

# Making California's new healthcare exchange work for small businesses



A three-part forum on how to best implement the Small Business Health Options Program Exchange: October 14, 2011, November 16, 2011 and January 11, 2012

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### Small Business Majority

Small Business Majority is a California-based, national nonprofit, nonpartisan small business advocacy organization founded and run by small business owners and focused on solving the biggest problems facing small businesses today. We speak for the nearly 28 million Americans who are self-employed or own businesses of up to 100 employees. Our organization sponsors scientific research that guides us to understand and advocate on behalf of the interests of small businesses across the country.

### Acknowledgement

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## Why an exchange forum?

When President Barack Obama signed the Patient Protection and Affordable Care Act (ACA) into law in March 2010, he set in motion a series of reforms that hold great promise for lowering the cost of healthcare for small businesses. The single most important long-term feature of the ACA is the prospect of a robust easy-to-use health insurance exchange that can deliver small business owners a choice of quality affordable health coverage that can be administered with ease. In September 2010, California's elected leaders passed legislation creating the framework for the nation's first exchange since enactment of the ACA and deciding critical issues such as exchange governance, the role of the exchange as an active purchaser, the division of the exchange into two pools for individuals and small businesses and some rules to help manage risk inside and outside of the exchange.

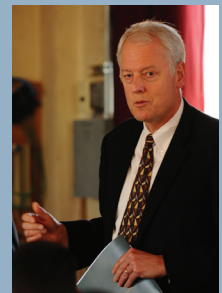
This is a solid foundation, but there are still many factors to consider and key decisions to be made to ensure the small business exchange delivers a solution to one of the most pressing issues facing small business today—the ever-rising cost of healthcare. The newly created California Health Benefit Exchange Board is on a timetable to ensure the state is ready on Day One when the exchange opens for business in 2014 and, as the first state in the nation to create an ACA exchange, is serving as the model for the rest of the country.

In order to get the exchange right, the board must understand what appeals to small business owners. The needs for a competitive Small Business Health Options Program (SHOP) exchange differ greatly from those of the individual exchange. The SHOP exchange will not have the advantages offered by the individual exchange—namely subsidies—to attract customers. Further, state and federal law require that any plan sold in the exchange must be made available outside of the exchange at the same price. The SHOP exchange will therefore need to create additional, long-term incentives for employers beyond competitive pricing and tax credits. To ensure it is attractive to employers and viewed as business-friendly, the board will need to dedicate significant time and resources to building the SHOP exchange.

While the challenges are daunting and 2014 is growing ever closer, California does not need to reinvent the wheel. There are many successful small business exchanges operating in other states that provide valuable lessons and models that California can learn from and adapt to its market. With this in mind, Small Business Majority invited experts from these exchanges to share their experiences at a series of forums. The forums focused on the opportunities, pitfalls and essential policy elements of a successful small business exchange.

“We want to look at what has worked in the past as well as what hasn't, but with the understanding we have a very different environment under the Affordable Care Act.

**John Arensmeyer**  
Small Business Majority  
Founder & CEO



## Goals

Beginning in 2014, the California Health Benefit Exchange will allow individuals and small businesses to use economies of scale to purchase health insurance at a higher quality and low price. Our research shows substantial interest and support among California small businesses for a competitive SHOP exchange where they can pool their risk and achieve the same economies of scale as larger businesses and other health purchasing groups. According to a poll we conducted prior to the passage of the ACA, 81% of the state's small business owners support the concept of a marketplace or exchange from which the self-employed, small business owners and individuals can purchase health coverage.

A March 2011 opinion poll and research conducted by Pacific Community Ventures (PCV), with our assistance, found:

- 55% of California small business owners would like to participate in the exchange.
- 35% who currently offer insurance say having an exchange would make them more likely to continue offering coverage.
- 32% who are not currently offering insurance say that having an exchange would make them more likely to offer coverage.
- Small businesses are skeptical of government involvement in healthcare, worrying that the quality of care will drop if government controls the exchange.

These results show there is a tremendous opportunity to expand coverage of the uninsured through the SHOP exchange. But there also is the risk that a poorly executed exchange, or one that is unresponsive to the needs of small employers, will not have a high utilization rate by small businesses and therefore be anemic. To avoid that outcome, we designed these forums for exchange board members, their staff, other state and federal policymakers and healthcare stakeholder groups in order to:

1. Give examples of successful private-market small business exchanges and identify best practices and lessons learned that could be applied in California.
2. Identify major policy issues that are unique to the SHOP exchange and explore best possible solutions.
3. Demonstrate the tremendous opportunity the SHOP exchange presents to California small employers and their employees.

The overarching goal of these forums was to provide insight into how to design an exchange that appeals to small business owners so exchange board members can seize the opportunity the exchange presents to expand healthcare coverage in California.



*Dr. Micah Weinberg of the Bay Area Council, Terry Gardiner of Small Business Majority and Ken Comeau of the Connecticut Business and Industry Association interact with the audience during the Exchange Forum on providing valuable services to small businesses.*

## What we did

We hosted three forums in Sacramento. They were attended by business groups, brokers, agents, providers, insurers, consumer and healthcare advocates, legislative and congressional staff, exchange board members and staff and members of Gov. Jerry Brown's administration. The session topics covered major issues before the board and possible solutions. They were:

- 1. October 14, 2011:** Providing high-quality insurance at an affordable rate
- 2. November 16, 2011:** Customer service and additional administrative services
- 3. January 11, 2012:** Successful outreach and marketing strategies

We assembled expert panels that consisted of current and former administrators of private market exchanges, brokers, health plans, marketing experts and small business advocates. Some of those panelists included exchange administrators from HealthPass New York, the Connecticut Business and Industry Association's Health Connections and California's previous small business healthcare exchange PacAdvantage, who shared real-world experiences from running a small business exchange. (See Page 18 for a complete list of panelists.)

During each forum, the panelists held a structured discussion on the topic at hand. An extensive question and answer session followed, allowing attendees to interact with panel members in a discussion on how to best implement the exchange to serve all involved. The forums gathered many of the major healthcare stakeholders in the same room and allowed them to share their insights, concerns and ideas.

Each forum drew between 45 and 60 participants.

## FORUM NO. 1

# Providing excellent insurance at an appealing rate

## Panel

The first forum featured:

- Terry Gardiner, Vice President, Policy & Strategy, Small Business Majority
- Shawn Nowicki, Director, Health Policy, HealthPass New York
- Bill Wehrle, Vice President, Health Insurance Exchanges, Kaiser Permanente
- Dr. Micah Weinberg, Senior Policy Advisor, Bay Area Council (Moderator)

The panelists each gave a presentation and then held a wide-ranging discussion about how the SHOP exchange could provide quality insurance at a price that will appeal to small business owners. This was followed by a question and answer session with the audience and concluding remarks.

### *Terry Gardiner: Exchange implementation in other states*

Terry Gardiner of Small Business Majority began his presentation by saying that other states attempting to implement healthcare exchanges are mostly focusing on the individual exchange. This is a problem because the SHOP exchange has unique challenges that must be addressed if it is going to succeed. Fortunately, there are examples out there on how to best address these challenges and California has many people interested and dedicated to making the SHOP exchange work.

Any good entrepreneur looking to create a new business performs a case study and looks at what others in their industry are doing, Mr. Gardiner said. This is exactly what policymakers tasked with building California's SHOP exchange should do. Though many are not aware of it, there have been a number of private and public small business healthcare exchanges in the nation—New York City's HealthPass, the Connecticut Business and Industry Association's Health Connections, the Utah Health Exchange, California's PacAdvantage and the Massachusetts Connector—which offer valuable examples of what works and what does not. Small Business Majority interviewed leaders from each of those exchanges and gleaned many important lessons to heed. However, California has different laws and a unique market so it cannot copy those models wholesale, Mr. Gardiner said. Each aspect of the exchange will have to be customized.

“With that said, states are wasting valuable time if they are trying to reinvent the wheel,” said Mr. Gardiner, who highlighted several of these lessons California can capitalize on.

First, Mr. Gardiner said, with the other panelists agreeing, the SHOP exchange must operate with a business mentality and a customer-oriented mindset. Small business owners do not want to spend a lot of time worrying about health insurance and will reward an exchange that designs and sells products that will make their lives easier.

“Whether it's Joe's Hedge Fund in downtown Manhattan or Bruno's Auto Body in the outskirts of Brooklyn, the guy wants to sell hedge funds, the guy wants to fix cars. That's what they do,” said Shawn Nowicki of HealthPass New York. “They didn't enter their business to administer and manage health insurance. Take that burden off of small businesses, free them up to focus on achieving their business goals.”

To successfully compete for and attract small employers, the SHOP exchange should make the process of purchasing and administering health coverage as simple as possible, Mr. Gardiner said. Most small businesses do not have sophisticated human resources departments, which means the owner has to spend countless hours reading paperwork, doing research and making phone calls to purchase and maintain insurance. The exchange can help by designing services that perform the human resources functions of administering health plans.

In addition, the role brokers play will be a key part of a successful exchange, Mr. Gardiner said. Employers, who are very busy and are not health insurance experts, place significant trust in brokers when navigating the complex task of buying a health plan for a small group and want to continue using their services. Every successful small employer exchange,

“Whether it's Joe's Hedge Fund in downtown Manhattan or Bruno's Auto Body in the outskirts of Brooklyn, the guy wants to sell hedge funds, the guy wants to fix cars. That's what they do. They didn't enter their business to administer and manage health insurance. Take that burden off of small businesses, free them up to focus on achieving their business goals.”



**Shawn Nowicki**  
HealthPass New York



“The challenge will be to use the exchange’s tremendous power to bring real change to the marketplace.”

**Bill Wehrle**  
Kaiser Permanente



pool and program Small Business Majority has studied utilizes brokers and agents in their markets. California should do the same. The exchange should develop its website for broker use, develop tools brokers can use to sell exchange products and provide them ongoing training on products and services the exchange offers. Brokers also should earn a commission from selling exchange products that is competitive with commissions paid in the outside market, Mr. Gardiner said. Exchanges like PacAdvantage, which initially excluded brokers when operating as the Health Insurance Plan of California, suffered for not doing so. The reason to include brokers is simple: these are the people who sell health insurance, said Dr. Weinberg of the Bay Area Council.

