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SMALL BUSINESS

Small Businesses Slow to Embrace Healthcare Exchanges

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Unhappy with the choices her insurance broker was offering, Denver publishing company owner Rebecca Askew went to Colorado's small business health insurance exchange last fall. She found exactly what she'd been hoping for: affordable insurance options tailored to the diverse needs of her 12 employees.

But Askew is in a tiny minority. Only 2 percent of all eligible businesses have checked out so-called SHOP (Small Business Health Options Program) exchanges in the 15 states where they have been available since last October under the Affordable Care Act. Even fewer purchased policies.

In November, three more state-run SHOP exchanges are slated to open, and the federal government will unveil exchanges for the 32 states that chose not to run their own.

SHOP exchanges were supposed to open nationwide on Oct. 1, the same day as exchanges offering health insurance for individuals. But the Obama administration postponed the SHOP launch, citing the need to fix serious technical problems with the exchanges for individuals, which it said were a higher priority.

So far, only the District of Columbia and 15 states — California, Colorado, Connecticut, Hawaii, Idaho, Kentucky, Massachusetts, Minnesota, Nevada, New Mexico, New York, Rhode Island, Utah, Vermont and Washington — have launched small business exchanges. Three more — Maryland, Mississippi and Oregon — will also start their own exchanges.

“It's easy to explain why (small business exchanges) have gotten off to a slow start,” said Linda Blumberg, a researcher with the Urban Institute who is tracking their development with support from health care advocates, the Robert Wood Johnson Foundation. The delay of small business exchanges in most states confused business owners in the few states that actually offered exchanges, she said.

Also, insurance companies encouraged business owners to renew their plans before the October 2013 deadline to avoid having to sign up for a new policy during the first year of the controversial ACA rollout. The Obama administration allowed even noncomplying plans to be renewed, after complaints from individuals and business owners who had received cancellation notices.

As a result, not as many businesses needed to look for new policies for their employees as was originally projected. To be successful, SHOP exchanges must attract

a large pool of businesses that can exert market pressure on insurance carriers and ultimately bring down prices. Whether that will happen remains to be seen.

The ACA offers businesses with fewer than 50 employees the opportunity to purchase health insurance coverage for their workers through a SHOP, but it does not require them to do so.

These firms comprise 5.8 million of the 6 million firms in the U.S. and employ at least 37 million Americans. More than 96 percent of larger corporations cover their employees, while only 59 percent of very small companies provide insurance for their workers. As a result, nearly half of the nation's 47 million uninsured people are self-employed or work for a small company, according to 2012 data from the Kaiser Family Foundation.

Under the health law, a federal tax credit that can cover up to half the cost of an employer's share of premiums is available to businesses that have fewer than 25 employees and average annual wages of less than \$50,000. The federal government estimates 4 million small businesses will qualify, resulting in \$40 billion in subsidies over the next 10 years.

But so far, not many companies have taken advantage of the offer, according to a report by the Government Accountability Office. In the 2010 tax year, only 170,300 businesses received a credit, amounting to just \$428 million, according to the report.

“A lot of folks complained that they needed to hire an accountant to figure it out,” Blumberg said. “You couldn't even get a rough idea whether you qualified.” Insurance brokers have also complained about how difficult it is to determine eligibility for a credit, and suggest the federal government should create some kind of easy-to-use calculator.

In Colorado, the percentage of people employed by small businesses is even higher than in much of the rest of the country. “There aren't exactly a lot of corporate headquarters here,” said the state exchange's chief strategy officer, Marcia Benshoof. “Colorado is a state of small business. We have some very passionate folks here who care about this market,” she said.

A few other states have entered partnerships with the federal government to use the federal website but plan to provide their own marketing and outreach. All states regulate the insurance companies that offer their policies on and off the exchange.

Over the past decade, insurance premiums for small firms have increased 123 percent. Currently, small businesses pay up to 18 percent more than larger businesses for health insurance, according to the Council of Economic Advisers.

The health law requires SHOP exchanges to include a feature known as “employee choice,” in which individual workers can pick from a variety of policies offered by different insurance companies, similar to the menu of health benefit options larger companies offer employees.

“When we talk about why they should use the exchange, choice is the meaningful part of that conversation. That's the moment of truth with employers,” Benschhoff said. Besides creating goodwill, studies show that offering employees a choice of health plans often results in lower overall health care costs, because employees tend to choose the lowest-priced plans that offer the most value for their individual needs, according to the National Bureau of Economic Research.

In Askew's case, allowing her employees to choose a health plan resulted in an overall decrease in her monthly premium bill. Two of them had chronic conditions and needed more expensive policies that covered the doctors they had been seeing for years. The rest were relatively young and healthy.

“I set a contribution limit (from the company) based on the cost of the most expensive policy and let the staff choose the policy they wanted,” Askew said. Out of 47 choices on the exchange, she said 10 of her employees chose a plan that was cheaper than the \$300 per month per person limit she set. Overall, she will pay a total of about \$400 per month less than she did last year.

Before Colorado opened its exchange, Askew, like most small employers, could qualify only for one insurance policy for all of her employees. That's because commercial carriers set a threshold number of employees that must sign up to get a plan. As a result, companies with fewer than 50 employees usually qualify for only one plan.

In June, the Obama administration allowed 18 mostly Republican-led states using the federal exchange to temporarily opt out of employee choice, because they argued it could cause overall insurance rates to rise. Alabama, Alaska, Arizona, Delaware, Illinois, Kansas, Louisiana, Maine, Michigan, Montana, New Hampshire, New Jersey, North Carolina, Oklahoma, Pennsylvania, South Carolina, South Dakota and West Virginia will not offer the feature until 2016 at the earliest.

A small business advocacy group, the liberal-leaning Small Business Majority, criticized the administration for putting off employee choice, which they say is critical to the exchanges' success. Without it, state and federal small business exchanges may not offer businesses any distinguishing advantages over self-insuring or purchasing a policy outside of the exchange, said David Chase, the group's health policy analyst.

With employee choice, he explained, carriers are selling directly to employees, giving small insurance companies a chance to compete with established carriers. That alone, Chase said, could contribute to eventually dragging down prices on the exchange.

The National Federation of Independent Business (NFIB), one of the groups that sued the administration over the federal health law's so-called individual mandate requiring nearly everyone to purchase health insurance or pay a tax fine, currently advises its member companies to consider canceling their group health policies and instead help employees apply for insurance subsidies on the individual exchange. According to the NFIB, the total cost to business owners who are now offering workers' coverage may be lower if they simply give employees a salary boost to purchase insurance on their own.

If a company's average wages are low enough to qualify for the small business tax credit, chances are its workers would have incomes low enough to qualify for substantial subsidies on the individual exchange. If workers have an employee offer of affordable insurance, however, they lose their eligibility for premium tax credits.

When it comes to health insurance, the biggest issue for small businesses is cost, according to a recent survey published in the journal *Health Affairs*. More than 92 percent of small firms that don't offer employee coverage said that costs would need to be lower than they are today for them to do so. The catch for SHOP exchanges is that until a large number of businesses start purchasing policies on them, they likely will not create enough new competition to push down prices. Other features and extensive marketing will have to drive businesses there in the meantime.

In general, insurance agents and brokers, who have an equal financial incentive to help businesses purchase policies on the exchange as from the outside market, say exchanges have required nearly twice as much of their time. Colorado exchange officials admitted they were surprised that Askew had successfully navigated the exchange without the help of a broker.

“Granted I'm a lawyer,” Askew said. “But it seemed to me to be a much easier way to manage it all.”

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