

# Health Insurance Exchanges Overview: the Employer Perspective

Health Insurance Exchange Summit West

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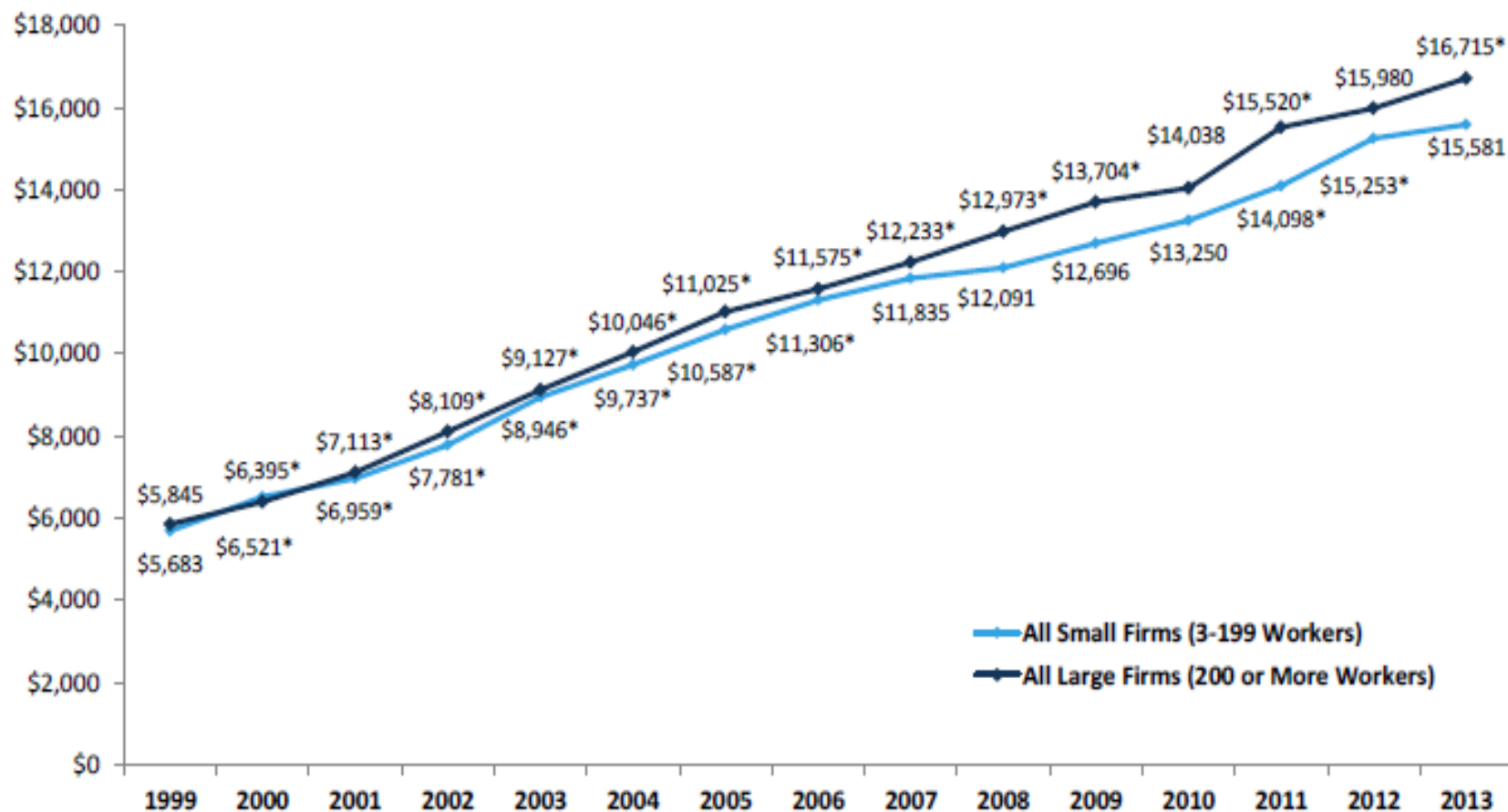
# Why Do We Need Exchanges for Employers?

