



Research

Primer: The Small Business Health Options Program (SHOP)

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INTRODUCTION

On November 15th, 2014 healthcare.gov—established by the Affordable Care Act (ACA)—will launch an online portal for the Small Business Health Options Program, referred to as the SHOP exchange. The SHOP exchange is the small business piece of the ACA's health insurance exchanges, designed for small businesses to enroll their employees into small group health insurance plans, offering a choice of plans for the employer and, in theory, the employee. SHOP was intended to drive down costs in the small group health insurance market by pooling risk from multiple small businesses and increasing plan competition through the use of plan choice by individual employees, not just the employer's plan preference.^[1] Though the SHOP exchange has been in existence for federal exchanges and some state exchanges since the ACA launch last October, it has not been functioning at full capacity due to delays instituted by the Obama Administration. Starting with open enrollment on November 15, 2014, small businesses will be able to participate in the SHOP exchange using the online federal exchange portal and will be able to utilize some newly added features unique to the SHOP.

As the lesser known of the ACA insurance exchanges, SHOP has received little attention compared to the health insurance marketplace established for the individual market. Participation has been low, as small businesses are not required to offer health insurance coverage in many circumstances. More attention will be focused on SHOP this year, as the administration works to increase employer participation and cover individuals employed by small businesses. In order to minimize technological issues with the SHOP online debut, in late October the administration is launching the portal early in five states: Illinois, Missouri, Ohio, Delaware and New Jersey.

This primer discusses the ACA's impact on the small group market, the structure and funding of SHOP exchanges, the delays involved in its implementation, and what is happening in preparation for a more active SHOP exchange this year.

ACA CHANGES TO THE SMALL GROUP MARKET

The SHOP is designed to encourage health insurance coverage in the small group market. As of 2011 (before many of the ACA's market changes), 57 percent of small businesses with fifty or fewer employees offered health insurance coverage. Further, 92 percent of businesses with 51-100 employees offered coverage.^[2] Small businesses were able to choose a small group health insurance plan for their employees, and usually offered one plan for all employees of a business—at the discretion of the employer.

Prior to the ACA, small-group market plans were generally available for employers with 2-50 employees. For 2014 and 2015, SHOP exchanges in all states must cover employers with up to 50 employees, and states have the option to extend eligibility beyond that. ^[3] Beginning in 2016, states are required to extend SHOP access to employers with 100 or fewer employees.

However, small employers are not required to participate in SHOP and can seek coverage outside of the exchange. Small business can also retain non-qualified health insurance plans that were in place prior to March of 2010, and many employees were able to keep these so called "grandfathered" plans, with 54 percent of small business maintaining at least one of these plans in 2013.^[4] This number will decrease over time as insurance companies replace outdated plans with new products.^[5]

Changes to Private Health Insurance

The ACA imposed new requirements on the health insurance industry as a whole and includes some specific changes to coverage offered by small businesses. The Essential Health Benefits (EHBs) are a set of services that must be covered by all newly issued health insurance plans in the exchanges. All qualified health plans (QHPs) must cover: ambulatory patient services, emergency services, hospitalization, maternity and newborn care, mental health, prescription drugs, rehabilitative and habilitative services, laboratory services, preventive/wellness services, and pediatric care.^[6] Along with requiring all plans to provide specific benefit categories, the ACA requires that access to insurance not be limited by pre-existing conditions and prohibits premiums based on health status.

The value of plans offered in the exchanges must also be designated under a metal tier system according to the actuarial value (AV) of a plan—the percent of medical service

expenses an insurance plan is expected to cover. Plans are sorted into bronze, silver, gold, and platinum categories according to the plan's AV. All plans are subject to a minimum Medical Loss Ratio (MLR) that requires plans to report the portion of their income spent on clinical services and administrative services, and calls for insurers to issue consumer rebates if administrative expenses exceed 20 percent of total expenditures.[7]

Specific to Small Business

The ACA includes an [employer mandate](#), where businesses that employ more than 49 full-time employees must provide "affordable" coverage. Employers with 49 or less full-time employees are exempt from this coverage requirement. For employers that must provide coverage, affordability means that an employee's premium does not exceed 9.5 percent of the employee's salary.[8] If the employer does not provide coverage, then a fee of \$2,000 per employee (excluding the first 30) will be levied on the business. Further, if an employer provides insufficient coverage, they will be subject to a \$3,000 per employee fine.[9] This mandate includes those employers with 50-100 employees, a portion of small businesses which can participate in the SHOP exchange beginning in 2016.

