Introduction

Looking at which populations should be included in the exchange, the work group has focused primarily on different categories of individuals. However, those in small groups could potentially benefit most from an exchange. Consumers could have increased choice, reduced costs, and improved delivery system and insurance administration quality. Employers could see reduced administrative costs. There are complications regarding the use of the exchange by small groups.

The biggest concern regarding optional participation by small groups in the exchange is adverse risk selection, the possibility that high-risk groups would disproportionately either join the exchange or remain outside the exchange. Which direction high risk groups went depends on two major factors which the incentives for one potentially working in the opposite direction from the other.

On one hand, if the exchange uses the age bands established for the individual market and groups can voluntarily choose to remain in the small group market using group rules and rates, employer groups with younger employees would tend to migrate to the exchange. The group insurance market has fewer age bands than exist in the individual market. This makes individual insurance cheaper for younger enrollees, but more expensive for older ones. Group coverage tends to be relatively more expensive for younger enrollees, but a better “deal” for older enrollees. The movement of younger people from the regular group market into the exchange would tend to reduce overall rates for exchange members and increase rates for remaining group market enrollees.

However, employer groups with high-risk people (e.g., diabetics, people with heart disease, cancer patients) would tend to join the exchange, as small group rates can now be adjusted for group experience (+/- 5%), per the 2007 legislative changes. Mitigating this risk would be difficult, as it would require small group and individual rating regulations be made consistent. This would require the creation of a complex risk adjustment mechanism, and/or require all segments to use the exchange.

Options

(1) Do Not Allow Groups Into the Exchange

In this scenario, only individual market purchasers can enter the exchange. Employees of small groups (2-50) that offer coverage will get insurance as they do now, via the direct small group market.

Pros
- Simple
- Minimal disruption to existing small group market

Cons
- Does not offer the benefits an exchange can provide to employees and employers of small groups, such as:
    - Individual choice of plan
    - Employer access to HR functions

(2) Merge Micro Groups (2-9 employees) into the individual market; allow them to use the Exchange (Using Individual Market Rules)

In this scenario, all individuals and employees of micro groups (firms with 2-9 employees) will be subject to individual market rules and will purchase individual products. Employees of other small employers (groups of 10-50) purchase group products at group market rates.

Pros
- MEPS data show that insurance premiums for micro groups (2-9) are more costly than premiums for groups of 10 and above. This suggests that micro groups currently do not benefit from lower administrative cost for groups and/or that a number of younger and healthier micro groups have converted to individual coverage to save money (leaving expensive micro groups that drive up average group market prices).
- Employers of micro groups are the least likely to offer ESI and are more likely to employ low wage workers. Many employees of micro groups will be eligible for state premium participation or tax credit. Access to the exchange will improve continuity of coverage for these individuals.
- When employers of micro groups do provide ESI, they are the least likely to offer choice of plans. Allowing micro groups into the exchange provides choice to employee groups with least current access to choice.
- The administrative burden on employers offering ESI is greatest for micro groups. Participation in an exchange would provide the greatest benefit to such employers.

Cons

- This could cause disruption for a portion of the small group market, as it would create a new category and change rating and benefits rules for groups of 2-9.

Other Issues

- Question – are micro groups mandated to enter the exchange or allowed in on a voluntary basis?
- Question – are small groups (10-50) allowed into the exchange? On what basis (mandatory or voluntary)? Would such groups use group or individual rating?
- Requires statutory change to allow employers to pay for individual insurance products for employees and their dependents.

(3) Allow Small Groups in Exchange and Merge the Individual and Small Group Markets

In this scenario, all individuals and small groups (2-50 employees) purchase insurance under the same market rules. Rating and benefit regulations are aligned for both the individual and small group markets.

Pros

- Increased choice for employees of small employers.
- Could reduce small employers' HR-related costs.
- Avoids employer incentive to choose between group and individual market based on employee age profiles.
- Less fragmented market.

Cons

- Can cause disruption to the individual and/or small group markets, as rating and benefits rules would be aligned for all individual and group purchasers.
- Having dual group markets (inside and outside the exchange) adds administrative complexity.

Other Issues

- Essentially makes groups purchase individual products for each employee.
- Underlying cost for a two person group would be the same within the "individual" and "group" markets.
- Would require a law change, currently employer can not fund individual insurance for employees.
- Employer could pay the same percentage of premium for each employee (not same $ total).

- Could do risk adjustment based on carrier-product pairs (similar to how an all individual market risk adjuster would work).
- Are small groups (2-50) allowed into the exchange on a voluntary basis or mandated to enter?

(4) Allow Small Groups in Exchange – Establish Separate Risk Pool for Small Groups (no blended market)

In this scenario, small groups (2-50) purchase group products at group market rates, but each employee retains a choice of plans. Assumes defined contribution by employer, which allows employee to shop for products and use employer contribution to purchase preferred plan.

Pros

- Increased choice for employees of small employers.
- Could reduce small employers' HR-related costs.
- May avoid risk selection problems, market disruption described in (3).
- Keeps employer contributions in the system, while facilitating access to state premium assistance or tax credits for eligible employees (minimizes state contribution while maximizing assistance to individual).
- Risk selection can be minimized if:
    - The exchange has the same minimum contribution and participation rate requirements as the outside small group market; and
    - The exchange offered the same group plans as are available in the outside market.
- Allowing employer to benchmark a contribution based on a particular plan does not require employer to retain a given carrier if its premiums rise over time. Employer may switch benchmark carrier or allow Exchange to benchmark to lowest cost carrier.

Cons

- Carriers may object to having to compete on an individual basis for enrollees currently in their products as small groups.
- Having dual group markets adds administrative complexity

Other Issues

- This scenario assumes that risk in the small group market is pooled for a carrier across all small group market enrollees. This includes exchange-based enrollees and traditional small employer groups. Employees of firm X would be considered members of the plan in which they were enrolled, and all enrollees in carrier A would be combined for the purposes of rating within that plan. If two of firm X's employees were in Exchange-based coverage through carrier A, they would be combined with all of firm Y's employees, who purchase through carrier A as a traditional group.
- An employer that allows employees to enter the exchange with employer provided funds would be a "play" employer for the purposes of a payroll tax with a "play" credit. An employer that allows employees to enter the exchange but provides no dollars is a "pay" employer.
- May require a law change to identify exchange-offered group market products as "group" coverage.