*The marketplace for small employers does not work well.*

- **High premiums** due to higher costs of marketing, administration and underwriting.
- Annual premiums (family coverage) for small employers (3-199) have **increased** from
  - \$6,521 in 2000 to
  - **\$15,581** in 2013

Source: Kaiser/HRET Survey of Employer Sponsored Health Benefits, 1999-2013

# Average Annual Premiums for Covered Workers with Family Coverage, by Firm Size, 1999-2013



\* Estimate is statistically different from estimate for the previous year shown ( $p < .05$ ).

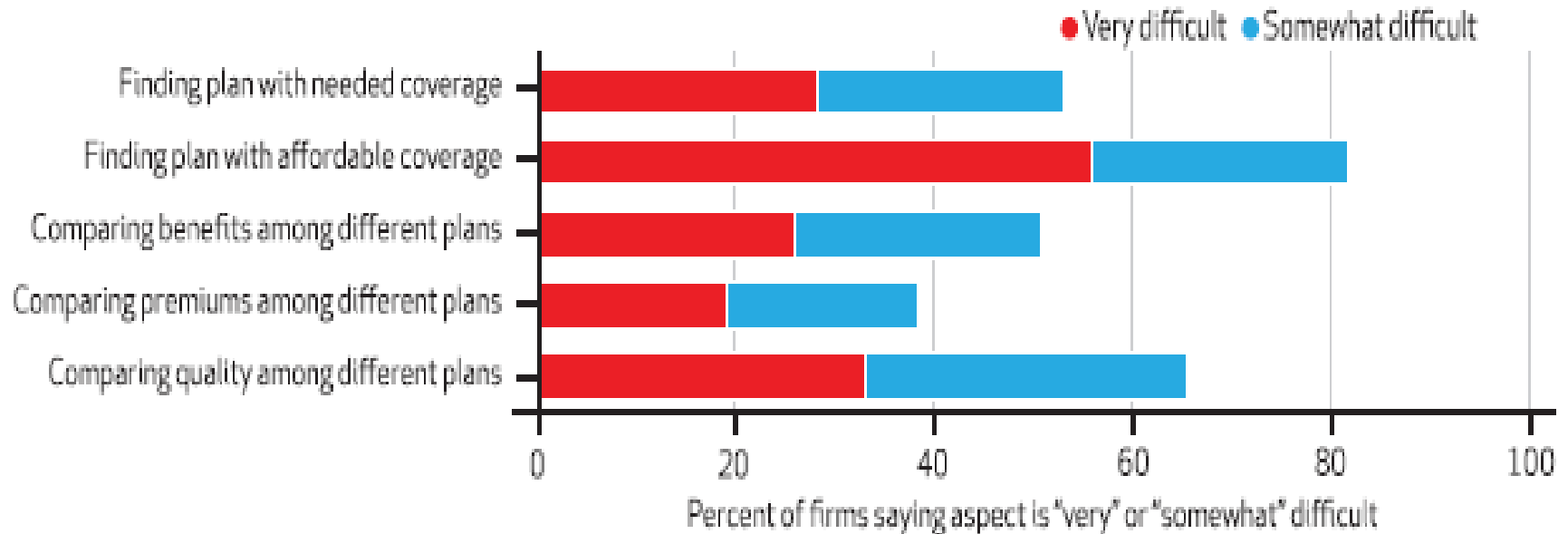
SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2013.

# Why Do We Need Exchanges for Small Employers? (cont.)

- **Volatility:** large year-to-year price changes for individual employers
- **Limited choice** offered to employees
- **Lack of market power**
- Competition based **risk selection** rather than cost and quality

### EXHIBIT 3

## Difficulty Of Various Aspects Of Shopping For Benefits, Among Small Firms That Offer Benefits Or Bought Or Shopped For Benefits In The Past Five Years, 2013



**SOURCE** Commonwealth Fund/NORC 2013 Survey of Small Employers.

Source: Jon R. Gabel, Heidi Whitmore, Jeremy Pickreign, Jennifer L. Satorius and Sam Stromberg, Small Employer Perspectives On The Affordable Care Act's Premiums, SHOP Exchanges, And Self-Insurance. *Health Affairs*, , no. (2013).

