# New York Exchange

## Employer Health Insurance
## Preference Research

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Submitted by:

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# Project Summary

## Situation Analysis

The primary purpose of this research is to provide the State of New York with systematic information that can be used to guide the development and marketing of New York's Small Business Health Options Program ("SHOP"). If the target market is small employers offering group health benefits in 2014, most small-group purchasers will be renewing, as distinct from those newly offering coverage. Therefore, it is important to simulate the purchasing dynamics for small employers currently in the market. Their decision-making will be conditioned by comparing options (in and outside the SHOP Exchange) to their existing coverage and premiums.

To simulate decision-making under circumstances resembling 2014 renewals, we identified small employers with particular benefits packages, described roughly comparable plan designs in the SHOP exchange, and ask them questions under scenarios characterized by very different rates of premium increase for 2014. Specifically, the research aims to:

1. Determine the views of employers toward the Exchange as well as the four models of employee choice commonly being considered by state-based exchanges.

2. Measure preferences for each employee choice model and identify which model employers would be most likely to use.

3. Determine whether employers understand and appreciate the value proposition of the Exchange.

4. Measure whether interest in the SHOP Exchange and the models under investigation varies according to different levels of premium increase.

5. Explore what the State of New York can do to maximize participation of employers in the Exchange.

6. Determine whether and why employers who currently *do not* offer insurance might be interested in doing so in the future, whether they understand the value proposition of the Exchange, and which employee choice model they would prefer.

## Methodology

The results of this report are based on 65 in-depth interviews. Employers were asked about their level of familiarity with the Affordable Care Act (ACA), and then were given some background information on it and on the basic purpose and operations of New York's health insurance Exchange. They were asked about their interest in renewing or newly offering coverage in 2014, in using the Exchange to offer their employees a choice of health plans along with a fixed employer contribution (Defined Contribution), and about the extent and type of plan choices they would prefer to offer their employees.

Fifty interviews were conducted of small employers who currently offer group coverage. They were identified by their brokers, who also provided Wakely and RKM with a description of the insurance offered. With this information, Wakely could calculate an approximate actuarial value for current coverage, and the interview could focus on renewal (or replacement through the Exchange) of similar coverage in 2014. Wakely developed specific premium increase scenarios to simulate distinct purchasing dynamics for small employers renewing in 2014. The scenarios and interview guide were developed with the input of brokers interviewed expressly for this purpose. The interviews were administered November 27 to December 14, 2012, by telephone. Employers were recruited from communities throughout New York and represent health care decision makers at companies with 2 to 50 employees. Among employers who currently offer health insurance, the average in-depth interview took approximately 1 hour and 20 minutes to complete.

In a real renewal situation, the level of premium increase for renewing the same coverage will influence the broker's advice and the employer's actions. Therefore, to simulate diverse renewal scenarios, employers were asked about their preferences under three different levels of premium increase for 2014: a very high increase (23%), a typical annual increase (8 -12%), and a modest reduction in premiums (-5%). These particular premium increases were randomly selected, but tested with brokers for face validity.

In addition, 15 companies that do not offer health insurance (non-offering employers) were interviewed to test their likelihood of offering coverage in 2014 and their interest in using the Exchange to do so. They were identified by a combination of referrals from chambers of commerce and "cold-calling." Among non-offering employers, the average interview took approximately 20-25 minutes to complete.

For analytic purposes, the 50 employers that do currently offer health insurance have been divided into two groups: mini-groups (n=19) consists of businesses with 2-10 employees and small employers (n=31) consist of businesses with 11-50 employees. In addition, these employers have also been grouped into two regions, upstate (n=32) and downstate (n=18).

# Major Findings

*A majority of employers are not familiar with the Affordable Care Act.*

Seventy-six percent of offering employers indicated that they are *only somewhat* (64%) or *not* (12%) *familiar* with the Affordable Care Act (ACA) and how it will impact their businesses. In addition, several employers indicated that they learned more about the ACA through this interview than they had through other channels and that they would benefit from comprehensive tools and explanations offered through the Exchange in the future. This suggests that an opportunity exists for the Exchange to differentiate itself through educational outreach and support, helping employers understand and navigate the changing health insurance market.

*Most employers remain committed to providing health insurance for their employees.*

Employers who currently offer coverage expressed deep-rooted support for the practice of providing health insurance to employees. Health insurance is viewed as the cornerstone of an employer's benefits package, and a necessity if a company wants to remain competitive and attract top talent. A subset of employers also expressed their desire to have a happy, healthy, and productive workforce, with a few purposefully limiting plan options so that employees do not end up underinsured.

Not surprisingly, the responses indicate that higher premium increases would encourage more employers to change their current practices -- to gravitate toward the Exchange or drop group coverage entirely -- whereas stable or lower premiums would encourage employers to continue to use conventional, small group, commercial distribution channels. If premiums were to jump 23 percent in 2014, 84% indicated that they would likely make a significant change: nearly one-fourth of employers (24%) said that they would drop group health insurance coverage, while 60 percent said that they would go through the Exchange for group coverage.

*Choice is very attractive to employers, but does not guarantee participation: the Exchange will need to deliver easy to understand information and high levels of support to attract and retain employers.*

Eighty-two percent of offering employers said that employee choice is a compelling feature of the SHOP Exchange. For most employers, choice means the expansion of options for employees, such that each can choose a plan which best suits his/her needs. This flexibility and customization appealed to employers whose workers run the "gamut of employee" type, and those who liked how the Exchange shifts the selection of appropriate coverage from the employer to the employee. As one respondent put it: "let's let them be us."

The SHOP Exchange is attractive for enabling defined contribution, meaning that the employer's liability is fixed, and the employees can apply the fixed employer contribution to a variety of plan choices. At the margin, employees are spending their own (pre-tax) dollars on plans which are more or less expensive. The higher the premium increase, apparently the more attractive it is to employers. However, many employers also expressed reservations about the impact of shifting more financial responsibility for health costs onto their employees, particularly when considering the defined contribution model: “That’s good for employers, but not necessarily for the employees.” This suggests that employers want to offer health insurance that is affordable for both the company and its employees.

The greatest concern regarding the Exchange is whether the State of New York would be able to offer sufficient information and customer service support to both employees and employers. One participant said, “our employees are going to come to us with questions, not sit on hold with the Exchange.” While the interviews did not ask and quantify responses to the question of how reliable employers thought the Exchange’s service would be, the skepticism was volunteered frequently enough to make it evident that this is a major concern. Several employers, while interested in the Exchange, stated that they would sit things out for a year or two while the Exchange was in “beta mode,” joining only after “all the bugs” were worked out. These results strongly suggest that many small employers who understand the value proposition of the Exchange may still be reluctant to adopt until the Exchange has achieved a proven record of success.

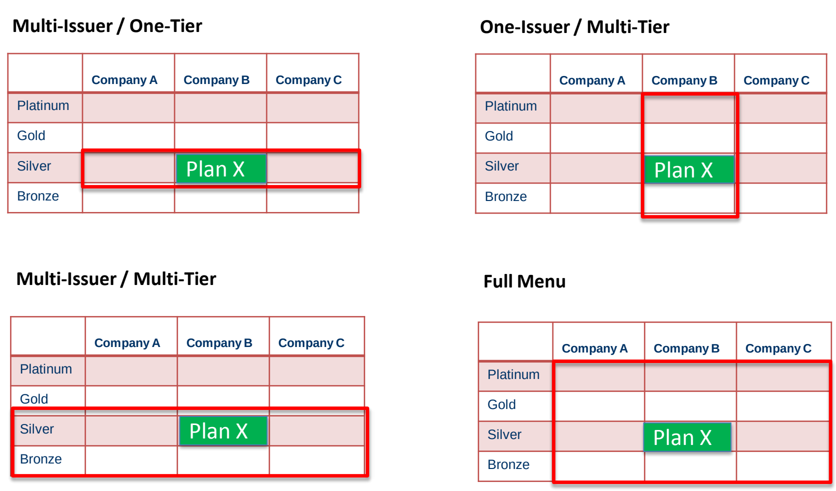
# Health Plan Preferences

*Employers were asked about four potential Exchange design models.*

Renewing employers generally begin the process with a premium quote to renew existing or closely comparable coverage, which we have designated “Plan X.” (In 2014, virtually all non-grandfathered plans will change somewhat to accommodate essential health benefits and approximate one of four permissible actuarial values.) Generally, the employer calculates contribution levels against this plan, and compares changes in his/her and the employees’ contributions from last year to next.

During the course of the interview, employers were asked to evaluate the following four potential Exchange design models. With the Multi-Issuer / One-Tier design, the employer would choose a tier and a benchmark plan comparable to his/her current plan (“Plan X”), and employees would be given the ability to select any health insurance carrier in that tier. With the One-Issuer / Multi-Tier design, the employer would choose a health insurance carrier and a benchmark plan and employees would be given the ability to “buy up” or “buy down.” With the Multi-Issuer / Multi-Tier design, the employer would select a range of tiers and employees would be given the ability to: 1) choose a health insurance carrier; and 2) “buy up” or “buy down.” With the Full Menu design, employers would select a contribution level and employees would be given the ability to: 1) choose a health insurance carrier; and 2) “buy up” or “buy down” among all options available through the Exchange.

Four Employee Choice models under investigation



*Most employers did not find the Multi-Issuer/One-Tier model attractive.*

The Multi-Issuer/One-Tier model had limited appeal among employers, with only eight percent of offering employers selecting it as their first choice. Some employers liked the idea of allowing an employee to select from more than one company, while still limiting the overall number of options and potential confusion. One participant said that “it’s apples-to-apples for [employees] to consider.” This model was also preferred by those employers who wished to maintain employees’ coverage at a higher level of coverage, preventing them from becoming “underinsured,” and by employers where the owners or principals required the best coverage available. For the former, experience has shown that “[employees] make mistakes, choose the cheapest [plans], and it hurts the company.”

However, many employers said that the Multi-Issuer/One-Tier model was either little improvement beyond what they had currently for coverage or proved less attractive than other models discussed. “I don’t like only one tier, especially in view of defined contribution. Why restrict it to one tier?” Many employers said that they preferred to expand an employee’s array of choice in terms of available coverage tiers rather than available companies, stating that a “one size fits all” approach would not work, and that “tiers are more important” to employees. “This isn’t enough choice, we need more tiers.”

