



Small Group Market Size Policy

April 23, 2012

Should the Exchange Board recommend that the small group market size be expanded from 50 to 100 employees in 2014?

Goals/Objectives:

- Support a stable small group risk environment in Colorado
- Minimize disruption to the Colorado small group market during COHBE implementation
- Support the perspectives of employers and employees that will use the SHOP exchange
- Ensure timely and successful Exchange implementation

Below are state and federal laws that apply to the small group size:

Colorado	<p>SB11-200: Consider the appropriate size of the small employer market under the Exchange, taking into consideration the definition of "small employer" - pursuant to section 10-16-102(40).</p> <p>State Revised Statute Section 10-16-102(40): "Small employer" means any person, firm, corporation, partnership, or association that is actively engaged in business that, on at least fifty percent of its working days during the preceding calendar quarter, except as provided in section 10-16-105 (12), employed no more than fifty eligible employees, the majority of whom were employed within this state and that was not formed primarily for the purpose of purchasing insurance. "Small employer" includes a business group of one. In determining the number of eligible employees, companies that are affiliated companies, or that are eligible to file a combined tax return for purposes of state taxation, shall be considered one employer.^{1,2}</p> <p>¹ 10-16-102(6) Also defines a business group of one or a sole proprietor or other business consisting of a single employee</p>
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Federal	<p>SEC. 1304 [42 U.S.C. 18024]. RELATED DEFINITIONS.</p> <p>EMPLOYERS:</p> <p>(1) LARGE EMPLOYER.—The term “large employer” means, in connection with a group health plan with respect to a calendar year and a plan year, an employer who employed an average of at least 101 employees on business days during the preceding calendar year and who employs at least 1 employee on the first day of the plan year.</p> <p>(2) SMALL EMPLOYER.—The term “small employer” means, in connection with a group health plan with respect to a calendar year and a plan year, an employer who employed an average of at least 1 but not more than 100 employees on business days during the preceding calendar year and who employs at least 1 employee on the first day of the plan year.</p> <p>(3) STATE OPTION TO TREAT 50 EMPLOYEES AS SMALL.—In the case of plan years beginning before January 1, 2016, a State may elect to apply this subsection by substituting “51 employees” for “101 employees” in paragraph (1) and by substituting “50 employees” for “100 employees” in paragraph (2).</p>
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Key Data

The current small group market is defined as 50 employees or less. Over 50 employees is a different marketplace with different plans and rating rules. Data from the 2011 Colorado Health Access Survey (CHAS) found that 57.8 percent of Coloradans reported coverage through employer sponsored insurance (ESI), which represents approximately 2,919,403 Coloradans.¹

To answer the question about how many covered lives are in the 1-49, 50-99, and 100+ employer size ranges, the Colorado Health Institute conducted an analysis based on the 2010 Medical Expenditure Panel Survey (MEPS), 2011 CHAS, and other sources. The results are displayed in Table 1 below. The estimated number of covered lives includes both self-funded and fully insured individuals.

Table 1. Estimated number of Coloradans covered by ESI, by firm size, 2010

Firm size	Estimated number of covered lives	Distribution of ESI (%)
Private sector		
1-49 employees	340,949	11.7%
50-99 employees	133,541	4.6%
100+ employees	1,845,467	63.2%
Public sector	599,446	20.5%
Total	2,919,403	100.0%

¹ Source: The Colorado Trust, Overview of Coloradoans’ Health Care Coverage, Access and Utilization (November 2011). Available at <http://www.cohealthaccesssurvey.org/>

Source: Colorado Health Institute, Memorandum to Colorado Health Benefit Exchange, April 18, 2012

The Small Employer Workgroup evaluated the issue and recommended the small group market stay at 50 for now and move to 100 when required in 2016. They reached consensus that the impact on the marketplace and risk to implementation was not warranted given the mandate to expand the market within two years of implementation.

Considerations

Advantages to raising the small group market size to 100:

- Expanding from 50 to 100 employees will increase the size of the small group market which could provide additional customers to drive the success of the SHOP.
- Since the change is required in 2016, it could be advantageous to increase the size limit now so that all market rule transitions/disruptions occur at the same time.

Disadvantages to raising the small group market size to 100:

- Expanding the definition to 100 employees in 2014 would add an additional level of change and uncertainty to the market already experiencing change and disruption.
- Additional work to change rating, distribution systems, and processes would add implementation risk for the SHOP.
- Increasing the small group market size limit may drive adverse selection

Recommendation

Effective 1/1/2016, enacted federal law requires the small group market to move to 100 employees. We encourage the COHBE Board to recommend to the Colorado Division of Insurance and the Governor's Office to limit the small group market to employers with 50 or less employees in 2014 and 2015 to minimize market disruption and implementation risk.