

SHOP Chopped: Opt Dropped

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Three years into [Obamacare](#), the federal government has quietly announced another major operational failure in its implementation. The SHOP exchanges will be barely functional through at least 2014. These were supposed to be bustling new shopping centers where small businesses and their employees could purchase health insurance loaded with options. Instead, SHOP exchanges in 2014 will be more like half-boarded-up strip malls.

The federal government's website [describes SHOP](#) as follows:

“Beginning in 2014, Exchanges will also operate a Small Business Health Options Program – or SHOP – that offers small businesses and their employees new choices. Through the SHOP, employers can offer employees a variety of Qualified Health Plans (QHPs), and their employees can choose the plans that fit their needs and their budget.”

Virtually none of this will be true in 2014. SHOP was supposed to be a Travelocity-like website where a small business could effortlessly compare insurance policies, narrow down choices, choose several plans and allow each employee to pick the one best suited to his or her wishes. If the business had questions, a helpful exchange employee would be ready to answer. Once the business downloaded its payroll information into the system, the exchange would act as a virtual HR department – managing the flow of paperwork, prompting employees to send in their checks, handling employee claims, etc. The exchange would aggregate all the employees' premiums over all the different plans.

Now for the reality: Assuming the SHOP exchanges actually open in 2014, employers will not be able to choose multiple plans and offer employees a choice. It's one plan only – take it or leave it. No multiple plans. No premium aggregation. Furthermore, policies purchased in the exchange will carry a sizable surcharge and will impose high minimum participation rates.

Beginning in 2014, SHOP exchanges will be the only place that small businesses can claim the [much-heralded](#), but [low-performing](#) small business health insurance tax credits. For the relatively small number of businesses claiming those credits, SHOP may still be the best option in 2014.

But it's now hard to imagine why any other small business would want to use SHOP in 2014. Brokers in the current health insurance market can already offer a higher level of service to small businesses than the SHOP exchanges will be able to offer in 2014. This is a failure of the highest order. It is being lamented by [friends](#) of Obamacare, as well as by foes.

Will the software and websites and data interfaces be up and running when enrollment time arrives this October 1 – less than six months from now? Will the exchanges have staff ready to answer the phone calls and chatlines? Ask the state and federal officials.

Will insurers bother to offer policies through the SHOP exchanges in 2014? To do so will require significant effort and costs for the insurers. Will they spend that treasure if they don't think anyone will use the SHOP exchanges? Will exchanges open with only one or two insurers offering plans? [Ask the insurers](#).

Employers are likely to respond to all this in several ways. Some will simply stick with their existing brokers outside of the SHOP exchanges. Brokers, after all, can already do some of the things that SHOP will not offer in 2014. Other employers will throw in the towel and stop offering insurance coverage altogether. Employees, after all, are supposed to be able to go into the other new exchanges – the individual exchanges – where many should qualify for subsidies. Once employers drop coverage, will they resume it once the SHOPS are functional in 2015 or 2016 or whenever? Doubtful.

Does the failure of the SHOP exchanges bode ill for the individual exchanges, as well? SHOP exchanges were supposed to be an improved model of what brokers and private exchanges like esurance.com were already doing. SHOPS were not a massive departure from existing institutions. Still, with three years lead time and huge amounts of money spent, the federal government could not get the job done. [For an entertaining exercise, go on esurance.com to see how easily a small business can already get multiple quotes from an existing, private quasi-exchange.]

The individual exchanges are vastly more complex than SHOP exchanges and are unlike any institutions that have ever existed anywhere. They, too, are scheduled to open October 1, and in most cases, there is scant evidence that they are remotely near readiness. The failure of the SHOP exchanges is a disappointment. Failure of the individual exchanges would be a catastrophe. Simply put, if the individual exchanges are not fully functional, Obamacare cannot work.

Why? The central mechanism of the law is a three-legged stool. Almost all Americans must have health insurance or pay a tax for failure to do so. Those without “affordable” employer coverage can receive subsidies – sometimes in five figures per year. And “large” employers who have even a single subsidized employee must pay fines of thousands of dollars (or tens or hundreds of thousands) per year. Coordinating all these flows may constitute the single largest information technology project in computer history. And it all has to be fully tested and fully functional by October 1. [Some](#) are skeptical, and the warnings have been out there for [years](#).

The much simpler SHOP exchanges have proven beyond the federal government’s capacity. What if the individual exchanges fail similarly? Will the individual mandate still be in effect on January 1 – with no ability to offer subsidies? Will the employer mandate somehow live on, even without the subsidies? Individuals and businesses need answers now.

[Sen. Jay Rockefeller](#), a strong supporter of Obamacare just said, Obamacare is “so complicated and if it isn't done right the first time, it will just simply get worse.” Secretary of Health and Human Services [Kathleen Sebelius](#) admitted that many will see their insurance costs rise significantly. Small businesses and their employees have hundreds of questions about what Obamacare means to them in 2014 and thereafter, and there is no one they can call or write for answers. Meanwhile, all of this must come together in less than 180 days.

One final thought: In this instance, a significant benefit of Obamacare has been pushed down the road for at least a year, and this will not be the last such delay. And yet, there are no moves afoot to delay the crushing taxes that come from the law. Here’s a suggestion: if you’re going to delay the benefits that [employers](#) and employees were promised, then delay the costs that fall on them, as well.

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