Multi-Issuer/One-Tier


*Among: offering participants*

Upstate employers (9%) were only slightly more likely to choose the Multi-Issuer/One-Tier model as their first choice than downstate employers (6%). In addition, small employers (10%) were slightly more likely to say that this model is their first choice than mini-groups (5%).

These results suggest that the Multi-Issuer/One-Tier model would not be well received by most employers, regardless of size or location throughout the State.

### *Advantages and disadvantages*

The primary advantage of the Multi-Issuer/One-Tier model is that employers are able to select what they deem is an appropriate level of benefits, and then give their employees a choice of carriers. In some cases, the choice of carriers is equivalent to allowing employees to choose a provider that is part of a particular network. As one employer stated, “What I like about this model is that is ensures that none of my employees end-up underinsured. That’s my biggest concern about giving employees choice.”

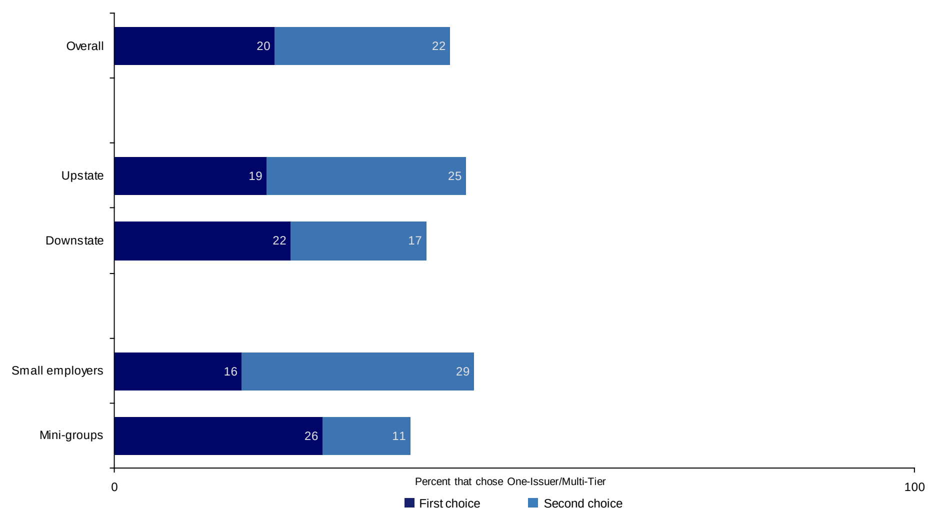
The primary disadvantage of the Multi-Issuer/One-Tier model is that it fails to give employees the ability to “buy up” or “buy down.” This model is particularly unattractive to employers who currently offer more than one plan, such as a gold-equivalent and a silver-equivalent plan. Among employers who currently offer their employees a choice of lower- and upper-end plans, this model is virtually unacceptable.  This is an important caveat, since broker interviews revealed that many employers in NYS now offer their employees a choice of two plans from the same carrier, a trend which has grown significantly in the last several years and probably will continue to grow.

*The One-Issuer/Multi-Tier approach improves upon current employer options.*

As most employers currently offer their employees health insurance from only one company, the One-Issuer/Multi-Tier model was viewed as an improvement, and one that did not overly complicate things. Notably, 20 percent of employers said that this model is their first choice, and 22 percent said it is their second choice. One participant said that "this innovates beyond what we currently have." In particular, employers in areas where one carrier dominates the market (particularly upstate) did not feel the need to offer a choice of companies. Instead, these employers said that choice of tier drives their decision. "If we didn't offer [our current carrier], then [the employees'] doctors may not be in the network." Another participant said that it is good to keep one's employees from going with an "unproven" carrier.

In contrast, for those employers who wished to give their employees the most choice, or those employers who already had employees requesting access to alternative networks, the One-Issuer/Multi-Tier approach was not that attractive. Many employers spoke of having employees who were "adamant about keeping their doctors." Those employers with out-of-state employees were similarly concerned about restricting carrier choice.

One-Issuer/Multi-Tier




*Among: offering participants*

Downstate employers (22%) were slightly more likely to say that the One-Issuer/Multi-Tier model is their first choice than upstate employers (19%). In contrast, downstate employers (17%) were less likely to choose this model as their second choice than upstate employers (25%).

Mini-groups (26%) were more likely to say that this model is their first choice than other small employers (16%). In contrast, nearly one-third of small employers (29%) said that this model is their second choice, while only 11 percent of mini-groups said that this model is their second choice.

These results suggest that this model is a generally acceptable option for many employers, regardless of size and geography. It appeals in particular to mini-groups.

### *Advantages and disadvantages*

The primary advantage of the One-Issuer/Multi-Tier model is that it gives employers additional flexibility to “decide how much to contribute,” but still enables them to offer their employees greater choice. One employer said that this model “gives back some of the power to employees.” The most significant perceived advantage is that the plan gives employees the discretion to “buy-up” or “buy-down” based on the needs of different employees.

The primary disadvantage of the One-Issuer/Multi-Tier model revolves around how complicated the process would be for employees. Indeed, several employers expressed concern that their employees “will be confused by the range of available options. As much as I can understand it, I’ve researched it. They will come back and ask questions. We are a small business and don’t have enough resources to understand so many plans.” Others said that while it sounds good in theory that the Exchange will take over enrollment, billing and customer service support, they question how this will work in practice.

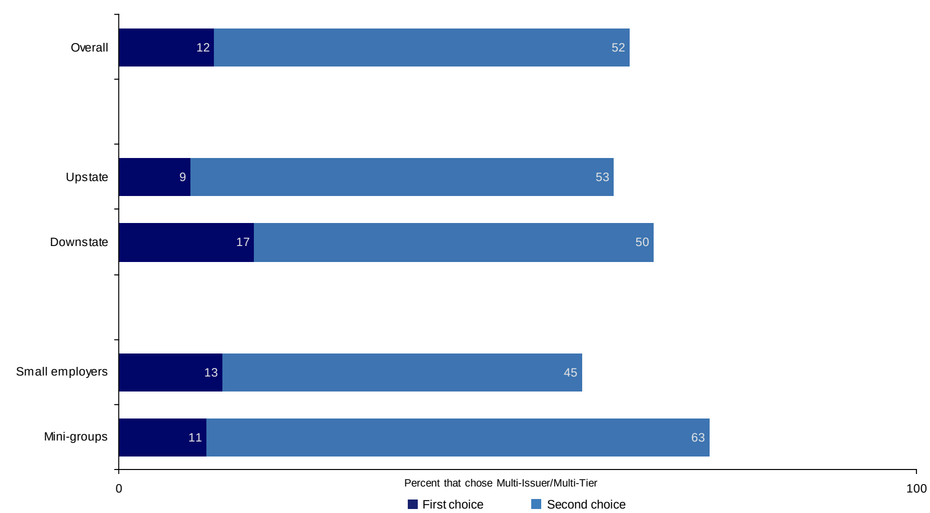
*Approximately one-half of employers said that the Multi-Issuer/Multi-Tier model is their second choice.*

While only 12 percent of employers said that the Multi-Issuer/Multi-Tier model is their first choice, approximately one-half of employers said that it is their second choice. Many employers liked that employees had a choice of both companies and tiers, whereas they only had one or the other through the Multi-Issuer/One-Tier and One-Issuer/Multi-Tier options. One participant noted that "this puts more control into the hands of the employees. Now they drive the car."

However, a number of employers mentioned that, by only having 2 or 3 tiers available, they might not be able to best match all of the needs of all of their employees, namely those who require the least and the most amount of health insurance coverage. One participant said that "we need platinum *and* bronze." These employers viewed the inability to provide the full spectrum of plans as a detriment. Many employers said that unless non-adjoining tiers could be selected this option would not work for them.

In contrast, other employers noted that the increased number of options would be a "monumental headache" for the employees and HR personnel to sort through everything. One participant said that "people are undereducated in how to navigate this."

Multi-Issuer/Multi-Tier




*Among: offering participants*

Notably, 45 percent of small employers said that this model is their second choice, while nearly two-thirds of the mini-groups (63%) said that this model is their second choice.

This suggests that the Multi-Issuer/Multi-Tier model would not completely satisfy most employers, but would be a reasonable second choice, especially for mini-groups.

### *Advantages and disadvantages*

The primary advantage of the Multi-Issuer/Multi-Tier model is that employers are able to select a range of tiers and carriers. While some employers struggled with why this would be preferable to full choice, several grasped the idea that it is a possible way to ensure that employees do not select a plan that leaves them under-insured. As one employer said, "If I selected gold and silver, it would ensure that no one ends up with a bronze plan that may leave them vulnerable to a large out-of-pocked expense." Employers also liked the expanded ability to select: 1) a carrier: and 2) a tier of benefits.

The primary disadvantage of the Multi-Issuer/Multi-Tier model is that it hints at Full Menu, without actually delivering. As one employer mentioned, "If I'm going to offer multiple tiers and multiple carriers, why don't I just open up everything?" In other words, while employers like the introduction of lateral and vertical choice, some felt that once they started down this road, they might as well introduce Full Menu.

This reaction occurred in the context of presenting all four employee-choice models. Were the full menu not included as an option, this model might have risen to the top. In this context, it is worth noting that the premium-raising impact of adverse selection can be substantially greater in the Full Menu model than in the Multi-Issuer/Multi-Tier model. If NYS decides for this reason not to offer Full Menu, the Multi-Issuer/Multi-Tier model would probably look like a lot of choice, Even if Full Menu is available in the Exchange, employers may find that shaping employee choice through Multi-Issuer/Multi-Tier has strategic value; and if offered to employees who currently have little choice, this model could still be very appealing.

