Wakely
Consulting Group

Implementing Employee Choice: Decision Support Tools for Small Employers in Vermont's Exchange

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Introduction

Wakely has developed and tested a set of decision-support tools for Vermont's small employers. Based on the test results, Wakely recommends that Vermont's health insurance exchange develop and make available many of the tools described in this report, with modifications noted.

To test and refine Wakely's initial hypotheses about useful decision-support tools, we conducted telephone interviews with four brokers in Vermont about a typical small-group renewal process, and how that process might change for the 2014 renewal cycle. Based on the brokers' input, Wakely identified three key decisions that small employers will face, as they contemplate using the exchange. Wakely then conceptualized a set of decision-support tools designed to help small employers make those decisions, and a way to describe and illustrate these tools. Wakely met separately with four groups of 7-8 small employers, invited and hosted by each of the four brokers, to discuss these decision support tools. At these four sessions, Wakely explained and illustrated the tools, asked the employers about their utility, and to explore whether and how these employers expected to offer employee choice through the exchange in 2014.

The sessions were very rich in information deemed relevant to renewal decisions. The employers were selected by the brokers for their thoughtfulness, their relative sophistication about health insurance and reform (by comparison with other small employers), and their inclination to engage in a non-partisan discussion of the Vermont exchange. The tone of the discussions was generally positive, and participants seemed eager to benefit and learn from the experience. The host broker for each group sat in on his/her discussion group and offered observations and information from time to time as appropriate, but did not dominate or lead the discussion.

Wakely began the substantive presentation with a summary of key points about the ACA and Vermont's health reform that might directly impact small employers in 2014. Wakely also presented hypothetical examples of how the exchange might look to them, the subsidies that they and their employees might be eligible for (with or without the offer of group insurance), the plans available on the exchange, comparison of a theoretical employer's existing plan to QHPs on the exchange, renewal rates for a similar plan, etc. All of this was designed to simulate a renewal situation in 2014, at least for a theoretical small employer (with 24 eligible employees, offering Bronze-like coverage).

The sessions were scheduled for 90 minutes, but they all ran over time, and most participants stayed for two hours. The length of the sessions allowed for lots of questions and dialogue around the table, including interaction among the employers and discussion with their broker.

Exploring the prospect of renewing coverage with small employers in an "information-rich" context provides a unique perspective on their likely reaction. The depth of discussion and thoughtfulness of responses is qualitatively different than in a 30-minute telephone interview, and more closely simulates the likely reaction of small employers as they consider renewing coverage for 2014. These discussions yielded both an assessment of the decision-support tools tested, and some general observations about small employers' attitudes and likely reactions as they approach renewal decisions in the summer and fall of 2013. We begin with some general observations.

General Observations

First, a majority of attendees in all four discussion groups seemed anxious about health reform and the exchange. Ironically, the more they learned about Vermont's health reform, the more their discomfort increased about what they didn't know and the decisions they would have to make for 2014. Although all seemed to leave the meetings knowing a lot more than before, few attendees seemed more certain than when they walked in of how they would approach the renewal decisions for 2014.

For example, most employers did not appear to understand in advance of our meeting that some of their low-to-moderate income employees might be better off without the offer of ESI. As we delved into this topic, employers began to raise new questions, based on a more sophisticated understanding, such as how much their own budgets might <u>increase</u> if they were to maintain ESI, while employees on their spouses' ESI lost access to that coverage. By the end of the session, employers were pondering many new questions about the possible impact of health reform on them and their employees. For example, what about subsidies for employees whose incomes change during the year? How would their part-time and seasonal employees be counted? If they drop ESI, what about employees who reside out of state? If they offer choice of issuers, would they have to deal with monthly bills from multiple carriers?

On the other hand, it was also apparent that most employers would not make any decisions until they had some key facts in hand. Primary among these is the design and price of qualified health plans for 2014. Until such information can be shared, no amount of education and outreach to small employers will enable most of them to make decisions. Instead, an intensive, early outreach and education effort, in the absence of such information, could create more confusion than clarity.

Second, there was strong interest expressed by many employers in continuing to work with their broker, not only to make these decisions, but to help explain the decision to their employees and connect the employees to the exchange – either as a group or as individuals buying direct. Not only did the employers generally want to work with their broker to make decisions for 2014, but some indicated that, if they continued to need expert advice in subsequent years, they would pay for their broker's help, much like they pay for a lawyer or accountant now. (These appeared to be spontaneous, genuine sentiments, rather than comments made because their brokers were in the room.)

