



September 14, 2012

Mr. Peter V. Lee
Executive Director
California Health Benefit Exchange
560 J Street, Suite 290
Sacramento, California 95814

RE: Small Business Health Options Program (SHOP) Policy and Administrative Options

Dear Peter,

We are writing in regards to the Small Business Health Options Program (SHOP) policy and administrative board recommendations presented at the August 23, 2012 Exchange Board meeting. The SHOP has a tremendous opportunity to provide small employers access to affordable, quality coverage so we appreciate the Board and staff's attention to these important issues.

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 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 therefore must find the appropriate level of employee choice while ensuring affordable products.

We strongly 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. And importantly, 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 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 see no compelling reason for Option B to limit choice between only two carriers within each tier. We do not believe this allows for enough competition amongst insurance carriers. We urge the Board to expand Option B by allowing employers to select at least three carriers to ensure for additional competition.

We also have concerns regarding Option C, which allows for unfettered choice among tiers but no choice between carriers. Based on actuarial evidence we have examined, this option could be very expensive and add to the cost of many SHOP products. Further, this provides for no competition

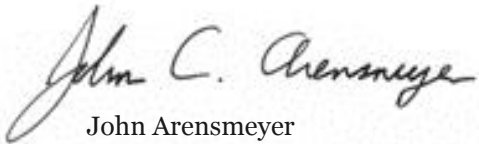
between carriers, an essential component of a robust, affordable Exchange. We encourage the Board to reject this proposal.

SHOP Administrative Options

Our case studies of previous public and private Exchanges throughout the country have shown one consistent lesson: a strong launch is absolutely essential. An Exchange that struggles out of the gate will continually find it difficult to attract large numbers of customers. If small business owners have an unpleasant experience with the SHOP, that word will spread and the Exchange will quickly build a negative reputation for itself. It is with this lesson in mind that we support the staff's recommendation to contract with a vendor to manage SHOP's administrative functions. Given the short timeframe, this will allow the Exchange Board and staff to spend time on issues such as health plan management, marketing and quality assurance. We have confidence that a qualified third-party vendor can meet the needs of California's small employers and their workers in time for the October 2013 launch.

Thank you for your consideration. Again, we appreciate the dedication you have shown to ensuring California's SHOP is a success and we look forward to continuing to work with you.

Sincerely,



John Arensmeyer
Founder & CEO

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