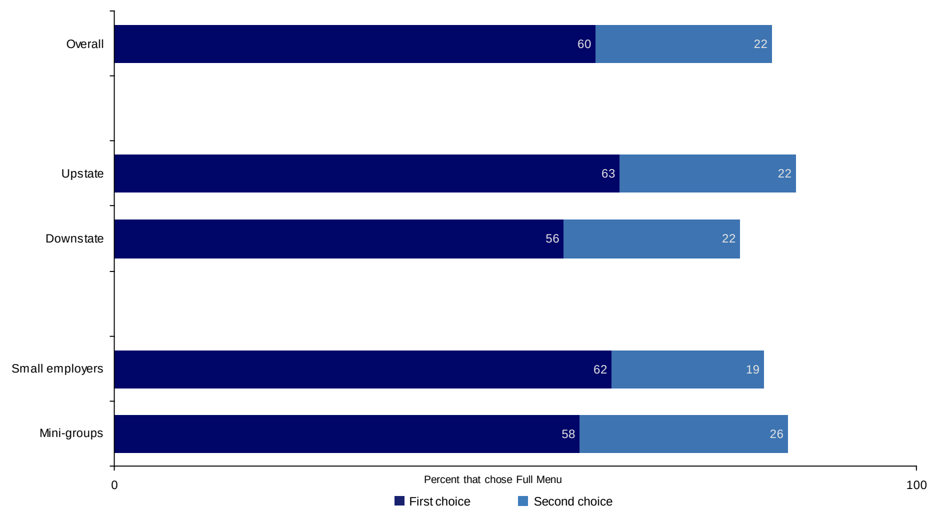
*The Full Menu model was the overwhelming favorite.*

Despite widespread concern that "too much choice becomes too difficult," the majority of employers said that their first choice is the Full Menu model (60%). A majority of mini-groups (58%) and small employers (61%), as well as those from upstate (63%) and downstate (56%), selected the Full Menu model as their first choice. These employers indicated that they appreciated the ability to provide their employees with all of the options included in the Exchange.

While many employers spoke to the likelihood that this amount of choice would be overwhelming, they felt that the growing pains would be worth it in the end. One participant noted that "employees like feeling in control." Another participant said that "in the long run it will save us money." One respondent liked that this approach would make "employees put some work into it." And others said that with this approach employees have "more skin in the game."

Notably, many employers felt that if employees were to take on a greater share of the costs, they should also be allowed to choose whatever they want. Smaller employers in particular were attracted to providing a greater array of choices, particularly if the Exchange would take on most of the administrative responsibilities, including enrollment, billing and customer service support. One participant said that having the Exchange take over these administrative functions makes it "even better."

Full Menu




*Among: offering participants*

*Advantages and disadvantages*

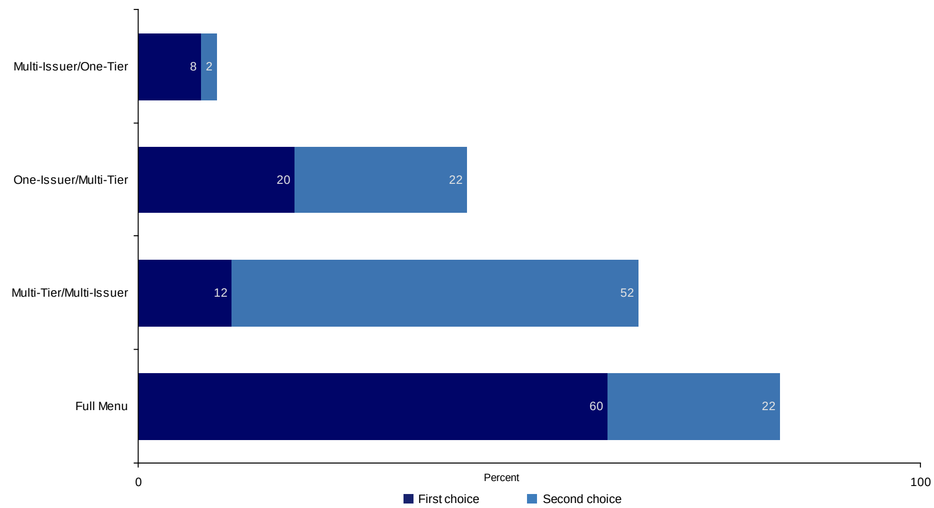
The primary advantage of the Full Menu model is that it maximizes employee choice. Individual employees are fully empowered to select any carrier at any tier. Assuming that employees understand their needs for insurance, and the associated risks of their selections, many employers saw the upside of choice. As one employer stated, “It’s not that much different than a 401K plan. An employer can’t force employees to make good investments. At some point, employees must understand the risk associated with the decisions they make.”

The primary disadvantage of the Full Menu model, particularly in the view of larger companies, was that it offered too much choice and has the potential to cause confusion. One participant said that “this is like Medicare Part D.” Many employers said that they would still be required to deal with questions and “angst” as employees sorted through the options and lived with their eventual choice, despite the Exchange taking on many administrative responsibilities.

Other employers worried that employees would choose inappropriate coverage, possibly “taking risks” they could not afford. Many noted that the array of choices would indirectly “force employees toward lesser coverage.” According to these employers, such poor decision-making would impact the employer negatively, whether through decreased productivity as employees dealt with denied claims, requests for assistance when faced with unexpected large out-of-pocket expenses, or general dissatisfaction.

Despite their enthusiasm for full choice, employers also expressed worry about employee confusion and administrative complexity. Making this model successful will depend upon excellent service and personal assistance for employers and employees.

Which option would be your…




*Among: offering participants*

## *The Exchange value proposition*

The results of the research indicate that many employers are able to understand the value proposition of the Exchange *if it is carefully explained to them*. The overwhelming majority appreciate the strategic, long-term value to the employer of giving their employees more choice. As one employer noted, "If you give employees more choice it forces them to be more responsible which, in turn, should drive better behavior."

There is a great deal of interest in having the Exchange take over the administrative functions associated with enrollment, billing and customer service support. However, many employers expressed reservations that this will work smoothly (at least initially), believing that a lot of the help, education and support that employees would need will fall back on the employer.

Most employers express interest in the concept of defined contribution, and how it can be tied to choice through the Exchange. Employers stated that defined contribution gives them a way to "hedge their bet" against future premium increases. Specifically, defined contribution would enable employers to decide on an annual basis how much to increase their contribution.

Interestingly, only a handful of employers mentioned that administrative complexity associated with the different models could add to the cost of health insurance.

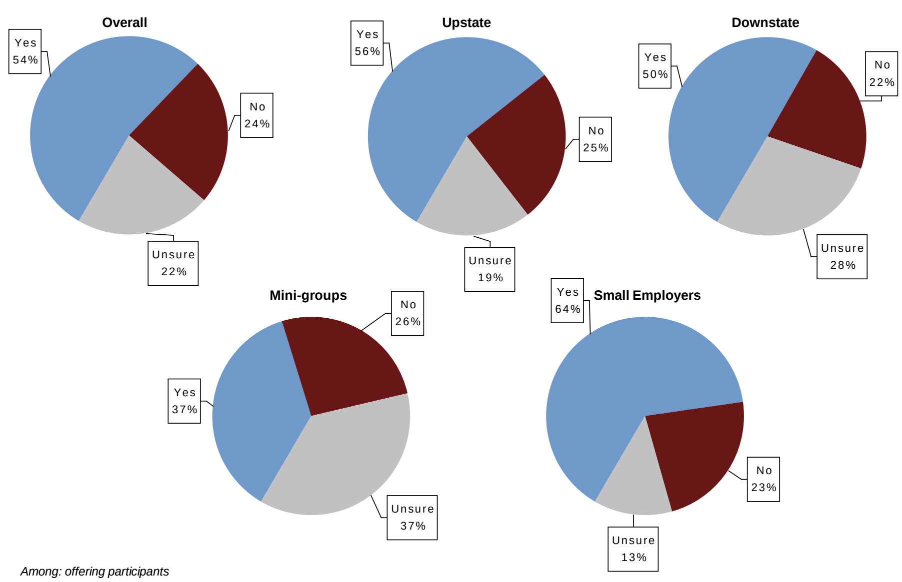
*Many employers said that the Exchange should make more than one design model as part of employer / employee choice.*

Employers were asked whether the Exchange should offer more than one design model to employers. Among these employers, 69 percent said that the Exchange should offer more than one employee choice model.

Notably, several employers said that offering only the Full Menu model would be sufficient, while others said that employers should be given a choice. These employers said that just as employees have different needs, “businesses are different too.”

Small employers (64%) were far more likely than mini-groups (37%) to say that the Exchange should offer more than one design model.

Should the Exchange offer more than one design model of employer / employee choice?




*Among: offering participants*

The results of this research suggest that employers also value choice for themselves, and would prefer that more than one model be offered through the Exchange. For example, the One-Issuer/Multi-Tier model has substantial appeal among mini-groups, one-quarter of whom selected this model as their first choice. Moreover, most small businesses currently work with only one health insurance carrier, and many expressed a preference for having a choice of tiers available to employees beyond the one option currently offered. On the other hand, Multi-Issuer/Multi-Tier was the second choice of half the employers. As employers think through some of the problems and risks of confusion with Full Menu, they may be less enamored of this model. And if they offer Multi-Issuer/Multi-Tier, their employees will not necessarily be comparing this level of choice against Full Menu, but will instead probably consider it quite a fulsome choice of health plans. Therefore, we speculate that more employers may prefer it to the theoretical appeal of Full Menu than the results of these interviews suggest.

Furthermore, offering employers different models for empowering employee/consumer choice allows them and their brokers to consider strategic approaches to employee health benefits. For example, an employer offering Platinum-like or Gold-like benefits now might want to: 1) let employees save by selecting less rich benefits; 2) not let them buy all the way down to Bronze, for fear of too much exposure; and 3) contribute a percentage (rather than fixed dollar amount) toward premiums, so that the employer also saves money when employees buy down. Or an employer with a bronze-like plan and an HRA might want to contribute the same percentage i.e. more dollars, toward a Silver plan without an HRA. These kinds of employer choices allow them to develop multi-year strategies for improving choice and stabilizing their costs.

