



**Rutgers** Center for  
State Health Policy

*Institute for Health, Health Care Policy  
and Aging Research*

**Field Report:**

# **New Jersey's Small Employer Health Benefits Program**

Dina Belloff, MA  
Senior Research Analyst

**Presentation for  
The Rockefeller Institute of Government  
At SUNY-Albany  
April 9, 2008**

# Acknowledgments

---

- CSHP Team: Joel Cantor, ScD and Margaret Koller, MS
- Stakeholders interviewed for the Case Study:
  - Gale Simon, Assistant Commissioner, NJ DOBI
  - Ellen DeRosa, Executive Director, SEHBP and IHCP
  - Neil Vance, Chief Actuary, NJ DOBI, Life and Health
  - Ward Sanders, President, NJ AHP
  - Jim Stenger, Principal, NAS Financial Services and Chairperson, SEHBP Board
  - Tony Taliaferro, Vice President, AmeriHealth and Vice Chairperson, SEHBP Board
  - Christine Stearns, Vice President of Health and Legal Affairs, NJ BIA and Member SEHBP Board
- Funded by the Rockefeller Institute of Government under a grant from the New York State Health Care Foundation



# Outline

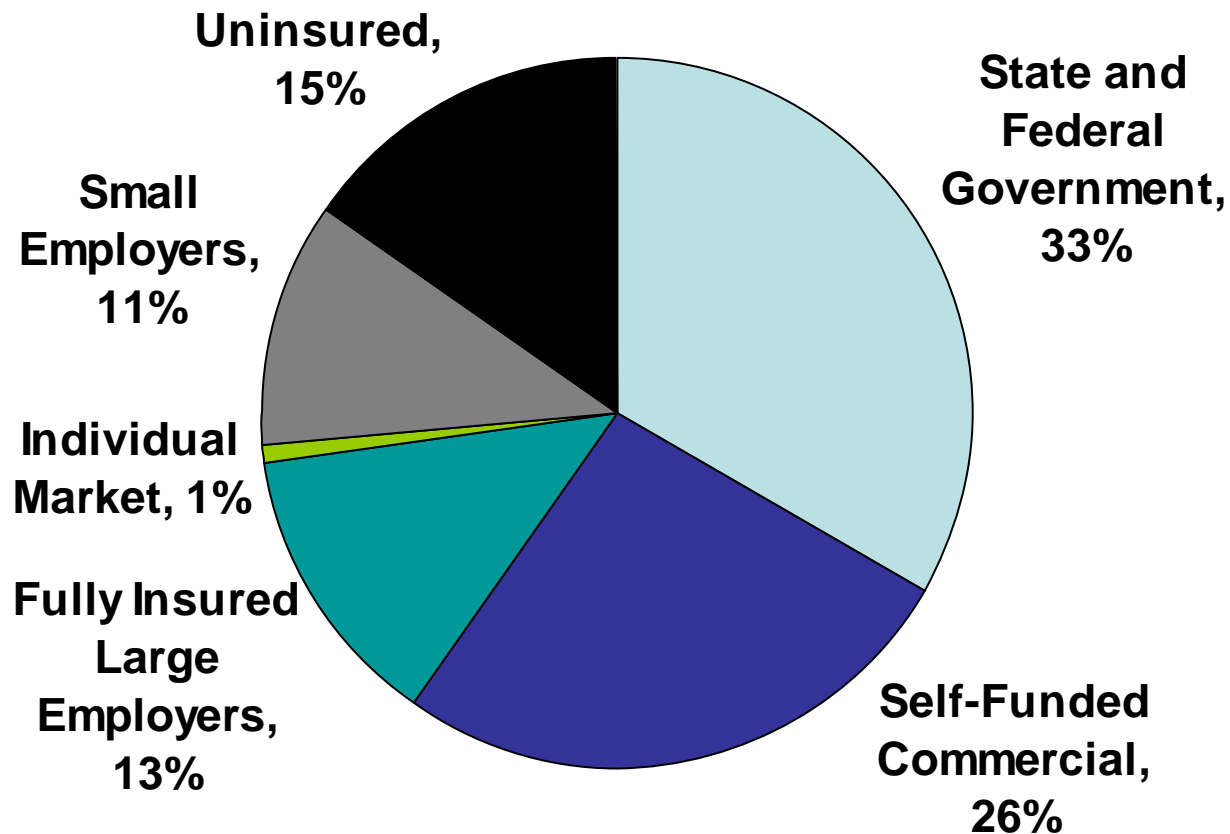
---

- Health Insurance Coverage in New Jersey
- 1992 Health Insurance Reforms Create the IHCP and SEHBP
- Status of the SEHBP
- Proposed Administrative Changes that May Help to Control Premiums
- Challenges and Options for the IHCP & SEHBP

