



July 12, 2012

Mr. Peter V. Lee
Executive Director
California Health Benefit Exchange
2535 Capitol Oaks Drive, Suite 120
Sacramento, California 95833

RE: Small Business Health Options Program (SHOP)

Dear Mr. Lee:

On behalf of California's small business owners, we are writing to express our support for the Small Business Health Options Program (SHOP). We urge the Exchange to carefully examine the needs of California's small employers as it prepares to take action at the July 19 Board meeting.

As you know, small employers are struggling with healthcare costs. Small firms pay on average 18% more than their large business competitors while many other small businesses are unable to offer health benefits at all. Furthermore, without sophisticated human resources departments to back them up, small business owners that do offer health insurance lose countless hours to the administrative hassles of purchasing and managing benefits. The SHOP Exchange is an opportunity to help fix this. To ensure an affordable, competitive and nimble insurance marketplace, we make the following recommendations.

Alignment of Carriers and Benefits

We believe the SHOP Exchange will be most successful if the carriers and benefits are partially aligned with the Individual Exchange. Alignment will ensure maximum carrier participation in the SHOP Exchange, boosting competition and increasing the number of insurers that small businesses have to select from. Alignment also increases the negotiating clout of the Exchange and allows for employees to have a more seamless transition between the SHOP and Individual Exchange. However, we believe the Exchange should allow for some differences between the two pools when appropriate, and thus recommend partial alignment of carriers and benefits.

Agent Strategy

Insurance agents currently assist about 75% of California small business owners who offer insurance with the complicated process of selecting, purchasing and administering health benefits, according to research conducted by Pacific Community Ventures. What's more, 75% of small employers that use an agent say they are satisfied or highly satisfied with them, according to polling by Small Business Majority and Kaiser Permanente. It is clear that agents must have a role in the SHOP and must be compensated competitively. We recommend that the Exchange pay agents directly and at a rate competitive with the outside insurance market.

Employee Choice

Employees of large corporations and public employee workers routinely are allowed to select their own carriers and/or benefits package. Unfortunately, this option is rarely available to small businesses. Today, most insurers require that small business owners select a “one-size fits all” plan for all of their workers. The SHOP Exchange has the ability to offer employee choice thus leveling the playing field with government and large business employers.

According to recent research by Small Business Majority and Kaiser Permanente, of small businesses in California that plan to offer coverage in 2014, 67% say employee choice helps make the SHOP more attractive. While some have raised concerns that allowing employees to select their own plan could lead to adverse pricing issues, we are aware of no evidence that choice among insurance carriers would cause prices to increase. On the other hand, we understand that unfettered choice amongst benefit tiers could potentially be expensive. We therefore urge the Exchange to look at the evidence and allow for as much employee choice as small businesses can afford.

Ancillary Benefits and Benefit Administration

As previously mentioned, most small business owners do not have human resources departments to tackle the administrative burden involved with offering healthcare. While insurance agents are a tremendous help, there is still a significant workload placed directly on the small business owner. The SHOP Exchange can help distinguish itself from the rest of the insurance market by taking some of this burden off of small businesses. This could include administering COBRA, wellness plans and health savings accounts. We urge the Exchange to provide services that are most popular with small business owners yet will not add substantively to the cost of insurance premiums.

We appreciate the Board’s thoughtful work to date in its attempt to bring affordable healthcare coverage to small businesses. Controlling healthcare costs is an essential step toward economic recovery and we urge the Board to keep affordability at the center of these important discussions.

Thank you for your consideration.

Sincerely,

John Arensmeyer, Founder & CEO, Small Business Majority

Carl Guardino, President & CEO, Silicon Valley Leadership Group

Scott Hauge, President, Small Business California

Hut Landon, Executive Director, Northern California Independent Booksellers Association

Bonnie Osborn, President, Sacramento Rainbow Chamber of Commerce

Beth Sirull, Executive Director, Pacific Community Ventures

Wendy Urushima-Conn, President & CEO, Asian Business Association San Diego

Claudia Viek, Chief Executive Officer, California Association for Micro Enterprise Opportunity

cc: Members, California Health Benefit Exchange Board
Mr. Michael Lujan, Director, Small Business Health Options Program