## Cost-Savings and Renewal Scenarios

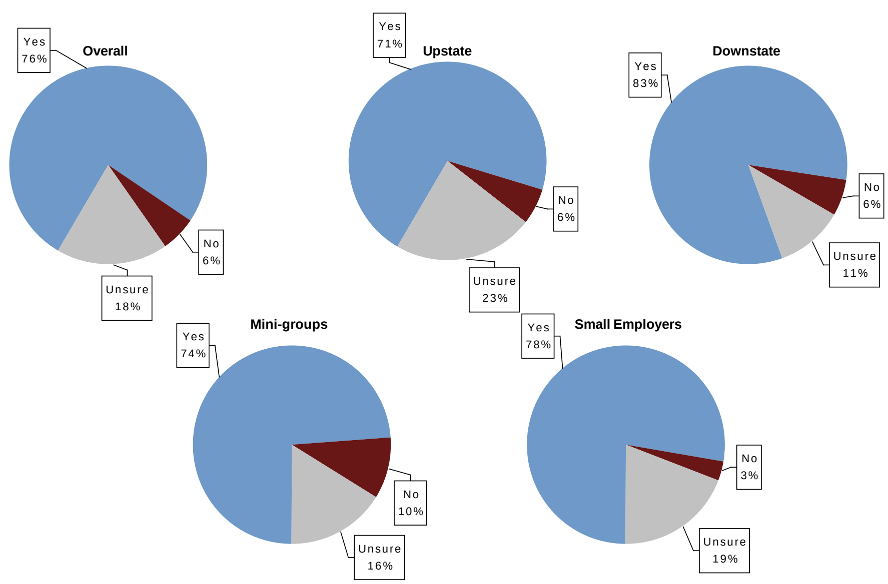
*The attractiveness of defined contribution was not always tied to its potential for cost-savings.*

Employers were asked whether they would be interested in using defined contribution through the Exchange. An overwhelming majority of employers (76%) indicated that defined contribution was attractive to their companies and understood how it "will help [them] budget better." Many employers also said that the idea of letting employees "pick what [they] need" was of particular interest.

Notably, several employers suggested that one effect of switching to defined contribution is that employers could shift annual premium increases onto the employee. These employers said that they worried that the result would be "crippling cost-sharing" that hurt employees rather than simple monetary savings for the company. One participant noted that "[the employees] would be responsible for too much."

Employers at companies that contribute more toward premiums for individual than family plans, or who contribute more toward senior level or grandfathered employees, questioned their ability to easily make differing contributions through the Exchange: "Right now I have four different levels." (Whether in or out of SHOP, employers can continue to contribute more toward employees' than dependents' coverage, but will encounter new restrictions on discriminating among employees.)

Is defined contribution attractive?




*Among: offering participants*

In contrast, several employers noted that without the defined contribution option several of the employee choice models would lead them to possibly contribute more to one employee (who chose a higher tier) and less to another (who chose a lower tier), which would not be fair. These employers said that their employees would protest such inequity. Other employers said that this approach held “an advantage for the employer, but not the employee,” and that they “want to treat everyone the same.” One respondent said that employees would complain that others are “getting more than me.”

All of these comments underscore the need for extensive education of employers—to say nothing of employees—in order to effectively explain and market a new approach to health benefits. The comments above reflect various assumptions which the employers made about defined contribution, employee choice and SHOP. Some of these assumptions are incorrect (e.g., that differential contributions to dependents would be prohibited); some may be correct, but will apply equally in and out of the Exchange (e.g., the prohibition on discrimination in contributions among classes of employees); and some of them represent decision points for the employer (e.g., contributing a percentage of premium or a fixed-dollar amount).

Downstate employers (83%) were somewhat more likely to say that defined contribution is attractive than upstate employers (72%). Small employers and mini-groups were similarly inclined to say that defined contribution is attractive (77% and 74%, respectively).

These results suggest that defined contribution has great theoretical appeal, and if the SHOP Exchange can effectively market and implement this value proposition, it might attract a significant share of small employers. Three of the employee-choice models show enough appeal to justify giving employers and brokers all three options. Ironically, the model that CMS requires, One-Tier/Multi-Issuer, would not seem to merit a distinct “place on the shelf.” (CMS requires at least this much choice, but Full Menu satisfies CMS’ minimum requirement for employee choice).

Given the high potential for misunderstanding, support for the SHOP Exchange from trusted and knowledgeable agents will be critical for employer acceptance. Just as important as the models offered will be the marketing of SHOP through agents, intermediaries and other channels.

### *Renewal simulations*

Employers who offer insurance were asked a series of questions about three hypothetical health insurance renewal simulations. Specifically, employers were asked how they would likely react to: 1) a “typical” premium increase of 8-12 percent; 2) a premium decrease of 5 percent; and 3) a premium jump of 23 percent. Employer reaction to these three scenarios is discussed in detail below.

## Renewal Scenario 1: A typical 8-12 percent premium increase

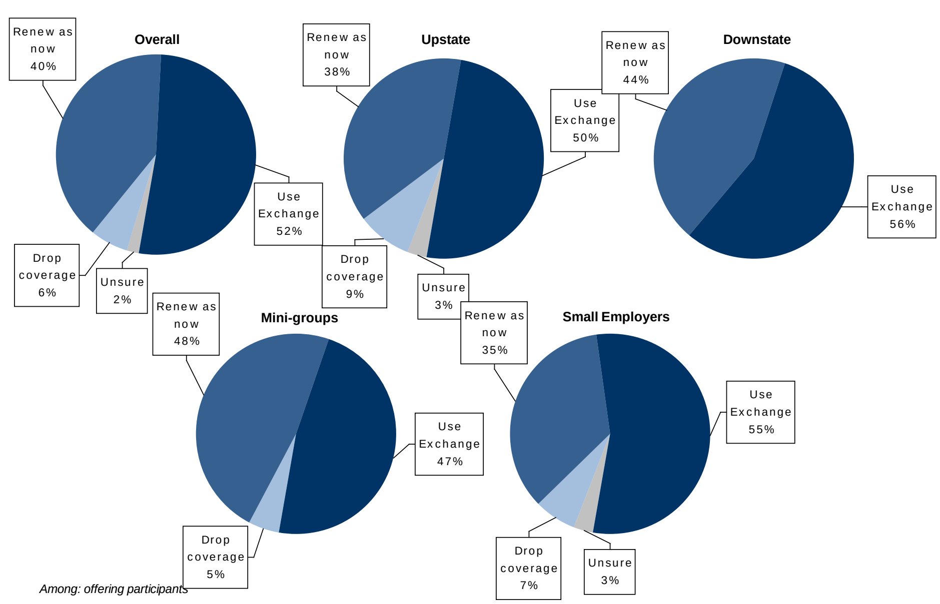
*Slightly more than one-half of employers would use the Exchange if premiums increase 8 percent to 12 percent.*

Employers were asked whether they would start using the Exchange in 2014, continue purchasing insurance on their own, or drop coverage if the cost of premiums were to increase between 8 and 12 percent (which, for many, looks like a typical renewal). Notably, many employers mentioned that their companies were already budgeting for such increases each year.

Under this scenario, fifty-two percent of employers said they would use the SHOP Exchange. While an equal proportion of mini-groups would stay with their current carrier (47%) as would go through the Exchange (47%), a slightly higher proportion of larger employers (55%) would move to the Exchange, rather than stay with their current carrier (35%). This indicates that the Exchange has substantial appeal, *in theory*, even under normal pricing conditions, especially to the more sophisticated, larger employers. However, it should be stressed that these are theoretical changes in a very conservative market that is heavily influenced by agents and other intermediaries.

A slightly larger proportion of downstate (56%) than upstate (50%) employers said that they would use the Exchange rather than stay with their carrier (44% and 38%, respectively). On the one hand, this could reflect their exposure to -- or at least awareness of private exchanges -- such as Health Pass in NYC and Healthy Connections in Connecticut. On the other hand, for all the interest expressed in Exchanges, in twelve years Health Pass has barely penetrated the downstate market.

Scenario 1: 8 percent to 12 percent premium increase



## Renewal Scenario 2: A 5 percent premium decrease

*A majority of employers would not use the Exchange if premiums decreased five percent in 2014.*

Employers were asked whether they would start using the Exchange in 2014, continue purchasing insurance on their own, or drop coverage, if the cost of premiums were to decrease five percent. Fifty-two percent of employers preferred to stick with their current carrier and coverage, especially as the Exchange sorted itself out. One participant said that “I’m already taking care of my employees. The Exchange would be more of a burden on me and them, and is not a necessity in view of so few employees.”

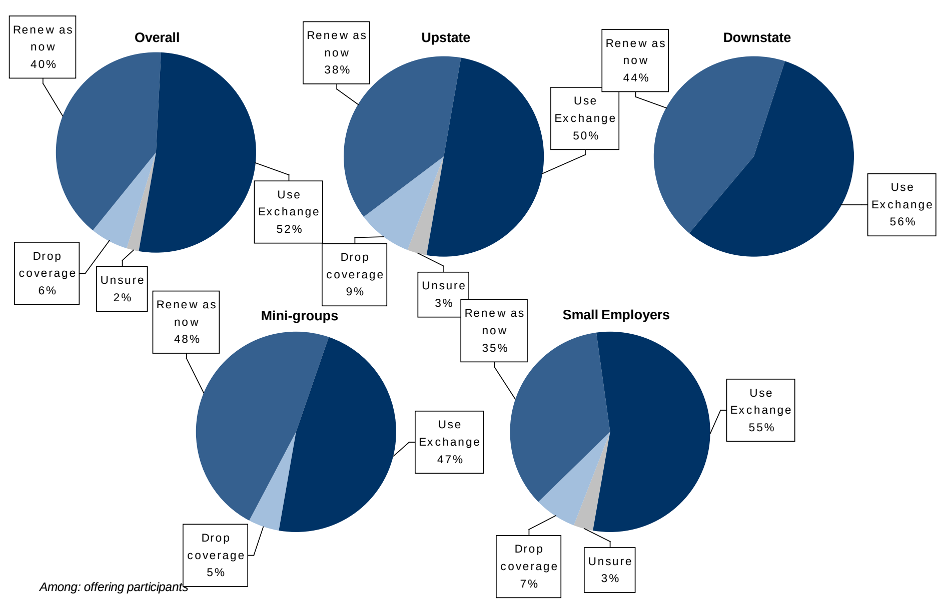
Forty-four percent of employers said that they would use the Exchange under this scenario. Many of these employers said that it would be best to move into the Exchange while costs were low, to help ease the transition for themselves and their employees.

Among small employers, 52 percent said that they would renew their coverage as they do now, while 48 percent said that they would use the Exchange. Among mini-groups, 52 percent said that they would renew their coverage as they do now, while only 37 percent said that they would use the Exchange.

Notably, upstate employers (47%) were more likely to say that they would use the Exchange than downstate employers (39%).

These results suggest that if premiums decrease (or increase far less than is typical) employers will be less likely to switch to the Exchange.