These sentiments reflect several factors: (1) that small employers feel baffled by health care financing for their employees, and (2) that they do not have high expectations for the state exchange's customer service. Not only do they want to their broker to guide them through these decisions, but they want their broker to explain it to their employees as well.

Third, no employer seemed to think they would qualify for the small business tax credit. This reflected a bias in the selection of employers, but we did have in several groups accountants, and in one group a broker's representative who deals exclusively with some 230 very small employers. They confirmed the lack of uptake, because of the tax filing challenges and failed efforts to date in getting mini-employers interested in this tax credit. This is consistent with our findings elsewhere.

Fourth, employers were very engaged in the discussion of all three decisions i.e. whether to renew; if so, what to renew and how much to contribute; or, if not, how to explain and transition employees as direct buyers to exchange. They agreed that these were the three big sets of decisions that they will face in mid-to-late 2013. They also seemed appreciative that the state was thinking ahead about their issues and questions, and was soliciting their input on how the exchange could support them in making these decisions.

Based on these general observations, Wakely recommends that Vermont carefully stage its outreach campaign to the small-group market, which will be dramatically affected by the changes coming on January 1, 2014. While a full set of campaign recommendations is far beyond the scope of this paper, these discussions suggest the dangers of either releasing a lot of information too late or insufficient information too early. Rather, Wakely recommends that the exchange work with brokers and employer associations *now* to identify and schedule the phases of an information and education campaign specifically targeted at small employers, and that the exchange consider as the first step in this campaign, releasing to brokers, employer associations, and employers a schedule of when they can expect to receive such information from the exchange over the course of the nine months ending September 30, 2013.

Providing those who need to know with advance notice of when they can expect to receive critical pieces of information should help alleviate some of their anxiety. Conversely, waiting until the information is fully developed to release any of it may create the impression that the exchange has no plans for adequate outreach or cannot execute them.

Evaluation of Decision-Support Tools

Wakely used a series of powerpoint slides to illustrate potential informational tables and decision-support tools. We then tested these tools for the employers' ability to understand them and their comfort level in using them. Their reactions are presented below.

By way of educating employers about the level of subsidies available to low-to-moderate income households in 2014, including their employees if not eligible for employer-sponsored insurance, the following table was presented and explained. It was considered by the employer groups to be understandable and useful:

Individual Subsidies (very approx.)

Annual Income	Individual Pays	Federal Subsidy	Family of 4 Pays	Federal Subsidy
$20,000	$50/month Platinum	$500/mo	0	Medicaid
$40,000	$300/mo Silver	$265/mo	$175/ Platinum	$1,200/mo
$60,000	$600/mo Silver	0	$400/mo Silver	$1,000/mo
$80,000	$600/mo Silver	0	$650/mo Silver	$750/mo
$100,000	$600/mo Silver	0	$1,400/mo Silver	0

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Of course, this table (like many others in the exercise) is only illustrative, since (a) it hypothesizes the premium of the second-lowest priced silver plan, (b) it does not include every household size nor all the relevant income levels, and (c) it does not include many other relevant factors in determining eligibility for subsidies (spouse's access to ESI, citizenship, immigration status, etc.). With the appropriate caveats, the simplicity of this table may be preferable for educational purposes to a more detailed table.

By way of educating employers about the level of subsidies available to very small employers (<25 FTEs) of low wage employees (average <$50,000), if the employer contributes at least 50% (for single coverage), Wakely used the following table. The use of green highlights to indicate the thresholds above which the tax credit is definitely worth considering and red highlights to suggest a threshold below which below which it may not be seemed to help the employers digest this multi-cell matrix and make it more understandable and useful:

Small Business Tax Credit

Phase-out schedule by average wage and firm size

Firm Size/Wage	Up to $25,000	$30,000	$35,000	$40,000	$45,000	$50,000
Up to 10	50%	40%	30%	20%	10%	0%
11	47%	37%	27%	17%	7%	0%
12	43%	33%	23%	13%	3%	0%
13	40%	30%	20%	10%	0%	0%
14	37%	27%	17%	7%	0%	0%
15	33%	23%	13%	3%	0%	0%
16	30%	20%	10%	0%	0%	0%
17	27%	17%	7%	0%	0%	0%
18	23%	13%	3%	0%	0%	0%
19	20%	10%	0%	0%	0%	0%
20	17%	7%	0%	0%	0%	0%
21	13%	3%	0%	0%	0%	0%
22	10%	0%	0%	0%	0%	0%
23	7%	0%	0%	0%	0%	0%
24	3%	0%	0%	0%	0%	0%
25	0%	0%	0%	0%	0%	0%

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After reviewing with employers both individual household and small employer tax credits under the ACA, Wakely suggested to each discussion group that the following three decisions would be key ones they will face as they approach 2014, and asked if they agreed or had other key issues. This question was asked again at several points during the sessions, and the responses consistently pointed to these as the major issues.

