

**STATEMENT OF
CHIQUITA BROOKS-LASURE**

**DEPUTY DIRECTOR, POLICY & REGULATION
CENTER FOR CONSUMER INFORMATION
& INSURANCE OVERSIGHT
CENTERS FOR MEDICARE & MEDICAID SERVICES**

**ON
IMPLEMENTATION OF THE AFFORDABLE CARE ACT:
UNDERSTANDING SMALL BUSINESS CONCERNS**

**BEFORE THE
U.S. SENATE COMMITTEE ON
SMALL BUSINESS & ENTREPRENEURSHIP**

JULY 24, 2013

Statement of Chiquita Brooks-LaSure on

“Implementation of the Affordable Care Act: Understanding Small Business Concerns”

U.S. Senate Committee on Small Business and Entrepreneurship

July 24, 2013

Chairman Landrieu, Ranking Member Risch, thank you for the opportunity to discuss the many benefits that the Affordable Care Act will provide for small businesses. On October 1, 2013, the Health Insurance Marketplace will be open for business, providing Americans, including small businesses, with a new way to shop for health insurance coverage. For small businesses, the Small Business Health Options Program (SHOP) will provide a new, streamlined way for small employers to offer health insurance to their employees. The SHOPS are designed to offer the same level of benefits and coverage that has been available to larger employers, while helping small employers better predict and control health insurance expenses. There have already been signs that the Marketplaces will offer lower-cost plans than are currently available to small businesses today.

Although many small employers would like to offer their employees health benefits, they have faced many challenges. Historically, small businesses have been charged 18 percent more for the same benefits compared to large employers. It has been difficult for employers to comparison shop. Small businesses employing women or workers with chronic or high-cost illnesses, and other pre-existing conditions have faced higher insurance rates in most states. Changes in health status or gender mix of employees have added to the unpredictability of increases in a small group’s premiums. The Affordable Care Act will remove these obstacles and help small employers provide their employees with high quality, affordable health care coverage.

Reforms are Already Helping to Make Insurance More Affordable and Comprehensive

The Affordable Care Act is already ensuring that small employers are getting better value for their premium dollar. Before the Affordable Care Act, Americans watched their premiums double over the previous decade, oftentimes without explanation or review. In an effort to slow

health care spending growth and give all Americans more value for their health care dollars, the Affordable Care Act has brought an unprecedented level of scrutiny and transparency to health insurance rate increases by requiring an insurance company to justify a rate increase of 10 percent or more for plans in the individual and small group markets, shedding light on arbitrary or unnecessary costs.

Since the rule on rate increases was implemented,¹ the number of requests for insurance premium increases of 10 percent or more plummeted from 75 percent to an estimated 14 percent. The average premium increase for all rates in 2012 was 30 percent below what it was in 2010. Available data suggest that this slowdown in rate increases is continuing into 2013.² Americans have saved an estimated \$1 billion on their health insurance premiums thanks to rate review. Even when an insurer decides to increase rates, consumers are seeing lower rate increases than what the insurers initially requested. More than half of the requests for rate increases of 10 percent or more ultimately resulted in issuers imposing a lower rate increase than requested or no rate increase at all.

Furthermore, the rate review program works in conjunction with the 80/20 rule (or the Medical Loss Ratio rule),³ which requires insurance companies to spend at least 80 percent (85 percent in the large group market) of premiums on health care, and no more than 20 percent (15 percent in the large group market) on administrative costs (such as executive salaries and marketing) and profits. If they fail to do so, they must provide rebates to their customers. In 2012, the 77.8 million consumers in the three markets covered by this 80/20 rule saved an estimated \$3.4 billion upfront on their premiums because of the 80/20 rule and other Affordable Care Act programs. Additionally, consumers will save \$500 million in rebates, with 8.5 million enrollees due to receive an average rebate of approximately \$100 per family.⁴

