TALKING SHOP:
Revisting the Small-Business Marketplaces in California and Colorado

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ABSTRACT

ISSUE: The Small Business Health Options Program (SHOP), established alongside the Affordable Care Act's individual insurance marketplaces, has weathered the storms of its early implementation. But the program's future is uncertain.

GOAL: To evaluate the impact of changes to SHOP since 2014, focusing on California and Colorado—two states that run their own marketplaces and have full-featured SHOPs.

METHODS: Interviews conducted with more than 50 stakeholders and policymakers, as well as employee surveys.

KEY FINDINGS: Although SHOP has made modest gains in enrollment in California and Colorado, and in the many states in which it is managed by the federal government, the program still covers fewer than 150,000 people nationwide. The relative fortunes of SHOP appear closely tied to the performance of the ACA insurance exchanges for individuals and families. Though the California and Colorado programs are similar in design, California's has had more success, largely because of its stability and the broad political acceptance of the ACA within the state.

CONCLUSION: While SHOP has the potential to grow, especially if it evolves into more of a "one-stop shop" for employee benefits, the program has a long way to go if it is to become a focal point of the small-group insurance market.

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INTRODUCTION

The Small Business Health Options Program (SHOP)—the health insurance marketplaces established under the Affordable Care Act (ACA) for small employers—has weathered the storms that marked its early implementation. However, it still faces an uncertain future, as the program covers fewer than 150,000 people nationwide.[1]

In California and Colorado, two states that set up their own marketplaces and began full-featured SHOPs in 2014, the early problems associated with the ACA—balky and unusable websites, delayed vendor payments, and broker hostility—are largely a thing of the past.

Moreover, another obstacle to potential growth has been removed in these states. "Grandmothered" plans that were noncompliant with the ACA, and which locked up three-quarters of the small-group insurance market (usually defined as serving businesses with 50 or fewer employees) are no longer available.

These changes have allowed a true test of the advantages that SHOP intended to bring to the small-group marketplace—such as employee choice, ease of administration, and affordability. (See the box below and our previous report for more background on SHOP and the program's history.[2])

To evaluate the impact of these developments, we interviewed more than 50 stakeholders and policymakers in Colorado and California and surveyed several dozen employers in these states.

COVERED CALIFORNIA FOR SMALL BUSINESS: OVERCOMING TURBULENCE

California's individual ACA marketplace launched relatively smoothly. Political opposition to the law in the state was muted, and many market reforms were already in place.

By contrast, the SHOP rollout was rocky. Insurance brokers complained, and those managing the rollout often acknowledged, that the software and website were not tailored to small groups, that exchange staff were unfamiliar with the commercial small-group market, and that agents were paid slowly or not at all.

Since then, most of the glitches have been overcome, and the number of enrollees in SHOP almost doubled between early 2015 and July 2016, to 28,964 from 15,671, with an average group size of 7.5 members.[3] As of spring 2017, 32,684 enrollees from 4,315 employers were covered.[4]

The problems were addressed by turning over day-to-day administration and marketing to a Southern California general agent, Pinnacle TPA; rebranding SHOP in California as "Covered California for Small Business" (CCSB); and hiring executives well versed in selling to small businesses. Brokers and general

SHOP: A BRIEF HISTORY

Small businesses—those with one to 50 workers—are less likely to offer health care coverage than larger companies. Those that do offer coverage usually do not offer their employees a choice of plans, nor do they typically offer as wide a range of benefits as do larger employers. Small businesses lack the purchasing power of larger groups, have fewer workers over whom to spread the risk of high medical costs, and face higher administrative costs.

Ninety-seven percent of all companies with more than 100 employees in the United States offer health insurance benefits, while only 57 percent of small businesses do. Just over 20 percent of small businesses offer two or more insurance plans, compared with more than two-thirds of companies with 50 or more employees.

Under the ACA, the Small Business Health Options Program (SHOP) requires small-business marketplaces to be set up in every state alongside individual exchanges. SHOP attempts to make it easier for employers to compare health plans, and to give their employees choice in coverage at an affordable price. The Affordable Care Act (ACA) also offers an incentive to buy coverage in the form of a temporary sliding-scale tax credit, available only through plans purchased through SHOP.