1. Should small employers continue to offer group insurance in the exchange?
2. If an employer decides to renew group coverage through the exchange,
    a. How much should the employer contribute?
    b. On what benchmark or reference health plan should the employer's contribution be based?
    c. How much choice of health plans should be given to employees?
3. If employers discontinue group health insurance, how do they explain this decision and help connect their employees as individual, direct buyers, to the exchange?

Do I Renew Group Coverage?

Wakely tested decision-support tools relating to each of these three decisions, beginning with the threshold decision -- whether or not to renew ESI in 2014. Lengthy discussion revealed that for some employers the decision to renew or discontinue ESI can be very complex, involving many factors beyond the scope of what the exchange might "know." For example, what will an employer's competitors do about ESI? What will their employees' spouses' employers do about ESI? How would their employees who reside out of state "connect" with those exchanges and how customer-friendly will those exchanges be? Recognizing that employers might consider other factors, we focused discussion on the questions and decision-support tools that Vermont's exchange could address.

Wakely presented the relevant decision-support tools in concept for employer feedback, beginning with the question of how many employees might qualify for subsidies, if they were not offered ESI. We illustrated a subsidy calculator for a few household sizes—not all—and asked whether small employers thought they could fill in the relevant income and household information for each of their employees on the table below. (We also suggested that the employer might want to know this information for all employees, or only for those who took his/her group insurance in 2013.) The numbers in red would be supplied by the employer, in order to calculate the "TOTAL QUALIFY" line at the bottom. The participating employers

How many E'ees or Subscribers might qualify for tax subsidies for Silver plan, if I stop offering?

Annual Household Income	Single	2-Person	Family 3+
< $20,000	0	0	0
$20k - $40k	5	2	3
$40k - $60k	1	3	3
$60k - $90k	0	2	3
> $90,000	0	1	1
CALCULATOR: TOTAL QUALIFY	5 of 6	5 of 8	9 of 10

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tended to be larger than the average small employer, so their responses may overstate the difficulty of knowing details about their employees, but they overwhelmingly responded that they would not know household income or be sure of household size.

So, we discussed the possibility of surveying their employees to determine for each one: (a) Modified Adjusted Gross Income (MAGI), (b) household size, and (c) whether the spouse has access to ESI. Intrusiveness and a need for confidentiality wwere often cited as concerns, but most employers thought that they might attempt to gather this information if the exchange could provide a very short survey instrument that could be completed anonymously, explaining the newly available subsidies in 2014, Vermont's interest in encouraging small employers to drop ESI if it would be better for employees, and asking just these three questions. Employers did not think that their employees would go online to fill out this survey, but so long as the survey instrument only required check marks, they thought employees would consider it confidential. Of course, mini-employers cannot really offer confidentiality, so this tool may not work for them, but they may know their employees' circumstances well enough to guess.

With more precise information from employees, the income ranges in the decision-support tool above could be more finely calibrated, and the tool could also estimate the amount of federal subsidy and household contribution required (for the 2nd-lowest priced Silver plan) for each employee. If requested in late summer or early fall of 2013, most employees would be able to use their own 2012 federal income tax filings to supply these data (MAGI and household size) –

which is the same data that the exchange would use to determine eligibility and subsidy levels for 2014. Of course, some tax-payers file late, and some households do not file; but most late-filers are self-employed and file by October 1st in any case. (It is likely that most year-round employees subject to payroll withholding do file income taxes, but there is an especially high degree of seasonable employment in Vermont, and many transient, seasonal employees may not file.)

We then asked employers whether they would be interested in knowing how their own group insurance plans compare with the subsidized (Silver) plan on the exchange. Most employers thought this a relevant question, although one employer was purely concerned to know how many employees would qualify for individual subsidies. Most employers could name their carrier and the specific health plan, which we indicated should suffice to allow the exchange to fill in the key cost-sharing elements. (In the case of a few very small plans, for which the exchange might not have 2013 benefits, the employer might have to fill in the table below.)

