Employer Coverage and Small Business Workgroup Summary
Prepared by Jeffrey Kho
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Employment Coverage Under the ACA

Unlike the individual market, plans in the small group market have not shifted towards narrow networks. One possible explanation is that these wider networks provide a clear value proposition to potential customers, who need to see an advantage over having their employees seek coverage on the individual market. The vast majority of employers are interested in providing coverage to their employees, but there has to be clear value. Some stakeholders reported that there is growing interest in offering coverage to seasonal employees as a way of retaining them as the economy continues to recover.

Many small employers (2-50 employees) will be moving to Covered California for Small Businesses (CCSB) in 2015, as they can no longer renew non-compliant plans under the ACA, and will experience growing pains from the transition. Mid-sized businesses (51 and greater) that are moving to CCSB will also experience changes in rating methodology compared to being self-insured due to the shift from aggregate rating to per-employee rating, and will experience a one-time premium shift, with about a third experiencing a rate increase, 1/3rd a decrease, and 1/3rd no change. These changes will be less dramatic in California due to the State's existing insurance regulations. At this point, there is not enough data to say if businesses will drop coverage options in response to possible rate increases.

Should more employers buy into CCSB, there are significant opportunities to realize value through increased competition. The exchanges prevent employers from getting locked into a single plan, and any plans offered on-exchange must be offered off-exchange as well.

It can be challenging for very small businesses to provide coverage. Many are minority businesses that employ family members who fall below Covered California income thresholds and are Medi-Cal eligible. In addition, they frequently experience high income variance from month to month, making it difficult to stay current on payments. New options may need to be developed to address the challenges unique to this segment of the small business market.

Carrier Struggles in the California Market

Carriers are struggling to succeed in the current healthcare landscape while others are doing very well. Some plans failed to meet their medical loss ratio in the past year. Some of the plans entering the market agreed to enter only in the rural parts of the State, which have historically not been profitable. This seems to suggest that plans, whose area of expertise is large group experience, are struggling find a business plan that can succeed in the Covered California markets.

Covered California for Small Business

Covered California for Small Business (formerly SHOP, the Small Businesses Health Opportunities Program) has resolved many of its growing pains. Its new operational proficiency has made brokers more comfortable recommending plans offered on the exchange to employers. As more brokers buy in, small businesses following their brokers' leads will follow. If more plans with broad networks and competitive PPO and HMO rates come online, CCSB's value will improve and allow it to better compete with CalChoice. Retention has been good so far, with 90% choosing to remain in CCSB.

Flex Workers, Early Retirees, New Hires & Laid Off Workers

Covered California effectively functions as a "middle-class safety net," providing employees with coverage options when their employment ends, as evidenced by the fact that people frequently cycle in and out as they lose and regain employment coverage. Employers could do a better job directing laid off workers to Covered

California, especially since subsidized Covered California plans are frequently cheaper than electing for COBRA coverage.

There are also some opportunities for employers to get their non-traditional employees covered by directing them to Covered California. Temp workers are largely uninsured since their contracts don't provide coverage. Employers aren't opposed to linking their employees to coverage options when they can't offer it, so outreach to companies that don't offer coverage to their flex employees could help get more people onto coverage via Covered California.

Cadillac Benefits Tax

The Cadillac Benefits Tax was designed to target the issue of rising premiums, potentially inspiring price discipline and maybe even pushing plans to break up provider oligopolies to drive down costs through increased competition. Since healthcare prices are increasing faster than inflation, more plans will be impacted over time. Northern California is likely to feel the effects sooner as well due to higher healthcare costs due to provider oligopoly and monopoly. Since all pre-tax contributions are targeted by the tax, not just premium contributions, employers may start eliminating HSAs, FSAs, and HRAs as a result.

It's still unclear if the tax will actually lead to price discipline, or if it will just increase the number of high deductible health plans. The ACA mandates a minimum actuarial value of 60%, so any significant moves by plans to contain cost will likely happen only after they cannot lower plan actuarial values any further. Truly addressing cost increases will require a better understanding of cost drivers such as the delivery system, chronic disease management, and consumer behavior.

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