

# Small Employer Health Options Program (SHOP): Options and Recommendations

## Executive Summary (See Report, pages 1 to 5)

The staff of the California Health Benefit Exchange, with support from PricewaterhouseCoopers, has prepared a series of briefs to help inform the Exchange Board of some of the issues pertaining to the establishment of the Small Business Health Options Program exchange. The briefs offer final recommendations for the Board's consideration.

Board Recommendation Briefs	Board Background Briefs
<ul style="list-style-type: none"><li>• Exchange QHP and SHOP Guidelines</li><li>• Individual Exchange QHP Alignment</li><li>• Extent of Employer Versus Employee Choice</li><li>• SHOP Agent and General Agent Strategy</li><li>• Small Employer Benefits Administration and Ancillary Benefit Options</li><li>• Employer Contribution and Participation Options</li></ul>	<ul style="list-style-type: none"><li>• Promoting Employer Tax Credit for Health Coverage</li></ul>

# Where we are and where we're going...

- Developed options and recommendations informed by stakeholder input, review of national lessons and expert advice
- Providing an overview of options and recommendations for board action
- Comments invited at this board meeting on revised recommendations
- Exchange Board Action on Final Recommendations
- Further research of outstanding issues and continued work to develop details

# California Health Benefit Exchange Guidelines for Selection & Oversight of QHP (See Report, pages 6 to 9)

- I. **Promote affordability** for the consumer and small employer – both in terms of premium and at point of care .
- II. **Assure access to quality care** for consumers presenting with a range of health statuses and conditions
- III. **Facilitate informed choice of health plans and providers** by consumers and small employers .
- IV. **Promote wellness** and prevention .
- V. **Reduce health disparities** and foster health equity
- VI. **Be a catalyst for delivery system reform** while being mindful of the Exchange' s impact on and role in the broader health care delivery system .
- VII. **Operate with speed and agility** and use resources efficiently in the most focused possible way

# SHOP and Individual Exchange QHP Alignment

## Board Recommendation Brief (See Report, pages 10 to 18)

Under California law, the California Health Benefit Exchange will establish a small business exchange that is separate from the individual market exchange. The Exchange will need to consider how closely aligned the QHPs should be between the two exchanges to ensure adequate choice for the participants of each.

### Options for Alignment of Health Plan Issuers Between Exchanges

Option A1: Full Alignment	Option A2: Partial Alignment	Option A3: No Required Alignment
Health plans participate in both individual and SHOP exchanges. Contracts are only awarded to issuers that can serve both markets.	Health plan participate in both the individual and SHOP exchanges. Exchange permits health plans that only want to participate in one exchange on an exception basis.	Health plans participate in either Exchange.

### Options for Alignment of Benefit Plan Offerings Between Exchanges

Option B1: Full Alignment	Option B2: Partial Alignment	Option B3: No Required Alignment
Benefit plan offerings would be identical in both exchanges.	Benefit plan offerings would be consistent in both exchanges, with the possibility of some differences to meet the needs of Individual and Small Group enrollees.	Benefit plan offerings are unique to each Exchange.

**Recommendation:** Partial alignment of Issuers and Benefit Plan Offerings (Options A2 and B2)

# Extent of Employer Versus Employee Choice

## Board Recommendation Brief (See Report, pages 19 to 28)

The Exchange considered the extent to which employers and employees will have a choice of health plans and benefit designs under the SHOP exchange, including whether the Employer should make all choices of both Issuer and coverage level, or the Employee should have full or partial choice. The final decision on level of choice will depend in part on other SHOP configuration decisions, such as the number and standardization of benefit offerings.

### Options to Optimize Employer and Health Plan Participation

Option 1: Employer chooses issuer and tier	Option 2: Employer chooses issuers, employee chooses tier	Option 3: Employer chooses tier, employee chooses issuer	Option 4: Paired or defined choice	Option 5: Full employee choice	Option 6: Paired/Defined Choice with Limited Tier options
Employer selects the health plan and coverage level within the available SHOP options.	Employer chooses among available health plans and allows the employee to select the level of coverage among metal tiers.	Employer establishes the metal tier for all employees, and allows employee to select among available health plans.	Employer chooses a specific combination of health plans for employees to select from. Further choice may or may not be available among coverage tiers.	Employer determines maximum contribution made on behalf of employees, and allows employee to select health plan and coverage level.	Employer chooses two issuers among the available options, and chooses two or more contiguous Tier options to be made available to their employees.

**Revised Recommendation:** All small employers (2 - 50 employees) choose a coverage tier and employees choose among the offered plans (Option 3). Additionally, employers with 10 - 50 employees also have the option to operate under a Paired Choice with Limited Tier Options approach (Option 6)

# SHOP Agent Strategy

## Board Recommendation Brief (See Report, pages 29 to 43)

Agent engagement and structure of the agent payments have important implications for sales and distribution of the SHOP Exchange products. For Small Employers, in particular, agents serve as an important distribution channel. The method for compensating agents, and the alignment of compensation amounts to the external market are important considerations.

