THE COMMONWEALTH FUND

In the Literature

Highlights from Commonwealth Fund-Supported Studies in Professional Journals

Employers and the Exchanges Under the Small Business Health Options Program: Examining the Potential and the Pitfalls

February 8, 2012
Authors: Timothy Stoltzfus Jost, J.D.
Journal: *Health Affairs,* Feb. 2012 31(2):267–74
Contact: Timothy Stoltzfus Jost, J.D., Robert L. Willett Family Professor of Law, Washington and Lee University School of Law, jostt@wlu.edu, or Mary Mahon, Assistant Vice President, Public Information, The Commonwealth Fund, mm@cmwf.org
Access to full article:
http://content.healthaffairs.org/cgi/content/full/31/2/267?ijkey=A2fxiUHGdexLM&keytype=ref&siteid=healthaff

Background: The Small Business Health Options Program

Employer-based health coverage is the backbone of the U.S. health insurance system, providing coverage to the majority of Americans. The system has always functioned better, however, for large employers. Small employers, particularly those with older and less healthy employees and dependents, often find coverage to be very expensive, and sometimes unaffordable. In contrast, large groups can offer a larger and more stable risk pool, permitting insurers to charge lower premiums.

Why do we need small-group exchanges? How will they function? What difficulties will they face? And what opportunities do they offer?

To make it easier for small firms to offer their workers health benefits, the Affordable Care Act established the Small Business Health Options Program, or SHOP, which will create health insurance exchanges through which small groups can consolidate their purchasing power, offer insurers larger and more stable risk pools, and reduce administrative costs. To succeed, the SHOP exchanges, which are expected to be open for business on January 1, 2014, will have to provide small employers with a more attractive alternative to the options currently available—traditional group coverage purchased outside the exchange, self-insuring, or not offering any coverage at all. To attract employers, the exchanges must be able to keep costs affordable and limit the burden posed by the insurance process; perform administrative functions; manage enrollment periods; and, perhaps most important, protect against "adverse selection," which would lead to a disproportionate number of sicker individuals in the exchanges. A special set of papers in the February 2012 edition of *Health Affairs* addresses these issues and others.

Perspectives on the SHOP Exchanges

- An article by **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 also assist small employers with other health insurance-related functions, such as wellness programs, COBRA coverage, and flexible spending accounts, Gardiner says.

- **Jon Kingsdale,** founding director of the Massachusetts Connector exchange, stresses the importance of making the business case for exchanges. According to Kingsdale, the reason many small firms do not offer health insurance to employees is not lack of availability—there is actually a thriving commercial market for small-group coverage—but simply cost. Unless exchanges can demonstrate how they will bring down costs, they will not succeed.

- **Frederic Blavin,** research associate at the Urban Institute's Health Policy Center, and colleagues model the effects of exchange design choices on coverage and cost. Some of their findings are intuitive—for instance, eliminating age rating makes insurance less expensive for older individuals and more expensive for the young. Others are less obvious: merging the nongroup and small-group markets reduces premiums substantially in the nongroup market but does not significantly reduce the cost of small-group coverage.

- Beginning in 2017, states may open their exchanges to large employers, but will they come? In the short term at least, **William Kramer,** executive director for national health policy for the Pacific Business Group on Health, believes that large employers are likely to look to the exchanges to provide coverage for their pre-Medicare retirees and part-time employees. In the long run, employers' reactions will depend on whether the exchanges become strong, viable marketplaces, whether the Affordable Care Act survives court challenges and legislative assaults, and whether the labor market once again becomes competitive.

- Under health reform, self-insured health plans may become more attractive to some companies for several reasons. These plans are not subject to state regulation, and, for low-risk enrollees, they can be less expensive than commercial insurance. Moreover, self-insured plans will be able to avoid the Affordable Care Act's minimum medical loss ratio requirements, which require insurers to spend a certain percentage of enrollees' premiums on medical care versus administration and profits. RAND economist **Christine Eibner** and colleagues examine how the law will affect self-insured plans and grandfathered plans in existence prior to enactment of the Affordable Care Act. The authors conclude that the effects will be minor: allowing small groups to self-insure will increase the number of insured employees and have little or no effect on exchange premiums.

- The final article in the set, by **Mark Hall,** professor at Wake Forest University School of Law, investigates the legal options available to states to prevent stop-loss coverage—which most self-insured plans purchase in the event their total claims exceed a certain threshold—from becoming a destabilizing factor.

Citation

T. S. Jost, "Employers and the Exchanges Under the Small Business Health Options Program: Examining the Potential and the Pitfalls," *Health Affairs,* Feb. 2012 31(2):267–74.

This summary was prepared by Deborah Lorber.