Like the individual marketplaces, SHOP was initially affected by hard-to-navigate websites in both the state-run and federally operated exchanges. Publicity and marketing were scant. Brokers—who handle about 80 percent of the insurance business for small employers—were wary. Most brokers encouraged small businesses to renew coverage on existing terms to avoid ACA-related changes, such as community rating and standardized benefits. Some 70 percent to 80 percent of small employers retained these so-called grandmothered plans. Thus, it was not until 2017 that most small employers in a majority of states purchased plans fully meeting ACA standards.

Currently, 17 states and the District of Columbia operate their own SHOP exchanges, while the remaining SHOPs are run by the federal government (FF-SHOP). Mississippi, New Mexico, and Utah have state-run SHOPs, but their individual marketplaces are federally run.

In spring 2017, the federal government reported that SHOP had enrolled 232,698 employees from 27,205 firms. Of this total, over 80 percent were enrolled through state-run SHOP programs. The number of businesses electing the tax credit has not been released.[a]

Just as enrollment varies widely by state, so does the number of insurers participating in SHOP. Employers in Massachusetts, New York, and Oregon, for instance, can choose from eight or more insurers. But Alabama, Nebraska, North Carolina, and Tennessee have just a single insurer offering products through the small-business marketplace.

[a] E. Curran, S. Corlette, and K. Lucia, "State-Run SHOPs: An Update Three Years Post ACA Implementation," *To the Point,* The Commonwealth Fund, July 29, 2016.

agents write the policies on paper and then process them through Pinnacle, which also markets SHOP as a distribution channel. This arrangement appears to be working smoothly. In most cases, agents are being paid promptly. As one agent put it, “We are selling the product, not dealing with the flubs.”

Brokers Come on Board

Brokers told us that the state’s ACA marketplace, Covered California, is increasingly perceived as a trusted brand. This is a turnaround from the early implementation of SHOP, when association with the ACA was far more likely to induce wariness and a “wait and see” mentality.

After a slow start, brokers have been working closely as partners with Covered California. Over 14,000 brokers serve the individual market, while 2,000 are certified to sell through CCSB. According to industry sources, 20 percent of brokers control 55 percent of the CCSB market, while half of all brokers who have done business with CCSB have just one account with the program. A small fraction, perhaps 200 altogether, are responsible for writing the bulk of policies through the program. One policymaker said, “Brokers are at the forefront of the distribution of plans in the individual marketplace, and this has carried over to SHOP.”

CCSB has found a niche, in particular, among brokers new to the business, according to an experienced benefits administrator. Some of these brokers are more liberal politically than the previous norm, and they have not established tight relationships with insurers.

CCSB in the California Marketplace

Most stakeholders felt that CCSB had carved out a viable niche in the marketplace or had at least bought itself enough time to do so. One health insurance executive said: “CCSB is working. … It has created the same value proposition as other small-group exchanges, one that we know can be successful because it has been successful in the past. They are making steady progress. In the context of a normal marketplace, they should be doing a bit better, if they hadn’t fouled up the administration.”

Another executive believed that the “greatest struggle for Covered California is ‘carrier content’ (i.e., access to specific insurers and their products),” but that this disadvantage could be overcome. Cal Choice, the private marketplace competitor to CCSB, has exclusive access to Anthem in the small-group market, an insurer which tends to appeal to companies that want more comprehensive coverage. This executive felt that if Covered California could persuade Blue Shield of California to offer more robust plans and a wider network than it currently offers through CCSB, then CCSB would be able to compete against Cal Choice.

Other analysts disputed this “glass half-full” perspective. They argued that being similar to Cal Choice—the “800-pound gorilla” of private exchanges for the small-group market in California, run by Southern California general agent Word & Brown, with more than 180,000 covered lives—would put CCSB at a permanent competitive disadvantage and at risk for failure. They also pointed to the demise of Pac Advantage, a state-run, voluntary, small-employer purchasing pool, which ceased operations in 2006. When early growth petered out, carriers stopped participating, and the marketplace attracted a larger share of individuals who were more expensive to insure.

Colorado and California are among the few states that followed the original ACA prescription to change the definition of the small-group marketplace upward to companies with one to 100 employees, from those with one to 50 employees. While the increase was intended to improve the stability of small-group coverage inside and outside the marketplaces, some analysts were concerned it could have the opposite effect.[5] This reflected, in large part, employer worries about the impact of switching to ACA-compliant plans. However, the actual rise in premiums in the statewide small-group marketplace, and in SHOP, have been modest—just over 3 percent in 2016 and 2 percent in 2017 for the market as a whole.[6]

A jump in fees to carriers, intended to cover the cost of running the exchange, might also slow take-up of CCSB plans. Covered California has proposed increasing the assessment to 4 percent of premiums, shifting from a flat fee of $13.95 per policy, which insurers argue may exceed their actual net margin on the sales of small-group plans.

