ISSUE BRIEF
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The Health of the Small-Group Insurance Market

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ABSTRACT

ISSUE: There has been relatively little discussion about the small-group employer insurance market since the implementation of reforms under the Affordable Care Act. It is important to understand the condition of this market before the impact of recent regulatory changes from the Trump administration.

GOAL: To understand how the ACA's market reforms have affected prices, enrollment, and competition in the small-group market.

METHODS: Analysis of financial data filed by small-group insurers with the federal government, along with relevant published literature.

FINDINGS AND CONCLUSIONS: Enrollment has declined in the small-group market, although this is largely a continuation of a trend in place prior to the ACA. Substantially more small-business owners and workers now have coverage than prior to the ACA because many have been able to take advantage of subsidized individual plans through the marketplaces. For those who remain in the small-group market, price increases have been similar to those in the large-group market. The ACA has not reduced the cost of small-group insurance, but has made it more accessible and comprehensive without harming the market. It will be important to continue monitoring the small-group market to ensure that recent regulatory changes do not worsen market conditions.

TOPLINES

- Substantially more small-business owners and workers have health insurance coverage since the ACA took effect because of the availability of subsidized individual marketplace plans and expanded Medicaid.
- Premium and claims costs have remained stable in the small-group health insurance market, similar to trends existing before the ACA.

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BACKGROUND

In the ongoing debate about the Affordable Care Act, the individual market has received the lion's share of attention, while the health of the small-group insurance market has been neglected. Little has been said about the ACA's impact on the small-group insurance market or more generally on small businesses.[1]

This has occurred despite the fact that the ACA applies essentially the same set of regulations to the small-group market as it does the individual market: open enrollment, no exclusion of preexisting conditions, modified community rating (meaning that insurers cannot vary rates based on health status), a standard set of "essential health benefits," and a limit on the percentage of premium that insurers can devote to profits or overhead (known as a minimum "medical loss ratio"). The small-group market already had some portion of these rules in effect prior to the ACA, but critics were still concerned that the law would seriously damage the market.[2] President Trump, for instance, stated that "Obamacare has been especially brutal for small businesses. . . . It caused premiums and deductibles to explode, and health care options to plummet."[3]

On the other hand, some people are concerned about deleterious effects not from the ACA as it was designed, but from new Trump administration rules that make it much easier for small firms to purchase coverage outside the ACA-regulated market.[4] By lifting restrictions that had barred "association health plans," these rules could split the small-group market into two segments — the ACA small-group market that offers comprehensive coverage of preexisting conditions as well as community rating and an unregulated market that does not.[5] A broad swath of market participants, analysts, and regulators are greatly concerned that healthier small groups will leave the ACA's regulated market, which will substantially increase prices and potentially threaten a "death spiral."[6] Unlike in the individual market, small-group purchasers do not receive substantial subsidies and therefore lack strong incentives to remain in the ACA-regulated market, which may lead to more pronounced market segmentation.

In this brief, we use federal data sources to see how the small-group market has changed since the implementation of the ACA's reforms.[7] We define small groups as those with up to 50 full-time workers. In California, Colorado, and New York, small groups include up to 100 workers, although not in all years.[8] We include so-called "transitional" (or "grandmothered") plans — that is, those issued after March 2010 that are subject to some but not all of the ACA's market reforms. We exclude only self-insured groups and fully grandfathered plans that existed before March 2010.[9] Our data extend only through 2016, but provide a checkup on the health of the market prior to emerging — and potentially destabilizing — regulatory policies from the Trump administration.