¹ Health Insurance Rate Review – Final Rule on Rate Increase Disclosure and Review: <http://www.gpo.gov/fdsys/pkg/FR-2011-05-23/pdf/2011-12631.pdf>

² ASPE Research Brief: Health Insurance Premium Increases in the Individual Market Since the Passage of the Affordable Care Act <http://aspe.hhs.gov/health/reports/2013/rateIncreaseIndvMkt/rb.cfm>

³ MLR Final Rule: <https://www.federalregister.gov/articles/2012/05/16/2012-11753/medical-loss-ratio-requirements-under-the-patient-protection-and-affordable-care-act>

⁴ <http://www.cms.gov/CCIIO/Resources/Forms-Reports-and-Other-Resources/Downloads/2012-medical-loss-ratio-report.pdf>

Moreover, insurance companies cannot rescind people's coverage because they made an unintentional mistake on their application⁵ and cannot place lifetime limits on the dollar value of essential health benefits. Group health plans, group health insurance plans, and non-grandfathered individual health insurance policies also are restricted in the annual dollar limits they can place on essential health benefits, depending on the plan year. For plan or policy years beginning in 2014, group health plans, group health insurance plans, and non-grandfathered individual health insurance policies will be prohibited from imposing annual dollar limits on essential health benefits. This change will help ensure that Americans will no longer worry about hitting a an annual cap , which could force a consumer to either pay out of pocket for health care costs above the dollar limit or forgo necessary care.

Small Business Health Options Program (SHOP)

Beginning on October 1, 2013, many small employers will be able to choose from coverage options through the Small Business Health Options Program, or SHOP, for their employees for coverage beginning as soon as January 1, 2014. SHOPS in every state will offer a single point of entry for small employers and their employees to apply for coverage, and if eligible, the employer may qualify for a tax credit worth up to 50 percent of the employer's premium contribution.

In 2014 and 2015, in most states, the SHOPS will be open to small employers with 50 or fewer full-time equivalent employees. In 2016, the program will be open to businesses with 100 or fewer full-time equivalent employees, and states could choose to expand eligibility to businesses of that size before 2016. In 2014, the Federally-facilitated SHOPS will allow employers to choose one qualified health plan from a range of plans to offer their employees. Also in 2014, state-based SHOPS will have the flexibility to decide to give employers the option of allowing their employees to choose from a number of plans, or having employers offer their employees one qualified health plan that the employer chooses from among all the plans available in the market. In plan years beginning on or after January 1, 2015, all SHOPS must allow small businesses' employees the option to choose coverage from a number of plans.

⁵ For an example see: <http://www.healthcare.gov/law/features/rights/cancellations/index.html>

New Market Rules Make Coverage More Affordable

For plan years beginning in 2014, new market rules will ensure that premiums for most health insurance plans available to small employers will not vary based on what type of small business they cover or the health status of the firm's employees. Premiums can only vary by age, tobacco use, family size, and geography. Small businesses will no longer be penalized due to the health status or gender of their employees, and insurers will face limits on charging additional premiums for older employees. These reforms will protect small businesses and their employees purchasing coverage both inside and outside of the SHOs.

Small employers and their employees can be confident that health insurance plans will cover the important health care services they need. Most plans, including all plans in the SHOs, must cover essential health benefits,⁶ which include items and services in ten statutory benefit categories, such as ambulatory patient services (including doctors' visits), hospitalization, prescription drugs, and maternity and newborn care. These benefits must be equal in scope to a typical employer health plan. Also, these plans must meet certain actuarial values: 60 percent for a bronze plan, 70 percent for a silver plan, 80 percent for a gold plan, and 90 percent for a platinum plan. Actuarial value means the average percentage paid by a health plan of the total allowed costs of benefits. For example, if a plan has an actuarial value of 70 percent, the average consumer could expect to be responsible for approximately 30 percent of the costs of the essential health benefits the plan covers. These tiers will allow consumers to compare plans with similar levels of coverage, which, along with comparing premiums, provider participation, and other factors, will help consumers make more informed decisions.