“They are an army that is ready to go out and help accomplish the task that an exchange is attempting to do,” he said.

Finally, PacAdvantage, the Utah Health Exchange and the Massachusetts Connector offer a lesson about the value of a strong start, Mr. Gardiner said. In the private sector, if a new business offers a product that doesn’t work, it will have an extremely difficult time recovering and rebuilding its name. The same applies here. Utah and Massachusetts are suffering from low participation because the word is spreading about the negative experience people had when first using those exchanges. Many employers are not going to sign up on Day One. They are going to wait and see and listen to the word on the street and to their peers before deciding whether to use the exchange.

### ***Shawn Nowicki: About HealthPass New York, an example we can learn from***

Mr. Nowicki shared the lessons that the commercial health insurance exchange HealthPass New York has learned since it began in 1999. HealthPass is open to all self-employed workers and small businesses in the New York metro area and offers an employee choice model where workers select their benefit design and carrier. It sells products from four health carriers, plus two dental plans and offers aggregated billing. Employers write one check and HealthPass allocates

the appropriate funds to the appropriate plan. HealthPass has created a vibrant partnership with the broker community. In fact, Mr. Nowicki said 99% of HealthPass’ business comes through brokers.

Offering small business owners a meaningful choice of insurance products and services is essential to staying competitive with the outside market, he said.

“Make sure that the products that are offered are the ones they actually want, not the products that you perceive they want,” Mr. Nowicki said. “At the end of the day, you are running a business. Although you have policy goals and you’re held accountable to the people of the state of California, especially to meet the 2015 self-sustaining deadline, make sure your SHOP exchange is designed for and is attractive to small businesses.”

Policymakers also should remember that the SHOP exchange can serve an economic development function for small businesses by acting as a de facto human resources department. This is an effective marketing tool.

The results HealthPass is achieving are impressive. Mr. Nowicki said that 45% of HealthPass’ customers did not offer insurance prior to buying it through the exchange and 25% of the workers covered did not have any insurance before.

Juli Broyles, representing the California Association of Health Underwriters asked, with 99% of all HealthPass customers coming from brokers, how the exchange’s enrollment process works.

Mr. Nowicki replied that account executives go to a business, hold an enrollment meeting and explain the insurance options. HealthPass has a team relationship with brokers and they serve, in a sense, as an extension of its sales and service team. They are integral to the whole process.

### ***Bill Wehrle: The benefits of learning from others***

CaliforniaChoice, a private exchange that offers health coverage from several carriers including Kaiser Permanente, designed its exchange based on the experiences of other exchanges and has been quite successful as a result, said Bill Wehrle of Kaiser Permanente. CaliforniaChoice paid close attention to the fate of PacAdvantage, a California exchange that failed due to a concentration of “bad risk” and other issues.

Mr. Wehrle emphasized that the SHOP exchange has to operate like a business rather than a social institution that waits for people to show up. It must find ways to differentiate itself to be competitive. One way to do that is to recognize that not everyone wants the same type of insurance and offer diverse plans from carriers that employees want. Equally important will be ensuring employers have a good experience with the exchange such as offering easy ways for them to

figure out their bill and the types of insurance their employees are selecting.

There are some areas where the SHOP exchange will not want to differentiate itself from the marketplace. Underwriting decisions, for instance, must be the same within the health benefit exchange as they are in the outside market to avoid adverse selection, Mr. Wehrle said. This is what caused adverse risk selection in PacAdvantage. Finally, brokers must be paid market-rate commissions in the SHOP exchange, Mr. Wehrle said. Failing to do so means brokers will be actively selling products that compete with the exchange rather than working for it.

### *Lots of potential customers means serving many healthcare needs*

There are 2.5 million self-employed individuals and 700,000 small employers in California. In other words there is a lot of diversity in the marketplace. One of the main things that the exchange must do is offer a range of plans in order to meet the varying needs of businesses, Mr. Gardiner said.

“You’ve got some businesses that are very small but compete to offer very rich benefits just to attract and retain a workforce,”

he said. “On the other end of the spectrum, you have retailers with very low profit margins that cannot offer such rich benefits, but want to offer something to compete with big box stores. Also, the self-employed, you’ll need something to work for them.”

Including prevention and wellness programs is one way to diversify plan offerings. There is a lot of interest in these programs from small employers but they often don’t know how to get them off the ground or even what type of program would work for them, Gardiner said. Some plans offered through the exchange should include these types of programs to reach those clients that want them. However they should not be in all plans. Making all plans have the same features is a bad idea, as some small business owners will chafe about being forced into a one-size-fits-all plan.

Mr. Nowicki said that the exchange also would be well advised to keep pricing in mind at all times. Small groups are the most price-sensitive consumers in the marketplace. Dr. Weinberg agreed that products need to be affordable but cautioned that the exchange will need to make sure prices are covering costs of the insurer. Otherwise plans could initially have low prices to attract a lot of customers and then raise their rates, he said.

“There is such a thing as too low,” he said.

Jason Andrew, founder of Stone Meadow Benefits and Insurance Associates, a brokerage firm in the Bay Area, said he is excited about the opportunity ahead and asked what the panel thinks about wellness and prevention programs. Can they change behavior, bring down prices and get at the underlying healthcare costs?

Mr. Gardiner replied that for wellness programs to work at a small business, they must be voluntary for the employee and have buy-in and support from the employer. If the employer isn’t participating and involved, the workers will not care. All of the successful programs that he has looked at start with an outreach and education effort and not a penalty-based system that many consumer groups dislike.

Mr. Gardiner added that reaching this large number of employers will also be a challenge. Fifty percent of small businesses do not belong to any business groups and many do not offer coverage. This means a navigator program is going to be essential in reaching diverse populations.

Ernesto Sanchez from the state’s Managed Risk Medical Insurance Program (MRMIP) said he and his colleagues use community-based groups, schools and agents and brokers to help with enrollment and provide application assistance for the state program for the medically uninsurable. “It’s going to take all these different groups to get everyone in the system,” he said. “Some assisters will be more familiar with public programs, some know more about private small groups. We’ve got a model that others can build upon that can work for the ACA.”

#### **THE CALIFORNIA SMALL BUSINESS MARKET**

- 700,000 employers with fewer than 100 employees
- 78% have fewer than 10 employees
- 53% of businesses with 3-9 employees offer insurance and 74% of businesses with 10-49 employees offer insurance
- Small businesses employ 5 million workers in California

#### **CALIFORNIA SMALL BUSINESS UNFAMILIAR WITH THE SHOP EXCHANGE**

- 62% of California small businesses have not heard of health insurance exchanges
- 55% of small business owners said they would be likely to participate in the exchanges when provided with basic information about them
- 32% of businesses not providing coverage said they would be more likely to offer it because of the exchanges
- 35% of small businesses already offering insurance said the exchange makes them more likely to continue providing coverage
- 30% of respondents said the exchange is more attractive if employee choice is included

*SOURCES: Pacific Community Ventures poll released in March 2011 and the California Employer Health Benefits Survey, 2011*

## *Creating healthy competition in the marketplace*

California has relatively robust competition in its small group market, said Dr. Weinberg. Unlike in other states, it is not dominated by just one or two major health insurance carriers.

Mr. Nowicki urged caution when considering standardizing plans and its potential impact on competition. When HealthPass began, products were standardized despite concerns from the insurance carriers. A year after the launch, carriers told HealthPass that standardization was not working saying they had many plans they would like to offer to HealthPass customers but were unable to do so because of the limits of standardization. Slowly, the exchange phased out standardization and now offers products in four different categories (in network only, in/out network plans, cost sharing plans, high-deductible/health savings account [HSA] plans). Mr. Nowicki explained that small businesses are very diverse, and standardized plans make it difficult to meet the needs of all small businesses.

“I would caution you against standardization of plans so that you can maximize enrollment in the SHOP. More people, more leverage you have over your insurers,” said Mr. Nowicki.

Mr. Nowicki emphasized the exchange should not make its plan requirements so burdensome that the carriers decide not to participate. “If it is too much, they’ll just go compete only in the outside market,” he said. “In some Mid-Western states, carriers have even started their own exchanges—these could compete against the state’s exchange.”

Mr. Wehrle had a different perspective on plan standardization. He stated that Kaiser believes standardizing plans can be an effective approach to promote healthy competition among insurers. With that said, the SHOP must offer more than just a very small number of plans in order to meet the needs of California’s diverse small businesses, he added. Kaiser believes this can be accomplished by having one Health Maintenance Organization (HMO) plan and one Preferred Provider Organization (PPO) plan offered in each benefit tier, both inside and outside the exchange. Mr. Wehrle stated that would help end the insurance company practice of competing to attract the healthiest customers rather than on plan price or quality. By getting creative with plan design, insurers can control the type of risk coming into their pools, and can become quite profitable by attracting healthy customers. Once one insurer does this, its competitors will often

follow suit to stay competitive. By making plans standard, or as close to standard as possible, insurers will be forced to compete on price and quality, not plan design. Mr. Wehrle stressed that plan standardization must be done market-wide. Only standardizing plans sold in the exchange would be a mistake and would lead to adverse selection.

## *Allowing employee choice will set the exchange apart from the competition*

Many successful exchanges, including HealthPass New York, use an employee choice model that allows a worker to select his or her own carrier and products. The ACA healthcare tax credit is not enough to attract small businesses to the exchange because it is temporary and very narrow, Dr. Weinberg said. Creating an employee choice model, however, will differentiate the SHOP from the outside market and provide an incentive for businesses to purchase coverage through the exchange. Small business owners will be relieved from the administrative burden of finding a one-size-fits-all plan and workers will have the freedom to select the plan that is right for them. Today, employee choice is something only usually offered by large companies and government agencies, putting small businesses at a competitive disadvantage when trying to attract and retain the best employees.

“You need choice,” Mr. Gardiner said. “Otherwise, why would employers stop offering what they offer today, and switch to the SHOP?”