Current Plan

Patients Pay*	Deductible	Max Out of Pocket	Inpatient	E.R.	Office Visit	Rx
Single	2,000	6,000	25%	100	25	10/25/50
Family	4,000	12,000	25%	100	25	10/25/50

*You can enter the name of your current plan & carrier, or fill in this description of your group plan?

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Employers suggested that it would be important to add their annual HSA/HRA contribution to calculate the true actuarial value of their group plan. This information would need to be supplied by each employer. A summary comparison of their own plan to the Silver level, as depicted below, was considered very useful.

How do your current benefits compare with the Exchange's Silver Plan? (e.g.)

	Single	Family	Closest AV Level to Your Plan
Your Current Plan's Cost- Sharing	36%	42%	**Bronze**
Silver Plan's Cost-Sharing (>250% FPL)	30%	30%	

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We then raised the question that was uppermost in many employers' minds – what would their premiums be at renewal? Using the hypothetical example above, in which employee cost-sharing (36% for singles and 42% for families) is close to Bronze, the table below compares current premiums (2013) with the premiums for a range of Bronze plan in 2014. Again, employers would have to input their current premium and contribution rates (shown in red) to generate employees' contributions and the comparison with renewal rates.

What would it cost monthly to renew something close to your current coverage? (e.g.)

Contract Size	100% of Premium	Employer Share	Employee Share	Range of Bronze Plans (no HRA)
Single (4)	$350 + $50 HRA	$200 + $50 in HRA	$150	$325 - $400
2-person (6)	$600 + $100 in HRA	$300 + $100 in HRA	$300	$600 - $700
Families (8)	$800 + $100 in HRA	$450 + $100 in HRA	$350	$750 - $850
TOTAL	$11,400 (+ $1,600 in HRA)	$6,200 (+ $1,600 HRA)	$5,200	$10,900 - $12,600 (+ HRA)

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Fifth and finally, to help small employers decide whether to renew coverage, the exchange can estimate how much of a small business tax credit might apply to an employer. However, doing so requires that employers input a considerable amount of data: wage and FTE counts for each employee, other than owners and their families, premiums for the group's benchmark plan, the employer's contribution level, and the status of the employer as for-profit or non-profit and its corporate form of organization. None of the employers in these discussion groups believed they would go to the trouble or likely qualify for a significant tax credit.

How and What To Renew?

Wakely also tested decision-support tools for employers who want to renew through the exchange. The discussion suggested two distinct approaches: many employers agreed that they should select a reference or benchmark plan to key their contributions to, a level of employer contribution per employee, and an employee choice model. However, several employers thought they might simplify the decision-making process by adopting a pure defined contribution approach i.e., selecting a contribution level based on their current contribution -- perhaps with a modest inflation factor – and let their employees select any health plan on the exchange. So long as the employer's contribution is enough to reach minimum employee participation levels, the employer is "out of the middle," and done with the decision-making. This approach had great intuitive appeal for a few employers.

The discussion of renewals suggests that individual employers may approach decision-making quite differently. Not only did some want to simply pick a contribution level and "be done with it," but those who want to pick a reference plan valued the decision-support tools reviewed in this section somewhat differently. Designing these web-tools with the flexibility for employers to skip around, test them, and apply only those that they find useful will enhance their appeal.

For those employers who prefer to go through the decision points more methodically, the first task is to select a reference plan, on which the employer can base his/her contribution. Employers were shown the following table to help select a plan, and asked what other specifications they considered important. No other parameters were suggested in any of the groups.

Fill in Your Minimum Specifications for Selecting Benchmark Plan

Parameters	Minimum	Maximum
Deductibles	$1,500/$3,000	$2,000/$4,000
HRA/HSA Funding	$0/0	$600/$1,200
E'er Contribution for Singles/Family	50%/40% $12,000/mo	65%/50% $14,000/mo
Max. OOP	NA	NA

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In our hypothetical example, five plan designs, including several "standard" designs from more than one issuer, satisfied the minimum specifications entered above (in red). Of course, a set of

Which qualified health plans meet your minimum specifications? (e.g.)

AV Tier/Issuer	BCBSVT	MVP	VT HEALTH CO-OP
Platinum: 90%			
Gold: 80%			
Silver: 70%	Plan-7		Plan-7
Bronze: 60%	Plan-15 Plan-17	Plan-15 Plan-18	Plan-15 Plan-21

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minimum specifications could theoretically produce more or fewer "candidate" plans than shown above.

