MAY 2015

AHIP

ISSUE Brief

Why Maintaining the Current Definition of the Small Group Market is Critical

KEY TAKEAWAYS

3.4 million

Enacting bipartisan legislation in Congress can **preserve access to affordable coverage and care for 3.4 million** employees and their families

Expanding the definition of the small-group market to include mid-size employers (51-100 employees) could have **far-reaching implications for the affordability and stability of coverage**

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Nearly **two-thirds** of workers in mid-size firms (64%) would **experience premium increases of 18%** as a result of applying the ACA modified community rating rules

Background

Currently, all states define their small-group insurance markets as employers with up to 50 employees. Under the Affordable Care Act, beginning in 2016, the definition for the small-group market will be significantly expanded to include employers with up to 100 employees in all states. Expanding the definition of the small-group market to include mid-size employers (51-100 employees) could have far-reaching implications for the affordability and stability of coverage for millions of employees and their families.

According to the American Academy of Actuaries, 3.4 million employees currently receive health insurance coverage through mid-size firms.[1] And, this segment of the market has been successful in providing access to affordable, high-quality coverage to workers and families. According to research by the Kaiser Family Foundation, over 91% of mid-size firms (with more than 50 employees) offer coverage to their employees[2] and consumer satisfaction with employer-sponsored coverage remains high.[3]

Bipartisan legislation has been introduced in the House (H.R. 1624) and Senate (S. 1099) that would enable states to maintain their current definitions for their small employer marketplace—which represents an important step toward promoting market stability and avoiding coverage disruptions for small employers and families.

Failure to maintain the current definition could result in higher premiums for many mid-size businesses and their employees, create instability in the small group market, and may cause coverage disruptions for millions of workers and their families.

Premium increases for the majority of mid-size businesses and their workers

Expanding the definition of the small-group market will impose significant new rating restrictions and benefit requirements on mid-size firms (51-100 employees)—including the ACA's modified community rating requirements, which bars the use of health status or claims experience in establishing premiums and permits only limited variations in premiums on the basis of age (3 to 1), geographic area, family size, and tobacco use. This is a significant departure in how the mid-size marketplace currently works—where premiums are largely set based on the health care costs of the entire group (e.g., experience rating). Moreover, in the medium- and large-employer market, insurers have broad flexibility in setting premiums though the use of common rating factors such as industry, group size, employee participation, and employer contributions as a way to assure affordable coverage and a broad and stable risk pool.

According to the American Academy of Actuaries, the application of the new ACA rules to mid-size firms would result in "significant rate changes for some groups" and would particularly increase rates for mid-size firms with younger and healthier employees.[4] Research by Oliver Wyman found that nearly two-thirds of workers in mid-size firms (64%) would experience premium increases of 18% as a result of applying the ACA modified community rating rules.[5]

Applying benefit and cost-sharing requirements will also place upward pressure on premiums—increasing rates an additional 3%-5%, on average. This is the result of imposing a "greater reduction in benefit and cost-sharing flexibility for groups sized 51-100 than they currently experience."[6]

Instability for the small-employer marketplace

Extending the small-group marketplace to include mid-size firms could result in less stable coverage for the broader marketplace, according to leading actuaries and other experts. Mid-size firms that employ older and less healthy workers would be more likely to purchase coverage in the small-group marketplace—as they would benefit under the ACA's modified community rating requirements. At the same time, medium-sized firms with younger, healthier workers (faced with increased premiums) may forego coverage entirely—which leads to a less healthy small-employer risk pool and higher premiums. While the potential effects of including mid-size firms in the small-group market are complex and varied, the American Academy of Actuaries has concluded that "factors exerting upward pressure on premiums are more likely to dominate."[7] In a separate analysis, Oliver Wyman found that premiums could increase by an additional 6%-18% as a result of adverse selection and related risk pool effects.[8]

Coverage disruptions for many small business employees and their families

While the mid-size employer marketplace for health insurance has been a stable source of coverage for 3.4 million employees and their families, imposing restrictive new requirements could result in unintended coverage disruptions. For example, many mid-size firms will have to select new plans for their employees—as their existing plans no longer meet the ACA's rating rules and benefit requirements. Moreover, facing sharp premium increases, some mid-size firms may elect to non-renew or forego coverage for the 2016 plan year—due to concerns around affordability. In both cases, many employees and families could face coverage disruptions due to the combination of escalating premiums and application of new regulatory requirements.

Conclusion

Congress should pass bipartisan legislation (H.R. 1624/S.1099) to provide flexibility to states to retain their current small-employer health insurance definition. This legislation is supported by a broad array of prominent stakeholders—including large and small employer organizations[9], health plans, state insurance regulators, and a broad array of health policy experts and consumer organizations. Enactment on this legislation would represent an important step toward maintaining affordability and stability of coverage for millions of employees and their families.

End Notes

1 Potential Implications of the Small Group Definition Expanding to Employers with 51-100 Employees. American Academy of Actuaries; March 2015

2 Gary Claxton et al. Employer Health Benefits 2015 Annual Survey. Kaiser Family Foundation and HRET; September 10, 2014. http://files.kff.org/attachment/2014-employer-health-benefits-survey-full-report

3 Margot Sanger-Katz. How People Feel About Their Employer-Sponsored Plans. New York Times; September 4, 2014. http://www.nytimes.com/2014/09/05/upshot/how-people-feel-about-their-employer-sponsored-health-plans.html?_r=0&abt=0002&abg=1

4 Potential Implications of the Small Group Definition Expanding to Employers with 51-100 Employees. American Academy of Actuaries; March 2015

5 Kurt Giesa. "Impact of Including Employers with 51 to 100 Employees in the Small Group Market in 2016. Oliver Wyman—Prepared for BlueCross Blue Shield Association; January 27, 2015.

6 See American Academy of Actuaries Issue brief and Oliver Wyman analysis previously cited.

7 Potential Implications of the Small Group Definition Expanding to Employers with 51-100 Employees. American Academy of Actuaries; March 2015

8 Kurt Giesa. "Impact of Including Employers with 51 to 100 Employees in the Small Group Market in 2016. Oliver Wyman—Prepared for BlueCross Blue Shield Association; January 27, 2015.

9 See Letter to Representatives Guthrie, Cardenas, Mullin, and Sinema from coalition of nearly 20 employer groups. https://www.uschamber.com/sites/default/files/150403_coalition_letter_h.r._1624_protecting_afforable_coverage_for_employees_act_guthrie_cardenas_mullin_sinema.pdf

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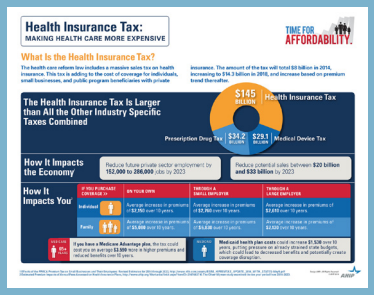

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