There are two levels of employee choice, Mr. Wehrle said: A choice of carriers within a specified level of benefits or the ability to select among benefit levels. The SHOP exchange could offer one or both types of choice. Kaiser Permanente believes that offering a choice of carriers is crucial, he said. However, introducing unfettered choice among benefits can become very expensive, Mr. Wehrle said. This is one reason why CaliforniaChoice is more expensive than the rest of the market, he said. The middle ground is a system where the employer picks a benefit level and the worker can buy up one level if he chooses. That offers some choice, but is not completely unfettered. This will add to the price of insurance and this question is a challenge for the exchange board and it may not make the perfect decision on Day One in 2014.

“If they are dying at the box office, they will have the flexibility to make those changes,” Mr. Wehrle said.



## *Being an active purchaser and the cost of insurance*

The SHOP exchange will be an active purchaser, meaning it will have the authority to negotiate plans and services with healthcare carriers on behalf of a potentially sizeable number of small businesses rather than allowing all carriers to participate in an unfettered online marketplace. This will give the exchange the ability to ask for certain levels of coverage, types of service and price points that suit small business owners.

However, due to a combination of federal and California law, all products sold in the SHOP exchange must be sold outside the exchange at the same price, Dr. Weinberg said.

This does not mean the exchange cannot drive down prices. It means that it could drive them down for the overall market not just for the exchange, he said.

Dr. Weinberg added that the active purchaser model can be quite powerful, although not in the way it is often described. Many have equated the exchange's power to negotiate to Groupon or Costco, two businesses that offer customers large discounts because of their large buying power. This is an inaccurate comparison because, as noted earlier, the exchange cannot legally offer a lower price than is available in the outside market.

The exchange will be able to set the terms by which plan choices are offered. For example, the exchange can use its active negotiation power to standardize products—meaning plans can compete on price and quality but not benefit design, Mr. Wehrle said. Another thing the exchange can do is to require plans to set up competing networks so there are competing healthcare delivery systems, not just plans.

“Active negotiation doesn't just mean getting a lower price. It also means the health benefit exchange doing a number of things that help small businesses, to make it affordable and tenable,” Mr. Nowicki said.

Mr. Gardiner added that there are a number of insurance market reforms in the ACA that will help drive down cost, not just the active purchaser role of California's SHOP exchange.

Gloria Perez, representing the California Hispanic Chamber of Commerce, asked whether exchanges are responsible for making healthcare affordable.

Mr. Nowicki replied that the ACA is not going to bring down costs in the short term. “We need to be frank and face the facts that premiums aren't going down any time soon,” he said.

## **Closing comments**

As the forum drew to a close, the panelists offered some final thoughts:

“The challenge will be to use the exchange's tremendous power to bring real change to the marketplace. Make use of their clout,” Mr. Wehrle said.

“Be innovative. Be bold with new provider networks. Monitor medical loss ratios. Measure if the SHOP is being responsive to needs of small businesses. Balance the business and policy priorities. Make a product that is custom tailored to needs of small businesses. Everyone needs to work together – plans, the Legislature, brokers, small business owners and providers,” Mr. Nowicki said.

“Draw on what people elsewhere have done. You can learn from it, and then adapt them to California. We can't just rubber-stamp it. The California market and California law is different, so we need a California SHOP. But don't forget to pull from other sources to see what does apply and what can be helpful,” Mr. Gardiner said.

## FORUM NO. 2

### Providing small businesses with valuable services

#### Panel

The panel for the second forum featured:

- Jason Andrew, Founder, Stone Meadow Benefits and Insurance Associates
- Ken Comeau, Vice President, Connecticut Business and Industry Association
- Terry Gardiner, Vice President, Policy & Strategy, Small Business Majority
- Dr. Micah Weinberg, Senior Policy Advisor, Bay Area Council (Moderator)

The participants first made individual remarks then held a discussion about services the exchange can provide to small businesses to make the SHOP popular and successful. This was followed by a question and answer session.

#### *Ken Comeau: The Connecticut Business and Industry Association's Health Connection program*

Ken Comeau discussed how the Connecticut Business and Industry Association (CBIA) exchange, which has 5,500 employer members, 80,000 covered lives and 16 years of experience, became one of the most successful small business exchanges in the country by learning and reacting to the needs of Connecticut's small business owners. The private exchange is open to Connecticut's small group market—businesses with 3-50 employees—and the average group insured through the CBIA has eight people. CBIA offers a variety of necessary services for employers in a one-stop shop, uses brokers to distribute products, utilizes an employee choice model and has avoided adverse selection by continually improving plan designs and monitoring the outside market.

“Be ready for change; be ready to adjust along the way,” Mr. Comeau advised forum participants.

The plans offered through CBIA are standardized. CBIA, not the insurers, designs the products, Mr. Comeau said. In order to avoid adverse selection, CBIA offers four carriers, 11 standardized benefit levels plus four HSA plans for a total of 48 plan choices. This allows significant employee choice. The employer establishes a budget and the employee picks a carrier and benefit level within that budget, Mr. Comeau said.

Dennis Carlson, founder of Bespoke Benefits, a brokerage firm in Davis, Calif., asked how CBIA can maintain competition among carriers when benefits are standardized. Mr. Comeau replied that standardizing benefits does create challenges, but non-standardized benefits creates even bigger problems which can lead to adverse risk selection. With standardized benefits, carriers have to find other ways to stand out other than plan design. “Standardized benefits do not get rid of competition and innovation,” he said.

While CBIA offers a number of other services—dental, life and disability insurance, COBRA administration, Health Retirement Account (HRA) administration, wellness programs, and human resources consulting—it watches outside market insurance rates closely because small business owners are very cost conscious and make decisions with their pocketbook. “Price is king,” he said.

That said, Mr. Comeau also said a successful exchange needs to keep an eye on other aspects of the outside market as well. Eligibility and paperwork requirements for buying insurance must be the same. The exchange needs to match the services of the outside market just to stay in business, and needs to offer additional services in order to be successful.

Mr. Comeau also discussed wellness programs, which his exchange offers. He said there are few examples of successful wellness programs for small groups and CBIA has not seen a lot of uptake here. He said that small business owners are very interested in wellness programs but are often unsure how to make them work at their company. Small business owners are more focused on running their business than monitoring their employees' health.

Pam Armstrong of the Health Benefits Design Group asked about the financial benefit for small employers participating in CBIA's wellness program. Mr. Comeau replied that because a wellness program does not lower employers' premiums directly the value is seen in less absenteeism and a more efficient workforce. From CBIA's perspective, wellness programs help lower healthcare costs in the overall market, and are more of a long-term strategy than a short-term payoff, he said.

#### THE ROLE OF BROKERS

- 75% of small employers in California utilize a broker
- 88% of those firms give a great deal or some weight to the brokers' opinions
- 43% of small business owners would prefer to use a broker to purchase coverage through the exchange
- 7% would prefer to buy directly from the exchange without a broker

SOURCE: Pacific Community Ventures March 2011 poll

“Employers are not health insurance experts, and they don’t want to be.”

**Terry Gardiner**  
Small Business Majority



### *Terry Gardiner: The basic needs of small businesses*

Terry Gardiner of Small Business Majority described some of the unique challenges that small businesses present to the exchange. He reported that 78% of all California small businesses have fewer than 10 workers. And there is a huge variety of small businesses. They exist in every sector of the economy, from farming to information technology. Many do not offer health insurance and they do not have human resources departments. What’s more, half of them do not belong to any business group and are a hard-to-reach population.

The diversity of small businesses and their insurance needs presents a challenge to those creating the SHOP exchange, because, to succeed, they must understand the needs of this wide variety of small businesses.

Another major challenge will be ensuring small business owners know the SHOP exchange exists and understand how it works. Insurance brokers and exchange navigators will be invaluable allies in achieving this goal and must participate in the exchanges.

“There is one common thread in all successful exchanges—they all have a constructive partnership with brokers,” Mr. Gardiner said. “What their exact role is and what the commission structure is will need to be tailored to California.”

Mr. Gardiner also noted that small employers have shown a general interest in wellness programs and want to learn more to see how they might make it work. They have heard large firms are doing things that are working and would like to do something similar.

### *Jason Andrew: Buying insurance is a complex task*

Jason Andrew, founder of Stone Meadow Benefits and Insurance Associates, a brokerage firm that focuses on serving small business, said it is easy for small business owners to figure out their insurance options, now. All they have to do is find an insurance website and punch in their ZIP code and they will see their options. What is not easy is figuring out the benefits that are right for them and their workers. Employers need to consider their location, their budget, their business objectives, makeup of their workforce and their workplace culture, among other factors.

“This is a ton of work,” Mr. Andrew said.

The SHOP exchange needs to be prepared to deal with these complexities either directly or with the help of brokers, said Dr. Weinberg.

### *Services the exchange can provide*

Dr. Weinberg moved the forum into a discussion about the type of services the California SHOP exchange could provide by stating that some services will be provided by the exchange, some by plans and others by brokers. Of the many type of services to be offered, which should the exchange consider, he asked the panelists.

The exchange needs to focus on what employers care about like enrollment and billing, Mr. Comeau said. Things that workers care about like claim issues do not need to be provided by the SHOP exchange, he said. CBIA focuses on services for employers, brokers and agents and carriers. “Everybody in the process has to have a win, otherwise this thing isn’t going to work,” Mr. Comeau said.

Services that make the exchange easy to use are crucial. Many have compared using the exchange to booking an airline ticket online. That is a mistake Mr. Comeau said. Making travel plans is fun; buying insurance is not. That is why CBIA works hard to make the complex and time-consuming tasks of buying, selling and administering insurance easy. For instance, CBIA, which sells entirely through brokers, pays the broker commissions and transmits all premium payments to the carriers. CBIA has also made sure brokers can manage their business from the CBIA website. All their information is in one easy-to-access location.

Mr. Gardiner agreed saying services like streamlined billing, payment aggregation and one-stop enrollment are essential to making the exchange work. Some services are not necessary to provide because employers will naturally turn elsewhere for them. Brokers, for instance, will sit down with an employer to figure out options and how to lower costs. Small employers do not want to get that information directly from the exchange. “Employers are not health insurance experts, and they don’t want to be,” he again emphasized.

