THIRD WAY

THIRD WAY TAKE *Published May 14, 2015 • 4 minute read*

Avoiding Health Insurance Rate Shock for Medium-Size Businesses

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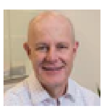

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Despite the ongoing debate over the *Affordable Care Act* (ACA) in Washington, a majority of voters have been very clear about what they want: fix it, not nix it. Nearly two-thirds of Americans want Congress to improve the law, with only one-third staunchly in the repeal-and-replace camp.

Where to start? One key step is to prevent "rate shock" from hitting medium-size businesses across the United States.

What is happening?

Currently, small employers (up to 50 employees) face different health insurance regulations than medium-size employers (51-100 employees). But, starting in 2016, the insurance regulations for small employers will be extended to medium-size employers. This is because the ACA calls for "blending" the insurance rates by creating one large insurance pool with one set of insurance regulations for employers with up to 100 employees. When that happens, health plans will have to base their insurance rates on those two groups *together*—instead of the way they have done it historically, which was to keep the more volatile small employer market separate from the medium-size employers.

The ACA has improved the stability of coverage for small employers and individuals through provisions such as stopping health plans from charging higher premiums for sicker employees, but the risks of applying the same regulations to medium-size employers may not be worth the trouble, as ACA supporter Sabrina Corlette at the Georgetown University Health Policy Institute has written.

What is the problem?

The problem is twofold: rate shock for medium-size employers and a rate increase for small employers.

Rate shock for medium-size employers

- Currently, many medium-size businesses pay less than they would if they were part of the small group market because they have healthier, younger employees. Small group market rules don't allow premiums to vary health status and also limit the degree to which premiums can vary by the ages of employees. Therefore, many medium-size employers with low premiums would face sharp premium increases, or "rate shock," in 2016 when they pay the rates as small employers. Specifically, nearly two-thirds of medium-size employers could face an average 18% hike in their premiums. While 2016 is more than a half-year away, the problem is urgent, as health plans will start filing their insurance premium rates on May 15, 2015 for the upcoming year. Since the Administration has not yet asserted that it has the authority to grant relief, Congress may need to act before the August recess to allow health plans time to file those rates for new policies and renewals that start on January 1, 2016.

- Once those medium-size employers with healthier employees experienced the rate shock, they could choose to self-insure, which would mean they would avoid having their insurance premiums blended with the larger insurance pool of small employers. The medium-sized employers that chose to purchase health insurance in the new small group market, rather than self-insure, would be on average, older and sicker, and average premiums would rise.

- Wouldn't medium-size employers see a reduction in premiums from being part of a bigger insurance pool that included small employers? No. Any savings from a larger pool would not be enough to offset the rate shock. Moreover, the economies from a larger insurance pool could occur without blending the rates through private health insurance exchanges that combine the purchasing power of individual employers.

Rate increase for small employers

- After the dust settled from the rate shock, small employers would see their insurance rates go up, too. As the American Academy of Actuaries points out, the insurance market for small employers would have, on average, more older and sicker employees because of the self-insurance among medium-size employers. As employers with healthier, younger employees pull out of the insurance pool to self-insure, the premiums for everyone else will go up.

- The rates for small employers whose rates were blended with medium-size employers could go up by as much as 5% according to an Oliver Wyman study.

Our recommendation:

First, the Administration should delay the blending of insurance rates for the small and medium-size employers for at least one year. Several Members of Congress have recently urged the administration to do so, and we support those efforts. The administration has already minimized disruption to current health care coverage by delaying the implementation of several provisions—including the employer responsibility requirement (also known as the employer mandate) and full operation of the Small Business Health Options Program (SHOP) exchanges, among others.

Second, enact a long-term fix. An important starting point for a legislative fix is a bipartisan bill (S. 1099/H.R. 1624) introduced by Sens. Tim Scott (R-SC) and Jeanne Shaheen (D-NH) and Reps. Brett Guthrie (R-KY) and Tony Cárdenas (D-CA). The Protecting Affordable Coverage for Employees (PACE) legislation would stop potential health insurance rate shock by allowing states to choose whether to maintain the status-quo small group market or expand the pool to mid-sized employers.

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