

**STATEMENT OF**

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**ON**

**AN UPDATE ON THE SMALL BUSINESS HEALTH OPTIONS PROGRAM: IS IT  
WORKING FOR SMALL BUSINESSES?**

**BEFORE THE**

**U. S. HOUSE COMMITTEE ON SMALL BUSINESS  
SUBCOMMITTEE ON HEALTH AND TECHNOLOGY**

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**Statement of Mayra E. Alvarez on  
“An Update on the Small Business Health Options Program: Is It Working for Small  
Businesses?”**

**U.S. House Committee on Small Business Subcommittee on Health and Technology  
September 18, 2014**

Chairman Collins, Ranking Member Hahn, thank you for the opportunity to discuss the many benefits that the Affordable Care Act is providing for small businesses. The Affordable Care Act has improved the insurance market for small employers, making it easier for them to find and purchase employee health coverage. Qualified small employers can now purchase coverage for their employees using the Small Business Health Options Program (SHOP), and small businesses are receiving a more generous tax credit in 2014 for offering their employees a qualified health plan through the SHOP in their states. Small employers will see even greater options this fall when the online functions of the Federally-facilitated SHOP Marketplace, and those of many state-based SHOPS, become available on November 15.

In the past, although many small employers have wanted to offer health benefits to their employees, they have faced many challenges. Historically, small businesses have been charged 10 to 18 percent more for the same benefits compared to large employers.<sup>1</sup> Small businesses employing women or workers with chronic or high-cost illnesses, or with pre-existing conditions, have faced higher insurance rates in most states. Because small firms have fewer employees to pool than larger firms, premiums varied dramatically from year to year due to changes in just one or two workers' health status or because of small changes in the ratio of male to female employees. The Affordable Care Act limits the factors insurers can use in determining what they charge small business and thus helps provide small businesses more predictable rates. In doing so, the law helps small employers provide their employees with high-quality, affordable health care coverage that cannot be priced so high that it's out of reach for businesses just because someone gets sick.

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<sup>1</sup>[http://www.commonwealthfund.org/~media/Files/Publications/In%20the%20Literature/2006/May/Benefits%20and%20Premiums%20in%20Job%20Based%20Insurance/Gabel\\_benefitspremiumsjobbased\\_925\\_itl%20pdf.pdf](http://www.commonwealthfund.org/~media/Files/Publications/In%20the%20Literature/2006/May/Benefits%20and%20Premiums%20in%20Job%20Based%20Insurance/Gabel_benefitspremiumsjobbased_925_itl%20pdf.pdf)

## **Affordable Care Act Implementation: Building on Progress in Affordability, Access and Quality**

A new wave of evidence shows that the Affordable Care Act is working to make health care more affordable, accessible and of a higher quality, for families, seniors, businesses, and taxpayers alike. Thanks to the Affordable Care Act, consumers today enjoy better access to affordable health coverage, stronger protections in the case of illness or changes in employment, and a competitive Marketplace that allows them to choose from and enroll in insurance coverage that is right for them. Millions of people – including many of the self-employed – have obtained private insurance coverage in the Marketplace, over seven million children, families, and individuals have gained coverage through Medicaid and CHIP, and more than three million young adults gained or retained insurance under the Affordable Care Act by staying on their parents’ plan.

Recent years have seen historically low growth in overall health spending, and a variety of recent data show that very slow growth in health care costs is continuing.<sup>2,3</sup> In fact, just last week, the Kaiser Family Foundation and Health Research and Education Trust reported that premiums for small businesses rose by just 1.7 percent from 2013 to 2014, the smallest increase since the organizations’ survey began in 1999.<sup>4</sup> These increases are far below the double-digit increases small businesses experienced in the decade before the Affordable Care Act was enacted.

Several recent reports make clear that the Affordable Care Act is reducing the uninsured rate. A study published in the *New England Journal of Medicine* found that, as compared with the baseline trend, the non-elderly uninsured rate declined by 5.2 percentage points by the second quarter of 2014, a 26 percent relative decline from the 2012–2013 period, corresponding to 10.3 million adults gaining coverage.<sup>5</sup> These independent surveys point to the same overarching trend—the success of the Affordable Care Act in lowering the number of uninsured Americans.