HOW SHOP WORKS

The SHOP exchange has health insurance plans offered by multiple plan issuers at a variety of metal levels in most states. In order to join, the employee must prove their employment at the small business, and the employer must be determined eligible for SHOP. Employers must be a small employer, be located in the particular exchange service area, and allow for all employees to participate in the SHOP exchange.[10]

As mentioned above, SHOP plans are divided into metal tiers according to their AV. In the federal SHOP exchange, the employer chooses a metal tier, and offers employees a choice of the plans in that tier. State SHOP exchanges can also use this model, or they can provide other plan options for employers and employees. The option for an employee to choose a specific plan is known as the "employee choice" feature of the SHOP.[11]

Once the employer chooses the metal level(s) and/or plans to offer, the exchange will compile the employer cost of the premiums that includes the cost of each plan selected by their employees. Then, the SHOP exchange aggregates these premium costs, sending a single bill to the employer.[12] The employer then collects designated employee contributions. After the employee provides their contribution, the employer sends the payment to the SHOP exchange, which in turn distributes payments to the appropriate insurers.

Small-Employer Tax Credit

Employers may be eligible for some help with their portion of the premium payments, through a small business tax credit that is available for two consecutive taxable years through 2016.[13] The tax credit provides for up to 50 percent of the cost of a for-profit employer's premium payment, and provides for up to 35 percent of the cost for non-profit firms.[14] In order to be eligible for the tax credit, an employer must have fewer than 25 full-time employees, have average annual wages of less than \$50,000, and pay a uniform percentage of premiums for their employee qualified health plan (QHP) through the SHOP exchange, or provide a reason for exemption from SHOP.[15]

Signing-Up for Coverage

Unlike the individual exchange, SHOP enrollment is year-round.[16] Therefore, each employer has a specific open enrollment period for their employees. For states that choose to run a federally facilitated SHOP exchange, the 2014 enrollment process is conducted using an insurance agent or broker. The employer can review which SHOP plans are available in his or her county and contacts a broker of choice to determine which plan option is best. The healthcare.gov website will launch an option for enrolling in the SHOP exchange November of this year. Some state based SHOP exchanges already have an online option, while others are using the same format as the federal exchange.

GOVERNANCE

The ACA requires that all states have a SHOP exchange. States can choose whether to establish a state based SHOP exchange or utilize the federally facilitated version. As of July 2014, thirty-three states were operating federally facilitated SHOP exchanges and seventeen states including D.C. were operating state based SHOP exchanges.[17] Most states that chose to use the federal exchange for their individual market also chose to use the federal exchange for their SHOP exchange. However there are some exceptions to this decision. Utah, New Mexico and Mississippi chose to establish a state-based SHOP exchanges while relying on the federal exchange for their individual markets. The following map shows the decisions regarding the SHOP:



Health Affairs. *SHOP Exchanges by State*.

<http://www.ncsl.org/research/health/state-actions-to-implement-the-health-benefit.aspx>.

FINANCING

Funding for SHOP exchanges is included in the planning and establishment grants awarded to states for researching and developing their overall exchange strategy as well as in federal administrative spending. The individual and SHOP exchanges can be viewed as two arms of the same structure. Each have the same funding stream, and the amount of spending specifically on the establishment of SHOP exchanges is intertwined with that of the individual exchanges, rather than individually apportioned. Though the ACA provides an appropriation to the Department of Health and Human Services (HHS) for exchange grants, no grant funding is to be issued after January 1, 2015, and exchanges are to be financially self-sustaining entities.

HHS posts the to-date amount of federal funding awarded to each state for the establishment of state-based exchanges (including individual and SHOP) and the initial planning grants that went out to every state.^[18] Planning grants were issued for state decisions between a federal or state-based exchange, and usually total about \$1 million per state.^[19] Establishment grants are awarded to states that have made progress in the implementation and establishment of their exchange. HHS also issued grants to states that began the process early, titled “early innovator” grants, creating the necessary technology to run the exchanges. In total, HHS has issued over \$4.8 billion in grant funds, a portion of which is used to establish SHOP exchanges.^[20]

HHS is spending additional dollars in support of the federally facilitated exchanges (FFE). The agency is responsible for the administrative costs of FFEs (which include both the individual and SHOP exchange). From 2010 to 2012, HHS spent \$456 million on administrative funding for exchanges, \$1.5 billion in 2013, and estimates it will spend almost \$1.4 billion in 2014.^[21] A user fee has also been implemented to cover some of the exchange costs, with federally facilitated exchanges charging participating insurers 3.5 percent of a plan’s monthly premium.

