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Sole-source insurance exchange answer to health care costs

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For years, small-business owners in California and across the country have spent significantly more for health insurance than larger firms — hindering their ability to compete and jeopardizing the financial health of their businesses.

Now that health care reform is law, they may no longer be encumbered with that burden — as long as California implements reform correctly. The Assembly took the first major step in this process on June 14 by voting to create a high-risk pool. The pool will allow those with pre-existing conditions to be covered until 2014, when the state insurance exchange is established. But as California continues down the long road of implementation, it must avoid the prior pitfalls toward reform.

For small-business owners, the exchange is one of the most important components of reform. In California, 60 percent of the uninsured are employed. Four million workers in our state don't have health insurance, and more than half of them work for companies with fewer than 20 employees. The situation is even worse for the self-employed — one in three are uninsured, nearly twice the rate of the population as a whole.

Many self-employed entrepreneurs and small-business owners simply can't afford insurance. Small businesses that do offer coverage pay, on average, 18 percent more for insurance than big companies. Exchanges will be the primary vehicles for making health care affordable for small businesses, while also leveling the playing field.

Federal reform requires states to create exchanges where small businesses and individuals can band together to purchase insurance. In California, 3.76 million small-business employees and their dependents, and 840,000 self-employed people, will be eligible to purchase insurance through the exchange. These large pools will create maximum competition that improves quality, reduces premium volatility, increases choice and lowers costs.

But implementation must be done right to ensure that these benefits come to fruition.

Over the past year, I participated in a project called [The California Task Force on Affordable Care](#). This group of representatives from the medical, insurance, business and consumer sectors worked on ways to improve the value of our health care spending. We identified 10 steps to reduce our health care costs, which, if implemented properly, could save the state \$300 billion over the next decade.

One of the task force's recommendations is to create a "sole-source insurance exchange" for individuals and small businesses, one marketplace through which individuals and small businesses must purchase insurance. This would succeed at controlling costs because of a large membership base and no outside competition to drive up prices by cherry-picking lower-risk members who are less costly to insure.

Between 1993 and 2006, California had a small-business health insurance exchange, PacAdvantage, in which more than 10,000 small businesses participated. PacAdvantage failed — in part because people with higher medical costs enrolled in the exchange, while lower-risk people got coverage through plans outside the exchange that offered cheaper rates. Establishing a sole-source exchange, coupled with the law's requirement that everyone have insurance, would prevent that situation from arising again.

There are bills making their way through the California legislature regarding the establishment of the exchange. They don't cover everything, but they're a good start. And a successful exchange could be used as a blueprint by other states.

More important, we can finally affect real change that California small-business owners will see in their bottom lines. This will help turn around the state's economy at a time when we desperately need robust economic growth.

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