

## Small Business and Exchanges: SHOP Till You Drop

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Assuming the 2010 health care law survives through 2014, one of the big questions is the future of small-group insurance plans – those in which the employer chooses and administers a plan or plans for employees. The health insurance exchanges built into the Patient Protection and Affordable Care Act (PPACA) create mechanisms for small-group survival, but also powerful incentives for their dissolution. Following are some thoughts on the question.

**Small business and exchanges:** There is substantial support among small businesses for the idea of exchanges. My employer, the National Federation of Independent Business (NFIB), strongly opposed the Patient Protection and Affordable Care Act (PPACA), and is carrying that opposition to the Supreme Court in [NFIB v Sebelius](#). However, thanks to dissatisfaction with the current small-group market, NFIB and its membership have cautiously encouraged health insurance exchanges, regardless of whether the law survives through 2014.

**Centripetal vs. centrifugal exchanges:** PPACA creates two kinds of exchanges, both due to open in 2014. Small employers can purchase group policies in Small Business Health Options Program (SHOP) exchanges. Some, but not all, employees can buy individual policies in the American Health Benefits (AHB) exchanges; these are open only to individuals whose employers do not offer coverage or to individuals whose employer-sponsored coverage is deemed inadequate or unaffordable.

SHOP exchanges ostensibly exert a centripetal force to group by making it cheaper and easier for employers to buy and administer group plans. AHB exchanges apply centrifugal force, giving businesses two powerful motives to break up their groups and send employees into the AHB exchanges. First, going the AHB route liberates a small business from the time and expense of choosing and managing a plan. Second, premium subsidies covering part or all of an employee's insurance premium are available in the AHB exchanges, but not in SHOP exchanges.

**Employer-sponsored insurance (ESI) has never worked well for small business:** Employer-sponsored insurance was designed to circumvent World War II wage-price controls. Tax laws reinforced the employer/insurance nexus; in the group market, employees can pay premiums with pre-tax dollars; in the individual market, this tax break vanishes.

Operationally, though, small employers were never well-suited for ESI. Unlike a large employer, a small business brings too few lives to the table to muscle insurers into granting price breaks. The typical small business has no human resources department to maintain expertise in insurance matters and manage the paper flows. In a small business, that burden falls to the owner, who generally has no special knowledge of insurance. Choosing and administering a plan carries a substantial administrative burden that distracts the owner from the core business.

Thus, small-group premiums are high and choices are few for employers and employees. Many small businesses maintain company plans so employees can take advantage of the tax breaks. But very likely, most small businesses would be delighted to wash their hands of the process.

**To succeed, exchanges have to provide value to small businesses:** For small businesses to choose SHOP over the drop-and-dump-into-AHB option, the SHOP exchanges will have to demonstrate greater value to businesses. If the answer to “Why should businesses choose SHOP over AHB?” is “because group policies have been the mainstay of private insurance since the 1940s,” then prepare for wide-scale abandonment of group plans in 2014.

Adding value means dealing with the fact that for decades, health insurance costs have been the single biggest problem for small businesses. SHOP exchanges are supposed to give small groups some of the virtues of large-group plans. Exchanges are supposed to simplify the act of buying group insurance by creating a centralized market where plans compete transparently. Often compared to sites like Travelocity.com, the exchange is supposed to include a user-friendly computer portal that allows purchasers to easily compare the prices and qualities of different insurance plans, thus exerting downward pressure on prices.

Purchasing a group policy, however, is only one part of the problem. The plan still must be administered. Here, too, SHOP is supposed to simplify life by acting as a virtual human resources department, managing the plan’s paper flows, alerting the business employees to deadlines, changes, etc.

But these features will not be enough. To succeed, SHOP exchanges can’t just be better than current small-group markets. They have to be better than the alternative of dropping group coverage and sending employees into the AHB exchange. And, it’s worth remembering that in many or most states, employers and employees will be able to sidestep both SHOP and AHB exchanges by buying insurance directly from brokers, as they do today.

On what criteria will they judge the exchanges? On whether they offer enough insurance carrier competition to drive down costs without compromising quality of care. On whether business owners spend less, rather than more, time dealing with insurance matters. On whether employers and employees are happy with the choices among plans.

**Exchanges can fail:** On the negative side, a number of features may drive businesses away from SHOP exchanges and/or employees away from AHB exchanges. If costs continue to rise rapidly. If the exchange is perceived as a heavy-handed regulator. If the computer portals are poorly designed and opaque to users. If the administrative functions of the exchange seem mired in red-tape. If phone calls and emails go unanswered. Ominously, the Internal Revenue Service, the National Governors Association, and others are already warning that parts of PPACA may be a logistical mire (see my [PPACA: Five Layers of Uncertainty](#), 9/28/11).

**Small business does not exist to close the federal budget deficit:** PPACA supporters fear that small businesses will tilt heavily away from SHOP and drop employees into the AHB exchanges. If this happens, the federal budget deficit will swell as millions of individuals claim federal subsidies, further strengthening the argument that PPACA is costly and fiscally irresponsible.

However, small business isn’t obliged to stanch PPACA’s fiscal strain on the U.S Treasury. Congress designed the AHB subsidy scheme and aligned the incentive structure to small businesses. This may well be one of many ways in which Congress underestimated the law’s costs. But that is a problem for Congress, not small business, to fix.

**Defined-contribution insurance could alter the equation:** As of now, two states, Massachusetts and Utah, have fully functioning exchanges up and running. Utah's is arguably more market-oriented and has included a feature that could go a long way toward keeping group coverage attractive. It does so by blending elements of the SHOP exchange and the AHB exchange into a "defined-contribution" option. Rather than choosing one or two plans and offering employees a take-it-or-leave-it choice, defined-contribution allows the employer to contribute a set amount that employees can use to purchase the policies of their choice within the SHOP exchange. There are still no subsidies. During the final days of the debate over PPACA, NFIB supported a defined-contribution plan offered by Sens. Ron Wyden (D-OR), Susan Collins (R-ME), and Evan Bayh (D-IN); the measure did not make it into the final bill. There are moves afoot in the current Congress to resurrect the idea.

## **Conclusion**

Those designing and managing exchanges would do well to ask themselves the following question: "What will our state's exchange accomplish for small business that is not currently possible?" They would do well to resist the urge to corral small businesses into a particular scheme to serve some end such as minimizing the AHB subsidies. Like most other things, exchanges are best sold with carrots, not sticks.

The SHOP exchange option has considerable merit, but "option" should be the key word. It is fine if SHOP exchanges expedite group policies, but SHOP exchanges will have to earn the fealty of small businesses and of those employees who have the option to go into the AHB exchanges. Frankly, the subsidies in the AHB exchanges, which can be many thousands of dollars per employee, will make that difficult. That is a problem for Congress, not small business, to contemplate.