One way insurers can meet the demand for better service and less expensive CCSB products will be to invest in more efficient technology. For instance, online quoting through Pinnacle, the general agent that administers the program in California, began in spring 2017. This will position CCSB to compete more effectively against off-exchange sales.

CONNECT FOR HEALTH COLORADO: GLITCHES OVERCOME, HEADWINDS PERSIST

In Colorado, most stakeholders concurred with the broker who said that “the SHOP website is much better, the connectivity to carriers is better, and Connect for Health Colorado has the right people in place.”

After an initial, unsatisfactory rollout of SHOP, senior officials at Connect for Health Colorado (CFHC) brought in a broker team in 2016 to help manage the site and make it much easier to navigate. An official in the Colorado Governor’s Office of Information Technology who had prior experience with the credit card industry led the overhaul of the website from scratch. Prior to their intervention, two different tech vendors, CGI and Deloitte, worked simultaneously on the individual and SHOP systems. Many users of the site and marketplace administrators felt this work tended to be at cross purposes.

Some dissatisfaction with the site remains. A Fort Collins-based broker said that "a better platform would yield more broker interest." For instance, it remains burdensome to add an employee after the initial purchase of a product through the SHOP portal. The owner of a civil engineering firm said: "Other than the choice aspect, it has been an administrative nightmare. Tech is kluge. Incorrect invoices both on group plan payments and EHBs for employees. Emergency room declines occurred saying the employee has no coverage."

In Colorado, political opposition to the ACA remains significant, skepticism among businesses persists, and turnover in the insurance marketplace has created obstacles. During the second open enrollment session in the individual marketplace, enrollment actually dipped in Colorado, and it only partially recovered in 2016. Thanks in large part to the federal failure to pay promised risk-adjustment payments, Colorado HealthOP, which had covered 60,000 lives, ceased operation in 2016. Although Colorado HealthOP did not cover small businesses, its termination had a strong ripple effect on exchange operations generally.[7]

A survey of 300 Colorado small-business owners whose companies ranged in size from five to 100 employees, conducted in 2015 by Delta Dental, found that 61 percent of them believed the main result of implementation of the ACA was higher costs.[8] This rise, however, was not reflected in the most recent round of premium increases in the small-group market, which went up a modest 2 percent in 2017. While higher premiums related to the redefinition of the small-group market may yet materialize in the next cycle of renewals, there is little sign of such a trend to date.

Both business owners and some advocates for health care reform have reservations about the ACA. While a 2016 ballot initiative recommending a single-payer plan for Colorado failed to pass, it highlighted the difficulties the ACA faces in getting traction in Colorado. One backer of the initiative told us: "There is a lack of momentum for Obamacare in the state. Part of what is making the ACA in Colorado less desirable is that companies are finding ways to get out of it."

The Connect for Health Colorado staff has been under constant pressure from the state legislature, which passed a bill increasing state oversight of the exchange. Legislators also introduced a measure, which failed, to transfer the marketplace to federal control.

The political pressure has stretched the capacity of CFHC and left it with limited options to market SHOP. Although everyone we interviewed wanted to expand SHOP in theory, competing priorities make this difficult. In practice, the effort to publicize SHOP has been placed on a back burner.

This, combined with business wariness and lack of knowledge of SHOP, explains why uptake in Colorado has been slow. In October 2014, 2,521 individuals were enrolled. In 2015, enrollment reached 3,314, from 472 businesses. By May 2016, that number had declined to 2,897, but it has rebounded somewhat to reach the current high of 3,753 enrollees from 536 companies.

One insurance executive remarked: “The exchange is fighting history and culture in Colorado. I don’t think much about SHOP when I think about the exchange. There wasn’t a ton broken in the small-business market, and growth has been anemic.”