<http://content.healthaffairs.org/content/early/2013/10/15/hlthaff.2013.0861.full.html>

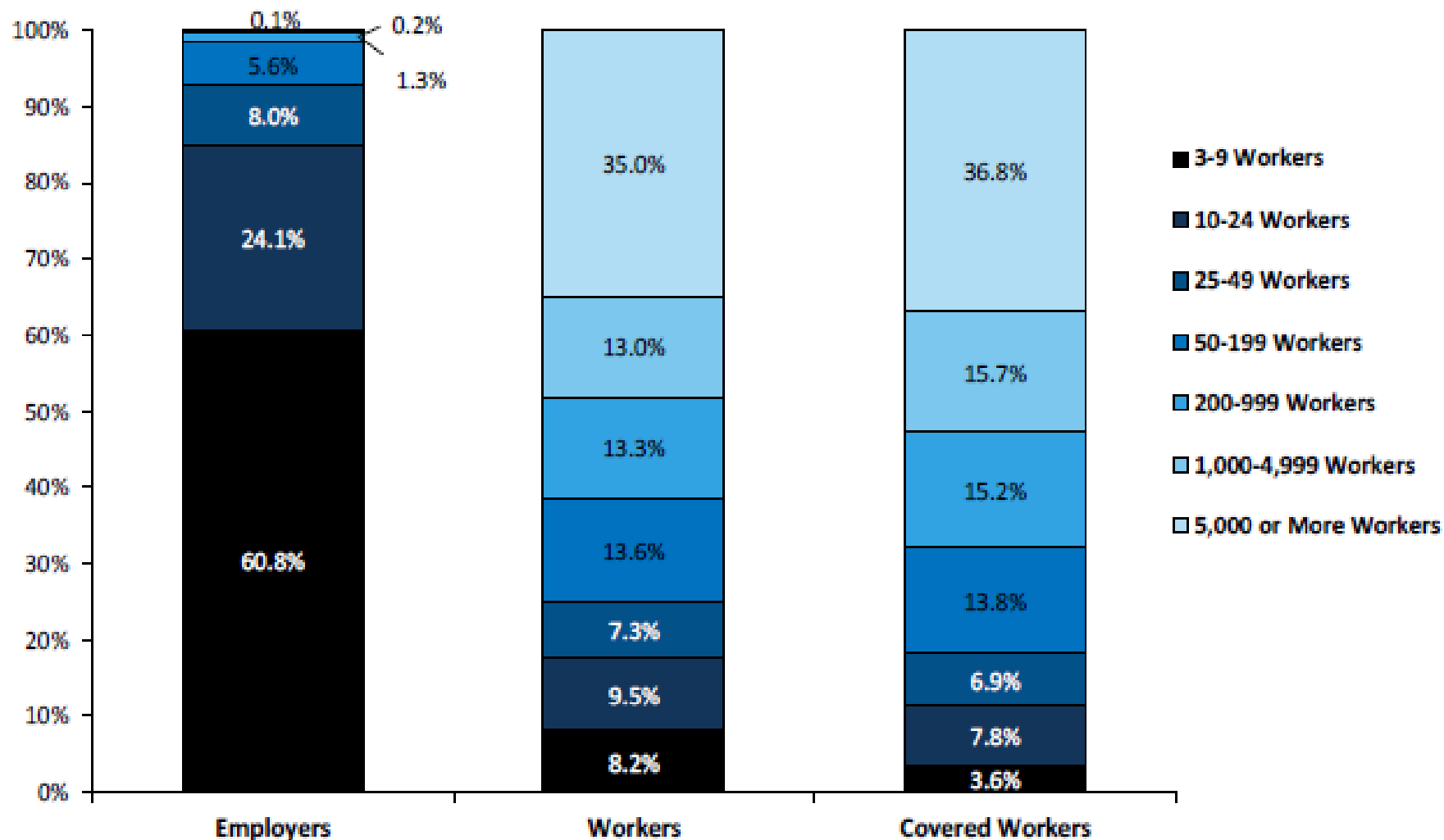
# Characteristics of the Small Employer Market (3-49 employees)

- 2.9 million firms (93% of all employers)
- Employ 29.5 million Americans (25.4% of all workers in the U.S.)
- Provide health benefits to 18% of all covered employees in the U.S.