Mr. Andrew cautioned that it would be problematic for the exchange to try to do everything for a small business. Some will not want the services the exchange provides. For example, some small businesses would not like it if the exchange offers payroll services that lock them into one type of payroll system.

Mr. Gardiner advised that exchange staff will need a customer-driven perspective. The exchange needs to talk to employers and brokers, perform surveys and hold focus groups to determine what their potential customers are looking for. They also need to determine what services will need to change over time—all successful exchanges evolve because they are operating in a competitive market. Offering things like COBRA administration is probably not critical for Day One, but a more seasoned exchange will start offering those kinds of things, Mr. Gardiner said.

Mr. Andrew said it is critical that the exchange focus on making the process of buying health insurance easy and offering competitive prices before considering whether to offer things like life and disability insurance.

Emily Lam of the Silicon Valley Leadership Group asked the panel what is the one thing the exchange has to do to stay competitive as it considers services, plan options and prices.

“Price is king, Mr. Comeau said. “What the essential health benefit package looks like is very important. If it’s not affordable, that is a problem.”

“Price is king. What the essential health benefit package looks like is very important. If it’s not affordable, that is a problem.”

**Ken Comeau**  
Connecticut Business and Industry Association



## DECISIONS, DECISIONS

Small business owners face many time-consuming decisions when purchasing insurance for their employees. Exchange services that may be valuable to small business owners would streamline the following steps employers currently take when buying insurance:

### Evaluating plans

- ✓ Research the insurers for:
  - ✓ Financial stability.
  - ✓ Ease of administration.
  - ✓ Overall quality of service
- ✓ Consider cost-saving strategies.
- ✓ Review at least two or three health insurance carriers.
- ✓ Review at least two or three different health insurance plan options.

### Closing the deal and implementing the plan

- ✓ Sign the contract before the quote expires, usually in 30 days.
- ✓ Communicate plan choices to employees.
- ✓ Distribute and collect enrollment materials for those to be covered.
- ✓ Copy and return all original materials for enrollment before the requested effective date.

SOURCE: [www.HealthCoverageGuide.org](http://www.HealthCoverageGuide.org)

## Application and enrollment

The panelists discussed the need for the SHOP exchange to have an easy-to-use enrollment system and whether it is possible to have a one-page application.

Mr. Andrew said there are a lot of tools available to use but the challenge is that every insurance carrier has a different application, as does every type of insurance policy (medical, life, dental, etc.). However, Mr. Comeau said CBIA has a one-page application and the SHOP exchange can as well. He cautioned that the SHOP should not have an entirely electronic application process. Not all employers have Internet access during the workday or even want to buy insurance online, he said.

Mr. Gardiner said the Florida exchange offers a good example of what can be accomplished with enrollment. It has a one-page application and a software tool that makes the process very easy for workers, brokers and employers.

## *The SHOP exchange website*

Dr. Weinberg asked the panelists what the exchange can learn from other websites when setting up its online presence.

Mr. Comeau said there are not a lot of good models, and that since CBIA relies heavily on brokers to sell its products it has less of a focus on its website. With that said, the SHOP site needs a public area where there is information for new and prospective customers, and a private area for participating employers, workers and brokers. Mr. Gardiner added that the website should clearly show workers how much their employers are paying for health benefits so employees understand the full cost.

Dr. Weinberg asked whether the site should rate the quality of healthcare providers and insurers. Mr. Andrew said those types of tools are being developed and it would be great if the SHOP exchange could use them. Mr. Comeau, however, said plans and providers will resist such a move and come up with excuses—some legitimate—about why their data does not appear to be good.

“Transparency is important, but cost is the most important,” Mr. Gardiner said.

## *The role of brokers and navigators in the exchange*

The panelists next discussed the role of brokers and navigators in the exchange.

Dr. Weinberg said the ACA did not simplify healthcare, it made it more complicated. This means brokers will have plenty of business in helping employers navigate the post-reform world. “The exchange is a boon to brokers,” he said.

Mr. Gardiner agreed. Brokers serve people and employers with health insurance and their customer base has been shrinking because the number of people with insurance is dropping. The exchange and the ACA are expected to reverse that trend, meaning there will be more business for brokers, he said.

Mr. Comeau said brokers and agents who only input data into software and quote prices will go out of business. The broker that provides valuable services and consulting to their client will continue to have a large role.

Mr. Andrew added that there are actually too few people to do the job and that more brokers are needed. Most brokers are over 55 and near retirement and not a lot of people are going into the industry. “Navigators, brokers, agents—we need all the above to help do this job,” he said.

Mr. Gardiner said navigators must know their target population and how to reach it. The exchange should figure out what that population is and then determine who the appropriate navigators are to reach it.

“Navigators, brokers, agents—we need all the above to help do this job.”

**Jason Andrew**  
Stone Meadow Benefits and  
Insurance Associates



Mr. Comeau said navigators' key role will be reaching underserved populations. Agents and brokers have training and licensing to ensure they are knowledgeable about health insurance. It is critical that navigators have similar training to ensure they are providing valuable assistance to underserved people—many of whom will be purchasing health insurance for the first time, he said.

Dr. Weinberg said brokers and navigators need to work together. There will be more than enough work to go around so there is no need for turf wars.

## *Making the exchange appealing to brokers*

The panel moved on to a discussion about how the exchange can be designed to appeal to brokers, who all the panelists agreed will need to play a key role if the exchange is going to thrive.

Mr. Gardiner said the SHOP exchange must look at other exchanges to learn what they do to appeal to brokers. “If you hired me to set up an exchange in a state, the first thing I’d be doing is looking at groups like CBIA,” he said. “If there is any chance to avoid reinventing the wheel, it’s a really good idea.”

Mr. Andrew said the exchange should provide brokers with analytical tools. For instance, a tool that helps analyze whether certain workers would be better off getting insurance through the individual exchange with subsidies or getting insurance through the SHOP.

## *Closing comments*

In closing, Mr. Comeau advised those in attendance to stay involved in the process of establishing the SHOP exchange. Because the SHOP has some difficult policy issues to work out, the natural tendency will be to focus on the individual exchange. Stakeholders will need to stay involved and make sure the exchange board remembers the SHOP exchange.



## FORUM NO. 3

### Marketing and outreach

#### Panel

The third forum featured:

- Terry Gardiner, Vice President, Policy & Strategy, Small Business Majority
- Scott Hauge, President, Small Business California
- Emma Hoo, Director, Pacific Business Group on Health
- Mark Kessler, Director, Strategic Initiatives, HealthPass New York
- Dr. Micah Weinberg, Senior Policy Advisor, Bay Area Council (Moderator)

The third forum began with a special guest presentation by Pacific Community Ventures about the makeup of California's small business owners. The panelists then each gave a presentation on how they think the SHOP exchange can effectively market itself and its products.

#### *Pacific Community Ventures: Know your customers*

Meredith Willa, a Project Manager with Pacific Community Ventures (PCV), started the forum by discussing a report called *Health Care and Small Business: Understanding Health Care Decision Making in California*, which her organization completed recently. The key to creating a successful marketing campaign is understanding your potential clients, she said. Ms. Willa pointed out key facts about California's small business owners, including:

- Small businesses with fewer than 20 employees make up 90% of all small businesses in the state.
- In California, 81% of small business owners are men, nearly 80% are white and most are between 45 and 60 years old.
- California's small businesses with 9 or fewer employees operate in diverse industries: 23% are retail/restaurants, 28% are manufacturing/industry/agriculture, 43% are non-retail services like small recruitment or accounting firms, and 3% fall into other categories.
- There is a real opportunity to expand coverage in the state. Of the small businesses with 10-19 employees, 78% offer insurance while only 61% with 2-9 employees offer insurance. Of minority-owned businesses with 2-9 employees, only 48% offer insurance.
- Seventy-one percent of small business owners say the top reason not to offer insurance is the cost.

"It is significantly more efficient and effective to leverage existing productive systems than to develop new ones that must compete with the old."

**Mark Kessler**  
HealthPass New York



- Only 9% of small business owners say they are "very aware" of the Affordable Care Act provisions. In particular, 62% have not heard of the exchange.
- Awareness of the SHOP exchange is lower among the smallest businesses (34% of owners with 2-9 employees are aware vs. 42% of owners with 10-19 employees) and racial/ethnic minority business owners (33% vs. 39% of non-minority owners).

Ms. Willa said PCV's study also found that many small business owners will likely learn about the exchange from insurance brokers that they already use to purchase insurance. Those who don't use brokers may learn about the exchanges from accountants or industry organizations that they trust. PCV also tested some messages with small business owners and found that exchange marketing should highlight cost reduction and simplicity, and downplay the role of government.

#### *Mark Kessler: How HealthPass New York markets itself to small businesses*

Mark Kessler of HealthPass New York started the panel presentations by discussing how his organization markets its services and products to small businesses. HealthPass is a private, nonprofit, multi-carrier health insurance exchange that competes aggressively in the New York City metropolitan area small group market. It insures approximately 400 sole proprietors, nearly 3,300 businesses with 2-50 employees and about 30,000 employees and their dependents. In achieving those numbers, the organization has learned several important lessons, Mr. Kessler said. One is that private exchanges must compete very aggressively in the marketplace, he said.

Also, HealthPass New York did not try to reinvent the wheel when it comes to marketing. "It is significantly more efficient and effective to leverage existing productive systems than to develop new ones that must compete with the old," he said. In other words, it is important to use sources of information

that small business owners trust, like brokers, when trying to reach a large, diverse and scattered population like small business owners, Mr. Kessler said.

He related a cautionary story about the power of brokers to reach small businesses from his time working at the Brooklyn Chamber of Commerce, which decided to offer insurance to small businesses in Brooklyn. The Chamber thought designing the insurance product—called Brooklyn HealthWorks—would be the hard part, not the marketing effort. They were wrong, Mr. Kessler said.

