firms through the marketplace website could conceivably be the norm in the future, that is not the current reality. It might be helpful to increase the number of brokers who sell SHOP products. Alternatively, state officials may wish to focus limited resources on the best-selling brokers—for instance, offering preferential leads to the brokers with the best track record—rather than shoring up the marginal ones.[21]

SHOP'S VALUE PROPOSITION

Most respondents to our Colorado survey of small employers said employee choice was their principal reason for considering SHOP. Ease of administration was a distant second. Owners of firms of all sizes want to choose from among various options from multiple carriers. Some policymakers we spoke with in both states felt that such options are more practical for businesses that are near the 50-employee threshold. (In plan years starting in 2016, this threshold will be 100, because the ACA expands the definition of small employers to include businesses with up to 100 employees.)

One insurance executive commented that the principal value proposition of SHOP is that it allows multiple carriers to be offered alongside one another in a stable environment in which insurers are willing to quote: "We know there is a market for employers who have trouble with multiple carriers playing together." In his opinion, the most promising business opportunity exists for small groups that approach the 50-person threshold, while "micro" groups would be better served by letting employees sign up for insurance coverage in the individual marketplace. Others interviewed disagreed, feeling that when factors such as household income and tax deductions only available to those with job-based coverage are considered, employees of very small companies are not always better off in the individual marketplace.

Unlike California, Colorado allowed employers to offer plans at two adjacent metal tiers (coverage levels) in its first year.[22] This kind of choice has always proven popular on employer surveys.[23] For instance, it permits management to select more comprehensive coverage and employees to choose less expensive products, all under the same umbrella. As of late 2014, the multitier approach was also being offered through Covered California.[24] One concern about this approach is splitting the risk pool and creating adverse selection, but the existing numbers in SHOP are currently too small to do that.[25]

The option of choosing multiple carriers on adjacent tiers is available through California Choice, a Southern California–based private exchange operated by general agent Word & Brown. It was also part of the Health Insurance Plan of California/PacAdvantage small-business exchange, which operated from 1992 to 2006. California Choice also features Anthem Blue Cross plans, among the most recognized and widely sought plan offerings in California, which are not available through SHOP.[26]

Even if it does not enroll large numbers of businesses from the outset, SHOP can be a catalyst in changing the small-business insurance markets. In California, the rollout of SHOP galvanized California Choice to compete more aggressively and to tout its multitier and paired choice offerings with considerable success. Few states have a situation comparable to California, in which a well-entrenched private exchange caters to the small-group market. In Colorado, which does not have a similar competitor to SHOP, more businesses were attracted to SHOP and its unique features.

Several business owners interviewed saw SHOP as a viable alternative to the private exchanges that are now taking root among large and midsize employers. They believe SHOP could offer greater choice than most private exchanges while helping to ensure year-to-year cost certainty for businesses.[27]

Tax Credits

Firms with fewer than 25 full-time employees earning an average wage of $50,000 a year or less are eligible for a tax credit of up to 50 percent, available only through SHOP, for a maximum of two years. A smaller tax credit of up to 35 percent was available between the launch of the ACA in 2010 and 2013.

> "Tax credits are a talking point, not a selling point."

Multiple respondents and interviewees in the insurer and policy communities felt small-business owners were not well informed about tax credits. However, nearly all owners whom we surveyed said they were aware of the credits. Most, however, did not feel the credits were the key element in their decision to elect SHOP. One director of an insurance co-op in Colorado said, "Tax credits are a talking point, not a selling point." Others agreed. A trustee of the Colorado exchange felt it was more viable for individuals in small firms to seek subsidies on the individual exchanges, if they were eligible. Some felt the paperwork demands were too great, while others who used their accountants or went through the process themselves found either that the savings were minimal or that they did not qualify.

One company, however, said the tax credit was its sole reason for signing up and considering SHOP. And several agents felt the credit was the principal, if not the sole advantage, that SHOP possessed in the small-group marketplace.[28]

One experienced California insurance executive found that even those companies that might have qualified for the credit chose not to elect it. In 2010, when the tax credit was first offered, his insurance company expected a bump in so-called "virgin groups"—businesses that had never offered insurance to employees before—but that rise never materialized. Even after the maximum size of the tax credit rose from 35 percent to 50 percent, he doubted it would have a significant impact, given that companies may not know about it, the credit might prove too much trouble to apply for, or the savings might be too low to be useful. Such pessimism is not unwarranted: previous programs using tax credits to raise health insurance coverage rates have had low take-up rates.[29]

Growth Opportunities

One potential avenue for expanding SHOP's appeal is experimenting with alternative benefit designs and including ancillary products with coverage. For instance, wellness programs and explicit human resources assistance could conceivably be bundled along with SHOP if regulations allowed. Merging SHOP coverage with worker's compensation coverage in California could greatly reduce administrative demands on firms at the high end of SHOP eligibility, especially when the requirement to expand SHOP to firms with up to 100 employees takes effect in 2016. SHOP could provide greater value for lower-income workers by contracting with Medicaid health plans, which otherwise are not available in the commercial market.