## Sources:

- Jon R. Gabel, Heidi Whitmore, Jeremy Pickreign, Jennifer L. Satorius and Sam Stromberg, Small Employer Perspectives On The Affordable Care Act's Premiums, SHOP Exchanges, And Self-Insurance. *Health Affairs*, , no. (2013).  
<http://content.healthaffairs.org/content/early/2013/10/15/hlthaff.2013.0861.full.html>
- Kaiser/HRET Survey of Employer Sponsored Health Benefits, 1999-2013

# Distribution of Employers, Workers, and Workers Covered by Health Benefits, by Firm Size, 2013



NOTES: Data are based on a special data request to the U.S. Census Bureau for their most recent (2010) Statistics of U.S. Businesses data on private sector firms. State and local government data are from the Census Bureau's 2007 Census of Governments.

SOURCES: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2013.

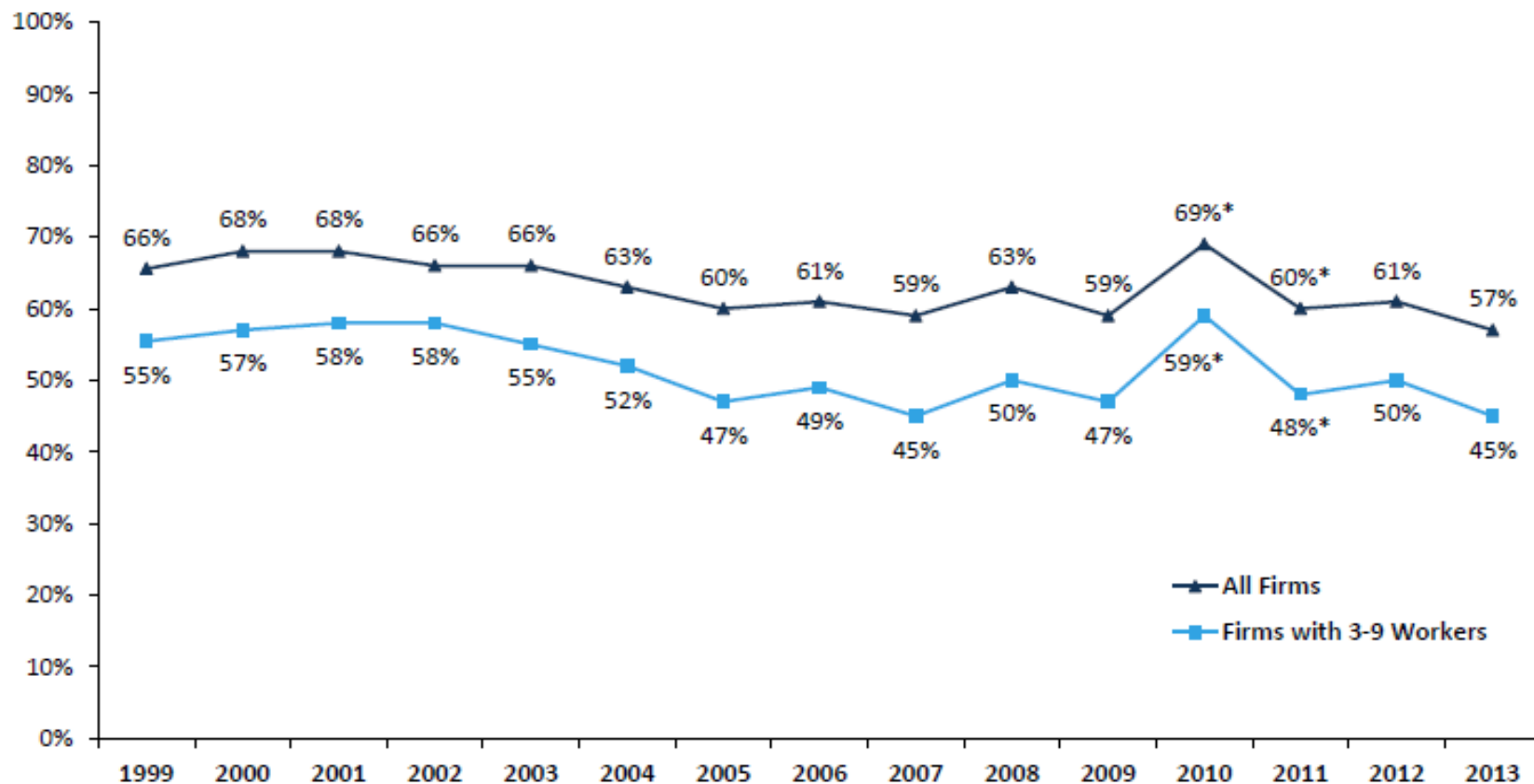
# Trends in the Small Employer Market

- % of very small employers (3-9 employees) offering coverage has dropped from 57% in 2000 to **45% in 2013**.
- Offer rates in 2013:
  - 10-24: **68%**
  - 25-49: **85%**
  - 200+: **99%**
- Dominant reasons for not offering: “**Cost of insurance is too high**” (50%)

Source: Kaiser/HRET Survey of Employer Sponsored Health Benefits, 1999-2013



## Percentage of All Firms Offering Health Benefits, 1999-2013



\*Estimate is statistically different from estimate for the previous year shown ( $p < .05$ ).

NOTE: Estimates presented in this exhibit are based on the sample of both firms that completed the entire survey and those that answered just one question about whether they offer health benefits. The percentage of firms offering health benefits is largely driven by small firms. The large increase in 2010 was primarily driven by a 12 percentage point increase in offering among firms with 3 to 9 workers. In 2011, 48% of firms with 3 to 9 employees offer health benefits, a level more consistent with levels from recent years other than 2010. The overall 2011 offer rate is consistent with the long term trend, indicating that the high 2010 offer rate may be an aberration.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2013.

# ACA Elements relevant to Small Employers

## Elements Targeted at or Significantly Affecting the Small Employer Market

- **SHOP Exchanges** established for small employers effective 1/1/2014. States may:
  - Restrict use of SHOP Exchanges to groups with <50 employees in first two years, then must open them to groups with <100 employees.
  - Open up SHOP Exchanges to larger groups (100+ employees) beginning in 2017.

Note: Use of the SHOP Exchanges by employers is not required.

- **Tax credits** for small employers with low-income employees in the exchange
- Premiums based on “**community rating**” – can vary only by enrollees’ age (max. 3:1 ratio), geography, family size, tobacco use, but not health status
- **Essential benefits** defined – raises the floor for many small group plans
- **Medical loss ratio** – min. 80% of premium must be paid out in claims or rebated

Note: employer requirement to offer affordable health benefits or incur a penalty does not apply to employers with <50 full-time employees.

Source: Kaiser Family Foundation. Summary of the Affordable Care Act.  
<http://kaiserfamilyfoundation.files.wordpress.com/2011/04/8061-021.pdf>

# Other ACA Elements affecting Small Employers

- Individuals required to have health insurance
- Guaranteed issue and renewability
- No exclusions for pre-existing conditions; no rescissions on coverage
- No annual or lifetime limits on coverage
- Coverage for dependents up to age 26
- Limits on deductibles

Source: Kaiser Family Foundation. Summary of the Affordable Care Act.

<http://kaiserfamilyfoundation.files.wordpress.com/2011/04/8061-021.pdf>

# SHOP Exchanges

- SHOP Exchanges open for enrollment now (or soon) – effective 1/1/2014
  - Seventeen states + DC operating their own SHOP exchanges
  - 33 administered by federal government
- Basic design:
  - Marketplace of multiple “qualified health plans” available to small employers and their employees
  - Employer selects level of coverage from among four options (bronze, silver, gold, platinum) and makes a fixed contribution to the premium
  - SHOP Exchanges also provide:
    - Information to help people choose among QHPs
    - Enrollment processing
    - Billing aggregation for employers

Source: Jon R. Gabel, Heidi Whitmore, Jeremy Pickreign, Jennifer L. Satorius and Sam Stromberg, Small Employer Perspectives On The Affordable Care Act's Premiums, SHOP Exchanges, And Self-Insurance. *Health Affairs*, , no. (2013).