Scenario 2: five percent premium decrease



## Renewal Scenario 3: A 23 percent premium increase

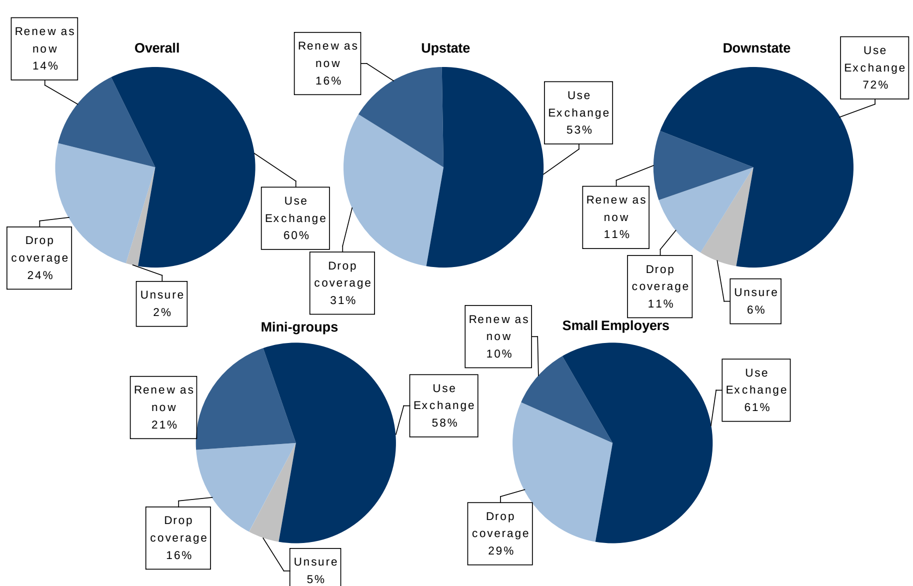
*A large majority of employers said they would use the Exchange if costs jumped 23 percent in 2014.*

Employers were asked whether they would start using the Exchange in 2014, continue purchasing insurance on their own, or drop coverage if the cost of premiums were to increase 23 percent. A large majority of employers said that they would use the Exchange (60%) under this scenario. Very few employers said that they would renew their coverage as they do now (14%). Notably, approximately one-fourth of employers said that they would drop coverage (24%) under this scenario.

When asked why they would switch to the Exchange under this scenario, one participant referred to the "threshold of pain," and said that a 23 percent cost increase would definitely push his company beyond that point, moving them to a defined contribution approach and to the Exchange. Under this scenario, fully 90% of larger employers said they would radically change their employee benefits strategy: 61 percent would be more likely to use the Exchange and 29 percent said they would drop coverage completely. The percentages were smaller for mini-groups (58% and 16%, respectively), but these employers often buy group benefits in large part for themselves so a big jump in group premiums and a reformed non-group market in 2014 could lead more mini-groups to drop group coverage.

These results suggest that a premium jump of twenty percent or more would change how employers view health benefits. One participant said that "we couldn't absorb that [cost increase], nor could the employees. We'd add money to the salaries and drop small group insurance."

Scenario 3: 23 percent premium increase




*Among: offering participants*

*As the cost of premiums increase so does interest in using the Exchange.*

As described above, employers were asked to consider three hypothetical cost scenarios and determine how their decision to offer health insurance might be impacted by each one. Only in the instance of a decrease in premiums did a majority of employers (52%) indicate that they would continue to offer insurance outside of the Exchange. Notably, as costs increase, more employers indicated that they would use the Exchange. Specifically, if premiums increase 8 to 12 percent, 52 percent of employers said that they would use the Exchange. And if premiums increase 23 percent, 60 percent of employers said that they would use the Exchange. Similarly, the number of employers who would drop coverage rose from six percent to 24 percent when costs increased 8 to 12 percent and 23 percent, respectively.

Impact of change in premium on likely use of the Exchange

| Choice | 5% Cost Decrease | 8% to 12% Cost Increase | 23% Cost Increase |
|---|---|---|---|
| Renew as now | 52% | 40% | 14% |
| Use Exchange | 44% | 52% | 60% |
| Drop coverage | 2% | 6% | 24% |

*Among: offering participants*

Employers were also asked about their preferences for the four employee-choice models under each of the three premium scenarios. Interest in the four employee-choice models varied little as the premium renewal scenarios varied from a small decrease to a large increase. Nearly all employers remained committed to their preferred model if they were choosing to utilize the Exchange. Also, most employers expressed the view that they would select a benchmark plan that is closest to the plan that they currently offer (or suggest one, in the case of Full Menu).

Impact of change in premium on likely use of the Exchange

Plan Type Currently Offered by Employers

| Change in Premium | Choice | Bronze/Silver | Gold | Platinum |
|---|---|---|---|---|
| 5% Decrease | Renew as now | 60% | 54% | 44% |
| | Use Exchange | 40% | 46% | 50% |
| | Drop coverage | 0% | 0% | 6% |
| | Choice | Bronze/Silver | Gold | Platinum |
| 8-12% Increase | Renew as now | 40% | 23% | 31% |
| | Use Exchange | 60% | 77% | 50% |
| | Drop coverage | 0% | 0% | 18% |
| | Choice | Bronze/Silver | Gold | Platinum |
| 23% Increase | Renew as now | 40% | 15% | 0% |
| | Use Exchange | 60% | 39% | 69% |
| | Drop coverage | 0% | 46% | 31% |

*Among: offering participants*

The simulation renewal research did reveal some unexpected results, when the findings are compared across employers by the most common plan currently offered. In general, the richer the plan (benefits and premiums), the less likely employers were to renew with their current carrier; and the higher the premium increase, the less likely they were to renew. If premiums jump 23%, only 15% of employers offering Gold and zero percent of those offering Platinum would simply renew coverage. In general, employers offering richer benefits were more likely either to move to the Exchange or drop coverage entirely with higher premium increases.

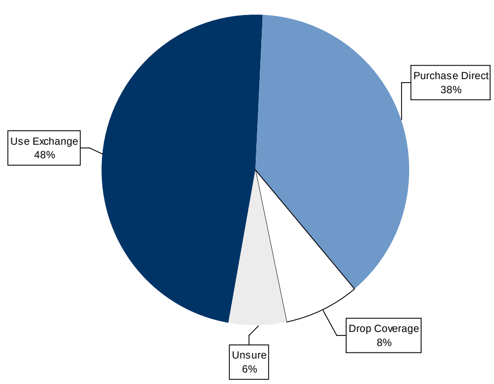
Contrary to expectations, employers who currently offer richer health benefits may be more likely to drop small group insurance and require their employees to obtain insurance individually through the Exchange. These employers may be planning to offset some of the expense through salary increases (as mentioned by one employer above), but the results are suggestive of an interesting possible trend if insurance premiums rise significantly. Specifically, several employers who reported the possibility of dropping coverage indicated that their reaction was based on the advice of a broker. As one employer remarked, “My broker told me it would be better for them [employees] to go through the individual Exchange.”

# Moving Forward

*Approximately one-half of employers said that they would consider using the Exchange in 2014.*

At the end of the interview, and therefore after considerable education about the SHOP Exchange, employers were asked whether they would start using the Exchange in 2014, continue purchasing insurance on their own, or drop coverage based on what they know today. Despite not having a mandate in the ACA to offer coverage, most employers anticipate providing insurance in 2014. Thirty-eight percent said that they plan to offer health insurance the same way that they do today, 48 percent said that they plan to offer health insurance through the Exchange, six percent said that they are unsure whether they will offer health insurance through the Exchange or not and 8 percent report that they will drop coverage. That nearly half indicated interest in the Exchange is very promising.

Based on what you know today, will you keep offering health insurance in 2014?




*Among: offering participants*

Among employers who said that they would use the Exchange several indicated that the prospect of “reduced administrative burden” was attractive, while others thought it “would be good to find something better than what we have today,” particularly in the form of expanded choice. However, the Exchange will have to demonstrate that it can reduce administrative burdens in order to capitalize on this appeal. A minority of employers mentioned the tax credit as a key driver in their decision to switch to the Exchange.

Among employers who said that they would continue to purchase insurance on their own, many indicated that “choice is compelling, but for now, we’ll keep it as is and see how the market changes in the future.” This is the kind of sentiment which brokers can readily reinforce or help overcome.

Interestingly, nearly every employer mentioned that they could not be certain of their decision until they knew what premiums would cost. However, many indicated that their decision-making process would involve exploring options in and out of the Exchange, even those who ultimately thought they would refrain from using the Exchange. One participant noted that “we’d definitely look at both.” Because the premium for a given plan design must be the same, in and out of the Exchange, it may well be the “strategic” use of employee-choice which will differentiate the SHOP Exchange. Employee choice is appealing, but cost is the dominant concern of small employers. If choice can be deployed strategically as a way to address employers’ cost concerns, the SHOP exchange can convert a “nice-to-have” feature into a compelling sales proposition.

Furthermore, comments regarding the strong relationship that many small businesses have with their agents, and concerns regarding what will happen to brokers in view of the Exchange (e.g., “Who’s going to pay the [agent’s] commission, the Exchange?”) suggests that there is an ongoing need for such services, and an assumption that the Exchange itself will not fill the gap.

Finally, the lack of employer familiarity with health reform and exchanges is worth noting as a marketing variable: 76 percent of employers said that they are *only somewhat* (64%) or *not* (12%) *familiar* with the ACA. These results suggest a couple of inferences about marketing the Exchange. First, until employers throughout the State become more familiar with the new healthcare law and the Exchange, it is difficult to predict how many employers will actually transition to the Exchange versus taking a wait and see approach. Second, while employers are learning about reform and waiting to see if and how the Exchange works, agents and other intermediaries will play an especially critical role in educating employers about reform and moving (or not) their clients into the Exchange.

*Choice proved compelling, but requires careful consideration.*

The results suggest that employers prefer to offer their employees expanded choice in health insurance coverage options, with the Full Menu model receiving the most support. However, most employers said that employees might be overwhelmed by the many choices or prove unable to make an appropriate decision, and that the employer will likely be called upon to assist employees in the decision-making and administrative processes. Moving toward expanded choice through the Exchange will require comprehensive resources and easy-to-understand educational materials to assist employees and employers as they select and utilize group health insurance plans through the Exchange.

Also, despite strong stated interest in the Exchange (after it has been fully explained to employers in the course of the in-depth interview), early adoption rates will likely fall far short of stated preferences because many employers expressed a reluctance to move toward an un-tested, state-run system for managing health insurance. For many employers, while the features and benefits are appealing, there is a strong undercurrent that if the system does not work flawlessly it would lead to employee dissatisfaction. These results suggest that it might take a year or more for the Exchange to “prove” its competence before employers will risk adoption.

