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"Small Business Health Care – Costs and Options"

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Chairman Enzi and Ranking Member Sanders, thank you for the opportunity to discuss the challenges and opportunities for small businesses that want to provide health benefits to their workers.

What factors are driving health care costs for small businesses?

Longstanding system-wide trends in health care costs and utilization affect all health care payers, including small employers that offer health insurance to their workers. For example, the entry of high-cost specialty drugs into the market can raise premiums for small businesses and the workers they cover. Other trends, however, can slow growth in health care costs and premiums, including adoption of new payment models that encourage the use of high-value services and efforts to increase competition among insurers based on price and quality of care.

As has been widely documented, overall health care cost growth has slowed considerably in recent years, with health reform likely a key contributor. Premium increases for employers have been similarly modest in most states since the Affordable Care Act's (ACA) enactment; average job-based premiums rose only 4 percent between 2014 and 2015. And premiums between 2010 and 2015 rose 27 percent, which was significantly lower than the 69 percent increase from 2000 to 2005.[1] There has been, however, a long-term trend toward workers paying a growing share of premiums and cost-sharing charges under employer-sponsored plans. For example, annual deductibles continue to rise, and more workers are enrolled in plans that include deductibles.

[1] Kaiser Family Foundation and Health Research & Educational Trust, "*Employer Health Benefits 2015 Annual Survey*," September 2015.

Contrary to predictions, the ACA hasn't caused employers to drop coverage for their workers. From 2014 to 2015, the percentage of employees who reported that their employers offer health coverage increased slightly, as did the share who reported being eligible for the coverage offered, according to a new analysis of Census data. Overall coverage rates remained stable for people working at both small and large employers during that period.[2]

Smaller employers remain less likely than larger ones to offer coverage, however. In fact, the smaller the firm, the less likely it offers coverage. For example, in 2015, 37 percent of firms with three to nine workers reported offering coverage, as compared to 63 percent of firms with 10 to 24 workers, 82 percent of firms with 25 to 49 workers, and 92 percent of firms with 50 to 199 workers. Firms that do not offer health benefits cite cost as the main reason.[3]

The ACA's coverage expansions have undoubtedly helped small business employees by ensuring that more people have access to coverage through Medicaid and the marketplaces. Many small business employees and their family members who may have been uninsured in the past can receive needed medical care and maintain their health. Notably, many self-employed people have also newly obtained insurance as a result of the ACA. Self-employed people often could not get coverage before the ACA, when insurers in most states' individual markets could deny coverage or charge far higher rates based on pre-existing health conditions. For example, more than one-fifth of the enrollees in California's individual-market exchange (known as Covered California) were self-employed as of June 2016.[4]

What federal insurance market policies have affected premiums for small businesses?

Federal policies under the ACA have produced a much better functioning small-group market than existed prior to health reform. Some of these policies have enabled small employers to improve the coverage they offer, while others have lowered premiums, particularly for firms with older workforces in poorer health.

Insurers offering coverage in the small-group market must now cover a package of "essential health benefits," which includes critical benefits like maternity services and treatment for mental health and substance abuse disorders; before health reform, these benefits were often omitted from small-group plans, even if small employers wanted to offer them. The ACA also bans annual and lifetime dollar limits on the benefits that insurers pay out and requires plans to limit enrollees' out-of-pocket costs each year for deductibles, copayments, and other cost-sharing charges. While these reforms made small-group coverage more comprehensive and hence pushed up premiums somewhat, they also enabled small firms to offer coverage more similar to the offerings from large employers, a choice that many small firms did not have before the ACA.

Other federal policy changes affect how insurers set premiums for the small-group market, including a prohibition on charging higher premiums based on employees' health status, gender,

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[2] Joelle Abramowitz and Brett O'Hara, "New Estimates of Offer and Take-up of Employer-Sponsored Insurance," June 2016, forthcoming publication in *Medical Care Research & Review*.

[3] Kaiser Family Foundation and Health Research Educational Trust, *op cit*.

[4] Covered California data is available upon request.

industry type, or the overall claims history of a small business, as well as a limit on how much more insurers can charge older employees than younger ones. While some small businesses have seen premium increases due to these changes (for example, those whose workers are mostly younger, healthier, or male), other firms have seen premium decreases (for example, those whose workers are mostly older, sicker, or female). As a result, all small employers covered by ACA-compliant policies, including those with younger and healthier workers, can rest easier now that a sudden illness among their workers or their workers' families will not result in a sudden spike in the firm's premiums the following year, which was a substantial risk for small businesses prior to 2014.

The ACA also requires each insurer in the small-group market to pool their enrollees in that market when determining what they will charge for coverage. Advocates for small businesses have long wanted the ability to pool small firms together to get more affordable and stable premiums, similar to large employers, rather than having each small firm looked at independently when setting premiums. Broader pooling, too, has allowed some firms to see their rates decrease or to stay the same. Other firms (such as those with healthier and younger workers) may have seen higher premiums as a result, but in the long run, premiums in the small-group market will likely be more stable over time due to this single risk pool requirement than they would otherwise have been.