<http://content.healthaffairs.org/content/early/2013/10/15/hlthaff.2013.0861.full.html>

# SHOP Exchanges

Two basic models:

- “**Employer model**”: employer chooses one health plan for all employees –used by federally-run exchanges in year 1
- “**Employee model**”: employee has a choice of health plans, and usually incurs higher cost if s/he chooses a plan with higher premiums – used by most of the state-run exchanges

Source: Jon R. Gabel, Heidi Whitmore, Jeremy Pickreign, Jennifer L. Satorius and Sam Stromberg, Small Employer Perspectives On The Affordable Care Act's Premiums, SHOP Exchanges, And Self-Insurance. *Health Affairs*, , no. (2013).

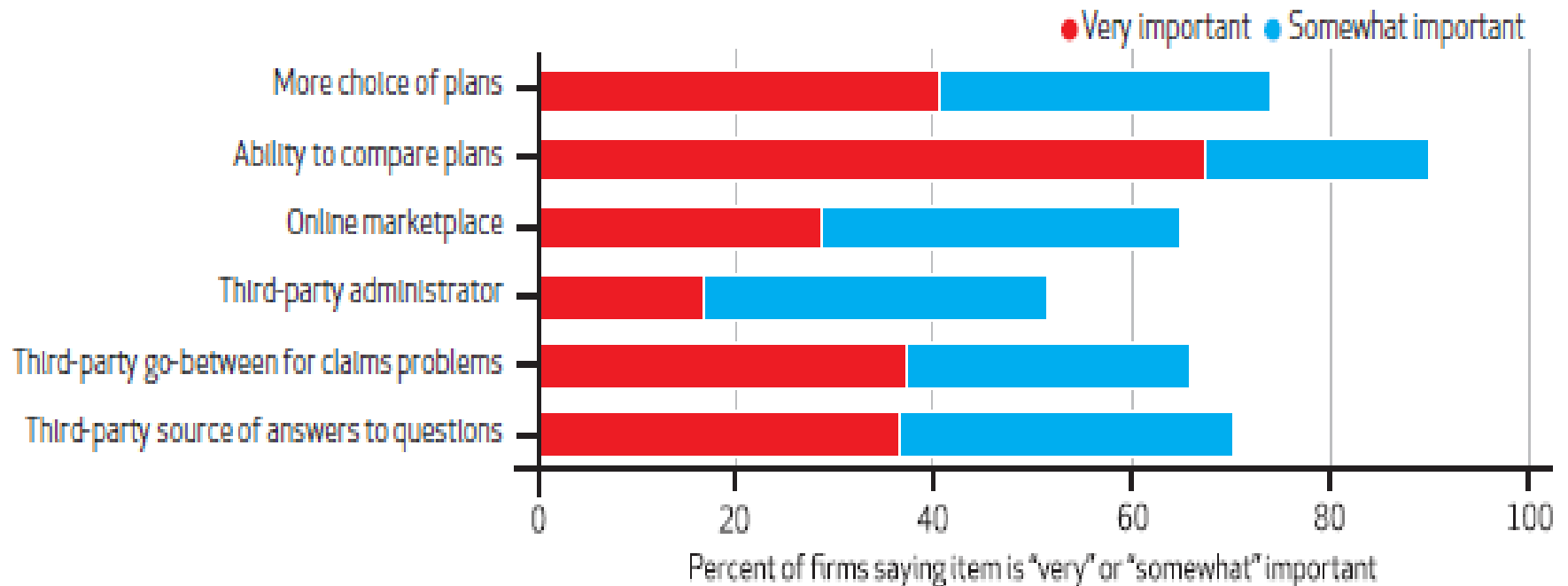
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# SHOP Exchanges: What's Important to Small Employers

1. *Affordability!*
2. What else?
  - a) Ability to compare health plans
  - b) Choice of plans
  - c) Help

## EXHIBIT 4

### Small Offering Firms' Views On The Importance Of Various Items For Improving Health Benefits, 2013



**SOURCE** Commonwealth Fund/NORC 2013 Survey of Small Employers.

Source: Jon R. Gabel, Heidi Whitmore, Jeremy Pickreign, Jennifer L. Satorius and Sam Stromberg, Small Employer Perspectives On The Affordable Care Act's Premiums, SHOP Exchanges, And Self-Insurance. *Health Affairs*, , no. (2013).