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Employee Choice

Most owners taking the survey in both Colorado and California reacted positively to SHOP’s offering of a wider choice of plans for employees. As one Colorado employer with eight workers put it: “We like the versatility and choice it gives my employees. While we are mostly a younger group of people we all have different priorities it seems.” An owner of a media company with 35 employees, whose workers range in age from their twenties to their sixties, likewise said: “SHOP allows more choice to adequately cover the age range. Older workers buy on the relationship with the doctor, younger ones choose lower price mostly.” The owner of a civil engineering consulting firm, in business for 22 years, said, “I highly value choice and driving the decision on coverage down to my employees.”

Employee choice also drew kudos from several Colorado brokers, especially in the eastern half of the state, which tends to have more-affordable products. SHOP’s ability to offer multiple carriers on multiple tiers is unique in Colorado. One broker observed, “SHOP has a mandate to offer those multiple plans. No one else can.” Another said, “I think some brokers are coming back into SHOP” who did not write policies initially.

In mountainous Western Colorado, which has some of the highest rates in the country, up to three times Denver’s rate, employee choice also drew praise. A broker in Grand Junction, noting that small nonprofits and new marijuana businesses were in her book of business, said that some of her clients wanted a mix of less expensive insurance products and more traditional PPO plans. She said that SHOP was the right vehicle to make this combination work.

Tax Credits

In our previous research, we found that many small-business owners did not know about the tax credit available exclusively through SHOP. Two years later, most owners who responded to our more recent survey were now aware of the incentive, but were for the most part ineligible to take it, with one exception, because their wage structure was too high to qualify.

In California, one-half of the businesses covered under SHOP appear to have had no prior insurance coverage. In particular, small not-for-profits seem to be electing this coverage and are more likely to take up the tax credit.

While national surveys show that the tax credit is a primary reason small employers consider SHOP, few employers actually qualify for the credit because of its low limit on the average wage of a firm's employees. For those that do, however, SHOP is valuable. According to a number of policymakers, expanding the length of time the credit is available and increasing the average wage ceiling could prompt many small businesses to take a second look.

Overcoming the "Family Glitch"

One unexpected way CCSB has attracted customers is by surmounting the "family glitch" that affects a number of workers covered by the ACA.

This glitch was a largely unforeseen consequence of the way the law was drafted. Under the ACA, if one family member has an employer offer of single coverage that meets the standard of affordability—costing less than 9.66 percent of family income in 2016—then all family members including the employee are ineligible for subsidies on the individual marketplaces, even if the cost of providing coverage to the whole family exceeds that percentage. Insurance plans, though nominally affordable, appear so only because the full family costs of health do not count toward the affordability criteria. More than six million people nationwide live in such families.[9]

SHOP plans, however, allow employers to exclude dependents from participating in their plans. With employee-only coverage, families are free to seek coverage on the individual exchange and remain eligible for subsidies. Broker sources indicated that as many as one-quarter of CCSB plans written in California were employee-only, many reflecting the aim of employers to circumvent the "family glitch."

Our research reflected the interest in using SHOP to overcome this problem. A custom crating and shipping company with six full-time employees, based near Denver, explicitly made its coverage "employee only" so that the spouses and children of its workers could receive tax credits on the individual exchange.

In addition, because employers have the option of choosing a single plan for employees in and out of state or creating new SHOP accounts in each state and offering different plans, some brokers feel that SHOP is an easier platform through which to cover small businesses with multistate employees. This accounts for a small but steady book of business.[10]

End of "Grandmothered" Plans

Most policymakers, stakeholders, and brokers expected that SHOP enrollment would pick up once noncompliant "grandmothered" plans were phased out in 2015. (California and Colorado were among the handful of states that followed this timetable.) While California's enrollment almost doubled, few experts thought this had been a principal factor, citing instead the much improved technology and broker comfort with the products, better management by the third-party vendor, and more successful outreach and rebranding.

THE FUTURE OF SHOP: PORTAL TO A RANGE OF EMPLOYER BENEFITS?

The links between employment and health care in the U.S. have remained strong since the passage of the ACA. In California, for instance, the share of companies offering employer-based coverage and the share of employees working at companies offering health insurance remained stable between 2013 and 2015.[11] According to a 2016 study by the insurer Aflac, millennial workers were more likely than others to consider benefits when looking for a job and to trade off salary for benefits if the latter were sufficiently appealing.[12] The owner of a roofing company in California told us he lost eight of his twenty younger and middle-aged employees to a competitor because it offered health benefits; he signed up for SHOP and quickly found replacements.