ENROLLMENT, PREMIUMS, AND CLAIMS

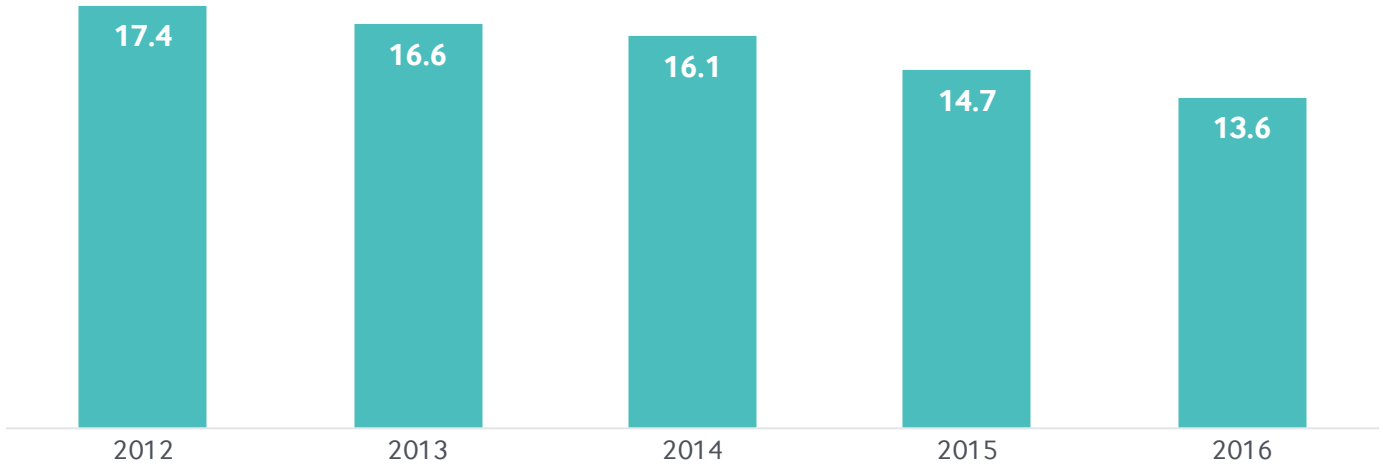
Enrollment has diminished steadily, but not precipitously, in the ACA-regulated small-group market, following implementation of the ACA's full market reforms in 2014 (Exhibit 1). Over the first three years of full reform, small-group enrollment in the 48 states studied decreased an average of 1 million per year. Some of the decrease may be the result of small firms opting to self-insure,[10] but we cannot measure that trend comprehensively using available data sources. Importantly, this decline began before the implementation of the ACA (Exhibit 2).[11] Hopes that the law might reverse this trend have not been fulfilled.[12]

The decline in enrollment, however, does not indicate a deteriorating set of options for small-firm owners and workers but instead the opposite. The ACA led to a large increase in coverage for small-business employees, because many were able to enroll in the ACA's subsidized individual market or in expanded Medicaid.[13] As a result, the uninsured rate among small-firm employees dropped by 8 percentage points from 2013 to 2016, according to U.S. Census data.[14] Small-business owners have benefitted even more than their workers. According to one nationally representative survey, only 6 percent of small-business owners were uninsured in 2015, down from 15 percent in 2013.[15]

People who remain in the small-group market are purchasing comprehensive coverage. Unlike in the individual market, where over 90 percent of enrollment is in lower-value bronze or silver plans,[16] in the small-group market, over half of enrollment is in higher-value gold or platinum plans (Exhibit 3).

Exhibit 1. Enrollment in the Small-Group Market, 2012–2016

Millions



Data: Authors' analysis of Center for Consumer Information and Insurance Oversight medical loss ratio data, excluding the District of Columbia, Massachusetts, and Vermont.

Note: Small-group market is defined in text at notes 8 and 9.

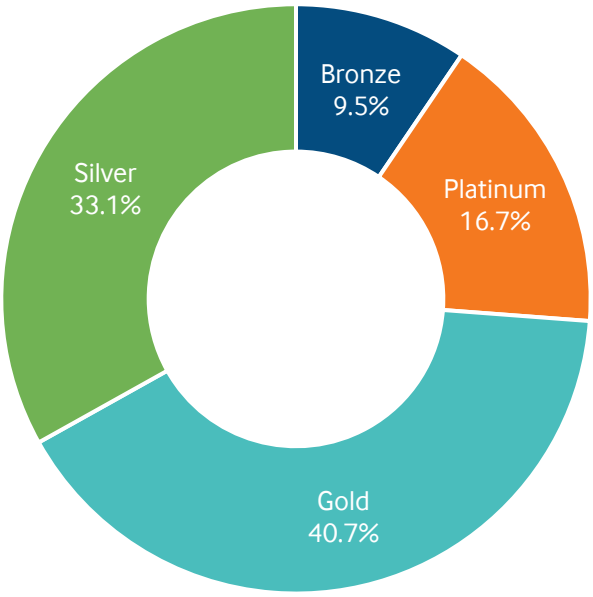
Exhibit 2. Percentage of Private-Sector Employees at Small Firms Who Enrolled in Health Insurance Through Their Employer, 2008–2016

Percent

Data: Medical Expenditure Panel Survey.

