



NEWS RELEASE

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NEW STUDY: SMALL BUSINESSES COULD BUY HEALTH INSURANCE FOR NEARLY 10 MILLION WORKERS THROUGH THE AFFORDABLE CARE ACT'S SMALL BUSINESS HEALTH INSURANCE EXCHANGES

February Issue of Health Affairs Analyzes Opportunities for Success and Potential Pitfalls for Small Business Exchanges

New York, NY, February 8, 2012—The Affordable Care Act's state health insurance exchanges for small businesses are estimated to cover nearly 10 million individuals, in addition to the 15.3 million individuals who will gain coverage through the individual exchanges when the law is fully implemented, according to an article in the February issue of *Health Affairs*. The article, by **Fredric Blavin and colleagues at The Urban Institute**, is part of a cluster of articles in the journal about the Small Business Health Care Options Program (SHOP), the formal name for the small business exchanges. The cluster of articles, supported by The Commonwealth Fund, examine SHOP's potential to provide affordable insurance options for small employers who now face high premiums and administrative costs when they insure their employees. Under the Affordable Care Act, the SHOP exchanges, along with the exchanges for individuals, are expected to be open for business on January 1, 2014.

The reform law grants states considerable flexibility in designing their exchanges, such as allowing them to combine their small business and individual exchanges, limiting enrollment to companies with 50 or fewer employees or opening to firms of up to 100 employees through 2015, or reducing the ability of insurers in the exchange to charge premiums on the basis of age beyond what the law allows. Examining all of these options, Blavin and colleagues find that merging the small business and individual market exchanges would bring 2 million more people into the exchanges, for a total of nearly 27 million, would reduce premiums per covered life in the non-group market by an average of \$600 annually, and would reduce federal spending on premium subsidies by \$4 billion. However, few of the other options had significant effects on coverage or costs. The authors conclude that "these results suggest that states can make these design choices based on local support and preferences without fear of dramatic repercussions for overall coverage and cost outcomes."

"SHOP exchanges have the potential to transform the experience of small businesses and their employees when shopping for and administering health insurance," said Sara Collins, vice

president for Affordable Health Insurance at The Commonwealth Fund. “With states in the thick of determining how to set up their health insurance exchanges, these articles provide critical information about how they might design their exchanges in ways that will provide an easier, more efficient way for small businesses in their states to offer greater choices of comprehensive high value insurance for their workers.”

In an overview of the cluster of articles, Timothy Jost at Washington and Lee University School of Law asserts there is a real need for the SHOP exchanges as small businesses struggle to afford and manage health insurance for their employees. Jost concludes that in order to be successful, the SHOP exchanges will have to provide small employers with a more attractive alternative to the options currently available; keep costs affordable; offer employees choice, limit the burden posed by the insurance process; perform administrative functions; manage enrollment periods; and, perhaps most importantly, protect against adverse selection, which would lead to a disproportionate number of sicker individuals in the exchanges

THE BUSINESS CASE

Author **Jon Kingsdale, founding director of the Massachusetts Connector exchange**, draws on his experience, and examples from Utah’s already functioning exchange for small businesses, to lay out a business case for the SHOP exchanges. He contends that in order to attract and retain small employers, while also fulfilling the goals of health reform the SHOP exchanges must:

- Be affordable, contain administrative costs, and create efficiencies for small businesses.
- Attract and promote high value, lower-cost health plans, that are not typically available to employees of small firms.
- Provide small business employees a wider choice of plans as opposed to the traditional offer of one plan.

Terry Gardiner, vice president for policy with the Small Business Majority and former Alaska state legislator, observes that often overwhelmed small-business owners need an exchange that will fulfill many of the functions served by the human resources departments of larger businesses. Exchanges should assist small employers with other health insurance-related functions, such as wellness programs, COBRA coverage, and flexible spending accounts.

IMPACT OF SELF-INSURED PLANS?

Concerns that recent trends towards self-insurance, meaning employers pay benefits directly to their employees, might draw small businesses away from the SHOP exchanges and cause higher costs in the exchanges by taking healthier participants out of the risk pool, are addressed in two separate articles. **Christine Eibner and colleagues at the RAND Corporation** find that self-insuring with “stop-loss” coverage may be less expensive to small businesses with healthy employees because they are not subject to state regulations and several provisions in the Affordable Care Act. The authors conclude that allowing small businesses to continue to self-

insure would have little to no effect on premiums in the SHOP exchanges and would likely increase the number of small business employees with health insurance. **Mark Hall at Wake Forest University School of Law** addresses what measures states might take if the trend towards self-insurance does lead to adverse selection in the exchanges.

WILL LARGE EMPLOYERS COME ON BOARD?

Beginning in 2017 states can choose to open their exchanges to large employers. **William Kramer, executive director for national health policy for the Pacific Business Group on Health**, investigates the likelihood of larger employers joining the exchanges if they become open to them. He concludes that in the short-term (2014-2016), large employers may rely on the individual exchanges to provide coverage for their pre-Medicare retirees and part-time employees. However, large employer participation in the SHOP exchanges will depend on how viable the exchange marketplaces become, whether the Affordable Care Act survives mostly intact, and whether the labor market becomes competitive again.

The Commonwealth Fund is a private foundation supporting independent research on health policy reform and a high performance health system.