

# Building a Better Health Care Marketplace

## Policy Brief #3: Spotlight on Small Business

While many Americans struggle with the rising costs and eroding quality of health care, the plight of small businesses stands out – lacking the advantages possessed by larger businesses, they face unique challenges. Without the bargaining power to negotiate with insurers for better rates, they often get less value for their health care dollars. And because smaller businesses often lack a human resources department, they are often left alone to negotiate an often-confusing insurance market.

In tandem with other reforms in the new federal health care law, states can design their exchange to help address all of these problems, giving small businesses and their employees access to meaningful choices and higher-value, more affordable coverage. Not only will this benefit the small businesses themselves, but lowering the cost they pay for their coverage can have a significant positive impact on the state's economic health and job creation rates.

### Delivering Lower Premiums for Entrepreneurs

As discussed in the previous Policy Brief in this series, one of the key strengths of

#### About this Series:

The creation of a new health insurance exchange offers states an opportunity to improve health care and lower costs by pooling consumers' bargaining power, creating economies of scale, and pushing insurers to delivering lower costs and higher quality. PIRGIM's *Building a Better Health Care Marketplace* project provides recommendations to advocates and policymakers for how to create a strong, pro-consumer exchange. Support for the project is generously provided by the Robert Wood Johnson Foundation. For further information on this project, and other policy briefs in this series, please visit <http://www.pirgim.org>.

a well-designed exchange is its ability to negotiate for a better deal on cost and quality. While large businesses are currently able to leverage the bargaining power of a sizable number of employees, their smaller cousins find that they have little ability to negotiate. With less expertise and fewer potential customers, small businesses often face a market where insurers don't need to compete for their business.



At the same time, small businesses lack the economies of scale enjoyed by large businesses – when they buy coverage, it may only be for a dozen employees. As a result, the administrative cost of securing coverage is proportionately higher for small businesses. Added together, these two factors mean that small businesses pay on average 18% more than large businesses do for comparable coverage.

To solve these problems through a strong exchange, the state must ensure that the exchange is empowered to negotiate on behalf of its enrollees, and take advantage of economies of scale. To best leverage these benefits, states should strive to maximize the number of exchange enrollees. As discussed in the previous Policy Brief, states have the option of allowing small businesses with up to 100 employees onto the exchange and eventually opening it to large employers as well. More enrollees means greater economies of scale, and greater bargaining power.

### **Giving Businesses Better Choices**

Currently, small businesses wishing to purchase coverage for their employees face a dizzying array of choices, with insurers offering benefit packages that appear only slightly different from each other, but whose surface similarities can mask substantial variation in covered benefits. Untangling these subtleties,

and determining which plans are a good fit for the particular health needs of a business' employees, can be a full time job by itself. But most small businesses can't afford a dedicated health benefits manager to perform these tasks.

The exchange can help make this process much easier for business. By standardizing insurance products within tiers, and creating decision tools to allow for easy apples-to-apples comparisons, the exchange can allow even small businesses without much time or expertise to find the coverage choices that are right for them. Easier comparisons will also increase competition among insurers, lowering prices and increasing quality.

Further, a small business will be able to allow its employees to choose whatever plan they like, rather than the current system, where the business is forced to rely on a one-size-fits-all approach. And because the exchange will employ navigators to perform outreach and help enrollees understand their choices, small businesses will have built-in support and advice.

To ensure that the exchange delivers these results for consumers, states should ensure that their exchange has a mandate to increase the standardization of insurance products to reduce unnecessary complexity, and develop tools to make each plan's costs and





particular benefit design clear and understandable.

### **Increasing the Stability of Small Business Premiums**

In most states, insurers currently set their prices based on the average age or health of a small business' employees. This means that businesses with healthier or younger workforces pay lower premiums, while those with older or sicker employees pay more. It also means that for smaller businesses, if one employee gets unexpectedly sick or ages into a new bracket, premiums for the entire business can jump. With the cost of health care already prone to double-digit rises, these unexpected rate shocks make it hard for small businesses to maintain stable coverage.

The exchange and related reforms can help mitigate this problem in two ways. First, by bringing the small business into a much larger pool, comprised of individuals and other small businesses, changes in the age or health status of a few employees will no longer have as much of a proportional impact on overall costs. Further, because the new reform law will prevent insurers from varying their prices based on the health of enrollees starting in 2014, and limit variation based on age, the risk of premium spikes will be much reduced.

### **Coverage Options for Entrepreneurs**

Many small businesses are created by entrepreneurs who have left their previous, more stable job, to accomplish their dream of creating something new. Currently, however, that is a difficult step for many prospective small business owners to take, since it may mean the loss of their employer-based coverage. As discussed above, as a small business the new coverage they get will likely be more costly and lower-value than if they had been working for a larger employer. And if the new business starts with only the owner as an employee and cannot access the state's small group insurance market, the entrepreneur will face an even worse deal on the individual market. If he or she has a pre-existing health condition, they might not be offered coverage at any price.

The exchange's power to pool the bargaining power of all its enrollees, and the health reform law's related reforms to eliminate the ability of insurers to discriminate against the less healthy, can create an attractive, reliable option for entrepreneurs. The establishment of an exchange can enable these new small business owners to focus on starting their new business instead of worrying about their coverage.





## **Making the Exchange Friendly to Small Business**

For the most part, the steps necessary to make the exchange meet the needs of small businesses are no different from those that will serve the needs of all consumers. However, there are a number of additional policies that states can adopt that will ensure that small businesses reap the maximum benefit from the exchange.

First, small business owners, and their employees, should have a voice in the exchange's decisions. They should be consulted in any stakeholder committees or hearings. The exchange should be run by an independent governing board, including representatives of small business who can lend their expertise about what will work for them. Because small business owners and workers will sometimes have different perspectives, both voices should be represented.

Next, because small businesses will generally want to focus on running their business, not on the minutiae of administering their employees' health benefits, every effort should be made to streamline the experience of choosing and purchasing coverage. Again, much of this work will benefit all consumers – and will be discussed in further detail in a future Policy Brief – but for small businesses, it will be important that the

exchange offer a single application for employees to use, regardless of what plan they choose; that it allow the business to make a single premium payment, without forcing it to engage in complicated allocations; and for businesses that qualify for the ACA's new small business tax credits, they should be able to easily see how those credits will reduce the premiums they will pay.