The ACA also required insurers in the individual and small-group markets to spend 80 percent of the premiums they charge on patient care and quality improvement efforts. Prior to health reform, only about 70 percent of insurers in the small-group market met this "medical loss ratio" (MLR) standard, which means that more than 20 percent of small business premiums were going to overhead and profit rather than medical care. The MLR requirement helps ensure that small businesses get good value for their premium contributions. In addition, ACA-mandated improvements in information transparency for small businesses make it far easier for business owners to compare plan and coverage options. For example, a standard form called a Summary of Benefits and Coverage (SBC) allows apples-to-apples comparison of virtually any plan's benefits and cost-sharing charges. The ACA's standards for plan benefits and cost-sharing charges, including the "metal levels" that small-group plans must meet, also help consumers compare coverage options, promoting competition based on price and quality among insurers — which can help reduce premiums.

While health reform established some minimum federal standards for state small-group markets, states remain primarily responsible for their markets. States have a number of tools to improve affordability for small businesses (as well as individuals) and create more affordable, competitive, and stable markets. For example, states that have the authority to review and either approve or disapprove health insurers' proposed rates have helped reduce premium increases compared to what insurers wanted to charge. Some states operate Small Business Health Options Program (or SHOP) marketplaces, which offer a choice of plans and carriers to small business employees and allow some small employers to receive federal tax credits for offering coverage.

A few states have taken additional steps to ensure that their risk pools are well-balanced and as competitive as possible. For example, Vermont and Massachusetts each merged their individual and small-group markets. And Vermont includes small businesses with up to 100 employees in its merged market, rather than up to 50 employees as in most states.

Many states also decided not to extend the availability of non-ACA-compliant plans for small businesses. In states that allowed such plans to continue (under an Administration policy), some degree of adverse selection likely occurred that weakened the stability of the small-group market. Firms with healthier workers are likely disproportionately enrolled in those plans. States that did not continue to make those plans available likely helped create more balanced risk pools more quickly in their small-group markets, with more stable premiums.

What factors must small businesses consider when assisting employees in purchasing health insurance?

Small employers have a number of options for assisting workers with purchasing insurance. The first question is whether to offer health benefits at all, if the employer is small enough to be exempt from the "shared responsibility" penalty. Clearly, many small employers view health benefits as critical to attracting and retaining high-quality workers and will continue offering them even if not required to. Other small firms may decide not to offer health coverage, recognizing that the reformed individual market is far more accessible due to the ACA. Workers and their family members with pre-existing health conditions now have guaranteed access to an individual-market plan that covers a comprehensive set of benefits and protects against very high out-of-pocket costs. Many small business employees may also qualify for federal premium tax credits and cost-sharing subsidies for coverage purchased through an individual-market exchange or marketplace if they are not offered employer-sponsored coverage or the coverage is not affordable or comprehensive.

Another option for small employers is to offer small-group health coverage to their workers, possibly by working with an insurer or a broker, much as they did before the ACA. Some may use private exchanges to access small-group coverage.

One additional option created by the ACA within the small-group market is SHOP, as noted above. SHOP gives small businesses an easier way to comparison shop for insurance options, receive tax credits, and offer multiple plan options to their workers. The SHOP exchanges got off to a slower start than the individual marketplaces and have suffered from some technical and operational problems, so enrollment remains low. However, it appears the technical issues have largely been resolved. In 2016, employee choice — which allows employers to select a metal tier and employees to choose any SHOP plan in that tier — became available in all states served by the federally run SHOP. This was an important advance; previously, small firms typically could offer only one insurance plan from one carrier. In addition to reducing the effort involved with offering coverage, the SHOP enables small businesses that want to contribute to the cost of a small-group plan on a tax-advantaged basis to do so.

Yet another option in many states — and one that raises significant concerns for the stability of premiums in the small-group market — is the possibility that small businesses will increasingly decide to self-insure, meaning they would bear the risk of employees' medical claims. Some small employers might find this attractive, at least at first, because it would allow them to offer coverage that doesn't meet many of the ACA's requirements for the small-group market. Insurers offering to help small employers self-insure also provide a reinsurance or stop-loss policy to cover unexpectedly large claims. However, self-insurance would most likely attract employers with workers that tend to be healthier and cost less to cover. If a large share of small employers with lower cost employees opt to self-insure, this would disrupt the newly balanced risk pools in states' small-group markets and make premiums less affordable and stable over time.

Finally, the House recently passed a bill allowing firms with fewer than 50 workers to use a health reimbursement arrangement (HRA) to contribute to the cost of workers' premiums on the individual market. Currently such "standalone" HRAs are not permitted because they cannot meet ACA standards for group health plans offered by employers, such as the requirement to cover certain preventive services at no cost and the prohibition against annual benefit limits. Similar to self-insurance by small groups, standalone HRAs for small employers (which have been banned for all employers since 2014) could have a negative impact on states' small-group markets. It is unclear how many small businesses that now offer coverage might shift their workers to the individual market using an HRA and how that might affect workers and the risk pool in a given state. However, large numbers of small firms could decide to make this jump. If they tend to be firms with healthier workers, this could leave the small businesses remaining in the small-group market with higher premiums and possibly fewer coverage options.

Supporters of the HRA proposal claim that it would free up more low-income workers to get subsidized coverage through the marketplace, rather than requiring them to take an employer offer of coverage that might not be as affordable or comprehensive. But it isn't clear how employers would structure their offers in response to the HRA proposal. Employers have significant flexibility to define the terms of the HRA they offer, and many low-wage workers might not be better off. Such an option, if made available to small employers, seems ill-advised because of its risks for the small-group market.