Note: Small firms are those with fewer than 50 employees. Here, self-insured group coverage is included as part of the small-group market.

Exhibit 3. Metal Level of Plans Sold in the Small-Group Market, 2016



Data: Authors' analysis of Center for Consumer Information and Insurance Oversight 2018 rate data, excluding the District of Columbia, Massachusetts, and Vermont.

Notes: Excludes catastrophic plans, because of incomplete reporting. Small-group market is defined in text at notes 8 and 9.

Premiums and claims have been stable in the small-group market — another indication that the market has not been experiencing a decline.[17] Premium and claim trends in the small-group market have been similar before and after the advent of the ACA, and similar to trends in in the large-group market. Over the first three years of full ACA reforms (2014–2016), monthly premiums per member in the small-group market increased 13.3 percent, and claims increased 15.2 percent, which averaged (respectively) 4.3 and 4.8 percent a year. Those averages were very similar to the 4 percent increases for small-group premiums and claims in 2013, the year before full reforms (Exhibit 4).[18] The small-group increases have been almost identical to the average increases in the large-group market (4.7% in premiums and 4.8% in claims) following full ACA implementation, even though the ACA imposed substantially fewer new requirements on the large-group market.

Higher premium increases in the small-group market in 2015 and 2016 could be a matter of concern if they reflect adverse selection (i.e., healthier people leaving the market and/or sicker people joining the market). After 2014, average medical claims increased at 6.3 percent for two years — higher than in the preceding years and also higher than in the large-group market. This may indicate potential adverse selection. However, overall claims in the small-group market were lower than those in the less-regulated large-group market and premiums were similar in both markets, in 2015 and 2016.

Exhibit 4. Average Premiums and Medical Claims, 2012–2016

	Premiums				Claims			
Year	Small-group	Yearly change	Large-group	Yearly change	Small-group	Yearly change	Large-group	Yearly change
2012	$346.39		$346.07		$288.98		$307.80	
2013	$360.58	4.1%	$350.03	1.1%	$300.51	4.0%	$311.06	1.1%
2014	$361.69	0.3%	$378.27	8.1%	$306.28	1.9%	$336.95	8.3%
2015	$385.13	6.6%	$382.69	1.2%	$325.59	6.3%	$341.72	1.4%
2016	$408.50	6.1%	$401.05	4.8%	$346.12	6.3%	$358.28	4.8%

Data: Authors' analysis of Center for Consumer Information and Insurance Oversight medical loss ratio data, excluding the District of Columbia, Massachusetts, and Vermont.

Note: Dollar amounts are per member per month.

COMPETITION, PROFITS, AND OVERHEAD

One indication of continuing market health is the number of insurers competing in the small-group market. In this study, we looked at insurers with at least 1,000 members. Prior to the ACA's reforms, there were close to 500 such "credible" insurers, but by 2016, this had dropped to 409 (Exhibit 5). In the large-group market, there was little change between 2012 and 2016.

To some extent, the decline in small-group insurers reflects the consolidation that had already been occurring in that market segment prior to the ACA.[19] The ACA's reforms were not expected to bring substantial new competitors into the small-group market, so this continuing decline is not a major disappointment. As of 2016, competition appears to remain fairly robust in the small-group market overall,[20] with only a moderately fewer number of credible insurers as in the large-group market.

Many insurers continued to compete in the small-group market through 2016 because it remained profitable. Although profits initially shrank by about half from their levels just prior to the ACA reforms, this market segment has maintained profitability overall (Exhibit 6). In comparison, profit levels in the large-group market were in the range of 2 percent to 2.5 percent between 2014 and 2016, and less than 1 percent in the prior two years (data not shown).

