

► **Just the Facts: Association Health Plans**

A number of national business associations, like the U.S. Chamber of Commerce, are pressing for the creation of Association Health Plans by Congress. Below are arguments in favor of the legislation, presented by the U.S. Chamber, with our response.

U. S. Chamber:

Legislation is being considered in the U.S. Congress (H.R. 660 and S. 545, the "Small Business Health Fairness Act") to expand the availability of health coverage for employees of America's small businesses by allowing employers to join together through bona fide associations to buy health coverage under an Association Health Plan (AHP).

By joining together, small employers will enjoy greater bargaining power, economies of scale, and administrative efficiencies. In this way, AHPs will level the playing field and give participating small employers the advantages currently enjoyed by larger employers and unions.

Coalition:

AHPs do not get at the fundamental issues of cost and affordability.

While well-intentioned, AHPs will result in the division of health insurance markets between the "haves" (younger, healthier groups) and the "have nots" (older, sicker groups). Eventually, the "have nots" will not have coverage, unless they are significantly subsidized by the "haves," bringing us right back to where we are today.

Many large employers are having the same difficulties with health care costs as small businesses. More important: Unlike corporations, small businesses are not a controlled group. They do not "join together" to purchase insurance: Their decisions are *voluntary* and their employees frequently opt out, making it impossible for any association not organized solely for insurance purposes to provide coverage for a stable population.

As for unions, their benefits are the result of collective bargaining, resulting in health care packages which are usually much richer than small business programs. The establishment of union health plans is comprehensively regulated under the National Labor Relations Act and the Labor Management Relations Act. Union health plans are long-term arrangements that cover employees of all the employers that sign a specific labor agreement within a certain industry. In contrast, AHPs would market insurance coverage to thousands of independent and unrelated small employers who would make independent decisions regarding whether to participate.

The AHP's only real advantage lies in overriding state regulations, many of which are in place for very good reasons. Health plans that override those regulations will often feature primarily catastrophic coverage, which does not offer much care and can result in underinsurance

U.S. Chamber:

Small businesses have little buying power and few affordable options -- five or fewer insurers control at least three quarters of small group market in most states (GAO, 2002). This lack of competition is contributing to double-digit rate increases for many small businesses and a resulting rise in the number of small business employees who are uninsured.

Coalition:

Many industries in the U.S. are dominated by a few competitors. This does not mean there are “few affordable options” or that the competitors’ products are not good or appropriately priced. The National Association of Insurance Commissioners *2001 Market Share Reports* shows at least 125 health and accident insurers operating in every state. The GAO 2002 report stated that the median number of health insurance carriers in the individual states is 28 and the average number of carriers in the ten largest states is 42.

Lack of competition in the insurance industry is not what’s driving up health care costs; insurance premiums are largely a product of the actual and expected experience of the individual or group insured. A rapidly-aging population and a much longer life expectancy, rapid advances in technology, including pharmaceuticals and outpatient services that take the place of hospitals but also increase demand, and benefit programs that take the marketplace out of health care decisions, all add to the skyrocketing costs of healthcare.

The state of the economy is also a prime factor in the offer and acceptance of group health insurance. Bureau of Census population reports and studies by other groups, such as Kaiser Family Foundation, show that the proportion of the population covered by health insurance ebbs and flows with the state of the economy. In the 1990s, for example, higher levels of participation in health insurance were associated with rising levels of employment. A sound economy is necessary to increase participation in group health insurance, especially among small firms.

U.S. Chamber:

AHPs will provide more choice in the health insurance marketplace. In addition to self-funded plans, which will be required to comply with stringent solvency and stop-loss requirements, legislation currently under consideration will allow AHPs to offer fully-insured plan options under a uniform set of rules across state lines. As a result, AHP legislation will actually expand opportunities for insurance companies to serve small businesses.

Coalition:

Plenty of opportunities already exist for insurance companies to serve small businesses, and most small businesses do offer health insurance to their employees, either on their own or through groups or pools.