While employers were told that the Exchange would be responsible for administrative functions, many employers do not really understand how the Exchange would take over enrollment, billing and customer service support. This is an attractive feature of the Exchange, but many employers questioned how this would work in practice. In other words, many employers were not convinced that using the Exchange would reduce the demands and expectations of employees for HR guidance and support services, at least initially.

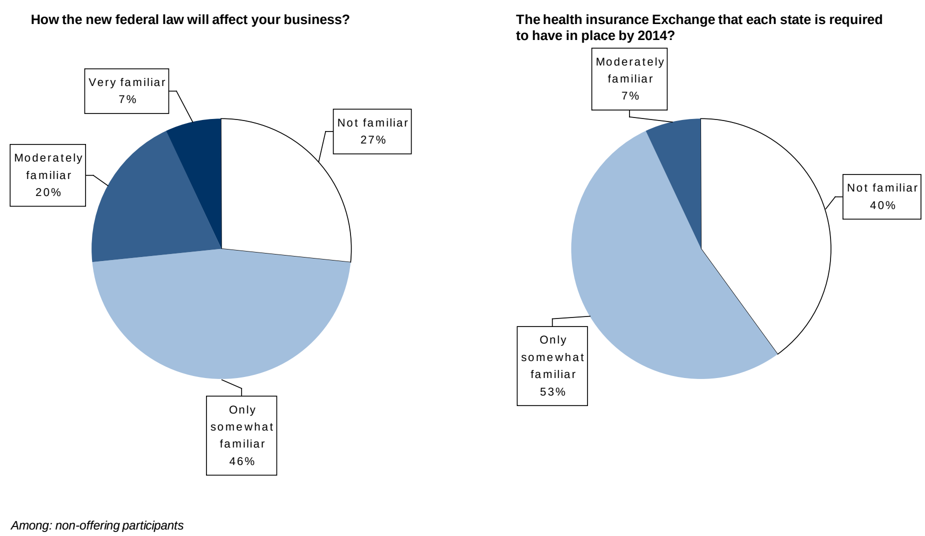
## Non-Offering Employers

*Most employers who do not currently offer health insurance will not change their benefit offerings in 2014 with the introduction of the Exchange and the available tax credit.*

In addition to the 50 interviews conducted with employers who currently offer health insurance to their employees, 15 interviews were conducted with employers who do not currently offer health insurance to their employees.

Employers were asked how familiar they are with the Affordable Care Act (ACA). Seventy-four percent of employers said that they are *only somewhat* (47%) or *not* (27%) *familiar* with the ACA. Similarly, when asked how familiar they are with the Exchange, 93 percent of employers said that they are *only somewhat* (53%) or *not* (40%) *familiar* with it. In addition, 73 percent of employers said that they are not familiar with the small business tax credit that will be available.

How familiar are you with…




Employers were asked whether they would start offering health insurance in 2014 when the ACA goes into full effect. Nearly two-thirds of employers said *no* (60%). Twenty-seven percent of employers said *yes*, they would consider offering health insurance, and 13 percent said that they are *unsure*.

These results suggest that few employers who do not currently offer health insurance will start doing so in 2014.

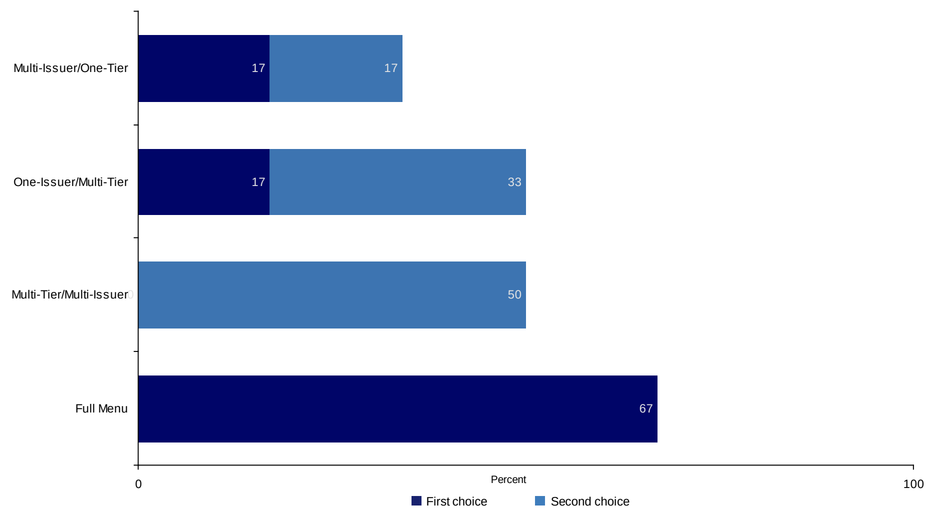
Notably, 40 percent of employers said that they might consider offering health insurance if they received a tax credit through the ACA.

*A majority of employers who do not currently offer health insurance said that they prefer the Full Menu model.*

The six employers who would consider offering health insurance in 2014 were shown the four Exchange models under investigation and asked to identify the model they would prefer to see the Exchange adopt. Among these employers, four (67%) said that their first choice is the Full Menu model. Fewer preferred the Multi-Issuer/One-Tier (17%), or the One-Issuer/Multi-Tier (17%), model, and none of these employers said they prefer Multi-Issuer/Multi-Tier model.

These results suggest that the Full Menu model would appeal to the most employers who do not currently offer health insurance—if they decide to offer coverage.

Which option would be your…




*Among: non-offering participants*

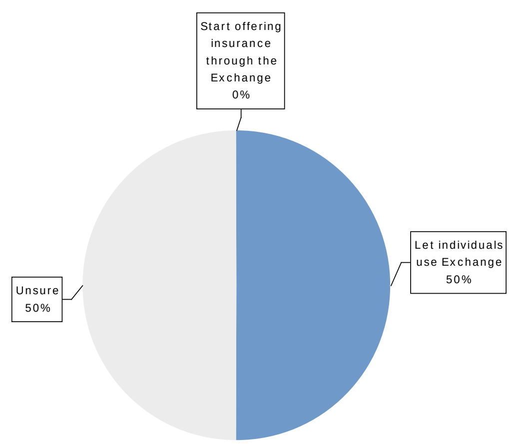
*Employers who do not currently offer health insurance are not likely to use the Exchange in 2014.*

At the conclusion of the interview, and therefore after considerable education about the Exchange, non-offering employers were asked whether they would start offering health insurance through the Exchange or just let their employees use the Exchange to buy individual coverage in 2014, based on what they know today. One-half of employers said that they would *let individual employees use the Exchange* on their own. The other 50 percent of employers said that they are *unsure* based on what they know today. Not a single non-offering employer said that they would offer health insurance through the Exchange in 2014.

Notably, all of the employers who said they would prefer to let their employees use the Exchange on their own currently obtain health insurance for themselves in the direct market. Among employers who said they are unsure what they will do in 2014, several obtain health insurance through their spouses.

Overall, these results suggest that most non-offering employers will continue not to offer group health insurance to their employees in 2014. However, the results also suggest that a limited number of employers may be willing to use the Exchange to offer health benefits once they learn more about premium increases, the ACA, the Exchange and possible tax credits.

Based on what you know today, will you start offering health insurance in 2014?




*Among: non-offering participants*

It is important to emphasize the while twenty-seven percent of employers indicate that they would consider offering health insurance in 2014, self-reported survey data can over-report socially desirable response options. In all likelihood, relatively few employers who do not currently offer health insurance are likely to do so in 2014.

# In-Depth Interview Guide: New York Exchange

**(Offering Employers)**



## Introduction:

Thank you for agreeing to help us with this study. I really appreciate your time. I want to confirm that you currently offer health insurance through [fill health plan].

My name is _____________ and I am a research analyst at RKM Research and Communications. We're an independent market research firm and we are working with the New York State to plan for changes in the health insurance system required by federal law.

The purpose of the interview is to get your feedback about health insurance and how healthcare reform legislation could affect your business. New York State is interested in your input to help guide the design of its Exchange to best suit the needs of businesses like yours.

We are not selling anything. There are no right or wrong answers. We are simply interested in your input.

The interview will last at least 30 minutes and will be recorded to help with our analysis. All of your responses are strictly confidential and anonymous. Do you have any questions before we begin?

To help you follow along, we have provided a set of slides for you to look at while we talk. Do you have them in front of you?

### Affordable Care Act:

How familiar are you with how the new federal health care law - called the Patient Protection and Affordable Care Act (sometimes called "Obama Care") - will affect your business?

1 Very familiar
2 Moderately familiar
3 Only somewhat familiar
4 Not familiar

Did you have a chance to read the background slide 2 before my call today?

If not: explain:

Do you currently offer your employees a choice of health plans to choose from more than one insurance carrier?

1 Yes
2 No

99 Don't know / unsure

How many Full-Time employees, or Full-time equivalent employees, do you currently employ? _____ # (if 19 or more do **NOT** ask about small biz tax credit

Now let's look at slide 3:

Review 6 points:

Does this all make sense to you?

(If not, review points of uncertainty)

Now let's look at slide 4:

I would like to briefly review how minimum coverages could raise premiums.

Review 4 points:

Now let's look at slide 5-8 (depending on region):

This is how the choice of private health insurance plans MIGHT look in your market.

Now let's look at slide 9:

As a small group employer, you will be faced with some important decisions. Let's review each one carefully:

Discuss decision 1: Do you?

A Renew with one carrier as you currently do?

B Offer group insurance through the Exchange?

C Drop coverage?

Discuss decision 2:

How much choice should I give my employees (We are going to go through different options in a few minutes).

(You do NOT need to answer these questions right now).

OPTIONAL SECTION: (Only ask if less than 19 FTEs)

Discuss decision 3:

If I use the SHOP, would you apply for a small business tax credit?

Now let's look at slide 10:

Here's how the small business tax credit will work.

Would your business possibly be eligible for a tax credit?

1 Yes
2 No

99 Unsure

Is a small business tax credit attractive to your business?

1 Yes
2 No

99 Unsure

Now let's look at slide 11:

Here are some reasons for using the SHOP.

Explain point 1: It is the only way to qualify for a small business tax credit.

(I'll show you a better example in one of the next slides).

Explain point 2: Gives employees choice and enables defined contribution.

Now let's look at slides 12:

Explain defined contribution versus fixed contribution.

Is defined contribution attractive to your business?