The ACA's regulation of small-group insurers' medical loss ratios has not caused them to lose substantial revenues, as some had feared. This is because even before the implementation of reforms, insurers had priced their products to generate medical loss ratios that were comfortably above the regulatory minimum of 80 percent (Exhibit 6). As a result, small-group insurers have had to pay only relatively minor amounts (averaging $10 a year) as mandatory rebates to consumers. Also, small-group insurers have had only a minor increase (0.5 percentage points) in administrative cost overhead following the ACA's reforms.

Exhibit 5. Number of Insurers with at Least 1,000 Members, 2012–2016

Year	Small-group	Yearly change	Large-group	Yearly change
2012	506		471	
2013	487	–3.8%	556	18.0%
2014	466	–4.3%	518	–6.8%
2015	444	–4.7%	505	–2.5%
2016	409	–7.9%	478	–5.3%

Data: Authors' analysis of Center for Consumer Information and Insurance Oversight medical loss ratio data, excluding the District of Columbia, Massachusetts, and Vermont.

Exhibit 6. Small-Group Insurers' Financial Performance, 2012–2016

Year	Medical loss ratio	Admin. cost ratio	Profit margin	Rebate per member
2012	84.3%	12.1%	3.6%	$11.68
2013	84.3%	12.1%	3.6%	$7.34
2014	85.8%	12.5%	1.7%	$8.69
2015	85.7%	12.8%	1.5%	$10.45
2016	86.1%	12.6%	1.3%	$11.24

Data: Authors' analysis of Center for Consumer Information and Insurance Oversight medical loss ratio data, excluding the District of Columbia, Massachusetts, and Vermont.

Note: Small-group market is defined in text at notes 8 and 9.

CONCLUSION

Prior to the ACA, premiums in the small-group insurance market were increasing while enrollment was declining. These trends have continued following ACA reforms, indicating that the small-group market's financial condition is not fundamentally better or worse than it was prior to the reforms.

There have been several market improvements, however. First, people who purchase small-group insurance have substantially more consumer protections than they did before the ACA. Among the most important is the guarantee that preexisting medical conditions will no longer jeopardize coverage or result in higher premiums. People who work at or own small firms have also benefitted considerably from the individual market. The availability of subsidized coverage in the individual market has allowed previously uninsured workers and owners to obtain coverage when the company remains unable to purchase a group plan.

Nevertheless, there are reasons to be cautious. Enrollment declines and premium increases could grow more ominous if regulatory changes under the Trump administration have a negative effect. New rules that expand the ability of healthier small groups to purchase coverage outside the regulated market through "association health plans" are of particular concern. We must continue to assess whether these or other destabilizing threats can cause real damage to the small-group market.

NOTES

1. Exceptions include David Chase and John Arensmeyer, *The Affordable Care Act's Impact on Small Business* (Commonwealth Fund, Oct. 2018); and Sabrina Corlette et al., *Small Business Health Insurance and the ACA: Views from the Market 2017* (Robert Wood Johnson Foundation and the Urban Institute, July 2017).

2. See U.S. Chamber of Commerce, "Statement of the U.S. Chamber of Commerce to the House Energy and Commerce Committee, Subcommittee on Health: True Cost of PPACA: Effects on the Budget and Jobs," March 30, 2011); and Catherine McLaughlin and Adam Swinburn, *Small Businesses and Health Reform: Results from a Survey of Five States* (Mathematica Policy Research, Apr. 2014).

3. White House, "Remarks by President Trump at the National Federation of Independent Businesses 75th Anniversary Celebration," June 19, 2018.

4. Noam M. Levey, "Trump's New Insurance Rules Are Panned by Nearly Every Healthcare Group That Submitted Formal Comments," *Los Angeles Times,* May 30, 2018.

5. Christina Cousart, *The New Association Health Plan Rule: What Are the Issues and Options for States* (National Academy for State Health Policy, June 2018); and Kevin Lucia et al., "Impact of Association Health Plans on Consumers and Markets Will Depend on State Approaches" *To the Point* (blog), Commonwealth Fund, Aug. 9, 2018.

6. See the syntheses of comments from various stakeholders on the proposed rule for association health plans, compiled by the Georgetown University's Center on Health Insurance Reforms, at http://chirblog.org/tag/association-health-plans/.

