HEALTH CARE for All
MARYLAND CITIZENS' HEALTH INITIATIVE
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Expanding Health Coverage for Small Businesses in Maryland
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Historically, small businesses have been less likely to offer comprehensive health benefit packages to their employees and have suffered from more fluctuation in premiums. Compared to large employers, small businesses have less negotiating power with carriers and providers, and smaller, less stable and slightly less healthy risk pools.

In the 1990's Maryland made reforms to its small group market which included requiring small market insurance carriers to cover preexisting conditions and offer comprehensive standard benefit packages.[i] Then in 2007 the state created the Maryland Health Insurance Partnership ("The Partnership") to improve access to more affordable coverage options for certain small businesses that did not already offer employer sponsored insurance (ESI). At the height of The Partnership program, 1,932 people received coverage from 425 employers.[ii] This program ended shortly after the passage of the Patient Protection and Affordable Care Act (ACA).

Since 2010, the ACA has made changes to the small group market to improve both quality and affordability. For instance, insurers offering products in the small group market are required to set rates using a single risk pool to help stabilize premium cost growth for individual small businesses. The ACA also created the Small Business Health Option Program (SHOP) marketplaces to make it easier for small business owners and their employees to shop for and compare plan options. In Maryland, SHOP is available to businesses with 50 or fewer full time equivalent employees. To address affordability concerns, the ACA created a two-year federal tax credit for eligible small businesses. Eligible businesses must have fewer than 25 full time equivalent employees, have an average employee salary of $50,000 or less, pay for at least 50% of its full-time employees' premium costs, and offer coverage through SHOP.

Though the ACA has made small group insurance more accessible and comprehensive, there has been much less SHOP enrollment, both nationally and in Maryland, than was expected. Many people employed in small businesses are not offered ESI at all. In 2016 only 22,433 out of 80,988 or 27.7% of establishments In Maryland with fewer than 10 employees offered ESI.[iii,iv] In 2015 there were about 382,000 people employed at businesses with 20 employees or fewer, plus an unknown number more at businesses with between 21-50 employees,[v] yet as of March 2019, only 267,850 Marylanders were enrolled in ESI offered by small businesses, and only 884 of them received their coverage from SHOP.[vi,vii]

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Benefits of SHOP Participation

Removing barriers to robust participation in SHOP could provide many benefits for employers, employees, and the state of Maryland, including:

- **Increased flexibility for small businesses that currently purchase off-Exchange coverage**. The SHOP allows for employers to select up to two consecutive metal levels of coverage and the employees to select any plans offered by any of the carriers along those two metal levels, while off-exchange plans offer less flexibility.
- **Better quality coverage**. All SHOP coverage must offer essential health benefits guaranteed by the ACA. In addition, many employees without access to ESI are currently getting coverage through the individual market, which tends to have higher premiums, deductibles, and other out-of-pocket costs than SHOP coverage. SHOP coverage could be an improvement for these employees.
- **Increased access to health coverage for the uninsured**. An improved SHOP could attract small employers that do not currently offer ESI.
- **More stable individual market**. Individuals who need more health care services are more likely than healthier individuals to purchase coverage on the individual market rather than go uninsured. Therefore, of employees who are not offered ESI, those who currently purchase coverage on the individual market probably have higher healthcare needs. If offered ESI, these employees may leave the individual market, helping to stabilize it.
- **Improved health equity.** Small businesses are more likely than large businesses to be owned by people of color. Though the ACA has reduced disparities in access to health coverage for people of color, there is still room for improvement.

Barriers to SHOP Participation

There are several possible explanations for low participation in the SHOP program. First, there is a lack of awareness about SHOP among employers. Second, the small business tax credit was less appealing to employers than expected for both administrative and financial reasons, including:

- The credit is given to the small business at the end of the year instead of each month.
- The credit is only available to a small business for two years.
- The credit may not be large enough to attract employers of certain sizes and income levels.
- The application process is burdensome. For example, businesses cannot easily get a fast quote on the amount of the tax credit for which they would be eligible because of the complexity of the formula.

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Policy Solutions

To draft this memo, we at Maryland Citizens' Health Initiative Education Fund conferred with national experts to better understand the barriers to SHOP participation and potential policy solutions. We also discussed potential solutions with the Maryland Health Benefit Exchange (MHBE) to make sure there were not technical problems. This memo presents policy proposals that Maryland should consider after weighing the pros and cons with local stakeholders including small business owners, consumers, insurance carriers, etc. Further consultation with organizations and small businesses from communities of color could enrich and refine these recommendations.