# Health Insurance Coverage in New Jersey

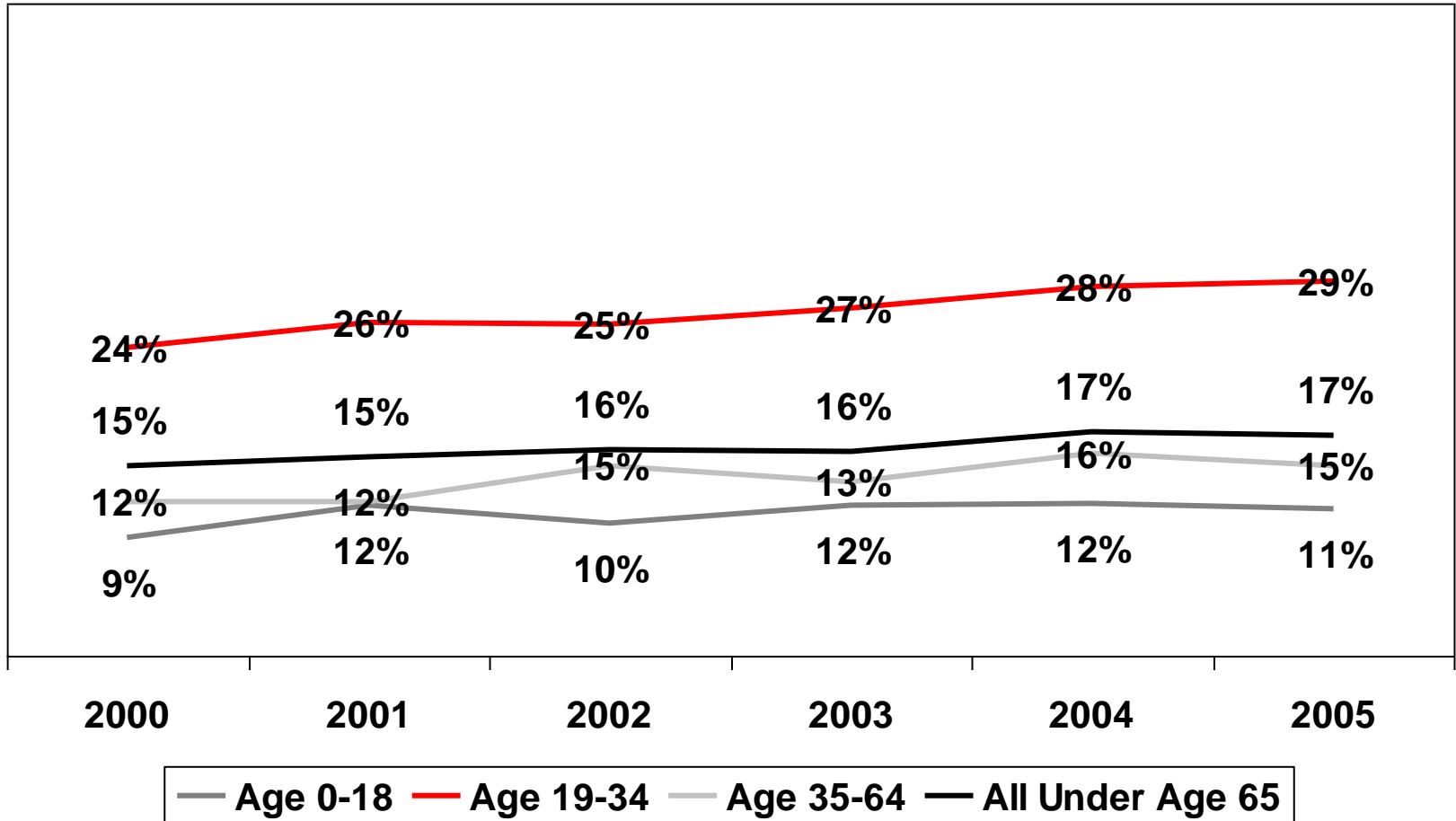


# Health Insurance Coverage in New Jersey, 2005



Source: NJ Department of Banking and Insurance and the Center for Health Statistics, NJ Department of Health and Senior Services.