The challenge small businesses face in finding affordable health insurance and choice in coverage still needs to be addressed. However, there is no consensus that SHOP is the right vehicle through which to achieve these goals. A Colorado-based policy analyst spoke for many in saying that "SHOP is trying to solve a real problem but has the wrong set of incentives to do it." Small employers tended to feel that the benefits offered by SHOP, including the tax credit, are too limited. Attractive features like employee choice are not enough to eclipse the appeal of an off-exchange market that offers competitively priced insurance products.

SHOP has done reasonably well attracting small firms without any history of providing benefits, historically the hardest to reach, and in particular small urban start-ups and not-for-profits. In California and Colorado, at least, it has had trouble attracting, as one small-business owner put it, "the non-boutique businesses, such as family-run mom-and-pop Laundromats, drugstores, and independent food stores, especially in rural areas, which are not served well by the current health care system."

In interviews and through our survey, multiple small-business owners, brokers, and other stakeholders expressed the hope that a new and comprehensive approach to employer benefits would be taken, one promoting employee health through a variety of ways, including disability insurance and financial security instruments such as expanded 401(k)s.

"In financing health care, you have to look beyond just health insurance," one Colorado broker said. Colorado's exchange has in fact created a public benefits corporation with the express goal of widening the range of insurance benefits SHOP can sell while remaining compliant with the law.

Several respondents mentioned online HR tools, like BerniePortal and Zenefits, as models for the "all in one" solutions demanded by small-business clients.[13] They suggested that SHOP's migration to an online platform would help it offer comparable solutions. The better the online platform, the better the customer will be able to understand benefits and switch plans easily. If SHOP can become a conduit to a range of bundled insurance products, available with minimum hassle, it may vault from being a niche player to a small-group-market leader.

But features that may seem redundant or rudimentary in mature small-group marketplaces may be crucial in less developed ones, such as in many states that now participate in FF-SHOP, the federally run small-group marketplaces.[14] SHOP has had early, full-fledged trials in places that probably need its existing benefits the least.

NOTES

[1] K. Counihan, *Update on SHOP Marketplaces for Small Businesses* (Centers for Medicare and Medicaid Services, July 2, 2015).

[2] L. W. Haase, D. Chase, and T. Gaudette, *Lessons from the Small Business Health Options Program: The SHOP Experience in California and Colorado* (The Commonwealth Fund, Aug. 2015).

[3] P. V. Lee, *Executive Director's Report* (Covered California, Aug. 18, 2016).

[4] Center for Consumer Information and Insurance Oversight, "CMS Offers New Health Coverage Enrollment Option for Small Business," News release (CCIIO, May 15, 2017).

[5] American Academy of Actuaries, *Potential Implications of the Small Group Definition Expanding to Employers with 51–100 Employees* (AAA, March 2015).

[6] L. Norris, *Colorado Health Insurance Marketplace: History and News of the State's Exchange* (healthinsurance.org, June 22, 2017).

[7] N. Stein, "Here's What Happened to Colorado HealthOP," *Colorado Independent,* Oct. 23, 2015.

[8] M. Dano, "What's the Word on the Affordable Care Act Three Years In?" *ColoradoBiz,* June 9, 2016.

[9] M. Buettgens, L. Dubay, and G. M. Kenney, "Marketplace Subsidies: Changing the 'Family Glitch' Reduces Family Health Spending But Increases Government Costs," *Health Affairs,* July 2016 35(7):1167–75.

[10] See HealthCare.gov, *SHOP Marketplace Insurance for Multiple Locations and Businesses* (CMS, n.d.).

[11] L. Hartman, *California Employers Continue to Offer Insurance, But Fewer Workers Enroll* (California Health Care Foundation, Aug. 4, 2016).

[12] Aflac, *2016 Aflac WorkForces Report* (Aflac, 2016).

[13] See BerniePortal, *Benefits Administration and HR Software* (BerniePortal, n.d.).

[14] See M. A. Morrissey, *Health Insurance,* 2nd ed. (Health Administration Press, 2014), on the differences between state small-group health care insurance markets. As of May 2017, the Centers for Medicare and Medicaid Services (CMS) announced that as of the end of 2017 it would no longer handle enrollment and other functions for the FF-SHOP exchange, essentially shuttering that wing of the SHOP program. T. Jost, "CMS Announces Plans to Effectively End the SHOP Exchange," *Health Affairs Blog,* May 15, 2017.

ABOUT THE AUTHORS

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