Given the relatively large number of health plans that satisfied the minimum specifications in this example, the decision-support tool further narrowed the field to the two plan designs that most closely resemble the employer's current coverage, as shown below. Most of the employers in the discussion group seemed comfortable with this 2-step approach to narrowing their focus, but one employer said that she would prefer to look at all the plans available on the exchange. Some employers may prefer to examine more or fewer plans, so Wakely recommends that the decision-support software allow the employer to decide and input the number of plans "most closely resembling current coverage" that he/she wishes to display and compare.

Which QHPs meet your minimum specifications <u>and</u> most closely resemble your current plan? (<u>e.g.</u>)

AV Tier/Issuer	BCBSVT	MVP	VT HEALTH CO-OP
Platinum: 90%			
Gold: 80%			
Silver: 70%			
Bronze: 60%	Plan-15	Plan-15 Plan-18	Plan-15

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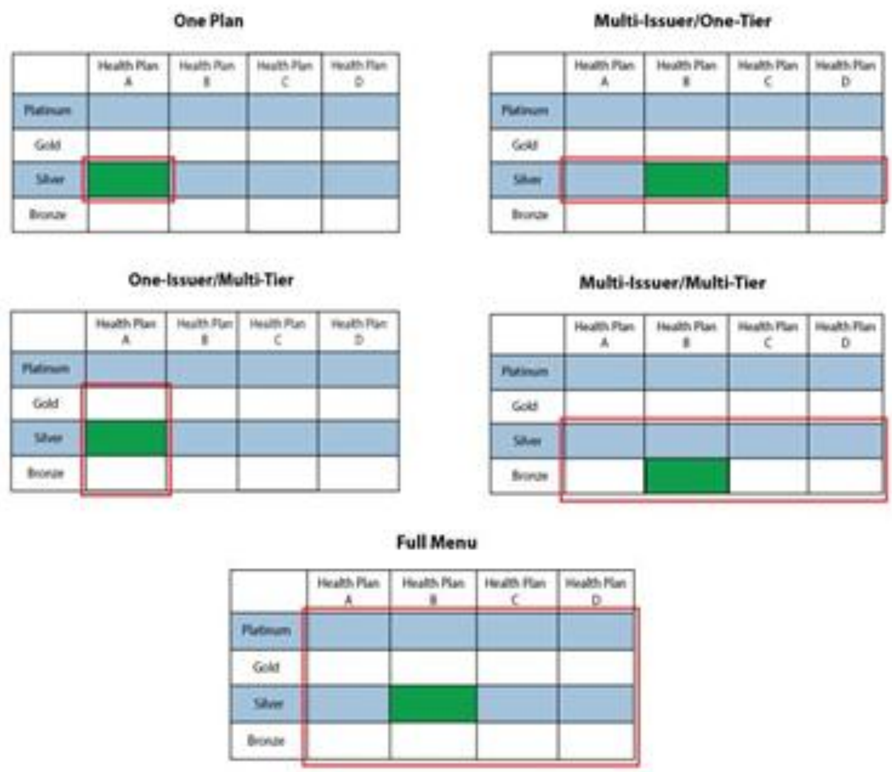
Thinking that employers might want to compare the coverage for their employees under these two plan designs, we then showed employers the following comparison of out-of-pocket spending (not counting the employee's monthly premium contribution) for "healthy," "average," and "sicker" individuals and families. By design, these "scenarios" yielded somewhat similar out-of-pocket spending under both plans—both designs are Bronze. In any case, the employers did <u>not</u> find this table very useful in guiding their decision. Given how speculative and inaccurate such scenario projections are, and the low interest evidenced by employers in this tool, Wakely does <u>not</u> recommend that the exchange develop such a tool for employers.

Here are typical out-of-pocket costs (in addition to premiums) under candidate plans (e.g.)

	Plan-15 Claims Paid	Enrollee's Share	Plan-18 Claims Paid	Enrollee's Share
Healthy Single	0	1,000	0	1,000
Average Single	700	1,500	800	1,400
Sicker Single	6,000	2,300	5,600	2,500
Healthy Family	0	2,000	0	2,000
Average family	2,600	3,500	2.800	3,200
Sicker Family	26,000	8,000	24,000	9,000

At this point, the employer has enough information to select a benchmark or reference plan, and a level of contribution toward that plan. We did not run through this exercise, but the employer would have to confirm the number of employees or likely subscribers, by contract size (single, 2-person, etc.) in order to generate premiums for the two "candidate" plans, select one as the reference plan, and determine the employer's premium contribution (and possibly HRA/HSA funding) for the renewal year.