The Chamber bought billboards in strategic locations, bus-wraps on key corridors, did direct-mail campaigns, bought TV and radio ads, sponsored targeted events, and ran a public relations campaign. After six months, 4 out of 10 people knew Brooklyn HealthWorks was cheap insurance from the Chamber, and 7 out of 10 had heard the name and knew it was local insurance. However, despite spending a lot of money on advertising, only 235 people from 26 businesses were enrolled. The problem, Mr. Kessler said, was that the Chamber had decided to cut brokers out of the process and tried to sell the insurance to small businesses directly. The brokers were angry about being cut out and were steering people away, Mr. Kessler said. Only 1 in 40 people had heard about the program from a broker. “Because we cut them out of the distribution, brokers literally buried our product,” he said.

The Chamber next approached brokers and asked them to present Brooklyn HealthWorks to their clients as product of last resort. “They said why didn’t you ask us to do this a year ago? I said because we were dumb,” Mr. Kessler said. After bringing the brokers onboard, the Chamber sold out and closed enrollment after just eight months, even though they had estimated it would take as long as two years to reach that level.

HealthPass New York, which markets itself equally to insured and uninsured small businesses, knows brokers are a powerful way to reach small business owners, Mr. Kessler said. Most of its marketing is aimed at brokers. They attend broker events, publish broker publications, and have dedicated broker support relationship managers.

Peer-to-peer communication also works very well with small business owners and communities of small businesses hold great marketing promise, Mr. Kessler said. For this reason, HealthPass has a new initiative to build a statewide chamber of commerce-based distribution system, he said.

### **Scott Hauge, Small Business California:** *Focus on what the exchange offers*

Scott Hauge, an insurance broker who works mainly in property and casualty insurance, said his organization, Small Business California, annually surveys the state’s small busi-

nesses to see what issues are affecting them. “Year after year it is health insurance,” he said. In his opinion, that makes the SHOP exchange the most important provision in the Affordable Care Act for small business.

Mr. Hauge cautioned against marketing the exchange on cost savings because health insurance carriers are legally required to offer the same plans at the same rates inside and outside the exchange. Therefore, marketing needs to focus on what the exchange offers that is not in the outside market like, potentially, features that remove the burden of administering health insurance from small business owners, wellness programs, help accessing tax credits, and friendlier ease of use. “I think the exchange has to be viewed as a small business advocate,” he said.

Mr. Hauge also said that the exchange will need to focus on generating good peer-to-peer discussion among small business owners. It also must reach the Hispanic and Asian markets, he said.

### **Emma Hoo: Remember the brokers**

Emma Hoo, who worked on California’s previous small business exchange, PacAdvantage, offered insights into what worked there and what did not. She, too, emphasized the role that brokers play in spreading the word about an exchange’s products. One of the challenges is setting a fee for brokers that works. One of the mistakes PacAdvantage made was setting up a system that made it more profitable for brokers to sell to very small groups. The rest got ignored and were undersold. Over time, PacAdvantage started to mimic the broker fees offered by large insurance carriers to resolve these issues.

Another thing to consider is that cost is the primary factor driving insurance decisions for small business owners. The exchange needs to find a way to lower administrative costs for small businesses and market that. PacAdvantage wanted to market the quality of the health plans it offered. “We were off base. People wanted price, price, price,” she said.

### **CURRENT BEHAVIOR IN THE HEALTHCARE MARKET**

- 53% of businesses with 3-9 employees offer health insurance
- 74% of businesses with 10-49 employees offer insurance
- Minority owners with 2-9 employees are less likely to offer insurance
- Older owners are more likely to offer insurance
- 75% use a broker when purchasing health insurance

*SOURCE: Pacific Community Ventures, 2011: Health Care + Small Business: Understanding Health Care Decision Making in California and California Employer Health Benefits Survey, 2011*

## KNOW YOUR CUSTOMERS

- Small businesses with fewer than 20 employees make up 90% of all small businesses in the state.
- In California, 81% of small business owners are men, nearly 80% are white and most are between 45 and 60 years old.
- California's small businesses with 9 or fewer employees operate in diverse industries: 23% are retail/restaurants, 28% are manufacturing/industry/agriculture, 43% are non-retail services like small recruitment or accounting firms, and 3% fall into other categories.
- 71% of small business owners say the top reason not to offer insurance is the cost.

SOURCE: Pacific Community Ventures, 2011: Health Care + Small Business: Understanding Health Care Decision Making in California

Ms. Hoo also said to remember that while men own most California small businesses, they often have a spouse helping make coverage decisions because not a lot of small businesses have significant human resources capabilities. Marketing tactics should take that into account.

### *Terry Gardiner: Find people who small businesses trust*

Terry Gardiner, of Small Business Majority, began his presentation by laying out some of the marketing challenges ahead for the SHOP exchange. First, there are a lot of small business owners. In California, there are 700,000 employers with fewer than 100 employees and they employ 5 million workers. Fifty-eight percent of small businesses with fewer than 50 employees do not offer insurance. And most small businesses are very small—78% have fewer than 10 employees—and lack sophisticated human resources departments. As a result, small business owners are very busy running their businesses. They are answering phones and designing ad campaigns. They are creating products and negotiating with suppliers. Another challenge is that the ACA and its requirements are confusing. Not many small business owners know a lot about the law or even the provisions in it to help them. “You can’t sign them up because they don’t know what the exchange is. You have to educate them,” Mr. Gardiner said.

To overcome these challenges, the exchange must think about the messengers it uses to advertise its products and services. The exchange must use a lot of communication channels to get the word out including business groups, business media, peers, navigators, brokers and the exchange website, Mr. Gardiner said. “There is no silver bullet strategy. You need to use them all,” he said.

Mr. Gardiner related a story that showed the importance of finding the right exchange navigators. The Massachusetts Fishing Partnership Health Plan offered insurance to commercial fisherman, a very independent group that often is hard to reach because they are at sea working. To overcome these challenges, the plan enlisted the fishermen’s spouses as navigators to carry the message to the members. The spouses were a part of the community, they understood the industry and, importantly, they were trusted messengers. As a result of their involvement, the uninsured rate among the fishermen dropped from 43% to 13%, Mr. Gardiner said. California has many small business owners who present similar challenges, in the agriculture industry for instance. The exchange must think about what navigators will reach them. “If you reach the trusted advisors you’ve taken an important step toward reaching small businesses,” he said.

### *Panel discussion: How the exchange should spend its advertising dollars*

Following the individual presentations, Dr. Weinberg asked the panelists how they would advise the exchange to spend its advertising money to reach small business owners.

Mr. Kessler said that it would be wise to market the products and services the exchange offers rather than the exchange itself. He also said to keep the exchange’s name short and make sure it doesn’t sound like government. “I like things that you can get on T-shirts and bumper stickers,” he said. Mr. Hague agreed with the strategy of marketing products and services in the short-term, but said in the long-term he would market the exchange as an advocate of small businesses. Mr. Kessler replied that HealthPass New York’s paid marketing focuses on products and services. Others, like the media, market HealthPass New York as a small business advocate. “We encourage that,” he said.

Mr. Gardiner said he would use the advertising money to hire an experienced and respected broker to reach out to the state’s brokers and get them to buy into its products and services. He would also reach out to local and regional chambers of commerce and give them the money they need to develop materials to communicate about the exchange and its products to their members. Ms. Hoo added that she would put resources toward

“People want price, price, price.”

**Emma Hoo**  
Pacific Business  
Group on Health



outreach to the provider community. Physicians, she said, are trusted sources of information and could tell small business owners about the exchanges.

### *Crafting an effective marketing message*

Dr. Weinberg asked the panelists what type of messages are the most effective in reaching small business. Ms. Hoo said that a message must tout the simplicity of buying through the exchange. Small business owners don't have time for plan administration and will find a product that provides that very appealing.

Mr. Gardiner said the first thing the exchange must message is cost. "Don't exaggerate to say it's cheaper, but make sure you discuss cost so small business owners know that you understand their needs," he said. Mr. Kessler agreed. He said HealthPass New York openly says their prices are the same if not slightly higher but says they address the hidden costs of health insurance like the time a small business owner spends choosing a product and working with employees on claims, enrollment and deciphering the material. "We tell them those are all drags on your time. If you had that time free, what would you do with it? Those are the costs we can remove immediately," he said.

Ms. Hoo said the retention of clients during open enrollment and reinforcing the message that the exchange is delivering value, as well as offering new products, are important ongoing marketing strategies. She said that offering incentives to those already enrolled to enlist their colleagues is sound marketing strategy.

Kim Belshé, a member of the California Health Benefit Exchange Board, asked Mr. Kessler how important offering employee choice of health plans is in terms of marketing the exchange. Mr. Kessler replied that HealthPass New York's research shows that it is more important to the employer than the employee. Employers are happy to not have the pressure of choosing one or two plans for their employees. While this is less important for employees, they do enjoy having options. Ms. Hoo added that there is some difference by population. Lower-income individuals put less value on choice and prefer a recommendation of a plan.

### *Tools to reach small business owners*

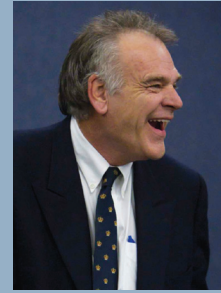
Dr. Weinberg asked the panel what groups could help reach small business owners and how navigators and brokers will work together.

Mr. Gardiner said navigators must work in conjunction with other groups trying to reach small business owners like brokers, chambers of commerce and advocacy groups. Brokers need to know that navigators are helping reach the desired audience, not competing with brokers. The navigators' focus should be on the hardest to reach groups.

Mr. Gardiner added that there soon will be an increased need for brokers and others who understand the ACA. Buying insur-

"I think the exchange has to be viewed as a small business advocate."

**Scott Hauge**  
Small Business California



ance for employees is a lot different than buying for a family, he said. There are a lot more complexities and in the short-term it's going to get more complicated as the law is implemented. Brokers can help a small business owner deal with the complicated issues.

Ms. Hoo said there is potential to reach small business owners through school districts.

Responding to a question from the audience, Mr. Hague cautioned that the California Franchise Tax Board may not be the most trusted agency to communicate through. The Small Business Administration and Small Business Development Centers have good reputations with small business owners and could be useful channels, Mr. Gardiner said.

