



# California Health Benefit Exchange

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Peter V. Lee

## Board Recommendation Brief Employer and Employee Choice in the Small Employer Health Options Program (SHOP) October 30, 2012

### Executive Summary

The California Health Benefit Exchange is establishing both individual and small business exchanges. At the August 2012 Board meeting, the staff of the California Health Benefit Exchange, with support from PricewaterhouseCoopers, presented a series of briefs to help inform the Exchange Board of the issues pertaining to the establishment of the small business exchange, or Small Business Health Options Program (SHOP). One of the briefs addressed Employer and Employee Choice – the extent to which employers and employees may select a plan tier or issuer when enrolling in a small group plan offer through the SHOP Exchange.

At the August Board meeting, Exchange staff presented six Employer and Employee Choice options for consideration. Based on Board member and stakeholder feedback, Exchange staff reconsidered the options and are now presenting this revised Recommendation Brief which narrows the potential options to three:

- **Option A. Employer Choice of Tier, Employee Choice of Issuer and Plan**
- **Option B. Paired/Defined Choice with Limited Tier**
- **Option C. Employer Choice of Issuers, Employee Choice of Tier**

Exchange staff initially recommended Options A and B and requested additional stakeholder comment on Option C. Since the August meeting, the Exchange staff solicited feedback from a wide range of stakeholders – consumer groups, health plan issuers, health insurance agents, actuaries, small business, industry, trade and professional associations across a broad geography. Informed by this input, and with consideration both of the Exchange's overall mission and values, Exchange staff recommend pursuing only Employer Tier Choice; Employee Issuer/Plan Choice (Option A) for launch in 2014. Exchange staff intend to revisit this matter and consider additional choice options for implementation beginning as early as July 2014.

## Extent of Employer and Employee Choice

The extent to which employers and employees will have a choice of health plans and benefit designs in the SHOP is a critical design element for the Exchange. The Affordable Care Act and federal regulations require that employers must have the option of choosing any coverage level and giving employees the choice of any QHP at that coverage level, offered by any issuer, which is available through the SHOP. The California Affordable Care Act requires issuers that offer products through the SHOP to offer products at all four coverage levels.

There are a number of options for determining the level of employer and employee choice in the SHOP, ranging from asking the employer to choose the level of coverage available to their employees, to giving the employees full choice of both issuer and metal tier. Exchange staff recommend that for the initial SHOP offering, it apply selection rules that will promote the availability of affordable products for small business and their employees, provide broad choice of product offerings with a greater level of standardization to health insurance options for small employers.

Following the August 2012 Board Meeting, Exchange staff revised and reconsidered Employer and Employee Choice Options A, B, and C which are summarized below (see Table 1 for a comparison of the options to get additional input).

- **Option A. Employer chooses tier, employee chooses issuer and plan:** Employer establishes the metal tier for all employees and allows employee to select among available health plans. The employer may choose to offer plans at any one of the bronze, silver, gold or platinum levels. (Note: this option is defined as a core offering under the Affordable Care Act)
- **Option B. Paired/Defined Choice with Limited Tier:** Requires that the employer choose two (or potentially three) issuers among the available options, and choose two or more contiguous Tier options to be made available to their employees. This option would be made available to employers with 10-50 employees.
- **Option C. Employer chooses issuers, employee chooses tier:** Employer chooses among available health plans and allows the employee to select the level of coverage among metal tiers.

## Recommendation

Following the August Board meeting, Exchange staff obtained additional actuarial input on these three options from several sources including Milliman, Wakely Consulting, and PricewaterhouseCoopers. Exchange staff also obtained feedback from issuers and other interested groups. Informed by this input, Exchange staff recommend starting the SHOP Exchange with only *Option A – Employer Choice of Tier, Employee Choice of Issuer and Plan*. Exchange staff recommend that the scope of employer and employee choice be regularly

revisited and additional choice options be considered for implementation beginning as early as July 2014, informed by enrollment data.

Employer Tier Choice; Employee Issuer/Plan Choice (Option A) is recommended for the following reasons:

- Introduces a new offering not widely available in the current market. The unique product offerings in Employee Choice will enhance the Exchange's appeal and ability to compete with the commercial market.
- Delivers the best balance of employee choice and affordability.
- Reflects policy that plans offered in the SHOP Exchange are expected to be offered at the same price for all small groups of 2-50 employees, and for all combinations of offerings.
- Reflects independent actuarial counsel that this mix of offering would be likely to reflect the most affordable and least subject to adverse selection.
- Helps initial launch to deliver a simple and friendly shopping and enrollment experience (communicating two or three choice options may be more complex to communicate to employers and employees).
- Complies with the Affordable Care Act.

Paired/Defined Choice with Limited Tier (Option B) was considered, but Exchange staff do not recommend pursuing this option at this time.