Competition and Small Business Tax Credits Make Coverage More Affordable

There are signs that competition between plans is resulting in lower prices for consumers. The lowest cost silver plan available to small employers in 2014 in the six states with available data is estimated to be 18 percent less expensive, on average, than the average premium that small employers would be paying for a pre-Affordable Care Act silver plan trended forward.⁷

The Affordable Care Act created the Small Business Health Care Tax Credit to help small employers of lower wage workers afford a significant contribution towards workers' premiums.

⁶ Essential Health Benefits: <http://www.gpo.gov/fdsys/pkg/FR-2012-11-26/html/2012-28362.htm>

⁷ ASPE Issue Brief: Market Competition Works: Proposed Silver Premiums in the 2014 Individual and Small Group Markets Are Nearly 20 Percent Lower than Expected, July 18, 2013

An employer may qualify for a tax credit if it has fewer than 25 full-time equivalent employees making an average of less than \$50,000 a year. To qualify for the Small Business Health Care Tax Credit, an employer must pay at least 50 percent of the premium cost of employee-only (not family) coverage for each of its employees. Starting in 2014, the tax credit is worth up to 50 percent of the employer's contribution towards employees' premium costs (up to 35 percent for tax-exempt employers). The tax credit will help lower the cost of offering health care coverage.

Better Way to Shop for Coverage

When open enrollment in the SHOP begins on October 1, many small employers will find it much easier to find and compare plans, select the option that is best for their employees, and enroll in coverage. Today, many small group market applications are extremely text-heavy, with limited instructions crowded too closely together and limited sections to assist applicants navigating through enrollment forms. Additionally, many such applications require users to jump back and forth between sections to determine what information should be completed in each section, and for whom. They tend to be process-oriented applications that require repeated entry of individuals' names and information in response to questions. In addition, many small group applications today require consumers to fill out long health history information used for rating purposes.

The SHOP employer and employee applications, models of which are already available online, are smart, dynamic tools that will ask an applicant only the questions relevant to establishing eligibility for that applicant, based on his or her particular situation. For example, different questions are displayed for an employee depending on whether the employer has offered dependent coverage. Some questions will also be clearly marked as optional. Clear instructions will help applicants apply online, and the website for the Federally-facilitated SHOP, HealthCare.gov also includes information about the number to call in order to get help by phone, if needed. HealthCare.gov will also link to State-based SHOPS and the applications in use by those SHOPS.

In June of this year, CMS re-launched a new consumer-focused HealthCare.gov website and the 24-hours-a-day consumer call center to help Americans prepare for open enrollment and ultimately purchase affordable health care coverage. To provide additional assistance to small businesses, CMS will open a SHOP call center next month. Until open enrollment begins, the call center will provide basic educational information about the SHOP for small employers. Beginning October 1, the call center will provide customer service support, including enrolling employers in insurance plans, and helping them access the application and enrollment system. The call center will also assist agents, brokers, Navigators, and other Marketplace Assisters working on behalf of small employers. These new tools will help small businesses understand their choices and select the coverage that best suits their needs when open enrollment begins October 1. Additionally, agents and brokers will play a vital role in the SHOPS, as they do in the small group market today. Agents and brokers act as trusted counselors, providing service at the time of plan selection and enrollment and customer service throughout the year.

Conclusion

For too long, small business owners have struggled to keep up with the ever-rising cost of health insurance for their employees. The Affordable Care Act makes it easier for businesses to find better coverage options and builds on the employer-based insurance market already in place. The SHOP, combined with new insurance reforms and tax credits provided by the Affordable Care Act, will give employers new options to provide their employees with high quality, affordable health care coverage. The SHOP will allow employers to avoid the confusion that can currently come with looking for coverage, allowing them to make an apples-to-apples comparison between plans and apply using a streamlined application. I look forward to continuing to work with you to improve the health care options for America's small businesses.