

Prohibiting Self Funding For Small Employers Would Drive up the Uninsured Rate

Will the Affordable Care Act (ACA) actually increase the number of uninsured? The answer may lie in legislative attempts to eliminate self-funding for small employers — employers that are simply trying to provide a group health plan for their employees. If current legislative efforts are successful in restricting access to reasonable self-funding alternatives, there is a real probability that we will see higher uninsured numbers in California in 2014.

First Let's Frame The Discussion

To outline the issue, we must consider a few facts and statistics. Let's estimate for this discussion that California's population is 35 million. Based on recent presentations by Covered California, experts estimate that 5.3 million California citizens are uninsured.

Covered California recently provided these statistics about the 5.3 million uninsured:

- 2.7 million will probably qualify for the ACA tax credits available through our Exchange.
- 2.6 million will not qualify for subsidies in 2014.

To frame the discussion, let's add a few other statistics:

- More than 95% of California's employers have fewer than 50 employees.
- Roughly 50% of those small employers provide no benefits to employees.
- The primary reason for not providing benefits is cost.
- Small employers will not have a penalty if they do not provide health insurance.
- Premiums for individual and family plans (IFPs) and group plans are projected to increase dramatically in 2014.

One starts to see a picture that stimulates the following questions:

Question: If 2.6 million people, who will not qualify for subsidies, don't buy insurance now why would we expect them to buy in 2014 when premiums are higher?

Answer: It is probable that none of this group gets insured unless their employers offer coverage.

Question: How many of the 2.7 million people who qualify for a subsidy will actually be able to afford the coverage even with the subsidy?

Answer: It is projected that many of these people will be unable to afford the coverage.

Question: If 50% of small employers don't provide coverage now, what would compel them to provide insurance in 2014?

Answer: There is very little hope that these employers will start to offer coverage in 2014.

Question: Will increased premiums in 2014 affect an employer's decision to stop providing benefits?

Answer: Increased cost may drive tens of thousands of employers to terminate their current plans.

Question: If small employers that are providing benefits now decide to stop providing benefits, how many of those newly uninsured people will buy coverage on their own?

Answer: This newly uninsured group will be much like the current uninsured population. They will make their buying decision based on affordability and their own health care needs.

Question: How important is it to make sure that the 50% of small employers who provide benefits now continue to provide benefits in 2014?

Answer: It is critical if we hope to increase the number of people insured in CA.

The last question is the basis of this article. Our political leaders in California should have great concern about the uninsured population increasing in 2014. If small employers have the alternative of self-insuring their medical plans impeded in any manner, it will increase the probability that the number of small employers not providing benefits will increase.

Pending Legislation May Impede Small Employers

Last year, it was SB 1431; this year, it is SB 161, also known as the "stop-loss bill." This bill is written with guidelines to place limits on stop loss policies purchased by small employers. The restrictions and limits within the current status of the bill would effectively eliminate self-funded plans as an alternative for small employers.

Last year, there was enough written about SB 1431 to stir up the activist in us all. This year little has been written, but many groups are working vigorously, behind the scenes, to mitigate the damage that would be caused by SB 161. Once again, CAHU's lobbyist group, CA Advocates, is deeply involved with the ongoing negotiations. Just as last year, CA Advocates is joined by other industry and business groups to confront the misunderstandings about self-funding as well as educate the proponents about the positives of self-funding for small employers. But, as usual, the fight is an uphill battle.

However, this article is not really about SB 161. It is about the reality that our legislators face that the number of uninsured in California may increase

from the current estimates of 5.3 million to as high as 6-7 million in 2014. It is really in the math; for thousands of small employers the math may not add up.

Everybody Loves A Number, So Let's Look At A Few

As stated above, let's assume that California has 35 million people and 5.3 million are uninsured. That leaves roughly 30 million people currently covered. Let's also assume that the roughly 50% of small employers that provide benefits cover about 10 million people. That leaves 20 million that are covered by large employers, Medicare, Medi-Cal, Tricare, IFPs, Calpers, etc.

So that poses some questions:

1. How many of these 10 million members will lose their employer sponsored plans because the employer will not be able to afford the increased premiums?
2. How many of these members will not qualify for a subsidy and therefore be unable to afford coverage just like the 2.6 million current uninsured mentioned above?
3. How many of these will qualify for subsidy but will not be able to afford the net cost after the subsidy just as the 2.7 million mentioned above?
4. How many of the newly uninsured will be shopping for their own health insurance for the first time in their life and therefore be shocked by the cost?

The answer to the above is that now is not the time to throw any restrictions on options small employers have to finance their employee's group health plan.

What Does This Mean To California's Employers, Employees, And Economy?

Self-funding for small employers is not new in California, but is often misunderstood. Some politicians are honest proponents of the ACA and are truly looking for ways to increase the number of covered citizens. Some politicians are proponents of a single payer system and see the Exchange as a step toward that goal of single payer universal care. Regardless of how one feels about the ACA, it is counter to the benefit of our citizens to limit small employers when employers are trying to provide coverage to their employees.

Employers with fewer than 50 employees are not mandated to provide coverage and bear no penalty if they don't provide coverage. So why would our leaders want to make it more difficult for small employers to provide coverage if the goal of the legislature is to cover as many Californians as possible? I know, dumb question to ask in the context of politics.

Finally

Most of us are not politically active; we are usually too busy just trying to do our job to the best of our ability to get involved with causes. If stop loss bill SB 161 is still alive as you read this article, you will have a chance to make a difference. A phone call to your local state senator or assembly member is a start. If you place a call to the Governor's office to let him know the potential impact to the uninsured numbers in California it will make an impact. Also, contact your self-funded employer clients and ask them to do the same. They will be impressed that their consultant is involved in shaping the future of financing their health plans.

In May, carriers will be submitting their new plans to Covered California for consideration. Hopefully, soon thereafter, we will see the first indication of what rates and plan designs will be in 2014. Our assumptions and projections will either prove to be true or not.

Let's hope that, for the benefit of citizens in California who are covered by their employer's plan, that our legislature sees the wisdom in retaining self-funded plans for small employers. □

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