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<sup>2</sup> Council of Economic Advisers. 2014. “Recent Trends in Health Care Costs, Their Impact on the Economy, and the Role of the Affordable Care Act.” *Economic Report of the President*, [http://www.whitehouse.gov/sites/default/files/docs/erp\\_2014\\_chapter\\_4.pdf](http://www.whitehouse.gov/sites/default/files/docs/erp_2014_chapter_4.pdf)

<sup>3</sup> Jason Furman. “Good News on Employer Premiums Is More Evidence of a Dramatic Change Economic Change for the Better,” [http://www.huffingtonpost.com/jason-furman/good-news-on-employer-pre\\_b\\_5798244.html](http://www.huffingtonpost.com/jason-furman/good-news-on-employer-pre_b_5798244.html)

<sup>4</sup> <http://kff.org/report-section/ehbs-2014-section-one-cost-of-health-insurance/>

<sup>5</sup> New England Journal of Medicine, Health Reform and Changes in Health Insurance Coverage in 2014.

The Affordable Care Act benefits Americans broadly, not simply those who are newly insured. Over the past three years, Americans have benefitted from insurance reforms that have already gone into effect, such as allowing adult children up to age 26 to stay on their parents' insurance, eliminating lifetime dollar limits on essential health benefits, and prohibiting rescissions of insurance when someone gets sick. Preventive benefits, including wellness visits and certain cancer screenings with no cost sharing, as well as new incentives to pay doctors and hospitals for improving outcomes, are aimed at improving the quality of the health care that Americans receive. Now pre-existing conditions no longer preclude individuals from gaining health insurance, and consumers have better access to comprehensive, affordable coverage. Consumers now have the comfort of knowing that if their employment changes or they lose their current coverage, they can purchase affordable coverage through the Marketplace—regardless of their personal health history—or have access to Medicaid in many states. Small business owners can be assured that they will not face wide variations and high volatility in premiums based on the type of work they do or the health status of their workers.

The Affordable Care Act's reforms are effective because they have benefits across the health care system. Reductions in the uninsured rate should mean doctors and hospitals provide less uncompensated care, a cost that is often passed along to taxpayers, as well as consumers and employers who pay premiums for health coverage. And new pools of people buying insurance means insurers have an opportunity to grow by competing to provide better access to quality, affordable choices—the same advantages that consumers are used to in any competitive marketplace. The creation of a viable health insurance market benefits all Americans, no matter where they get their health insurance.

### **Small Business Health Options Program (SHOP)**

The Affordable Care Act established the Small Business Health Options Program (SHOP) to make it easier for small businesses to obtain health coverage for their employees. Just as in the individual Marketplaces, the SHOP allows small businesses to easily compare and select plans that meet the needs of their employees. In 2014, the SHOP opened to small employers with 50 or fewer full-time equivalent employees. In 2016, the program will be open to businesses with 100 or fewer full-time equivalent employees. It is important to remember that unlike the

individual Marketplace, eligible employers can begin participating in the SHOP at any time, and are not limited to a single open enrollment period. Just as they always have, small employers may purchase coverage for their employees throughout the year.

This past year, small employers have offered coverage to their employees through the Federally-facilitated SHOP Marketplace by receiving an eligibility determination from the SHOP, and enrolling in coverage through an agent, broker, or issuer. Some of these employers have also been able to claim the small business health care tax credit, which can cut their premiums by as much as 50 percent. Since August 2013, small employers have been able to contact a dedicated call center with questions about the Affordable Care Act and Federally-facilitated SHOP enrollment. HHS also added new small business online tools to HealthCare.gov earlier this year, including a consumer-friendly small business health care tax credit estimator that helps small employers determine if they qualify for the small business health care tax credit and how much it could be worth for a small employer.

Consistent with state law, agents and brokers are playing a vital role in the SHOPS, as they do in the small group market today. Agents and brokers act as trusted counselors, providing service at the time of plan selection and enrollment and customer service throughout the year. For the 2014 plan year, more than 79,000 agents and brokers trained to assist consumers in the Federally-facilitated Marketplace—including many who completed the SHOP-specific course. The SHOP Call Center is also available to help agents, brokers, Navigators, and other Marketplace approved assisters specifically working on behalf of small employers in states participating in the Federally-facilitated Marketplace.

HHS has worked to create a seamless online experience and add key new features for the Federally-facilitated SHOP Marketplace in 2015. New features include offering employees a choice of health plans, premium aggregation services, and a dedicated online system for licensed agents and brokers to assist their SHOP small business clients. Starting November 15, the online Federally-facilitated SHOP Marketplace on HealthCare.gov will offer new health coverage options to small employers with one to 50 employees, and make it easier for them to shop for,

select and offer employees high quality health plans and dental plans, and allow employees to enroll online.