# New Jersey's Uninsured by Age, 2000-2005



Source: Center for Health Statistics, NJ Department of Health and Senior Services.

# 1992 Health Insurance Reforms



# Individual Health Coverage Program (IHCP)

---

- Covers individuals and sole proprietors and their families
- Guaranteed Issue and Guaranteed Renewal
- Standard Plans
- Minimum loss ratio 75%
- Pure Community Rating
  - Recently, age-rated “Basic and Essential” plan introduced





# Small Employer Health Benefits Program (SEHBP)

---

- Covers owners and employees of small businesses and their families
  - 2-50 “full-time” employees (25+ hours per week)
  - 75% of “full-time” employees must enroll in some kind of group coverage
- Guaranteed Issue and Guaranteed Renewal
- Standard plans available, but most often riders are used to create numerous varied plans
- Minimum loss ratio 75% - Recent bill proposes 80%
- Modified Community Rating with 2:1 rate bands based on age, gender, and location of the business
- Minimum 10% employer premium contribution



# Status of the SEHBP



# SEHBP Offer Rates are High

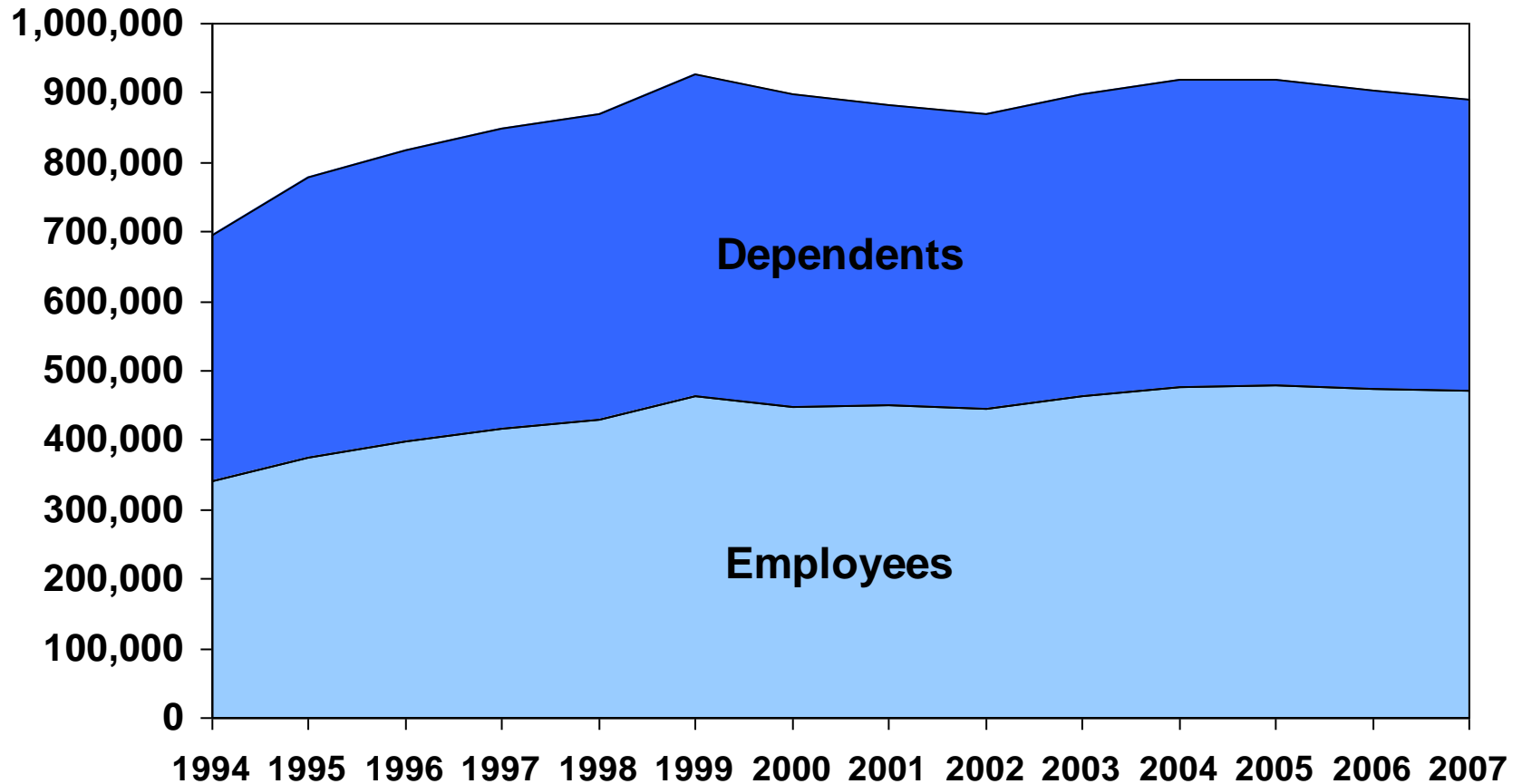
---

- More small firms in NJ offer health insurance coverage to employees compared to the U.S. overall.
  - 62.3% in NJ and 43.4% in the U.S.
- More full-time employees at small firms are offered coverage.
  - 80.6% in NJ and 68.7% in the U.S.

Source: Medical Expenditure Panel Survey – Insurance Component, 2005



# SEHBP Enrollment is Stable



Note: Data for 1993-2006 are from the fourth quarter. Data for 2007 are from the third quarter.

Source: NJ Department of Banking and Insurance, Insurance Division.

# SEHBP Coverage is Costly

---

- Premiums increasing because of medical inflation similar to large group market.
- Premiums in NJ's SEHBP are the *fourth highest* in the U.S. for single coverage and *third highest* for family coverage.\*
- Total premiums \$500 more than large group coverage for single enrollees and \$900 more for family coverage.\*
- Though the SEHBP is “healthy” and “stable” it may not be meeting the needs of all small businesses because of lack of affordability.

\*Source: Medical Expenditure Panel Survey – Insurance Component, 2005



# **Proposed Administrative Changes that May Help to Control Premiums**



# Use of Standard Plans with Riders

---

- SEHBP standard plans are not representative of plans sold in New Jersey today.
- Carriers must submit multiple forms when introducing a new plan in the SEHBP market.
  - Form identifying the standard plan used
  - Forms for each rider (addition, reduction, change) in the standard plan's benefits
- The *combination* of these forms describes the insurance policy rather than one form actually describing the policy
- Paperwork → Higher Premiums