Rosa Marie Martinez of the Greenlining Institute asked the panel how to reach a diversity of minority business owners who speak a variety of languages. Mr. Kessler said New York is very diverse and HealthPass relies on brokers to reach minority small business owners. "We haven't found a community that we couldn't reach that way," he said.

### **Closing Comments**

Dr. Weinberg asked the panelists to share the one key thing they would tell the exchange board regarding marketing the exchange.

Mr. Kessler said that the first year of the exchange is very important because it is going to establish a risk profile that is very hard to change. Creating a good mix and diversity of enrolled individuals is very important in the first year, he said. "Focus your message on reaching a broad number of small businesses to make sure your exchange mix and risk is stable," he said.

Mr. Hague said that the exchange will be in trouble if it doesn't have programs in place that reduce costs for small business owners.

Ms. Hoo said the exchange must create products that people want to buy.

Mr. Gardiner said the exchange must work within business channels that will get the story out and create buzz. That includes brokers, chambers of commerce, ethnic business groups and others.



## Conclusion and policy recommendations

California's SHOP exchange will make affordable, quality healthcare available to the state's 700,000 small businesses, which employ 7.2 million people, plus the state's 2.6 million self-employed individuals. That is a potential customer base of 9.8 million people.

With the potential to positively impact so many Californians, it is imperative that policymakers and stakeholders make the most out of this historic opportunity. In order for the SHOP to be successful, we must begin our work immediately, learn from other exchanges, and not make it an afterthought of the individual exchange.

Based on our findings from this three-forum series, scientific polling of small business owners, outreach to small business owners and other policy conversations in California and across the country, Small Business Majority recommends the following policies to the California Health Benefit Exchange Board.

### *Remember small business owners'*

#### *No. 1 concern: Cost*

- Small business owners are the most price sensitive consumers in the health insurance market. To succeed, the SHOP exchange must provide high-quality, low-cost health insurance that compares favorably to insurance offered in the outside market.

Employers should be encouraged to provide incentives to employees who choose more efficient, higher-quality health plans. Administrative cost should not excessively burden the price of premiums. The exchange should develop pricing incentives that drive competition among plans. These incentives can range from competitive broker commissions to benchmarks for administrative expenses. The exchange should promote the small-employer tax credit—which after 2014 is only available for coverage purchased within the SHOP exchange—as a tool for reducing employer costs.

### *Form a strong partnership with the broker/agent community*

- Every successful small employer exchange, pool and program across the country utilizes brokers and agents in their markets. Existing exchanges stress that this relationship is crucial and often cite examples of the serious problems that arise if brokers are not included. Brokers can be a de-facto salesforce for the exchange because they often have strong, longstanding relationships with small employers as well as a background in insurance. Their strong relationships with small businesses enables them to understand the issues, concerns and needs of small employers.

- Do not be concerned with brokers competing with navigators. Getting small business owners enrolled in the SHOP will be a large task. There will be more than enough work to go around for brokers, navigators and other intermediaries.

### *Stay competitive with the outside market*

- Differentiate the SHOP from the outside market: Because pricing for plans must be the same inside and outside the exchange, the SHOP must offer something else that is significantly different than the outside market in order to cause employers to stop purchasing the insurance they have today and switch to the SHOP.
- Other SHOP components need to match those of the outside market.
  - Underwriting rules need to be the same to prevent adverse selection.
  - The commission structure for brokers also must be competitive with the outside market so brokers do not have a financial incentive to sell against the exchange.
  - Additional services that are offered by the outside market, will also need to be offered by the SHOP exchange.

### *Operate with a customer service mentality*

- Remember you are running a business, and competing with other businesses in the outside market. The SHOP must meet its business goals in addition to its policy goals.
- Know your customers: Understand small business owners, know who they are, what they need and what they are doing now. The SHOP should be empowered to meet the needs of small employers, seek the input from its customers and adapt services as needed. There is a tremendous opportunity to expand coverage of the uninsured through the SHOP exchange. But there also is the risk that a poorly executed exchange, or one that is unresponsive to the needs of small employers, will not have a high utilization.

### *Avoid reinventing the wheel and learn from other examples*

- The nation has seen several exchanges established in the past, including some in California. Some of these exchanges have been successful, while others have not. California's policymakers should look to examples of past and present exchanges to learn what works and what does not.

California's PacAdvantage, the Utah Health Exchange and the Massachusetts Connector show the importance of a successful launch. All never recovered from a poor launch and Massachusetts currently has less than 1% of the state's small employers participating in its exchange.



The State of Washington's Health Insurance Partnership, meanwhile, can serve as an example of how to coordinate with insurance brokers to get a new program off to a good start, as can New York City's HealthPass. The Connecticut Business and Industry Association exchange is one of the best models of how to run a successful program. The Council of Smaller Enterprises in Ohio is another organization that runs an exceptional model and has extensive wellness and prevention program offerings.

### *Use the employee choice model*

- The SHOP exchange should offer an employee choice model that allows each worker to select his or her own carrier and products. According to a 2011 Pacific Community Ventures' poll, 30% of California small employers are more likely to use the exchange if employee choice is included. This will differentiate the SHOP from the outside market and provide an incentive for businesses to purchase coverage through the exchange. Today, employee choice is something only usually offered by large companies and government agencies, putting small businesses at a competitive disadvantage when trying to attract and retain the best employees. The two most successful small employer exchanges in the country, New York City's HealthPass and the Connecticut Business & Industry Association's exchange, use this model.

### *Offer human resource services*

- In order to attract small employers, the SHOP should offer administrative services similar to those of a human resources department in a large company. Seventy-eight percent of all small businesses have fewer than 10 workers and most do not have human resources departments. An exchange that provides such additional services will be especially appealing to those businesses. Employees and employers who have questions about healthcare plans that were purchased through the SHOP should return to the exchange for assistance and guidance. As new workers are hired, the exchange should educate them about their options and enroll them.
- Small businesses are diverse, so all services should not be offered to all SHOP customers. But there needs to be something for everybody. Additional services could include:
  - Eligibility determination for ACA small employer tax credits and workers who may qualify for Medi-Cal, Healthy Families or Medicare
  - COBRA administration
  - Section 125 plans
  - Flexible spending accounts
  - Wellness plans

### *Conduct ongoing outreach and use trusted channels*

- It is imperative the exchange board and staff do significant outreach to small business owners, both before the SHOP is launched and afterwards. Small employers have very limited knowledge of the exchange and how it will work. According to a 2011 PCV poll, 62% of California small business owners have never heard of or know very little about the SHOP exchange. When asked where they would likely turn for information about the SHOP exchange, 71% of small business owners stated they would turn to brokers, accountants or business organizations and only 11% said they would turn to the state government. The exchange board should therefore utilize these trusted channels of information to reach small business owners.

### *Downplay the role of government in the exchange*

- In focus groups conducted by PCV and Small Business Majority, it was clear that small business owners are mistrustful of any government role in health insurance. While exchanges are very popular—with 55% of California small business owners saying they would like to use the exchange—small business owners are concerned that government involvement will make the exchange function “like the DMV.” They are worried the quality of care will drop due to government involvement. The exchange should not hide government involvement, but should emphasize the exchange's independence.

### *Shoot for maximum participation*

- The exchange's success hinges on maximizing participation. Without sufficient enrollment, it will not be able to compete with the outside market, adequately spread risk or obtain favorable premiums. The key is a strong start and aggressive outreach from here on out. If the exchange begins by reaching out to small employers, brokers and other trusted intermediaries, it is more likely to achieve maximum participation.

### *Remember the self-employed*

- There are 2.6 million self-employed entrepreneurs in California, about 30% of whom are uninsured and potential exchange customers. Allowing them access to the SHOP could significantly boost the size of the SHOP pool. Some self-employed people will be eligible for subsidies in the individual exchange so they should have access to both pools.

### *Keep it simple*

- Purchasing health insurance for a small group is very complex. Especially considering small business owners are not—and do not want to be—healthcare experts. The SHOP should follow CBIA's lead and focus on making the process as easy, simple and efficient as possible.

## Appendices

### Event Details

| FORUM DATE                          | TOPIC   | PANELISTS   |
|-------------------------------------|---|---|
| October 14, 2011<br>Sacramento, CA  | Providing high-quality insurance at an affordable rate        | <ul style="list-style-type: none"> <li>■ Terry Gardiner, Vice President, Policy &amp; Strategy, Small Business Majority</li> <li>■ Shawn Nowicki, Director, Health Policy, HealthPass New York</li> <li>■ Bill Wehrle, Vice President, Health Insurance Exchanges, Kaiser Permanente</li> <li>■ Dr. Micah Weinberg, Senior Policy Advisor, Bay Area Council (Moderator)</li> </ul>  |
| November 16, 2011<br>Sacramento, CA | Customer service and additional administrative services       | <ul style="list-style-type: none"> <li>■ Jason Andrew, Founder, Stone Meadow Benefits and Insurance Associates</li> <li>■ Ken Comeau, Vice President, Connecticut Business and Industry Association</li> <li>■ Terry Gardiner, Vice President, Policy &amp; Strategy, Small Business Majority</li> <li>■ Dr. Micah Weinberg, Senior Policy Advisor, Bay Area Council (Moderator)</li> </ul>                                       |
| January 11, 2012<br>Sacramento, CA  | Successful outreach and marketing strategies for the exchange | <ul style="list-style-type: none"> <li>■ Terry Gardiner, Vice President, Policy &amp; Strategy, Small Business Majority</li> <li>■ Scott Hauge, President, Small Business California</li> <li>■ Emma Hoo, Director, Pacific Business Group on Health</li> <li>■ Mark Kessler, Director, Strategic Initiatives, HealthPass New York.</li> <li>■ Dr. Micah Weinberg, Senior Policy Advisor, Bay Area Council (Moderator)</li> </ul> |

## Biographies

### Jason Andrew, Founder, Stone Meadow Benefits and Insurance Associates

Jason Andrew is the Founder of Stone Meadow Benefits & Insurance Associates (SMB), a Silicon Valley-based insurance brokerage that provides cutting edge technology and wellness solutions for its clients. Prior to founding SMB, he worked as the managing producer at Lawson-Hawks Insurance Associates where he focused on public entity clients, nonprofits and technology startups. Mr. Andrew has worked as the lead consultant in negotiating, designing, implementing and communicating benefit plans to over 30 public entities and union clients. He is an advisor to the Social Media Committee for VC Taskforce. He currently serves on the Silicon Valley Association of Health Underwriters Board of Directors and heads a committee for California Association of Health Underwriters (CAHU), which was designed as a collaborative discussion between CAHU and the U.S. Department of Health and Human Services Region IX office to provide feedback on key pieces of the Affordable Care Act and its impact to the California business community.