LOOKING TOWARD THE FUTURE

A full test of SHOP's appeal will not really take place until the cycle of "grandmothered" early renewal plans ends. Most insurers and agents are willing to take a wait-and-see approach toward SHOP's potential. Carriers are in it for the long haul, if not indefinitely: most of the same insurers renewed for the second year in both California and Colorado. As one Colorado policymaker put it, "We need enough momentum to overcome the period of inertia and misinformation and to have a viable program once the early renewal period is over."

NOTES

1 For explanation as to why California and Colorado will make plans ACA-compliant sooner, see K. Lucia, S. Corlette, and A. Williams, "The Extended 'Fix' for Canceled Health Insurance Policies: Latest State Action," *The Commonwealth Fund Blog,* Nov. 21, 2014.

2 To read a summary of the main problems with the federally facilitated SHOP rollout and efforts to solve them, see K. Lucia, J. Giovannelli, and S. Miskell, "After a Slow Start, Federal Business Health Insurance Marketplace Offers New and Improved Functions," *The Commonwealth Fund Blog*, Feb. 19, 2015. For a summary of employee choice, see S. Dash and K. Lucia, "Employee Choice," *Health Affairs*, published online Sept. 18, 2014.

3 A. Goldstein, "HealthCare.gov's Insurance Marketplace for Small Businesses Gets Off to a Slow Start," *Washington Post* online, Nov. 30, 2014.

4 Government Accountability Office, Report to the Chairman, Committee on Small Business, U.S. House of Representatives, "Small Business Health Insurance Exchanges: Low Initial Enrollment Likely Due to Multiple, Evolving Factors" (Washington, D.C.: GAO, Nov. 2014). Originally, California SHOP executives expected as many as 90,000 employees to enroll. Despite the small numbers in absolute terms, these enrollments in SHOP were the second- and third-highest among U.S. states following New York. This omits Vermont and the District of Columbia, which combined their individual and small-business marketplaces as allowed under the ACA.

5 T. Gardiner and I. Perera, "SHOPping Around: Setting Up State Health Care Exchange for Small Businesses: A Roadmap" (Washington, D.C.: Center for American Progress and Small Business Majority, July 2011). This is a good guide to the issues around the creation of SHOP and the problems small employers face in purchasing coverage.

6 Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 2012 Medical Expenditure Panel Survey (MEPS)–Insurance Component, Table I.A.2.d (2012).

7 See M. Weinberg and L. W. Haase, *State-Based Coverage Solutions: The California Health Benefit Exchange* (New York: The Commonwealth Fund, May 2011). In California, Governor Arnold Schwarzenegger presided over three years of debates about universal statewide insurance coverage. This debate resulted in a bill that passed the State Assembly but foundered in the State Senate. In 2006, Colorado Gov. Bill Owens created the so-called "208 Commission." This commission laid out five blueprints for enacting comprehensive state health insurance reform in Colorado; its findings were reviewed extensively in the state legislature. California was the first state to establish an exchange board after the ACA's passage, and Colorado followed suit several months later. Both states chose to set up their marketplaces as stand-alone, independent government agencies whose trustees were appointed both by the governor and by the legislature. Existing laws and state regulations were easily modified to conform to the ACA. Both California and Colorado have mature and stable small-group markets with a relatively high degree of insurer participation and competition. In California the existing small-group marketplace is regulated by comprehensive legislation passed in 1992 and referred to as AB 1672. As part of AB 1672, there is a requirement of 50 percent contribution by an employer to the employee-only premium, and minimum participation requirements, namely that 75 percent of the eligible employees are enrolled in the plan offered by the employer. Guaranteed issue was already in place. Colorado has similar rules in place regarding guaranteed issue and employer participation requirements.

8 C. Terhune, "WellPoint Anthem Blue Cross Spurns California Small-Business Exchange," *Los Angeles Times,* July 19, 2013. In 2011, Kaiser held 42 percent of the group market, Anthem Blue Cross 17 percent, and Blue Shield 14 percent. In the same year, Anthem accounted for 47 percent of the individual market, Blue Shield 21 percent, and Kaiser 19 percent. California HealthCare Foundation, *California Health Care Almanac: California Health Plans and Insurers: A Shifting Landscape* (Oakland, Calif.: March 2013), p. 21.

[9] In 2015, SeeChange, one of the six SHOP carriers in Colorado, will leave the marketplace and the state altogether.

[10] Nationally, New Mexico and Utah, which decided to build their own SHOP exchanges while defaulting to the federal government for the individual exchanges, are the only potential exceptions.

[11] The decision in both states not to integrate Medicaid with the exchange helped improve the functionality of the web portals but led in part to long delays in processing Medicaid applications; these persisted for many months in both states after the end of open enrollment. On the other hand, trying to implement "no wrong door" fully in the application process helped to trip up more ambitious exchanges in Oregon, Massachusetts, and Maryland.

