



August 21, 2012

Mr. Peter V. Lee
Executive Director
California Health Benefit Exchange
2535 Capitol Oaks Drive, Suite 120
Sacramento, California 95833

RE: Small Business Health Options Program (SHOP) Final Board Recommendations

Dear Peter,

We are writing in regards to the revised and final board recommendations posted on August 20, 2012 for the Small Business Health Options Program (SHOP). We welcome the opportunity to comment on these issues to help ensure affordable, quality healthcare options are available to California's more than 700,000 small employers.

Employee Choice

The SHOP Exchange will offer many benefits to small employers and their workers that are typically reserved for large companies. One of the most important features is allowing business owners to offer their employees a choice of healthcare products, rather than a "one-size fits all plan" that many offer today. This feature is essential to differentiate the SHOP from the products available on the outside market. Research recently released by Small Business Majority and Kaiser Permanente shows that employee choice is popular amongst the state's small business owners. Of businesses that plan to provide coverage in 2014, 67% say employee choice makes the SHOP more attractive. While employee choice is essential to a successful SHOP, small employers top healthcare concern is the affordability of health insurance. We appreciate the staff's work to date to find the appropriate balance of employee choice while ensuring affordable products.

We support the staff's recommendation to offer Option A where the employer selects one tier and each employee chooses from all available carriers. This will allow for maximum competition as carriers will compete for business one worker at a time. Further, we are aware of no evidence that this type of choice adds significantly to premiums.

On the other hand, we understand that providing employees with choice among different tiers could potentially lead to adverse selection, and therefore higher costs. We appreciate Option B which, for business with more than 10 workers, allows for some choice amongst tiers but limits it to two contiguous levels. Placing reasonable limits on choice of tiers will help guard against adverse selection. However, we have concerns about Option B only allowing for employee choice between two carriers within each tier. We do not believe this allows for enough competition amongst insurance carriers. Businesses with employees throughout the state, for example, would feel compelled to select two large, statewide carriers as their "paired choice", thus placing local plans and CO-OPs at a competitive disadvantage. Instead, we encourage the Board to expand Option B by allowing employers to select up to three carriers to ensure for additional competition.

Regarding Option C, which allows for unfettered choice among tiers, but only one carrier with in each tier – this would increase the amount of choice and would avoid a competitive disadvantage in the Exchange for businesses that currently use this product outside the Exchange. On the other hand, based on actuarial evidence we have examined it could be very expensive and add to the cost of many of the SHOP’s products. We appreciate the staff’s intent to conduct further analysis on this option before making a final recommendation.

SHOP Agent Strategy

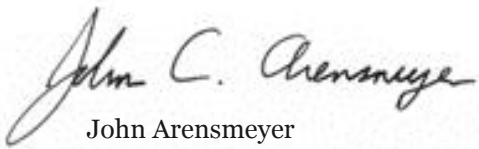
Insurance agents currently assist about 75% of California small business owners who offer insurance with the complicated process of selecting, purchasing and administering health benefits, according to research conducted by Pacific Community Ventures. What’s more, 75% of small employers that use an agent say they are satisfied or highly satisfied with them, according to polling by Small Business Majority and Kaiser Permanente. It is clear that agents must have a role in the SHOP and must be compensated competitively. We support the revised recommendation (Option B) to have the Exchange match commissions to the outside market. The viability of the SHOP could be threatened if agents have a financial incentive to sell non-Exchange products, thus we support the staff’s intent to ensure a level-playing field between the SHOP and the outside market.

Administrative and Ancillary Benefit Options

Another key component of the SHOP Exchange is its ability to assist small businesses with the immense administrative burdens related to offering health benefits. Roughly 80% of small businesses have fewer than 10 workers and generally do not have sophisticated human resources departments to handle this type of work. While business owners are primarily looking for affordable products, they also find the prospect of a true “one-stop shop” appealing. We therefore appreciate the staff expanding this recommendation to include the option for standalone dental and vision plans. While we do not believe dental and vision plans are essential for the SHOP to have on Day One, the staff should explore the viability of providing such products as soon as possible.

Thank you for your consideration. We look forward to continuing to work with the Board and staff to build an affordable, competitive health exchange for small businesses.

Sincerely,



John Arensmeyer
Founder & CEO

cc: Mr. Michael Lujan, Director, Small Business Health Options Program