### **SHOP Early Access**

As we move to expand online functionality for the SHOP this November, CMS is committed to acting on lessons learned and continuously improving the user experience. Thus, small employers, agents and brokers in five states – Delaware, Illinois, New Jersey, Missouri, and Ohio – will have the opportunity to experience key features of the new online SHOP Marketplace on HealthCare.gov, in advance of the full SHOP Marketplace launch nationwide on November 15. During “SHOP Early Access”, small employers in these states will be able to establish a Marketplace account, assign an agent/broker to their account, complete an application, obtain an eligibility determination, upload their employee roster, and--when available in early November-- browse available plans and pricing. Beginning on November 15<sup>th</sup>, small employers in these states and others participating in the Federally-facilitated SHOP will be able to complete their plan selection and enrollment and offer coverage to their employees that takes effect as soon as January 1, 2015.

Early Access will also allow for targeted consumer testing with small businesses, agents, brokers, and assisters before the SHOP functions are made available online in all Federally-facilitated SHOP Marketplace states. This consumer testing will add to the rigorous performance testing completed on the core software product and interfaces prior to Early Access and go-live.

### **SHOP Employee Choice**

We are also making important progress in offering small business employees additional choices for their health coverage. In the past, most small employers were only able to offer a single health and dental plan for all of their employees. Now, through the “employee choice” option, small businesses in many states will have the option to allow employees to choose any health plan and dental plan available at the coverage level selected by the employer. Employee choice provides significant benefits to both employers and employees. It can lessen the administrative burden on employers and allow employees to select the plan that best fits their individual and family circumstances. Additionally, in 2015, all employers participating in the Federally-

facilitated SHOP Marketplace will make their monthly premium payments directly to the SHOP Marketplace, which will disburse payments to all of the different plans selected by employees when employee choice is offered, thus further reducing administrative hassle for employers.

In addition to expanding choices for consumers, employee choice has the potential to facilitate greater market competition in states—making it possible for smaller, less established issuers to break into small group markets and encourage all small group market issuers to compete based on price, customer satisfaction, and other quality measures.

HHS is aware that small business markets differ from state-to-state. To help smooth the transition to employee choice, HHS has allowed State Insurance Commissioners to request that the SHOP in their state defer implementation of the employee choice provision in 2015 if, in the Insurance Commissioner's expert judgment, doing so would be in the best interests of small employers and their employees and dependents. HHS is committed to implementing employee choice in a way that learns from early experience and ensures success. In total, 14 states with a Federally-facilitated SHOP Marketplace plus most State-based SHOPS will make employee choice available to small businesses in 2015, doubling the number of states offering this option. In 2015, nearly two-thirds of Americans will live in states where small business employees could be offered the option to choose a health plan rather than have their employer do it for them.

### **Small Business Health Care Tax Credit**

In addition to choice, we know how important affordability is. The Affordable Care Act created the Small Business Health Care Tax Credit to help small employers of lower wage workers afford a significant contribution towards workers' premiums. An employer may qualify for a tax credit if it has fewer than 25 full-time-equivalent employees making an average of less than \$50,000 a year (as adjusted for inflation beginning in 2014). To qualify for the Small Business Health Care Tax Credit, an employer must also pay at least 50 percent of the premium cost of employee-only coverage for each of its employees. For tax years starting in 2014, the tax credit can be worth up to 50 percent of for-profit employer's contribution towards employees' premium costs and 35 percent for non-profit employers, and is generally available only when employees are enrolled in SHOP coverage. The 2014 maximum credit amount for the Small Business

Health Care Tax Credit is a significant increase over the maximum amount for the credit from 2010-2013, when it could be worth up to 35 percent of employer-paid premium costs, or 25 percent for tax-exempt employers. Since the Small Business Health Care tax credit first became available in 2010, it has provided hundreds of thousands of small businesses more than \$1.5 billion in tax credits.

### **Conclusion**

In conclusion, for too long, small business owners have struggled to keep up with the ever-rising cost of health insurance for their employees. The Affordable Care Act makes it easier for businesses to find better coverage options and builds on the current employer-based insurance market. The SHOP, combined with new insurance reforms and tax credits provided by the Affordable Care Act, gives employers new options to provide their employees with high quality, affordable health care coverage. I look forward to continuing to work with you to improve the health care options for America's small businesses, families, and communities, and am happy to answer any questions you may have.