We then turned to a discussion of the choice of health plans for their employees, assuming that Vermont allows employers to pick among different "choice models." Wakely explained five different choice models, and ran through two illustrative scenarios in which an employer uses different choice models and contribution strategies to manage costs. We asked each of the employers in the three employer groups that got this far in the discussion -- one group ran out of time before this exercise -- and took a count of the employers' preferences. At this point in the discussion, the groups were reasonably well educated and immersed in thinking through their own situations. While the results of this poll counted only 21 employers, several patterns did emerge.



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Two employee choice models attracted a lot of interest: “Full Menu” and “One-Issuer/Multi-Tier” each garnered six full votes. (In addition, one employer was tossed up between “Full Menu and Multi-Issuer/Multi-Tier”.) The next largest category was Undecided, with four employers in this group. None of the 21 employers selected “One Plan” as their preferred option.

Employer Preferences among Five Employee Choice Models

One Plan	0	Multi-issuer/ Multi-Tier	2.5
One-Issuer/ Multi-Tier	6	Full Menu	6.5
Multi-Issuer/ One-Tier	2	Undecided	4

Transitioning Employees, If Group Insurance Is Discontinued

Employers readily agreed that, were they to decide to stop offering group coverage for 2014, they would need lots of help in explaining this decision to their employees and helping connect them to the Vermont exchange for individual coverage. Several asked about the availability of tax-preferred accounts to help fund individual coverage, and were dismayed to learn that such vehicles may not be available to them. There was considerable discussion of the alternatives—the most obvious being a simple pay increase. However, this was considered a very inferior alternative, as it would be after-tax, it might not be used be employees to help buy coverage, and it would be difficult to "take back" later, if employers have to finance a payroll tax to help fund single-payer.

Wakely suggested the following services which the exchange might readily provide to help employers and their employees with the transition. As employers pondered the challenges of this transition, they found this list of services pretty "under-whelming":

If You Discontinue ESI, What Help Can the VT Exchange Provide?

- Names of QHPs which most closely approximate current ESI, website
- Number of employees who should qualify for Medicaid or federal subsidies
- Comparison of coverage under 2nd-lowest priced Silver plan to current ESI
- Explanation of Exchange and movement to single payer in 2017
- Name and phone number of Exchange CSR or Navigator

Almost universally, their comments suggested that they would not trust a customer service representative of the exchange to help. Rather, they would prefer their broker's help, including coming onsite to explain why the employer was not renewing group coverage, the benefits to some employees of this move, and what all employees could do for coverage—whether that is to buy subsidized coverage in the exchange, access a spouse's group insurance, or some other alternative.

The tenor of the discussions throughout these sessions suggest to Wakely that demand from small employers for brokers' services will be very high as they contemplate renewals for 2014. In discussing transition help, should an employer decide not to renew, the employers were emphatic that they would want their own broker to function, in effect, as an In-Person Assistor for their employees, and to come onsite to perform this service.

Summary

Employers are anxious about health reform in Vermont and renewing group health insurance in 2014 through the exchange. They will need considerable help in confronting key decisions about renewal. The exchange can assist them and their advisors by developing a set of decision-support tools, as described in this report. It was also evident that employers differed in the amount of interest they had in individual tools and in a comprehensive exploration of each tool. Wakely recommends that the exchange include a brief overview of the decision-support tools and options for employers (and/or their brokers) to selectively use individual tools, if they prefer that to running through all the tools in order.

However, these tools alone may not suffice for many employers, and it is likely that small employers will require considerable one-on-one assistance to understand and use these tools. Based on the discussion among these four sets of small employers, they will look to their brokers for advice and assistance. Therefore, Vermont should consider how best to use small employers' existing broker relationships to help educate and advise them about the exchange. As 2013 approaches, an important first step will be to develop with some employer/broker input, and then share with brokers, employers and employer associations, a timetable and summary of the communications and outreach plan for supporting employer decision-making.

It is reasonably clear from the three discussion groups that considered employee choice, that most employers prefer some degree of choice and understand that the exchange offers this opportunity. At least two distinct kinds of choice seem to have appeal to a significant number of employers: a "full menu" choice of all health plans and the choice of different actuarial levels and plans from a single carrier. These were also the top two choices of small employers in the interviews that RKM conducted for Vermont with 50 small employers in the spring of 2012.