Written Answers to Questions for the Record from Kev Coleman, Research Fellow Paragon Health Institute
For the House of Representatives Committee on Education & Workforce
Hearing Entitled
"A Healthy Workforce: Expanding Access and Affordability in Employer-Sponsored Health Care"

April 22, 2025

Questions put forth by Rep. Virginia Foxx (R-NC)

1. Mr. Coleman, as health care costs for small businesses rise, how do stop-loss or reinsurance options protect employers and employees from insurance price increases?

Stop loss reinsurance (also known as "excess insurance") is an insurance instrument used by self-funded health plans to financially protect the plan from insolvency due to catastrophically high medical expenses that exceed the plan's actuarial predictions. The same stop loss protection can be employed by a partially self-funded health plan, sometimes referred to as "level funded," where the plan is under management of a third-party insurer instead of the entity whose employees are being insured.

In both scenarios, the stop loss reinsurance allows a health plan (and the employer sponsoring it) to reduce the premiums it charges enrollees by limiting the maximum expense of medical claims within a given year. This predetermined limit where a stop loss policy begins to pay an employer/health plan for excess medical claims is known as the "attachment point." Additionally, the health plan's premiums incorporate the lower cost of the stop loss insurance rather than the higher cost of a catastrophic financial expense against which it protects.

Stop loss further reduces the financial expense of maintaining appropriate operational funds in reserve. Since a health plan's premiums are normally collected monthly, its cash flow can be compromised if a high medical claim occurs earlier in the year. However, a health plan can use "individual stop loss" coverage alongside its aggregate stop loss (which covers the risk pool as a whole). Individual stop loss provides funds for a high expense individual medical claim even if the health plan's total aggregate attachment point has not been reached.

2. It's frustrating when a federal law, like ERISA, is distorted to make it more difficult for employers to provide health insurance coverage for their employees. When President Trump made it easier for small businesses to make association health plans more accessible in 2018, President Biden rescinded that rule. What impact has that rescission had on small businesses and employees?

The recission of the 2018 regulatory update for association health plans (AHPs) made certain that the approximately 30,000 individuals[1] who lost their 2018 AHP coverage did not have that

[1] Christopher E. Condeluci, "Association Health Plans

coverage reinstated. The recission, instead, further delayed reforms expanding small business access to AHP and the savings AHPs can provide though use of a large group health plan. The negative effects attending this continued lack of access are multiple. Foremost, it restricts an AHP's large group health plan savings from small businesses. Competing large businesses, in contrast, have no such restriction on the use of a large group health plan and, as such, they can use the operational savings from lower health coverage costs to more competitively price products that compete with the offerings of small businesses. Alternatively, they can provide richer benefits, making it harder for small businesses to contend for the best talent in hiring. Without the lower costs of a large group health plan (mediated through an AHP), small businesses may consider:

- Raising the prices of their products
- Forgoing employee raises or promotions
- Eliminating employee health coverage

For small businesses who do not offer health coverage, the market absence of an AHP's large group savings will likely perpetuate the poor insurance offer rate already observed among small firms. The latest 2023 data from the government's Medical Expenditure Panel Survey found only 30.1 percent of businesses with fewer than 50 employees offered health coverage.[2] The National Federation of Independent Business (NFIB) has identified affordability as the principal obstacle for small firms wishing to offer health coverage to their employees. The 2024 edition of their quadrennial survey "Small Business Problems & Priorities" reported that health insurance costs "continues to be the number one small business problem, a position it has held since 1986."[3] This same study revealed that the cost of health insurance was the top reason given for not offering coverage to employees.

(AHPs) and States' Rights: An Accounting of How States Want to Regulate AHPs," Bloomberg Tax, Tax Management Compensation Planning Journal, October 28, 2019, https://powerofassociations.org/wp-content/uploads/2019/11/Condeluci_CPJ_Nov2019.pdf

[2] AHRQ, "MEPS IC," "Percent of private-sector establishments that offer health insurance by firm size and selected characteristics, 1996 to 2023," Firm size: fewer than 50 employees. For a more detailed discussion see also Kev Coleman, "A Healthy Workforce: Expanding Access and Affordability in Employer-Sponsored Health Care — Testimony of Kev Coleman," Paragon Health Institute, April 2, 2025, https://paragoninstitute.org/private-health/a-healthy-workforce-expanding-access-and-affordability-in-employer-sponsored-health-care-testimony-of-kev-coleman/ and Kev Coleman, Small Business Health Insurance Equity Through Association Health Plans," Paragon Health Institute, April 25, 2023, https://paragoninstitute.org/private-health/small-business-health-insurance-equity-through-association-health-plans/

[3] Survey results based on 2,873 business owners with membership in the NFIB. Holly Wade and Madeleine Oldstone, "Small Business Problems & Priorities," National Federal of Independent Business, 2024, https://strgnfibcom.blob.core.windows.net/nfibcom/2024-Small-Business-Problems-Priorities.pdf