1 Yes
2 No

99 Unsure

Now let's look at slide 13:

Here is an outline of the minimum coverage for plans in 2014.

Let's look at the four possible tiers, and coverages within each one.

(Explain cost sharing / cost shifting)

Does this makes sense to you?

For most small employers these are the plan designs that will be available in 2014 – in or out of the exchange. In other words, these are the same kind of plan designs that will be available directly from your current health insurance company and their competitors in your area - and the plans will cost the same – in or out of the exchange.

Please keep in mind that the medical services covered are the same in each tier. However, the level of monthly premiums and patients' cost sharing out-of-pocket covered services varies from one tier to the next.

The top tier – labeled Platinum – offers plans with the highest monthly premium and the LOWEST patient cost-sharing, i.e., lower co-pays, co-insurance and deductibles.

The bottom tier – labeled Bronze – offers plans with the lowest monthly premiums and the HIGHEST patient cost-sharing. i.e., higher co-pays, co-insurance and deductibles.

Now let's look at slide 14:

Here is an outline of how the SHOP could be set up to allow employer choice. Assume that you would get to select which one of these 4 employee choice "models" to offer to your employees, IF you buy through the exchange.

Explain multi-issuer / one tier

Explain one issuer / multi-tier

Explain multi-issuer / multi-tier

Explain full menu

This slide is meant to provide you with a high-level overview of 4 possible exchange options. We are going to look at each one in more detail in a moment.

Does this make sense to you?

1 Yes
2 No

99 Unsure

**Multi-Issuer / One-Tier**

Now let's look at slide 15: (Explain)

We're going to look at a few different employee choice models.

Under this scenario, the employer chooses a tier of benefits and a contribution amount toward a "benchmark" or default plan. Then employees choose any health plan on that same cost-sharing tier from any insurance company.

The idea behind this employee choice model is that it gives employees a choice of different options, all at comparable levels of coverage. For example, one employee may prefer to pay a little extra for a PPO rather than the HMO that you chose as the benchmark plan,; while another employee may prefer to save money by joining a plan with a small provider network that excludes the some of the most expensive hospitals and specialists in your region; and a third employee may just prefer a different insurance company.

Now let's look at slide 16: (Explain)

What do you like, or see as advantages of this model? Why?

What do you dislike, or see as disadvantages about this model? Why?

## One-Issuer / Multi-Tier

Now let's look at slide 17: (Explain)

Under this scenario, the employer chooses a health insurance company and a contribution amount toward a "benchmark" or default plan. For example, you might choose to contribute what you currently contribute, plus a little increase for inflation, toward the plan from your current insurance company that is closest to your current offering. [Your broker told us that your plan is closest to XXX (Bronze, Silver, Gold or Platinum)]. Then employees choose – from two or more different health plans within that health insurance company. In other words, there is a choice of cost-sharing tiers, but not a choice of insurance companies.

The idea behind this employee choice model is that you still choose the health insurance company and a contribution amount toward a specific plan from that insurer,, but now employees have a choice of plans. In other words, employees can buy-up or buy-down, with their own money, to a more or less generous level of benefits from your insurance company. If the employee chooses a higher tier or more costly plan, the employee would pay the difference.

Now let's look at slide 18: (Explain)

What do you like, or see as advantages of this model? Why?

What do you dislike, or see as disadvantages about this model? Why?

## Multi-Issuer / Multi-Tier

Now let's look at slide 19: (Explain)

Under this scenario, the employer chooses  2 or 3 cost-sharing tiers – if you chose all 4 cost-sharing tiers this would be the same as the "Full Menu" that we already reviewed -- and a contribution amount toward a "benchmark" or default plan. Then employees choose –from any of the health plans within the 2 or 3 available cost-sharing tiers. In other words, there is a choice of insurance companies, and a limited choice of tiers.

The idea behind this option is that employers can set their contribution level and choose the level of benefits they wish to offer, but now employees can choose to move down a tier and have a choice of companies. For example, if you choose to contribute the same amount in 2014 that you will contribute in 2013, toward a health plan that is comparable to what you offer in 2013, your employees could choose to move to a lower tier, in order to reduce their monthly portion of the premium.. In other words, now employees can choose to save money by changing health plans, even if the premiums are all going up.

Now let's look at slide 20: (Explain)

What do you like, or see as advantages of this model? Why?

What do you dislike, or see as disadvantages about this model? Why?

## Full Menu

Now let's look at slide 21: (Explain)

Under this scenario, the employer chooses a contribution amount – not a default plan with a particular benefit tier. Instead, employees choose any insurance company on any cost-sharing tier. In other words, there is total employee choice from all the health plans offered through the Exchange. In addition, the Exchange would manage the coordination and administration of all the health plans offered so that you receive and pay one consolidated monthly invoice for all plans selected.

The idea behind this employee choice model is that you set the employer's contribution level, each employee can choose a more or less generous plan, and any extra cost or savings would go to the employee. Also, if the same plans are available to both employees and individual purchasers, then people could keep their same plan if they stop working or change employers. In other words, choice of plans is not tied to employment.

Now let's look at slide 22: (Explain)

What do you like, or see as advantages of this model? Why?

What do you dislike, or see as disadvantages about this model? Why?

**Health Plan Preference:**

**Slide 23** – Now I would like to review the four models we discussed.

1 Multi-Issuer / One-Tier, where the employer chooses the level of cost-sharing and the employee chooses a health plany. **Advantages:** gives employees a choice of insurers and plans at the same general level of coverage.

2 One-Issuer / Multi-Tier, where the employer chooses the health insurance company and a particular health plan, and the employee can decide to pay extra for more coverage or save on monthly premiums by choosing less generous coverage.. **Advantages:** it is simpler to use 1 insurer, and employees can choose to buy up or down.

3 Multi-Issuer / Multi-Tier, where the employer chooses a benchmark plan and two or three cost-sharing tiers "around" that plan, and the employee can choose any plan from any company within those tiers. **Advantages:** allows employer to determine his premium contribution amount against a particular plan and level of benefits, but.still gives employees a pretty broad choice of companies, specific health plans and cost-sharing tiers.

4 Full Menu, where employees can choose any health plan from any insurance company on the exchange, and the employer helps finance full choice with a fixed contribution.. **Advantages:** give employees full choice, maximum "portability" And gives employer broad discretion to "fix" his contribution. But with employee choice comes complexity, and possibly confusion selecting a plan.

Assuming there are no differences in cost, which of these would be your first choice?

_________________ Why? (Is offering health insurance choice important to you?)

Assuming there are no differences in cost, which of these would be your second choice?

_________________ Why?

Now let's look at **slide 24**:

Here are 3 renewal scenarios to consider. These are all hypothetical, because no one knows for sure what premiums will look like. These are just some examples that we would like you to react to.

Scenario 1: 8-12% Increase

You initially mentioned that your preferred plan design is _____________.

If you were faced with a "typical" annual premium increase of 8% to 12% in 2014, what would you be most likely to do? (Remember, this is the general trend, so that a p[an in or out of the exchange will cost roughly the same.)

1 Renew with one carrier as you currently do

2 Offer group insurance through the Exchange

3 Drop coverage

Why?

Let's look back at slide 23 for moment.

Is the multi-issuer / one-tier model any more or less attractive?

Explore in detail (WHY or WHY NOT?)

Is the one-issuer / multi-tier model any more or less attractive?

Explore in detail (WHY or WHY NOT?)

Is the multi-issuer / multi-tier model any more or less attractive?

Explore in detail (WHY or WHY NOT?)

Is the full model any more or less attractive?

Explore in detail (WHY or WHY NOT?)

Scenario 2: 5% Decrease

You initially mentioned that your preferred plan design is _____________.

If you were faced with the good news of a 5 percent premium decrease, what would you be most likely to do?

1 Renew with one carrier as you currently do

2 Offer group insurance through the Exchange

3 Drop coverage

Why?

Let's look back at slide 24 for moment.

Is the multi-issuer / one-tier model any more or less attractive?

Explore in detail (WHY or WHY NOT?)

Is the one-issuer / multi-tier model any more or less attractive?

Explore in detail (WHY or WHY NOT?)

Is the multi-issuer / multi-tier model any more or less attractive?

Explore in detail (WHY or WHY NOT?)

Is the full model any more or less attractive?

Explore in detail (WHY or WHY NOT?)

Scenario 3: 23% Increase

You initially mentioned that your preferred plan design is _____________.

If you were faced with a whopping 23% premium increase, what would you be most likely to do?

1 Renew with one carrier as you currently do

2 Offer group insurance through the Exchange

3 Drop coverage

Why?

Let's look back at slide 24 for moment.

Is the multi-issuer / one-tier model any more or less attractive?

Explore in detail (WHY or WHY NOT?)

Is the one-issuer / multi-tier model any more or less attractive?

Explore in detail (WHY or WHY NOT?)

Is the multi-issuer / multi-tier model any more or less attractive?

Explore in detail (WHY or WHY NOT?)

Is the full model any more or less attractive?

Explore in detail (WHY or WHY NOT?)

In 2014, you can do a few things:

1 Purchase group health insurance, with the help of your broker, direct from one insurance company
2 Purchase group health insurance, with the help of your broker, through the exchange
3 Drop coverage and tell your employees to use their spouse's plan or purchase insurance on their own as individuals through the exchange

Based on what you know today, which approach do you think you will take?

Why do you prefer this option?

Overall, does CHOICE make the exchange compelling to you?

1 Yes
2 No

Why or why not?

**Conclusion:**

Before we stop, do you have anything else to add that would be useful for us to consider?

Thanks again for participating in this important study. We really appreciate your time. We would like to compensate you for your time by sending a check in the mail. I just need to know who to make the check out to and where to send it.

Name:

Address:

E-mail Address:

# NYS Renewal Simulation Interviews

# Background Information

As you may or may not know, in 2014 the State of New York will create a new marketplace – or Exchange - where individuals and small businesses can comparison shop for health insurance through an easy-to-understand website.

One of the roles of the Exchange is to approve plans from insurance companies in the state to ensure that they meet minimum requirements for coverage, and to arrange a broad choice of plan options for you in an easy-to-compare way, so that you (and your broker) can shop for plans. In addition to the major health insurers in your region, there may also be some new, private health plans available in the Exchange.