DELAYS

The SHOP exchange was initially designed to run as the counterpart to the federal and state based individual exchanges, offering health insurance coverage options to the small group market in a similar fashion. However, the problem-ridden launch of the 2013 open enrollment season forced administration officials to delay some of the key aspects of the SHOP exchange, including the online enrollment portal, the employee choice feature and premium aggregation services. A paper application version of the SHOP exchange has been available since October 1, 2013.^[22] Instead of launching the federal SHOP exchange

alongside the individual federal exchange, the administration delayed the online version of SHOP until November of 2014.

In June of 2014, the administration delayed employee choice in the federal SHOP exchange, giving states an option to extend an additional year of delays, putting off a key feature for small businesses. The employee choice feature that was intended to make the SHOP a unique experience for small business plans, where employers could choose a metal level or an issuer or a combination of the two, and allow their employees to pick a plan within their parameters to best fit their individual health needs. The following chart shows state decisions on employee choice as of September 2014:[23]

State	Employee Choice Decision
Alabama	Delayed until 2016
Alaska	Delayed until 2016
Arizona	Delayed until 2016
Arkansas	Delayed until 2015
California	Offered in 2014
Colorado	Offered in 2014
Connecticut	Offered in 2014
Delaware	Delayed until 2016
District of Columbia	Offered in 2014
Florida	Delayed until 2015
Georgia	Delayed until 2015
Hawaii	Offered in 2014
Idaho	Delayed until 2016
Illinois	Delayed until 2016
Indiana	Delayed until 2015
Iowa	Delayed until 2015
Kansas	Delayed until 2016

Kentucky	Offered in 2014
Louisiana	Delayed until 2016
Maine	Delayed until 2016
Maryland	Offered in 2014
Massachusetts	Offered in 2014
Michigan	Delayed until 2016
Minnesota	Offered in 2014
Mississippi	Offered in 2014
Missouri	Delayed until 2015
Montana	Delayed until 2016
Nebraska	Delayed until 2015
Nevada	Offered in 2014
New Hampshire	Delayed until 2016
New Jersey	Delayed until 2016
New Mexico	Offered in 2014
New York	Offered in 2014
North Carolina	Delayed until 2016
North Dakota	Delayed until 2015
Ohio	Delayed until 2015
Oklahoma	Delayed until 2016
Oregon	Offered in 2014
Pennsylvania	Delayed until 2016
Rhode Island	Offered in 2014
South Carolina	Delayed until 2016
South Dakota	Delayed until 2016

Tennessee	Delayed until 2015
Texas	Delayed until 2015
Utah	Offered in 2014
Vermont	Offered in 2014
Virginia	Delayed until 2015
Washington	Offered in 2014
West Virginia	Delayed until 2016
Wisconsin	Delayed until 2015
Wyoming	Delayed until 2015

As a part of the employee choice feature, the SHOP exchange was designed to aggregate all of the varying premiums within a small business and offer the employer one monthly bill. This premium aggregation service was delayed with the employee choice feature. Since employees would not be able to choose their plan, an aggregation of a variety of plans was not needed for the first plan year.

Enrollment

Because of these major delays, enrollment has remained low. The administration explained that the paper based application process has made it more difficult to accurately track enrollment numbers at the federal level. Further, administration officials have publicly stated that they do not have access to the SHOP enrollment numbers, and will publish data when it becomes available.^[24] A few state-based SHOP exchanges, on the other hand, have published enrollment numbers. As of March 2014 California reported covering 1,200 employers. Colorado covered 220 employers and Connecticut covered 78 employers as of April 2014.^[25]

SHOP LOOKING FORWARD

HHS notes that one of the lessons learned from last fall's open enrollment launch is to phase in the use of new technology in health insurance exchanges. As part of this change, five states will be introducing the SHOP to their exchanges in late October in advance of the full online launch on November 15th.^[26]

Illinois, Missouri, Ohio, Delaware and New Jersey are all launching the online version of the

SHOP exchange called “SHOP Early Access”. These states will not be able to complete the full enrollment process, but will allow employers to set up accounts, find agents or brokers, determine eligibility, and upload information about their employees.[27] This is the test run before launching the SHOP exchanges for all states utilizing the federal facilitated version[28] of SHOP. As the time nears for the launch of the online portal for the SHOP exchange in many states, more information will become available on current enrollment and funding details.

[1] <http://www.sba.gov/content/employers-with-fewer-25-employees>