Mr. Andrew served for seven years as a minister for the International Churches of Christ and holds a degree in communications from Lewis and Clark College.

### Ken Comeau, Vice President, Connecticut Business and Industry Association

Ken Comeau is Vice President, Sales and Products & Services with the Connecticut Business and Industry Association. In this position, he has a leadership role in the management and continuing development of the nationally recognized CBIA Health Connections private sector exchange. In addition, Mr. Comeau leads a strong team of product, sales and service professionals with responsibility for a diverse array of product lines from group health, dental, life and disability insurance to qualified retirement programs, business consulting and energy procurement services. He has been with CBIA for more than 20 years having joined the organization in 1990.

### Terry Gardiner, Vice President, Strategy and Policy, Small Business Majority

Terry Gardiner, based in Washington, DC, directs Small Business Majority's policy development and works on long-term strategic planning, where he brings to bear his decades of business ownership and job creation experience. He is particularly focused on policies that will ensure the successful implementation of the Affordable Care Act, including the establishment of the 50 state small business healthcare exchanges. He also plays a key role in policies that promote a vibrant clean energy economy, access to capital and small business economic development.

Originally a commercial fisherman, Mr. Gardiner founded and spent 22 years as the CEO of Silver Lining Seafoods, later NorQuest Seafoods. He grew the company to over \$100 million in sales, with 1,000 employees and markets in 22 countries. After the sale of NorQuest in 2004, he turned to public policy work, focusing on healthcare reform.

Mr. Gardiner is a former Speaker of the Alaska House of Representatives, in which he served for 10 years and authored a host of successful groundbreaking legislation. He is a member of the National Co-op Advisory Board and has testified at Congressional committee hearings.

### Scott Hauge, President, Small Business California

Scott Hauge is President of Small Business California and is also President and Owner of CAL Insurance & Associates, Inc. located in San Francisco. CAL Insurance specializes in providing insurance for small to medium sized businesses. The company was founded in 1927 and currently has 30 employees.

Mr. Hauge has been a leading advocate in paving the way for small and medium sized businesses. He serves on the board of the Pacific Business Group on Health and the board of advisors for the Insure the Uninsured Project. He has introduced government legislation that has affected small businesses on local, state and national levels. He is considered one of the insurance industry's leaders in setting guidelines and has received numerous awards and countless commendations for his efforts. Mr. Hauge was named Small Business Advocate of the Year 2007 by the National Small Business Association.

### Emma Hoo, Director, Pacific Business Group on Health

Emma Hoo is Director at the Pacific Business Group on Health (PBGH). She manages joint purchasing initiatives for California HMO services, retiree coverage and pharmacy benefit management services. Additionally, she oversees the assessment of health plan performance through the eValue8 health plan Request for Information and leads other vendor evaluation programs. PBGH promotes a broad set of performance measures that promote effective health management, provider accountability and consumer engagement by health plans. The goal is to encourage adoption of "best-in-class" product features that foster consumer behavior change, migration to high quality and efficient providers, and accelerated clinical re-engineering.

Previously, Ms. Hoo was Director of Operations for a Northern California medical group, with responsibility for contracting, data analysis and information systems. Ms. Hoo received a bachelor's degree in social studies from Harvard University.

### **Mark Kessler, Director, Strategic Initiatives, HealthPass New York**

Mark Kessler joined HealthPass New York in 2010 and is the Director of Strategic Initiatives. He has spent the last four decades helping to build strong, effective and efficient organizations. His prior work with the Brooklyn Chamber of Commerce and the Business Council of New York State has provided Mr. Kessler with experience in issue advocacy and government affairs focused on small business development in general, and more specifically, issues related to affordable small group health insurance, including the development of Brooklyn HealthWorks, a publicly subsidized, private label Healthy New York product modified specifically to meet the needs of Brooklyn's small business community. Currently, Mr. Kessler is leading HealthPass' campaign to ensure that the New York State SHOP Exchange is designed in a manner that best serves the needs of New York's small businesses.

### **Shawn Nowicki, Director, Health Policy, HealthPass New York**

Shawn Nowicki joined HealthPass New York in 2010 and is the Director of Health Policy. In this role, he oversees the monitoring and analysis of local, state, and federal legislative and regulatory developments related to health insurance exchanges as well as employee health benefits. He also serves as Director of Health Policy for HealthPass New York's parent company, Northeast Business Group on Health, an employer-based business coalition dedicated to advancing value-based purchasing, healthcare delivery system reform and quality improvement.

Mr. Nowicki earned his B.S. from Canisius College in Buffalo, NY and holds a Master's of Public Health in health policy from Columbia University in the City of New York.

### **Bill Wehrle, Vice President, Healthcare Exchanges, Kaiser Permanente**

Bill Wehrle is Vice President, Health Insurance Exchanges for Kaiser Permanente. In this role, he is responsible for influencing the policy development of health insurance exchanges in each state, and supporting regional efforts to build effective business relationships with those exchanges to advance Kaiser Permanente's growth, performance and community benefit goals. In California, Mr. Wehrle is responsible for leading Kaiser Permanente's relationship with the California Health Benefit Exchange, and, in coordination with the relevant lines of business, leading Kaiser Permanente's strategy and execution for exchange products and membership. Previously, he was the lead lobbyist on health plan issues for the California regions in Kaiser Permanente's Sacramento office. Prior to joining Kaiser Permanente, Bill worked as chief lobbyist for the California Association of Health Plans, and as a staffer on the Assembly Budget and Appropriations committees.

Mr. Wehrle earned a Master's of Public Policy degree, and a B.A. from the University of Michigan, Ann Arbor.

### **Micah Weinberg, Ph.D, Senior Policy Advisor, Bay Area Council**

Micah Weinberg is responsible for the Bay Area Council's public policy advocacy in the healthcare arena. In this role, he works closely with business leaders and policymakers in the Bay Area, California, and nationwide to develop and implement strategies to control the growth of healthcare costs while expanding access and improving health outcomes.

Dr. Weinberg has spent his career at the nexus of policymaking, applied research, and public affairs. He was most recently Senior Research Fellow in the Health Policy Program at the New America Foundation. At New America, he directed the California Task Force on Affordable Care, a group of private and public sector leaders that developed a set of solutions to get the state vastly better value for its medical spending. Earlier, he was Vice President of Wilhelm and Conlon Public Strategies, a firm he started with David Wilhelm, former Chair of the Democratic National Committee. At Wilhelm and Conlon, Dr. Weinberg was part of the team that created Adena Ventures, the nation's first New Market Venture Capital Company. His writing has appeared in diverse outlets from *Politico* to *Policy Studies Journal*, and he has appeared on *Fox News* and *National Public Radio*.

Dr. Weinberg holds a doctoral degree in Political Science from the University of North Carolina at Chapel Hill and graduated with honors from Princeton University with a degree in politics.

## About CBIA's Health Connections

### Fact box

- Implementation date: January 1995
- Status: Open
- Lives covered: 88,000
- Plans offered: 4<sup>1</sup>
- Participating small businesses: 6,000
- Total number of small businesses in the state (<100 employees): 71,805<sup>2</sup>

### Overview

The Connecticut Business & Industry Association, or CBIA, represents businesses of all industries and sizes. It advocates for the general business and industry community and it provides products and services for the benefit of its members. One of these benefits is a private-sector health exchange, CBIA Health Connections. The exchange serves businesses with 3 to 100 employees and requires that at least 75% of full-time employees participate.

Employers may choose one of two “suites,” or plan design options—one more comprehensive than the other—and enroll in them by making a minimum premium contribution. The contribution must equal at least half of the lowest monthly employee-only medical rate, or half of the lowest premium that an employee can pay each month. Employees, then, may “buy up” or “buy down” to higher or lower benefit levels within the suite.<sup>3</sup> CBIA also offers small employers several add-ons, including life, disability, and dental insurance.

### Best practices

- CBIA actively competes with the outside market. The exchange operates under the same underwriting rules, eligibility rules, and rating standards as the outside market. Like the outside market, CBIA's carriers also participate in the statewide Connecticut Small Employer Reinsurance Pool for high-risk employees. Officials credit this pool with ensuring a competitive small-group market.<sup>4</sup> Insurers within the exchange compete for customer satisfaction as they would outside the exchange. Consequently, the exchange remains competitive and it does not pose a disadvantage to small employers. In fact, its narrow focus on the small-group market actually makes participation attractive. CBIA is tightly focused on its niche and it can respond nimbly to market forces.
- Benefits across plans are standardized, so choices are made based on premium price, network design, and formularies. The exchange establishes benefit standards and purchases plans from carriers.<sup>5</sup> It actively negotiates with the carriers. This managed competition model incentivizes insurers to offer high-quality and low-cost plans.
- The exchange maintains a relationship with the rest of the private sector, including insurance companies and brokers. But it actively competes in the small-group market by offering extensive communications and human resources services. CBIA offers consolidated administrative services, so employers only see one bill. As a result, the exchange has become especially successful in the 3-to-25-employee market, where few businesses have human resources staff.

