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Future of Obamacare Small Business Exchange Looks Grim

By Adam S. Beck, Esq.

Market realities pose big questions for the viability of Obamacare’s Small Business Health Options Program.

Imagine arriving to the opening of a brand new shopping mall only to find the parking lot empty and the only tenant a department store that is well beyond your budget. Small business owners looking forward to the launch of a program created by the Affordable Care Act.
designed to increase the number of small employers that offer health insurance are encountering a similarly disappointing experience.

The day before Thanksgiving, the Obama administration announced the delay of a significant piece of the Affordable Care Act that went largely unnoticed outside the world of healthcare policy experts. The Small Business Health Options Program, known as the SHOP Exchange, was to be (and will be) an online marketplace to enable small businesses to compare and purchase health plans for their employees. With so much public attention on the fumbled rollout of healthcare.gov, most people missed that the Exchange website is intended to serve two unique groups—individuals seeking to purchase insurance for themselves and their families, and small businesses hoping to find affordable group plans for their employees.

For small business owners, a dominant concern for decades has been the difficulty and costs associated with offering health insurance to their employees. Small businesses do not offer insurance carriers the larger, more actuarially attractive risk pools of large employers, and most do not have the resources to handle the administration of benefits that is generally the domain of human resources personnel at larger companies. The SHOP Exchange aims to offer an option for small businesses by giving them access to plans that are part of a risk pool that includes other small businesses in the same state, allowing them to enjoy the lower costs that should come with competition.

But something happened on the way to health benefit heaven. The SHOP Exchange has yet to get off the ground—and it’s destined to fail once it does. Here’s why:

1. **They held an exchange and nobody came.** The SHOP Exchange in most states—the 36 exchanges run by the federal government—has only one plan. That’s not exactly the textbook definition of competition. In the states that are operating their own exchanges, a lot of insurers have opted out of the small business exchange. Connecticut is a prime example. The state runs its own exchange and has plans available for small businesses, but it faces competition from the Connecticut Business and Industry Association, a trade association that has been offering plans to small businesses for nearly two decades. The Association offers plans from three carriers, including two that are not available through the state’s SHOP Exchange. With lackluster enrollment figures, more carriers are not likely to jump on the SHOP bandwagon in the coming years.

2. **The premiums are higher.** If small business owners expect to log into the SHOP website when it’s functioning and find premiums they can afford, they are likely to be disappointed. Most of the plans offered on the SHOP Exchange are more expensive than those available to small businesses off the exchange. Some are even more expensive

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than comparable individual policies available, even before taking into account the subsidies available to most customers. And that’s the big drawback of the small business exchange—there are no subsidies. A modest tax credit is available for two years to certain small employers, but it’s too complicated to obtain and its incentives too small. A small business owner who wants his/her employees to have health coverage would be better off encouraging them to purchase a subsidized plan through the individual exchange than incurring the cost of an employer-sponsored plan. The employee will pay less and have more options, and the employer will be saved costs and administrative tasks.

3. **Substantial administrative tasks come with offering employee health benefits.** Most small businesses lack the human resources staff that larger companies have to ensure successful benefits administration. This creates an opportunity for brokers, however, to serve the needs of small business clients who are eager to offer health benefits.

The better option for small businesses looking to offer their employees health benefits would be a defined contribution plan. Employers can still enjoy the tax advantages of compensating employees with health benefits while giving employees the freedom to choose a plan that fits their needs and taking advantage of the federal subsidies available. The SHOP Exchange is a well-intentioned program, but market realities doom it to fail like the empty shopping mall.

**WORKPLACE WELLNESS PLANS**

The Affordable Care Act (ACA) makes $200 million available, starting this year, for small businesses with fewer than 100 employees—if the business sets up a workplace wellness program.

- Wellness programs increase productivity and morale while lowering health care costs.
- The ACA creates two types of programs: participatory (you must attend something to get the financial benefit) and health contingent (you must achieve a measurable health goal).
- Incentives have increased: Employers can now charge health-contingent participants 30 percent less for health insurance premiums (50 percent less for smoking cessation programs).
- Wellness programs can include blood pressure and cholesterol screening, exercise classes, gym memberships, weight loss programs, smoking cessation programs and health classes.