

Health Care Reform Small Businesses Look to 2014

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It was about three years ago that President Obama signed into law both The Patient Protection and Affordable Care Act (PPACA) and The Health Care and Education Reconciliation Act. Together the laws are commonly referred to as Health Care Reform. While a number of the Health Care Reform provisions have been implemented since 2010, many are looking ahead to 2014 when some of the most significant provisions become effective.

In 2014, a large employer, one with 50 or more full-time equivalent employees, must offer affordable health insurance meeting minimum coverage guidelines or be subject to a penalty. Many individuals (e.g. unemployed or with low household incomes relative to the Federal poverty level) may look to see if the state Exchange, a marketplace where one can receive subsidized health insurance, will be ready with viable products and premiums.

So how will Health Care Reform impact small employers in 2014? Perhaps the biggest impact Health Care Reform will have on a typical small business in Virginia will be in 2014 when guaranteed issue and community rating are required. Under this approach small employers and individuals may see wide fluctuations in premium due to the compression in underwriting spreads required by health reform. Younger insureds will pay more and will subsidize older insureds. Likewise, "healthy" small employers will likely see considerable premium increases as they subsidize those groups with more serious medical risks.

Because of this change in rating methods in 2014, it will be common for healthy small employers to receive rate increases of 20-50%. Conversely, "high risk" individuals and small groups will experience the significant rate relief for which they have longed. In other words, there will be a move towards the middle with community rating as healthy and/or younger groups pay more and higher risk and/or older groups pay less than they do today.

Presently, one misconception people have about health insurance is that the larger the group, the lower the rates. Actually, the law of large numbers tells us that the larger the group, the more average the rates. Thus, under today's rating system, the smaller the group, the more health insurance rates may vary. Currently, plenty of small businesses are frustrated because the cost of health insurance has more than doubled in the past decade, yet they may fail to realize that their group is presently paying below average premiums. Unquestionably, the 20-50% increases anticipated in 2014 will not be well received by many individuals and small groups. In contrast, those with on-going, potentially high dollar medical conditions will begin to enjoy rates similar to those who paid less in the past.

Clearly the complexity and importance of health insurance will continue to grow. There are numerous strategies to consider given an employer's goals, culture, budget and other factors. My colleagues and I are prepared to guide small employers in this changing environment.