- There is concern that adverse selection between metal tiers and plan issuers in this option may impact premiums of all plans in the SHOP Exchange. The estimated impact of offering dual carrier or "pairing" options similar to that proposed, compared with "standard risk rating factor" is subject to uncertainty, but would be likely to lead to adverse selection. Because the Affordable Care Act does not allow for the differential pricing currently applied in the commercial market for this paired choice scenario, the rate impact would be spread across the entire risk pool but could have significant effects on plans' interest in participating in the SHOP.
- The extent to which the risk adjustment mechanisms provided by the Affordable Care Act would mitigate adverse risk selection and neutralize rate increases is still in development and issuers do not assure it will be fully effective. The Exchange Staff will follow and respond to updates and guidance from the federal Center for Consumer Information and Insurance Oversight (CCIIO) regarding these policies in the future.

Employer Choice of Issuer/Employee Choice of Tier (Option C ) was also considered, but Exchange staff do not recommend pursuing this option at this time.

- With Employer Choice of Issuer, risk selection may be impacted if more healthy populations select the Bronze level and less healthy populations (that utilize more healthcare services) select the Platinum level.
- Qualified Health Plans would likely need to load Bronze rates to ensure that sufficient premium revenue not collected in the Platinum tier can be captured, leading to less affordable offerings.

### Additional Options Considered But Not Recommended

The Exchange staff also presented additional options at the August Board meeting. These options are not recommended for further exploration. For reference, these options are summarized below (see Table 2 for a comparison of these options).

- **Option D. Full Employer Choice:** The employer, on behalf of employees, selects the health plan and coverage level within the available SHOP options.
- **Option E. Paired Choice:** The employer chooses a specific combination of issuers and qualified health plans from which employees can choose. Choice of qualified health plans within a metal tier may or may not be limited.
- **Option F. Full Employee Choice:** The employer determines the maximum contribution that will be made on behalf of an employee, and the employee can choose a qualified health plan among all issuers and metal tiers.

Table 1: Summary Comparison of Employer Choice Options Considered in October 30 Updated Board Recommendation Brief

Option A: Employer Choice of Tier / Employee Choice of Plan	Option B: Paired/Defined Choice with Limited Tier	Option C: Employer Choice of Issuer / Employee Tier Choice
<p><b>SUMMARY:</b> The employer establishes the metal tier for coverage for all employees; the employees choose among available health plans</p>	<p><b>SUMMARY:</b> The employer chooses two issuers in a paired choice offering to their employees, and chooses two or more contiguous coverage tiers. Pairings are not negotiated by the Exchange</p>	<p><b>SUMMARY:</b> The employer chooses among the available health plans for the geography, and allows the employee to determine the level of coverage among the metal tiers</p>
<p><b>PURPOSE:</b> Option ensures all employees of a given employer have the same level of coverage, but can choose among offered plans to allow employees to express their preference</p>	<p><b>PURPOSE:</b> Provides a hybrid of choice options to the employer and employee, ensuring the employee has choice within a relatively narrow range of options, with the employer choosing the combination of offerings that best meet their employees' needs</p>	<p><b>PURPOSE:</b> Option allows employees additional choice among coverage levels to better meet individual employee needs, but continues to work with a single health plan</p>
<p><b>PROS</b></p> <ul style="list-style-type: none"> <li>▪ Ensures a common level of coverage for all employees of a given employer</li> <li>▪ Allows employees to select health plan that best meets their provider and network coverage needs</li> <li>▪ Enhances competition among plans</li> <li>▪ Enhances continuity of coverage for employees that switch jobs</li> </ul>	<p><b>PROS</b></p> <ul style="list-style-type: none"> <li>▪ Provides options without overwhelming employee</li> <li>▪ Choice may encourage long term participation of employers in the Exchange</li> <li>▪ While some level of decision making by the employer is required, the extent is minimal and most decisions remain in the hands of the employees</li> <li>▪ Less susceptible to adverse selection than unlimited choice, so may be more attractive to issuers</li> <li>▪ Employer choice of pairings ensures a match to each employer's circumstances while reducing adverse effects of broader choice</li> <li>▪ Choice of two plan issuers often sufficient for larger employers</li> </ul>	<p><b>PROS</b></p> <ul style="list-style-type: none"> <li>▪ Increases options for employees, while minimizing selection challenges</li> <li>▪ Information on offered health plan is uniform for employees, so decision making can be focused on coverage level</li> <li>▪ Supports continuity of care if employee changes plans with same issuer at open enrollment.</li> <li>▪ Mitigates adverse selection as risk is contained within a single issuer</li> </ul>
<p><b>CONS</b></p> <ul style="list-style-type: none"> <li>▪ Less choice than Individual Exchange</li> <li>▪ Level of coverage may be insufficient to meet employee needs, without option to "buy up"</li> </ul>	<p><b>CONS</b></p> <ul style="list-style-type: none"> <li>▪ Compared to unlimited choice, some desired options may not be available</li> <li>▪ Larger groups with ten or more enrolled employees will have more choice options than smaller groups</li> </ul>	<p><b>CONS</b></p> <ul style="list-style-type: none"> <li>▪ Limits employee options, particularly if available network of selected plan is relatively narrow</li> <li>▪ Modest increase in options compared to purchasing in external market, may be insufficient to encourage broad participation</li> </ul>

## Reference Material

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