# Small Groups Enroll Employees in an Unlimited Number of Plans

---

- Employees can choose plans that meet their health care needs → Adverse Selection.
  - Insurers contend that adverse selection in certain plans is making them unstable.
- Additional administrative work to write up several policies for one group.
- These additional costs are built in to small group premiums.



# Fee Schedule for Out of Network Claims

---

- Current regulation: Out of network services must reimburse providers at 80% of Ingenix's PHCS commercial pricing rates.
  - Insurers contend that this fee schedule is artificially high.
- Alternative fee schedule: 150%-200% Medicare RBRVS.
  - Products using this fee schedule already sold in NJ's large group market.
  - Providers and regulators concerned that the Medicare fee schedule is too low and that enrollees may not get the benefits they expect.
- Using a more expensive fee schedule → higher premiums.

# Challenges and Options for the IHCP & SEHBP



# Status of the IHCP

---

- Premiums increasing because of adverse selection and increasing average age.
- Enrollment declining (except in “Basic and Essential” plan).
- *Many believe that sole proprietors are improperly employing spouses to enroll in the SEHBP.*
- Solutions proposed for the IHCP are often bundled with changes to the SEHBP.

# Reinsurance Mechanisms and High Risk Pools

---

- High risk pools generally not supported by stakeholders.
- Reinsurance recently considered by a few key policymakers in NJ.
  - General revenue funding not available due to poor state fiscal condition.
  - Policymakers not eager to use assessments on insurers for fear of raising insured premiums any further.

# Merging Individual and Small Group Markets

---

- NJ DOBI Commissioner supports merging the markets and adding a reinsurance mechanism to control costs.
  - DOBI study found that merging markets would insure an additional 100,000 individuals while raising SEHBP premiums by only 1% *without* a reinsurance mechanism.
  - Adding externally funded reinsurance could hold SEHBP harmless.
- Insurers report that individuals and sole proprietors are more costly than SEHBP enrollees because of risk selection.
- Inequity in allowing groups of two in the SEHBP but not sole proprietors?

# Major Reform Bill Introduced 3/17

## Selected Provisions for the SEHBP

---

- Minimum loss ratio 80%
- Reduce the number of standard plans from five to three
- Increase price transparency
  - List price adjustments for riders separately from the premium price for the standard plan.
  - List broker/agent commissions separately  
(approximately 5-7% of premium costs in the SEHBP)
- An employer offering multiple plans must select plans from the same carrier
- Strong support for these regulatory changes