For example, nearly 200 million people, or nearly 71% of the population, are covered by private health insurance, and nearly two-thirds are covered by employment-based health insurance. According to the Kaiser Family Foundation study in 2002, 55% of the smallest companies with 3-9 workers offer health insurance, 74% of the companies with 10 to 24 employees offer health insurance, 88% of the businesses with 25-49 employees offer health insurance, and nearly all firms with 50 or more workers offer health insurance

Offering “fully-insured plan options under a uniform set of rules across state lines” is a fine thing, if there is a consistent set of federal standards for minimum plan design, rating, and underwriting. Currently, there are no federal standards in this critical area, and none are on the horizon. If this AHP legislation is enacted, the absence of these standards will allow insurers, who are risk-averse, to avoid older or unhealthy risks.

This is precisely why 48 states have acted individually during the last two decades to create small-business standards based on the needs of their unique markets. Competition is occurring in those markets, and in the great majority of states, the number of insured workers has risen since the adoption of standards.

If AHPs are enacted according to current legislative proposals, the absence of these standards (which gives them their inherent advantage) will create an enormous loophole for dividing the small business market between the “haves” and the “have nots.”

U.S. Chamber:

Uniform federal regulation of AHPs will help small businesses lower their administrative costs because, by operating under federal law, AHPs can avoid the costs of complying with 50 different sets of state benefit mandates. In addition, AHPs that are operating on a national level will be able to receive more favorable treatment from insurers.

AHPs should make health insurance more affordable for small business through reduced premiums. The Congressional Budget Office (CBO) has estimated that small businesses obtaining insurance through AHPs should experience premium reductions of 13% on average and up to 25% (CBO, January 2000). That’s about \$450 to \$1250 saved per covered employee. Some companies might save enough on their insurance premiums to offset the increase in wages for their lowest-paid employees.

Coalition:

This CBO statistic tells only part of the story in the CBO report. The CBO went on to conclude that 2/3 of the savings would come from risk selection, and more significantly, that while costs will decline for the 20% of the businesses joining AHPs, costs will increase further for the remaining 80% who cannot. A newly-released study by Mercer reached essentially the same conclusions.

U.S. Chamber:

The smallest firms stand to save the most from AHPs because their administrative costs, which account for a significant percentage of their expenses, will decrease. A January 2003 Small Business Administration (SBA) actuarial report shows that administrative expenses for insurers of small health plans make up 33-37 percent of claims. This compares with about 5-11 percent of claims for large companies’ self-insured plans.

Coalition:

Be careful of your comparisons. There is an enormous difference between “fully-insured plans” voluntarily purchased by small businesses and “large companies’ self-insured plans,” which are

provided to a captive, measurable population. For one: Large companies' self-insured plans have very low marketing, sales and retention costs. Remember: Small companies and their employees in an association act voluntarily and are mobile customers.

The SBA report also found that the general administrative expenses of insurers averaged 10% - 11% of premiums. Costs such as agent commissions, taxes, and contributions to solvency funds accounted for the remaining administrative costs. AHPs will incur similar costs because they will market coverage to individual small employers.

The SBA report did not find that AHPs would lower administrative costs. Rather, it predicted that AHPs would save money by attracting healthy firms, cutting benefits and avoiding state laws.

U.S. Chamber:

Because insurance should be more affordable, more small firms will provide it to their employees and families. According to the CONSAD Research Corporation, as many as 8.5 million previously uninsured workers would receive coverage if this legislation is enacted into law.

Coalition:

Every other analysis of this legislation has found that AHPs would do little to help the uninsured or would make matters worse.

The Congressional Budget Office found that only about 1% of the uninsured would gain coverage, while more than 75% of small employers would pay higher premiums. The Urban Institute found that 400,000 workers in small firms would become uninsured under the AHP legislation.

Mercer found that over 1 million more uninsured would result from AHP legislation in a report prepared for the National Small Business Association.

An analysis by KPMG found numerous flaws in the CONSAD report that undermine its credibility. One major omission of the report is that it failed to model what would happen to the majority of small employers that purchase state-regulated health insurance.