



ASSOCIATION HEALTH PLANS:

Expanding Opportunities for Small Business Owners and Entrepreneurs

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Nick Stehle
Senior Research Fellow

Jonathan Ingram
Vice President of Research



KEY FINDINGS

1

THE PROBLEM

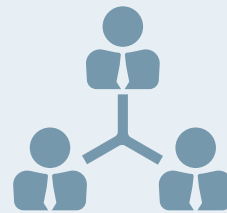
SKYROCKETING HEALTH INSURANCE COSTS ARE HURTING SMALL BUSINESS OWNERS AND THEIR EMPLOYEES.



2

THE SOLUTION

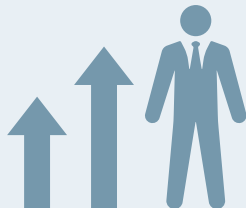
EXPANDED ACCESS TO ASSOCIATION HEALTH PLANS WILL PLAY A SIGNIFICANT ROLE IN REDUCING THIS BURDEN.



3

THE IMPACT

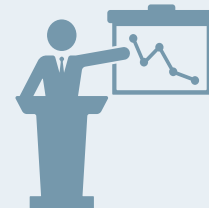
UP TO FOUR MILLION AMERICANS WOULD HAVE ACCESS TO NEW, AFFORDABLE OPTIONS WITH EXPANDED ASSOCIATION HEALTH PLANS.



4

THE SAVINGS

ANNUAL PREMIUMS FOR ASSOCIATION HEALTH PLANS COULD BE UP TO \$10,800 LOWER THAN THE INDIVIDUAL MARKET, ON AVERAGE.



BOTTOM LINE:

POLICYMAKERS SHOULD MOVE QUICKLY TO REMOVE BARRIERS TO ASSOCIATION HEALTH PLANS.

The problem: Small businesses are stuck on a different playing field with rising health insurance costs, leaving millions uninsured

Small business owners and entrepreneurs are being stifled—and having their livelihoods threatened—by skyrocketing health insurance premiums, rapidly increasing deductibles, and growing out-of-pocket medical costs.

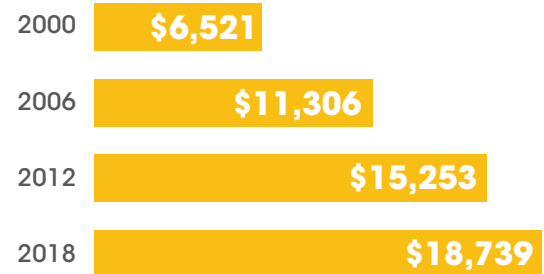
This climate discourages entrepreneurs from starting new ventures and prevents existing businesses from expanding health benefits to their employees, despite the booming economy. The current economic conditions have created historic levels of opportunity for entrepreneurs and small businesses. By removing the burden caused by rising health insurance costs, states can empower entrepreneurs to take advantage of the opportunity before them.

1. HEALTH INSURANCE PREMIUMS ARE SKYROCKETING FOR SMALL BUSINESSES

The cost of health insurance is the single biggest problem small businesses face today.¹ As premiums continue to rise, this problem will only get worse. In 2018, the average premium for family coverage at small businesses reached a whopping \$18,739—nearly triple what family coverage cost in 2000.² But while premiums are on the rise, the value of coverage has declined. Since 2006, the average deductible for employees at small businesses has more than quadrupled.³ These higher costs are driving more and more small businesses to stop offering coverage altogether.

HEALTH INSURANCE PREMIUMS HAVE NEARLY TRIPLED FOR SMALL BUSINESSES

Average annual premiums for family coverage at small businesses offering health insurance, by year



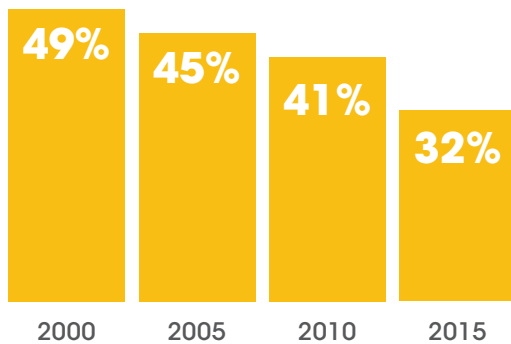
Source: Kaiser Family Foundation

2. FEWER SMALL BUSINESSES CAN AFFORD TO OFFER COVERAGE

Unfortunately, increasing costs mean more and more small businesses cannot afford to provide coverage at all. In 2000, nearly half of small businesses offered health insurance.⁴ Today, that number has fallen to less than one-third of small businesses.⁵ As the number of small businesses who offer coverage has declined, so has the number of Americans enrolled in employer-sponsored insurance. In fact, nine million fewer people have employer-sponsored coverage today than in 2000, leaving more employees to fend for themselves in the individual market or in government programs, and leaving many without coverage altogether.⁶

FEWER THAN ONE-THIRD OF SMALL BUSINESSES OFFER HEALTH INSURANCE

Health insurance offer rates at small businesses, by year



Source: U.S. Department of Health and Human Services

3. WITHOUT EMPLOYER COVERAGE, EMPLOYEES TURN TO THE INDIVIDUAL MARKET OR GOVERNMENT PROGRAMS, OR REMAIN UNINSURED

Without access to employer-sponsored insurance, many employees turn to heavily-subsidized exchange plans on the individual market, Medicaid, or remain uninsured. In 2015, roughly three million working owners and their dependents were enrolled in individual market health plans.⁷ At the same time, another 12 million small business employees and their dependents were enrolled in the individual market.⁸