### Endnotes

1. As of publication, CBIA offered four plans; however, two carriers were transitioning out of the exchange due to other priorities. CBIA reports that its subscriber retention rate has remained high. Ken Comeau, interview with author, Washington, D.C., February 17, 2011. Phone.
2. Bureau of the Census, “U.S. & states, totals,” Statistics of U.S. Businesses (Department of Commerce, 2008), available at <http://www.census.gov/econ/susb/>.
3. Amy Lischko, “Health Insurance Connectors & Exchanges: A Primer for State Officials” (Princeton, NJ: RWJ Foundation, 2007), available at [http://www.statecoverage.org/files/Health\\_Insurance\\_Connectors\\_and\\_Exchanges-A\\_Primer\\_for\\_State\\_Officials.pdf](http://www.statecoverage.org/files/Health_Insurance_Connectors_and_Exchanges-A_Primer_for_State_Officials.pdf).
4. Created in 1990, the Connecticut Small Employer Reinsurance Pool was the first of its kind. All carriers must participate, though each chooses which high-risk small groups or particular employees/dependents to reinsure. Carriers must reinsure individuals within 60 days of plan enrollment. The pool provides coverage for claims of more than \$5,000 per covered life. Nonsubsidized, the pool is funded by insurers' reinsurance premiums, as well as by an annual assessment based on their small-group market share. Janet L. Kaminski Leduc, “Backgrounder: Small Employers and Health Insurance in Connecticut,” September 30, 2008, available at <http://www.cga.ct.gov/2008/rpt/2008-R-0542.htm>.
5. The exchange cannot negotiate rates because Connecticut's small-group market operates under adjusted community-rating regulations.



## About HealthPass New York<sup>1</sup>

### Fact box

- Implementation date: December 1999
- Status: Open
- Lives covered: 32,000
- Plans offered: 25+<sup>2</sup>
- Participating small businesses: 4,000
- Total number of small businesses in New York City metro area (<100 employees): 236,812<sup>2</sup>

### Overview

HealthPass, now a private commercial exchange, was originally developed by the former mayor of New York City, Rudy Giuliani, and the New York Business Group on Health (now the Northeast Business Group on Health).

Small employers must be located in New York City, Long Island, or the Mid-Hudson Valley in order to participate. Additionally, an existing 75 percent of employees of each participating small business must be insured, either by the employer, a spouse, or otherwise. This requirement ensures robust participation in the exchange.

The employer may or may not choose a standard dollar amount to contribute to each employee's premium. The employer also has the choice of setting up a Section 125 premium-only plan, which allows employees to use their pretax earnings to pay for plans.

The exchange also uses the "employee-choice" model. Employees may purchase plans of their choice once their employer has enrolled in HealthPass. Much like the SHOP Exchanges will be able to do, HealthPass offers "add-ons" (such as dental and a bundled security product) to the employee.

### Best practices

- HealthPass is a user-friendly program. It requires little administrative effort from the employer since most of its administrative and enrollment forms are one page. Similarly, it offers the employee a substantial number of benefit options and premium levels. The exchange provides both employers and employees with personalized small-group administrative support, such as human resources services and health consultation hotlines. In addition, Workable Solutions—a third-party administrator—provides back-end operational and communications support. These personalized services are especially attractive to the micro-group market. These are businesses with one to nine employees, and they comprise 80% of HealthPass enrollees. The exchange attributes its success with these groups to its robust support services.<sup>4</sup>
- Local authorities considered the exchange a long-term investment, so public support and funding helped get it on its feet. The mayor's office contributed to the program's startup costs and lent a member of senior leadership to act as HealthPass's first president. The public-private partnership set long-term, break-even goals, making short-term losses less of a public burden. Currently, HealthPass is a self-sustaining, private entity.
- The exchange maintains a good relationship with the broker community, which drives HealthPass enrollment. The exchange provides them with administrative support, which in turn facilitates brokers' small-group sales. A substantial portion of the HealthPass budget is devoted to broker outreach.<sup>5</sup>

### Endnotes

1. HealthPass serves New York City, Long Island, and the Mid-Hudson Valley.
2. The plans are offered through four carriers and belong to one of four categories (In-Network only, In- & Out-of-network, Cost-sharing, and High-deductible). Two dental plans and two bundled security products (long-term disability, accidental death & dismemberment, and term-life) are also available.
3. Bureau of the Census, "U.S. & states, totals," Statistics of U.S. Businesses (Department of Commerce, 2008), available at <http://www.census.gov/econ/susb/>.
4. Shawn Nowicki, "SHOP Exchanges: A Small Business Benefit," presented at the Families USA Health Action 2011 Conference, available at [http://www.primaryimmune.org/advocacy\\_center/pdfs/health\\_care\\_reform/Small\\_Business\\_Health\\_Exchange\\_20101007.pdf](http://www.primaryimmune.org/advocacy_center/pdfs/health_care_reform/Small_Business_Health_Exchange_20101007.pdf).
5. Stephen N. Rosenberg, "New York's HealthPass Purchasing Alliances: Making Coverage Easier for Small Businesses," (New York: The Commonwealth Fund, 2003), available at <http://www.commonwealthfund.org/Content/Publications/Fund-Reports/2003/Sep/New-Yorks-HealthPass-Purchasing-Alliance-Making-Coverage-Easier-for-Small-Businesses.aspx>.

## About PacAdvantage

### Fact box

- Implementation date: July 1993
- Status: Closed in December 2006
- Lives covered: 110,000 to 150,000<sup>1</sup>
- Plans offered: 13 to 27<sup>2</sup>
- Participating small businesses: 6,200 to 10,000<sup>3</sup>
- Total number of small businesses in the state (<100 employees): 698,145<sup>4</sup>

### Overview

The Health Insurance Plan of California, or HIPC, was created in 1992. It started as a state-operated, voluntary, small-employer health insurance purchasing pool. This purchasing exchange was designed to give small employers collective purchasing clout, and it accompanied a number of additional small-group reforms, including guaranteed issue of coverage, limits on exclusion of pre-existing conditions, and restrictions on rate variations.

These marketing and underwriting regulations applied both inside and outside the HIPC. But insurers were allowed to charge different rates for the same plan inside and outside the exchange.

As per the enacting legislation for HIPC, the state handed off the plan to private management—the Pacific Business Group on Health, or PBGH—in 1999. PBGH renamed the pool PacAdvantage and wholeheartedly endorsed brokers and general agents, previously excluded from the exchange, to help attract new small businesses. Brokers and insurers were attracted to the potential of a large new market and the program grew.

Eventually, however, the exchange attracted an unbalanced amount of high-risk participants.<sup>5</sup> This process, known as adverse selection, caused rates to increase inside the pool, and employers began opting out. After all, participation was neither incentivized nor necessary. Only the riskiest groups remained, which raised premiums above those offered outside the exchange. The number of participating insurers dwindled as enrollment decreased, and PacAdvantage was forced to close in 2006.

### Lessons learned

- Enrollment was low from the beginning due to the voluntary nature of the program. Participation was voluntary for plans, voluntary for brokers, and voluntary

for small employers. Additionally, in the mid-to-late-1990s, less than a third of employers were well-informed of the exchange, indicating a need for more effective outreach.<sup>6</sup> Further, low enrollment numbers resulted in high per-capita administrative costs.

- Former PacAdvantage CEO John Grgurina knows that “brokers can steer enrollment.”<sup>7</sup> HIPC did not pay brokers competitive commissions so that they could keep administrative costs low. In response, a poor relationship developed between the brokers and the exchange. Once privatized, the exchange attempted to reverse this relationship. But by that time the damage had already been done. Some brokers directed low-risk groups out of the exchange, while high-risk groups stayed and new ones entered the exchange. The risky groups raised premiums and dissuaded small employers from participating.
- These weak economies of scale led to less price advantage, which in turn made the exchange less attractive to employers and decreased its bargaining power against insurers. The lack of competitive premium rates inside the exchange caused healthy policyholders to opt out. These policyholders found better rates for the same plans outside the exchange. As they dropped out, only high-risk policyholders were left. This phenomenon (adverse selection) could not be remediated.
- Unlike the outside market, the exchange could not adjust premiums for individual firms up or down 10 percent, which tied rates in the exchange to the risk of its overall pool. Despite attempts by PacAdvantage to put together an effective risk-adjustment mechanism, health plans did not consider the mechanism strong enough to offset losses. Carriers did not see the value in the exchange and eventually pulled out.

### Endnotes

1. The range represents total lives covered at both the program's peak and at its close.
2. Jack A. Meyer and others, “Business Initiatives to Expand Health Coverage for Workers in Small Firms” (New York: Commonwealth Fund, 2001), available at <http://www.commonwealthfund.org/Publications/Fund-Reports/2001/Oct/Business-Initiatives-to-Expand-Health-Coverage-for-Workers-in-Small-Firms-Volume-I-Overview-and-Le.aspx>; Jill M. Yegian and others, “The Health Insurance Plan of California: The First Five Years,” *Health Affairs* 19 (5) (2000): 158–165, available at <http://content.healthaffairs.org/content/19/5/158.citation>.
3. Business Wire, “PacAdvantage Pooled Health Care Coverage for Small Employers Will Cease Operations at End of this Year,” August 11, 2006, available at [http://www.redorbit.com/news/health/612521/pacadvantage\\_pooled\\_health\\_care\\_coverage\\_for\\_small\\_employers\\_will\\_cease/](http://www.redorbit.com/news/health/612521/pacadvantage_pooled_health_care_coverage_for_small_employers_will_cease/); Meyer, “Business Initiatives to Expand Health Coverage for Workers in Small Firms.”
4. Bureau of the Census, “U.S. & states, totals,” *Statistics of U.S. Businesses* (Department of Commerce, 2008), available at <http://www.census.gov/econ/subs/>.
5. Michael Hiltzik, “Will U.S. learn its healthcare reform lesson from California?,” *The Los Angeles Times*, September 14, 2009, available at <http://articles.latimes.com/2009/sep/14/business/fi-hiltzik14>.
6. Jill M. Yegian and others, “Health Insurance Purchasing Alliances for Small Firms: Lessons Learned from the California Experience” (Oakland, CA: California HealthCare Foundation, 1998), available at <http://www.chcf.org/publications/1998/05/health-insurance-purchasing-alliances-for-small-firms-lessons-from-the-california-experience>.
7. John Grgurina, interview with author, Washington, D.C., February 4, 2011. Phone.



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