7. These data sources are insurers' filings that demonstrate their compliance with the ACA's minimum medical loss ratios and with the ACA's requirement that, for insurance rating purposes, insurers maintain "single risk pools" in their individual and small-group market segments. Because the District of Columbia, Massachusetts, and Vermont have merged their individual and small-group markets, we exclude them from our analyses. Also excluded are people covered by self-funded employer plans.

8. It appears (but is not certain) that these states restricted the small-group market to size 50 in 2014 and 2015. This fluctuation in definition affects our enrollment count to some extent, but these states accounted for less than a quarter of total national enrollment and so fluctuations in their market definitions only partially affect the overall trends reported.

9. Over time, the number of grandfathered plans has diminished considerably. See Corlette et al., *Small Business Health Insurance,* 2017.

10. Matthew Buettgens and Linda J. Blumberg, *Small Firm Self-Insurance Under the Affordable Care Act* (Commonwealth Fund, Nov. 2012).

11. Phil Cooper, Karen Davis, and Edward Miller, *Trends in Enrollment, Offers, Eligibility and Take-Up for Employer-Sponsored Insurance: Private Sector, by State Medicaid Expansion Status, 2008–2015* (Agency for Healthcare Research and Quality, Feb. 2017). See also Ruth Robertson et al., *Jobs Without Benefits: The Health Insurance Crisis Faced by Small Businesses and Their Workers* (Commonwealth Fund, Nov. 2012); and Jessica Vistnes et al., "Declines in Employer–Sponsored Insurance Between 2000 and 2008: Examining the Components of Coverage by Firm Size," *Health Services Research* 47, no. 3 Pt. 1 (June 2012): 919–38.

12. However, there is some more recent evidence of improvement. See Paul Fronstin, *After Years of Erosion, Mid-Size and Some Small Employers Added Health Coverage in 2016* (Employee Benefit Research Institute, Aug. 2017). Also, the leading national survey reports no statistically significant decline in small firms offering health insurance, following full ACA implementation. Gary Claxton et al., *Employer Health Benefits 2017 Annual Survey* (Henry J. Kaiser Family Foundation and Health Research and Educational Trust, 2017).

13. Corlette et al., *Small Business Health Insurance,* 2017; Chase and Arensmeyer, *Affordable Care Act's Impact,* 2018.

14. Ibid. Another analysis using national data reports a 9-point decline in uninsurance, between 2011 and 2015, among small-firm and self-employed workers. Patricia S. Keenan, Paul D. Jacobs, and G. Edward Miller, "Despite Coverage Gains, One-Third Of People In Small-Firm Low-Income Families Were Uninsured In 2014–15," *Health Affairs* 37, no. 10 (Oct. 2018): 1673–77.

15. National Federation of Independent Business, *Small Business's Introduction to the Affordable Care Act: Part III* (NFIB, Nov. 2015).

16. Henry J. Kaiser Family Foundation, *Marketplace Enrollment, 2014–2018* (KFF, 2018).

17. Also documenting moderation in premium growth post-ACA, see Sara R. Collins et al., *The Slowdown in Employer Insurance Cost Growth: Why Many Workers Still Feel the Pinch* (Oct. 2016); and Claxton et al., *Employer Health Benefits,* 2017.

18. Looking further back, other data sources show that premium increases in the small-group market prior to the ACA averaged 10 percent a year from 2008 to 2010, or 7 percent a year from 2002 to 2012. Chase and Arensmeyer, *Affordable Care Act's Impact,* 2018; and Fredric Blavin et al., *Monitoring the Impact of the Affordable Care Act on Employers* (Urban Institute, Oct. 2014). See generally Linda J. Blumberg and John Holahan, *Year-to-Year Variation in Small-Group Health Insurance Premiums: Double-Digit Annual Increases Have Been Common Over the Past Decade* (Urban Institute, Sept. 2014).

19. See U.S. Government Accountability Office, *Private Health Insurance: Concentration of Enrollees Among Individual, Small Group, and Large Group Insurers from 2010 Through 2013* (GAO, Dec. 1, 2014).

20. This is confirmed by a nationally representative survey of small firms, by their own trade association, which reports that only a quarter of these employers perceive a reduction competition among insurers following ACA enactment. NFIB, *Small Business's Introduction,* 2015.

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