### Options to Optimize Agent Commission Payments

Option 1: Match commissions (Plan pays)	Option 2: Match commissions (Exchange pays)	Option 3: Exchange sets and pays commissions
Exchange matches health plan commissions and health plans administer payments to agents.	Exchange administers payments to agents. Exchange would offer agent compensation competitive with the market standard in 2014.	Exchange sets rates for agents considering current market standards, and issues payments to them.

**Recommendation:** Exchange will provide “market competitive” agent payment levels (Option 2). Since there is no consistent market standard for agent commissions, the exchange cannot match.

# SHOP General Agent Strategy

## Board Recommendation Brief (See Report, pages 29 to 43)

Sales distribution through general agents and the associated compensation (overrides) in addition to agent compensation has important implications for sales and distribution of the SHOP Exchange products. For agents serving the Small Employers segment, general agents serve as a significant distribution partner and aggregator of multiple carrier proposals and rates, among other services. The method for compensating general agents, and the alignment of compensation amounts to the external market are important considerations.

### Options for General Agent Strategy

Option 1: Exclude General Agents	Option 2: Some General Agents	Option 3: All General Agents
Exchange does not contract with GA's and instead works directly with issuers for sales and enrollment resource.	Exchange allows GA's to bid for distribution rights. Exchange selects (2-4) winning bidders based on standardized RFP criteria.	Exchange prepares standard GA contract with set terms and conditions. Standard GA offer extended to all general agents (approximately 6-10 in CA) who meet set criteria specified in RFI prepared by exchange.

**Revised Recommendation:** Meet with GA's and Plan Issuers to review above options; Establish QHP Review Board to evaluate general agent standards or bids if Option 2 or 3 is selected.

# Small Employer Benefits Administration and Ancillary Benefit Options

## Board Recommendation Brief (See Report, pages 44 to 53)

The Exchange may provide health and administrative support that best serves the needs of small businesses. By aggregating services to administer COBRA and Cal-COBRA, Flexible Spending Accounts, and Health Spending Accounts, the Exchange has the potential for providing value-added benefits that facilitate one-stop shopping at a modest cost.

### Options to Optimize Benefit Administration Support

Option A1: Minimal role	Option A2: Mixed vendor limited employer benefits administration	Option A3: Full-service vendor-supported benefits administration
Exchange undertakes a minimal role and offers Cal-COBRA and COBRA administration only	Exchange engages vendor(s) to provide select employer benefit administration services and may offer some services directly.	Exchange engages a single vendor to provide an array of employer benefits administration services.

### Options to Optimize Ancillary Benefit Support

Option B1: Specialty carriers	Option B2: Participating health plans
Exchange provides employer benefits administration services and offers ancillary benefits using specialty carriers.	Exchange provides employer benefits administration services and offers ancillary benefits through multiple participating health plans.

**Recommendation:** Exchange will explore vendor options for COBRA, FSA/HSA (Option A2) through specialty carriers and vendors on standalone basis. (Option B1)



# Employer Contribution and Participation

## Board Options Brief (See Report, pages 54 to 62)

### Employer Contribution and Participation Options

Small employer health plans require that the employer make a contribution to premiums for employees, typically at least 50% of the premium amount. The Exchange must consider the minimum employer premium contribution requirement for participation in the SHOP, as well as the minimum percentage of an employer’s eligible employees that are required to participate, to guard against adverse selection. Market standards for minimum employee participation levels should also be followed, and the Board should consider whether to deviate from minimum market standards for employer contribution levels, while also considering the contribution needed to qualify for the small employer tax credit.

#### Employer Contribution Options

Option 1: Require contributions consistent with current market underwriting rules	Option 2: Require contributions at least meet minimum federal tax credit	Option 3: Require contributions at a level higher than current market or federal tax credit
Establishes minimum employer contributions at levels consistent with the current small employer market.	Establishes minimum employer contributions at levels that ensure the tax credit can be taken, if other requirements are satisfied.	Establishes minimum employer contributions at levels higher than the current market or federal tax credit requirements to qualify for a tax credit to support more affordable coverage for employees.

**Recommendation:** Require contributions consistent with current market underwriting rules (Option 1)

# Promoting Employer Tax Credit for Health Coverage

## Board Background Brief (See Report, pages 63 to 65)

The Affordable Care Act provides for a Small Employer tax credit to offset a portion of the cost of providing health insurance for some small employers. To date the Tax Credit has been used by only a small portion of eligible employers. Reason cited for the relatively low adoption of the tax credit has been that it is generally not well understood by small businesses and that it may be of marginal benefit to many small employers given their tax liability. More than 375,000 small employers in California are estimated to be eligible for the credit.

Promotion of the small employer tax credit should be considered a core marketing feature to support development of the SHOP marketing strategy.

# Next Steps

- Comments invited:
  - Submit comments to [info@hbex.ca.gov](mailto:info@hbex.ca.gov)
  - Please use Comment Form available at Stakeholder Section of the Exchange Website
- Staff will follow up on current revisions (SHOP General Agent Strategy & Employer/Employee Choice) and prepare final recommendations for the Exchange Board
- Exchange Board decisions (August board meeting)
- Further research of outstanding issues and continued work to develop details – (SHOP Operations Outsource)