Also, starting in 2014, federal health care reform requires your employees (and you) to purchase health insurance, or pay a tax penalty, commonly called the “individual mandate.” While businesses with more than 50 employees may also face penalties for not offering coverage, there are no such penalties on small employers. You and your employees can either purchase health insurance directly, as individuals, or you can renew your group coverage. Whether buying as individuals or as a group, the coverage will need to meet new minimum requirements.

If you renew coverage as a group in 2014, New York’s new Small Business Health Options Program, or SHOP Exchange will offer you a whole new way to fix your premium contribution and give your employees more choice of health plans. This takes you ”out of the middle” between employee and health plan.

# Quick Review of Health Reform Changes Affecting Small employers for 2014

1. Individual mandate for coverage, plus subsidies for low-to-moderate income households w/o a group insurance offer

2. No mandate that small employers (<51 FTEs) offer coverage

3. For many small employers who do offer group insurance, there will be new minimum coverage requirements for 2014

4. New, separate NYS exchange for small employers (“SHOP”)

5. Employee Choice of private health plans in SHOP

6. 2-year subsidies for very small employers of low-wage employees who use the SHOP exchange, up to 50% of employer contribution

# New Minimum Coverage for Small Employers Could Raise Premiums

- Maximum deductible of $2,000/$4,000
- Maximum out-of-pocket cap of $6,250/$12,500
- Coverage of pediatric dental and vision
- Coverage of at least 60% of average, expected claims costs (“Bronze” coverage)

# SHOP Exchange: Choice of Private Health Plans <u>Might</u> Look Like This (Downstate)

| AV Tier/Issuer | EmpireBCBS | Emblem | Oxford |
|---|---|---|---|
| Platinum: 90% | 1 standard plan | 1 plan | 1 plan |
| Gold: 80% | 2 plans | 2 plans | 2 plans |
| Silver: 70% | 4 plans | 4 plans | 4 plans |
| Bronze: 60% | 4 plans | 4 plans | 4 plans |
| Total Plans | 11 plans | 11 plans | 11 plans |

# SHOP Exchange: Choice of Private Health Plans Might Look Like This (Capitol Area)

| AV Tier/Issuer | BCBS | MVP | CDCHP |
|---|---|---|---|
| Platinum: 90% | 1 standard plan | 1 plan | 1 plan |
| Gold: 80% | 2 plans | 2 plans | 2 plans |
| Silver: 70% | 4 plans | 4 plans | 4 plans |
| Bronze: 60% | 4 plans | 4 plans | 4 plans |
| Total Plans | 11 plans | 11 plans | 11 plans |

# SHOP Exchange: Choice of Private Health Plans <u>Might</u> Look Like This (Utica/Schen'dy)

| AV Tier/Issuer | Excellus BCBS | MVP | United |
|---|---|---|---|
| Platinum: 90% | 1 standard plan | 1 plan | 1 plan |
| Gold: 80% | 2 plans | 2 plans | 2 plans |
| Silver: 70% | 4 plans | 4 plans | 4 plans |
| Bronze: 60% | 4 plans | 4 plans | 4 plans |
| Total Plans | 11 plans | 11 plans | 11 plans |

# SHOP Exchange: Choice of Private Health Plans Might Look Like This (Buffalo/Roch)

| AV Tier/Issuer | HealthNow | Independent Health | Excellus |
|---|---|---|---|
| Platinum: 90% | 1 standard plan | 1 plan | 1 plan |
| Gold: 80% | 2 plans | 2 plans | 2 plans |
| Silver: 70% | 4 plans | 4 plans | 4 plans |
| Bronze: 60% | 4 plans | 4 plans | 4 plans |
| Total Plans | 11 plans | 11 plans | 11 plans |

# Decisions You will Face for 2014

1. Do You:
   a. Renew with one carrier as currently?
   b. Offer group insurance in the SHOP exchange?
   c. Drop coverage?
2. If You use the SHOP exchange, how much choice of health plans should you give your employees?

3. POSSIBLY: If You use the SHOP exchange, would you bother to apply for a small business tax credit?

# Small business tax credit

1. If your employees earn \$50,000 (on average) or you employ 25 or more FTEs, your firm is NOT eligible.

2. Maximum credit is 50% of employer contribution (for-profit), or 35% of employer contribution for tax exempt employers ($\leq$ 10 FTEs and $\leq$ average wage of \$25,000).

3. Progressive reductions in value of credit as FTEs increase and average wages increase. E.G.:

10 FTEs at \$25,000 = 50%

10 FTEs at \$40,000 = 20% (Avg earning can reduce tax credit)

19 FTEs at \$25,000 = 20% (FTEs can reduce tax credit)

# Reasons to Use SHOP

1. Only way to qualify for special Small Business Tax Credits (SBTCs), starting 2014
   – SBTCs are a new federal tax credit worth up to 50% of an employer's premium contribution, for very small, low-wage firms.

2. SHOP enables DEFINED CONTRIBUTION, with employee choice of health plans (explained later).

# Defined Contribution & Employee Choice in SHOP—How It Works

- Defined contribution in group health benefits, (like a defined contribution 401K) fixes your contribution, and lets employees choose the health plan that is best for them. You are “off the hook” for picking their health plan and covering its annual premium increases.

- NYS SHOP exchange will certify a broad choice of high-quality health plans, and help your employees compare and choose among them.

- The exchange will also consolidate billing and customer service, so that you will receive one monthly premium bill for all the health plans your employees select, and the employees can call a single number at the exchange for customer service issues.

# Typical Range of Cost-Sharing Options in SHOP

| | Deductible | Max . O-o-P | Inpatient Hospital | Outpatient Surgery | E.R. | Office Visit | Diagnostic/ Radiology | Rx |
|---|---|---|---|---|---|---|---|---|
| Platinum | $0 | $4,000 | $1,000 | $500 | $100 | $15/30 | $50 | $5/25/50% |
| Gold | $1,000 | $5,000 | 15% | 15% | $200 | $25/50 | 15% | $10/40/50% |
| Silver | $1,500 | $6,250 | 25% | 25% | 25% | $35/75 | 25% | $10/50/50% |
| Bronze* | $2,000 | $6,250 | 45% | 45% | 45% | $50/$100 | 45% | $15/50/60% |

*NYS may allow annual deductibles higher than $2,000/$4,000, with employer account funding
e.g. $3,000/$5,000 deductible with a $1,000 employer contribution to an HRA or HSA

## Multi-Issuer / One-Tier

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | Plan X | |
| Bronze | | | |

## One-Issuer / Multi-Tier

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | Plan X | |
| Bronze | | | |

## Multi-Issuer / Multi-Tier

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | Plan X | |
| Bronze | | | |

## Full Menu

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | Plan X | |
| Bronze | | | |

# Multi-Issuer / One-Tier

Employer chooses the tier (level of benefits) and contribution amount  toward Plan X
Employees can choose any health plan from any insurer on that tier.
Exchange provides enrollment, billing, collections, customer service support.

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | | Plan X |
| Bronze | | | |

Step 1:
Employer chooses a tier and a benchmark (plan X)

Step 2:
Employee chooses any company in that tier.

# How “Multi-Issuer/One-Tier” choice fixes your costs and provides a choice of insurance companies

You can make the same flat $ contribution as you did in 2013, or just a little more for inflation, and allow employees who want a different company or type of health plan to have that option. The employee pays/saves the difference if her plan is more or less expensive than other plans on the same tier of coverage.

# One Issuer / Multi-Tier

Employer chooses a health insurance company and a contribution level e.g. 60% of plan X
Employees "buy up" or "buy down" with their own pretax dollars, within the same carrier.
The Exchange provides enrollment, billing, collections, customer service support.

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | Plan X | |
| Bronze | | | |

Step 1:
Employer chooses a carrier and contribution amount e.g. 60% of Plan X

Step 2:
Employee chooses any tier offered by that company (up or down).

# How you could use “One Issuer/Multi-Tier” choice to control your costs & provide customized coverage?

Make the same flat $ contribution as you did in 2013, or just a little more for inflation, e.g., 60% of Plan X’s premiums, and allow employees who want more or less generous coverage to pay/save the difference.

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | Plan - X | |
| Bronze | | | |

# Multi-Issuer / Multi-Tier

Employer chooses to contribute a percentage of Plan X's premium and let employers choose any Silver or Bronze plan.
Employee chooses any plan from Silver or Bronze tiers (level of benefits).
The Exchange provides enrollment, billing, collections, customer service support.

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | | Plan X |
| Bronze | | | |

Step 1:
Employer chooses a contribution & two tiers

Step 2:
Employee chooses any plan from the two tiers

# How you could use "Multi-Issuer/Multi-Tier" choice to save money & provide more customized coverage

If Silver plan "X" costs about what my current plan costs, I can make same $ contribution as today toward Plan X e.g., 60% of Plan X's premium, and contribute ***that same percentage*** (60%), toward any equal or less expensive plan -- so my employees get more choice and we might both save a little.

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | Plan-X | | |
| Bronze | | | |

# Full Menu

Employer chooses to contribute a fixed dollar amount toward any plan e.g. 60% of Plan X
Employee chooses any plan in any tier (level of benefits).
Exchange provides enrollment, billing, collections, customer service support.

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | Plan Y | |
| Gold | | | |
| Silver | Plan Z | | Plan X |
| Bronze | | | |

Step 1:
Employer chooses a contribution

Step 2:
Employee chooses any company and any tier

# How you could use "Full Menu" to control your costs & provide customized coverage to employees?

Make the same $ contribution in 2014 as you did in 2013, or just a little more for inflation -- e.g. 60% of Plan X's premium --and allow your employees to choose and pay for any plan they prefer

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | Plan - X | |
| Bronze | | | |

## Multi-Issuer / One-Tier

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | Plan X | |
| Bronze | | | |

## One-Issuer / Multi-Tier

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | Plan X | |
| Bronze | | | |

## Multi-Issuer / Multi-Tier

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | Plan X | |
| Bronze | | | |

## Full Menu

| | Company A | Company B | Company C |
|---|---|---|---|
| Platinum | | | |
| Gold | | | |
| Silver | | Plan X | |
| Bronze | | | |

# Imagine Your Renewal Premium for 2014 will be one of the following

- 8-12% increase to renew your existing coverage, plus a few small extras benefits (pediatric dental and vision)
- 5% decrease, even with a few extra benefits because of efficiencies in the market
- 23% increase because health plans get very nervous about rate regulation

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*If your deductible is over $2,000/$4,000, you will also have to contribute to an HRA or HSA enough to “lower” it to $2,000/$4,000