<http://content.healthaffairs.org/content/early/2013/10/15/hlthaff.2013.0861.full.html>

# SHOP Exchanges: Issues

*Attracting enough employers to maintain a balanced and stable risk pool.*

- Providing affordable coverage, choice of plans and easy use
  - Use of “active purchaser” vs. “passive clearinghouse” model
- Ensuring a “level playing field” inside and outside the exchange
- Working effectively with brokers
- Dealing with increased use of “self-insurance” – avoid certain ACA requirements, e.g., essential benefits

Sources:

• Kaiser Family Foundation Summary of New Health Reform Law; “Health Policy Brief: Small Business Insurance Exchanges,” *Health Affairs*, February 9, 2012.

• Jon R. Gabel, Heidi Whitmore, Jeremy Pickreign, Jennifer L. Satorius and Sam Stromberg, Small Employer Perspectives On The Affordable Care Act's Premiums, SHOP Exchanges, And Self-Insurance. *Health Affairs*, , no. (2013).

<http://content.healthaffairs.org/content/early/2013/10/15/hlthaff.2013.0861.full.html>



# Large Employers:

## Why Would They Care about Exchanges?

- Purchasing Ally
  - Opportunity to align the purchasing strategies of Exchanges with those of large employers → consistent signal to health plans and providers
- Potential Use by Large Employers?
  - 2014-16: some are considering use of exchanges for pre-Medicare retirees and part-time workers
  - 2017: some may use for all employees, but . . .
  - Many are also looking at “private exchanges”

# The Employer Perspective: How Should Exchanges be Designed?

1. Make sure they work
2. Be effective purchasers
  - Lessons from large employers: Use effective **purchasing tools**, e.g., eValue8, to “raise the bar” for health plans offered.
  - Encourage “**healthy competition**” to drive improved value.

# Key Elements of Exchange Design

- Select the **high value health** plans to offer to consumers
- Require plans to report **quality measurement** data to assess their performance and that of their provider network
- Create tools that **engage consumers** in choosing the most cost-effective and high-quality plans, providers, and treatments
- Assess changes in health outcomes that may be correlated with **new models of care delivery and payment**
- Encourage health plans to **reward providers based on quality and outcomes**, including payment differentiation, public transparency of performance and corresponding benefit designs

# Opportunities to be a “Game Changer”

1. Exchanges should set **high standards** to ensure their exchanges serve consumers and employers and drive quality and value
2. Healthy competition among health plans → Healthy competition among **providers**

## Potential approaches:

- Integrated and accountable care systems
- QHPs with non-overlapping care delivery systems
- Financial incentives for consumers and providers

## What’s Needed:

- Scale
- Active purchasing; alignment with private sector
- Openness to innovation
- Long-term perspective -- roadmap

# What about Private Exchanges?

Similar in concept to public exchanges:

- Marketplace of private health plans
- Choice of plans: different benefit levels and prices

But different:

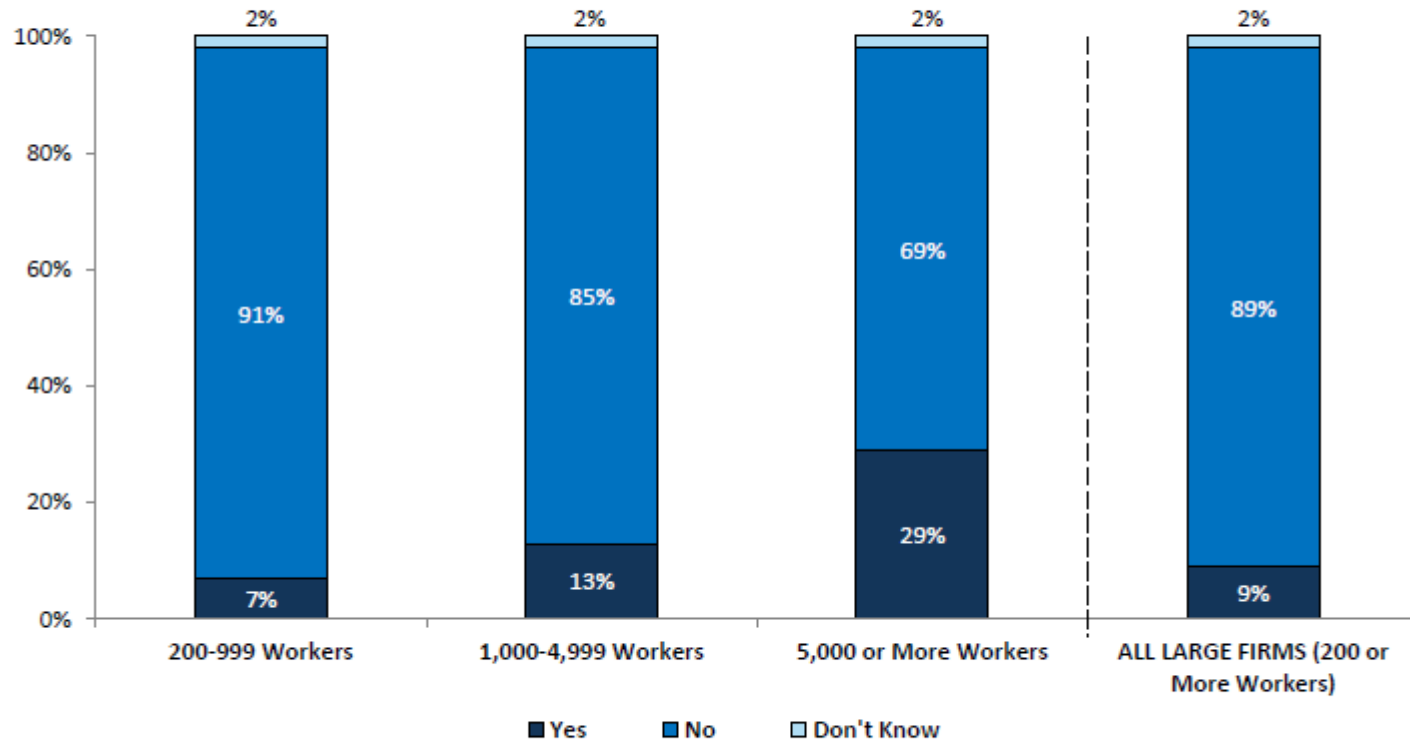
- Not publicly administered
- Participants not eligible for individual subsidies or small employer tax credits

May provide opportunity for employers who want to

- Shift to a “defined contribution” model
- Outsource the administration of health benefits

Wide range of models – early stage of development

## Among Large Firms (200 or More Employees) Offering Health Benefits, the Percentage of Firms Considering Offering Benefits Through a Private Exchange, by Firm Size, 2013



NOTE: A private exchange is created by a private company or consulting company where the employer offers a defined contribution for their employees and the employees choose among different health plan options from different health insurers selected by the exchange. The employees pay the difference between the defined contribution and the cost of the health insurance option that they choose.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2013.

# Additional Resources

**Department of Health & Human Services**

<https://www.healthcare.gov/small-businesses/>

**National Academy for State Health Policy**

<http://www.nashp.org/publication/health-insurance-exchange-basics>

**National Conference of State Legislatures**

<http://www.ncsl.org/research/health/state-actions-to-implement-the-health-benefit.aspx>

**Small Business Majority**

<http://healthcoverageguide.org/>

**Health Affairs. The Future of Small Business Insurance Exchanges. February 2012:  
Vol. 31, Issue 2.**

<http://content.healthaffairs.org/content/31/2.toc>