

Where Does SHOP Fit in Health Reform?

The Small Business Health Options Program (SHOP) Act was developed because the current small group health insurance market is not working for small businesses and the self-employed. These two groups face more obstacles in finding affordable and accessible health coverage than large employers: fewer health plan choices; higher administrative costs; a greater susceptibility to sharp premium hikes because they are less able to spread the risk of becoming sick; and higher health insurance costs as a percentage of payroll; and, in the case of the self-employed, no guaranteed coverage.

SHOP is not a replacement for comprehensive healthcare reform but a valuable component that addresses the specific needs of the small business community and can help the broader reform effort move forward on a bipartisan basis.

A diverse coalition of stakeholders from across the political spectrum supports SHOP. Although each group has its own priorities for broader reform, they have joined together on a plan to address the needs of small businesses as one important component of reform.

Small Businesses Struggle to Provide Health Coverage and Need Reforms

Small businesses and the self-employed cannot afford to be left out of health care reform. The small group and individual health insurance markets are dysfunctional and need to be reformed.

- **A Large Fraction of Uninsured Workers are in Small Businesses:** Of the nearly 46 million Americans without health insurance, more than half are small business owners, employees, the self-employed, and their dependents.
- **Higher Costs are a Barrier to Coverage:** Small businesses continue to cite high and unsustainable premium increases as their top healthcare concern. On average, small businesses pay 18% more than larger employers for the same benefits. They pay more for administrative services such as marketing, enrollment, and premium collection. Among small businesses that offer coverage, 40% report spending more than 10% of their payroll on health care costs. As a result, fewer small businesses can afford to offer coverage. From 2000 to 2007, the percentage of small businesses offering coverage dropped from 68% to 59%, while large firms held stable at 99%.
- **Coverage is Often Disrupted and Diminished:** Small businesses face unpredictable premium rates that can spike when a single employee gets sick. When rates rise sharply from year to year, small businesses are likely to shop for another health plan in order to maintain affordable coverage. This “churning” in the system adds to employer costs and often leads to new medical underwriting and less stability in the system. In the past two years, more than half of small businesses that offered coverage reported switching to plans with higher out-of-pocket costs in response to rising premiums. Another third switched to a plan that covered fewer services, and 12% dropped coverage.

SHOP Helps Small Businesses Offer Coverage with Reforms that Lead to More Affordable, Predictable, and Accessible Coverage

SHOP addresses the major problems with the small group health insurance market so that small employers and their employees, and the self-employed, can obtain affordable insurance coverage.

- **Tax Credits to Reduce the Cost of Health Insurance:** SHOP will provide a tax credit to small employers (including the self-employed) to help offset the cost of health coverage.
- **More Stable and Affordable Premiums Through Rating Reforms:** SHOP's rating reforms will make premiums more stable from year-to-year and more affordable for those who need coverage the most. Small businesses and self-employed individuals will no longer be rated based on health status or "experience rating" and will gain the economies of scale available to large groups.
- **Administrative Cost Savings:** Health insurance will be provided more efficiently. Insurers will be able to market their health plans readily to all the members of SHOP and enjoy a simplified enrollment process.
- **Simpler Shopping for Health Insurance:** SHOP will give employers, employees, and the self-employed an easier way to find coverage. Statewide and nationwide purchasing pools will offer more health plan choices, facilitate plan comparisons, and provide one-stop shopping for small businesses.
- **Expanded Choice of Insurance Options:** SHOP's nationwide purchasing pool will offer private health plans that cover the entire nation, in addition to plans that operate only in a single state or area. These new plans will still be subject to state insurance regulation to protect those who choose them. In many states and eventually nationwide, individual employees will be able to choose their own health plan.