The three ideas described below would work best when implemented together and would require that Maryland request a 1332 waiver from the federal government. Fortunately, the Maryland General Assembly passed and Governor Hogan signed legislation in 2019 (HB1098) that requires Maryland to submit a 1332 waiver application to administer tax credits monthly instead of annually to small businesses. While the legislation seeks to address one barrier to SHOP enrollment, integrating additional solutions into the 1332 waiver could result in greater impact and help leverage more federal funding.

First, simplify the small business tax credit formula. Small businesses need to be able to easily find out the amount of tax credit for which they are likely to eligible. A simpler formula will enable MHBE to provide faster quotes to small businesses. Input from various stakeholders about how to best simplify the formula should be collected.

Second, invest additional funding (at least $15 million per year) into the small business tax credit. As it is set up now, the credit is not a strong enough financial incentive.

The two-year duration limit should be eliminated so that eligible small businesses can receive financial assistance every year.

Maryland may also want to use this opportunity to increase the amount of tax credits that some businesses receive, particularly businesses least likely to be able to afford to provide ESI—those with fewer than 15 employees earning low to moderate wages. Determining the best way to revise the formula to achieve the goals of improving the SHOP program will require input from various stakeholders.

We suggest at a minimum that Maryland consider starting the additional investment at $15 million per year. This was the highest amount of money ever allocated to SHOP's precursor, the Maryland Health Insurance Partnership. Due to differences between

SHOP and The Partnership, Maryland may want to consider allocating more than $15 million per year, or increasing the amount after the first year. The Partnership program was largely unknown to small businesses due to a lack of marketing and administrative infrastructure. In addition, the eligibility criteria for subsidies from the Partnership were narrower than SHOP. MHBE may be able to comment on what amount of funding would be required for a program to best incentivize small businesses to offer SHOP insurance to their employees.

Third, increase funding by $5 million for MHBE to market and administer the SHOP program. Bigger and simpler tax credits could generate substantial interest from the small business community, but only if they are marketed and administered well. Small businesses need to know about the benefits of offering ESI through SHOP. Similar to the individual market, marketing could include TV and radio advertisements, print media, social media, presentations, and participation in community events. There will also need to be substantial outreach to insurance brokers and directly to small businesses through chambers of commerce. Small businesses and brokers will need resources to guide them through the application process, for example from an ombudsman funded by a grant outreach program. For the initial year of marketing and administration, we estimate that MHBE would need at least $5 million.

Conclusion

There are many benefits of incentivizing more small business to offer health coverage through SHOP. In order to make SHOP more attractive and accessible to small businesses, Maryland should consider simplifying the small business tax credit formula, investing additional funding into the tax credit, and investing in marketing and administering SHOP. These policies could help move the state further towards achieving quality, affordable health care for all Marylanders.

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[ii] Eberle, M. (March 2015) " A Review of the Small Group Health Insurance Market in Maryland" Maryland Health Benefit Exchange. https://www.marylandhbe.com/wp-content/uploads/2015/12/2016-MHC-Small-Business-Planning-Document-04.22.15.pdf (Accessed: 30 July 2019)

[iii] United States Census Bureau. 2016 SUSB Annual Data Tables by Establishment Industry. [Excel spreadsheet].Available at https://www.census.gov/data/tables/2016/econ/susb/2016-susb-annual.html (Accessed: 29 July 2019)

[iv] Agency for Health Quality and Research. Table II.A.2 Percent of private-sector establishments that offer health insurance by firm size and State: United States, 2016. https://meps.ahrq.gov/data_stats/summ_tables/insr/state/series_2/2016/tiia2.pdf (Accessed 30 July 2019)

[v] United States Census Bureau. 2016 SUSB Annual Data Tables by Establishment Industry. [Excel spreadsheet].Available at https://www.census.gov/data/tables/2016/econ/susb/2016-susb-annual.html (Accessed: 29 July 2019)

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[vii] Maryland Health Benefit Exchange (2019) *Data Report March 31, 2019.* Available at: https://www.marylandhbe.com/wp-content/uploads/2019/04/Executive-Report_03_31_2019.pdf (Accessed: 26 July 2019).