[12] Personnel turnover exacerbated California's problem with SHOP outreach, and to a lesser extent Colorado's as well. The SHOP director in California, a former insurance executive and agent, left his position in fall 2013 and was never replaced on a permanent basis. A series of consultants took over the day-to-day management of SHOP. After a year remaining vacant, the position was superseded by a new post of sales director for both individual and small-business insurance products.

[13] CGI Federal, the Colorado vendor, was an independent subsidiary of the company that won the contract for federally run exchanges and botched the rollout.

[14] J. D. Harrison, "California Takes Down Online Health Insurance Exchange for Small Businesses," *Washington Post,* Feb. 14, 2014; E. Bazar, "Small-Business Exchange is Offline, Off Target," *Sacramento Bee,* Feb. 25, 2015.

[15] General Agents (GAs) are insurance agents that partner with various insurance carriers to market and distribute their products to brokers. They are paid directly by the carrier in a separate payment from the broker commission. Certain GAs work principally with certain carriers.

[16] Well-established small businesses are most likely to use brokers. According to a study by Pacific Community Ventures, those firms that offer health insurance coverage already are most comfortable with brokers, while those that don't are the most skeptical. Insight at Pacific Community Ventures, *Health Care + Small Business: Understanding Health Care Decision Making in California* (San Francisco: PCV, Oct. 2011.

[17] Some of this antagonism was political. Many employers in both states said politics hadn't affected their own decision but they were certain that it played a role in choices other business owners made. One Central Valley agent told us: "In Bakersfield, where my business is, we are a very conservative town. A lot of people probably are not proponents of the ACA and don't want anything to do with Covered California. Eighty-five to 90 percent of Kern County is that way. Many people just don't want to hear about SHOP. Hard to say where they first hear it but it's likely connected to the Affordable Care Act and so it has a negative connotation." Several other businesses, by contrast, elected SHOP specifically to underscore their support of the ACA.

[18] C. Coleman, "What's Ahead for Covered California? Medium-Term Policy Considerations," Insure the Uninsured Project, Sept. 2014.

[19] S. Kleffman, "California's Subsidized Health Insurance 'Marketplace' Takes Shape," *Contra Costa Times*, July 31, 2012.

[20] About 13 percent of Q1 2015 SHOP sales in California were "employer-direct" or conducted without using an agent.

[21] In the past several months in California, Pinnacle has instituted promotional programs that provide incentives such as direct mail and lead generation services for agents who meet specific sales and promotion targets.

[22] Under the Affordable Care Act, plans are classified on different tiers, referred to as bronze, silver, gold, and platinum. The tiers are distinguished by their actuarial value—namely, the total expected medical costs paid by the plan. For instance, bronze plans, on average, cover 60 percent of the cost of medical care, while the consumer is responsible for 40 percent.

[23] See J. R. Gabel, J. Pickreign, H. Whitmore et al., "Small Employer Perspectives on the Affordable Care Act's Premiums, SHOP Exchanges, and Self-Insurance," *Health Affairs* Web First, published online Oct. 16, 2013.

[24] "New at SHOP: Dual Tier Choice," Covered California, Oct. 2014.

[25] State Health Reform Assistance Network (Wakely Consulting Group), *Design Considerations in Structuring Employee Choice for SHOP Exchange* (Princeton, N.J.: Robert Wood Johnson Foundation, Dec. 2012).

[26] PacAdvantage captured as much as 10 percent of the small-group market, peaking at around 150,000 enrollees in 1998, but foundered principally as a result of adverse selection against it both from outside the market and by plans inside it. California Exchange Executive Director Peter Lee headed up PacAdvantage and many of the current senior staff at Covered California worked for this purchasing group for small business. See M. Weinberg and B. Kramer, *Building Successful SHOP Exchanges: Lessons from the California Experience* (San Francisco: Pacific Business Group on Health, 2012).

[27] On private exchanges and SHOP, see "Competition from Private Exchanges, Teeny Tax Credit Keep Businesses from SHOP-ing" *Inside Health Insurance Exchanges*, April 2015 5(4); and J. Millman, "The Coming Revolution in How Employers Provide Health Insurance," *Washington Post,* April 7, 2015.

[28] Because the average group size of early enrollees in both California and Colorado was very low—75 percent of the groups enrolling in California had fewer than six employees, while the average size of Colorado's group was fewer than five—the opportunity for tax credits that are aimed at the smaller end of the small-business-spectrum businesses remains. California SHOP Advisory Group Meeting, August 2014, cited in Coleman, "What's Ahead for Covered California?" 2014.

[29] S. Dorn, J. Varon, and F. Pervez, *Limited Take-Up of Health Coverage Tax Credits: A Challenge to Future Tax Credit Design* (New York: The Commonwealth Fund, Oct. 2005).

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