Those owners and employees in the individual market have faced skyrocketing premiums and fewer choices over the last few years. Average premiums in the individual market increased by a whopping 105 percent between 2013 and 2017, with families in some states seeing premiums more than triple.⁹ In 2018, premiums for the average benchmark plan in the individual market rose another 37 percent.¹⁰ To make matters worse, most U.S. counties had only one insurer offering coverage in the individual market in 2018.¹¹ Fewer choices and higher premiums leave employees at small businesses with even fewer affordable options when their employers cannot afford to offer coverage.

An additional 15 million working owners, employees at small businesses, and their dependents turned to Medicaid in 2015.¹² But Medicaid can create long-term issues by trapping individuals in dependency and discouraging work even further.¹³⁻¹⁵ The growing number of able-bodied adults on Medicaid also crowds out resources for the truly needy, including seniors and individuals with disabilities.¹⁶

Another 15 million working owners, employees at small businesses, and their dependents were uninsured in 2015.¹⁷ As premiums continue to rise and as more employers drop coverage, more individuals and families will be forced to turn to plans on the individual market, government programs, or forgo insurance coverage altogether.

4. AN UNEVEN PLAYING FIELD FORCES SMALL BUSINESSES TO PAY MORE FOR THE SAME COVERAGE

Different rules for small and large businesses put affordable coverage even farther out of reach for many small businesses. If smaller employers were treated the same as their larger counterparts, these small firms would have lower premiums, more would offer coverage, and fewer of their employees would be uninsured.

Because most large employers provide self-insured coverage for their employees, they are exempt from several regulations affecting employers in the small group market. Larger employers are exempt from adjusted community rating regulations, essential health benefit mandates, actuarial corridor regulations, and state-specific insurance mandates. Because larger employers also have more covered lives, their risk pools are also typically more stable over time, putting them at an advantage over smaller competitors. These different rules create an uneven playing field, forcing small businesses to pay more for the same coverage.¹⁸

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”

	SMALL GROUP (FULLY INSURED)	LARGE GROUP (SELF- INSURED)	AHP (SELF- INSURED)
Exempt from federal benefit mandates	✗	✓	✓
Exempt from state benefit mandates	✗	✓	✓
Exempt from actuarial corridor regulations	✗	✓	✓
Exempt from health insurance premium tax	✗	✓	✓
Exempt from community rating regulations	✗	✓	✓



**ASSOCIATION
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ARE MULTI-EMPLOYER
GROUPS THAT **BAND
BUSINESSES TOGETHER**
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COMPANY.**

The solution: Expand access to association health plans

In October 2017, President Trump signed an executive order that provided the framework for expanding access to association health plans.¹⁹ In June 2018, the Administration finalized new rules to allow more small businesses to band together to purchase insurance with the bargaining power of a big company.²⁰ The new rules include four basic changes to the way in which association health plans are regulated.

1

ALLOWS ASSOCIATIONS THAT EXIST
PRIMARILY FOR HEALTH INSURANCE
PURPOSES

2

ALLOWS BUSINESSES FROM DIFFERENT
INDUSTRIES TO BAND TOGETHER IF THEY ARE
IN THE SAME STATE OR REGION

3

ALLOWS BUSINESSES TO FORM ASSOCIATION
HEALTH PLANS EVEN IF EMPLOYEES DO NOT
LIVE IN THE SAME STATE

4

ALLOWS SELF-EMPLOYED ENTREPRENEURS OR
MARRIED BUSINESS OWNERS TO JOIN
ASSOCIATION HEALTH PLANS

The impact: Up to four million Americans would have access to affordable coverage

The new rules on association health plans could provide as many as four million people with access to affordable coverage.²¹⁻³³ By 2023, roughly 400,000 individuals who are currently uninsured are expected to gain coverage through association health plans, while as many as 3.6 million others—primarily in the individual and small group markets—are expected to transition to the new plans.³⁴⁻³⁵

KEITH & DIANNA BUCHANAN



KEITH AND DIANA BUCHANAN LIVE IN A SMALL TOWN IN **NORTH CAROLINA** WITH A POPULATION OF 7,838.

KEITH HAS HIGH BLOOD PRESSURE AND DIANA IS A **CANCER SURVIVOR**. TOGETHER, THEY OWN A SMALL, AWARD-WINNING I.T. BUSINESS AND HAVE WORKED HARD TO BUILD THEIR COMPANY INTO WHAT IT IS TODAY.



UNDER PREVIOUS REGULATIONS, KEITH AND DIANA HAD FEW OPTIONS FOR AFFORDABLE COVERAGE. FORCED INTO THE INDIVIDUAL MARKET, THE BUCHANANS WATCHED AS THEIR PREMIUMS SOARED TO **MORE THAN \$1,800 PER MONTH**—TRIPLE THEIR MORTGAGE PAYMENT.



UNAFFORDABLE PREMIUMS LEFT THEM NO CHOICE BUT TO **CANCEL THEIR INDIVIDUAL MARKET COVERAGE** ALTOGETHER.



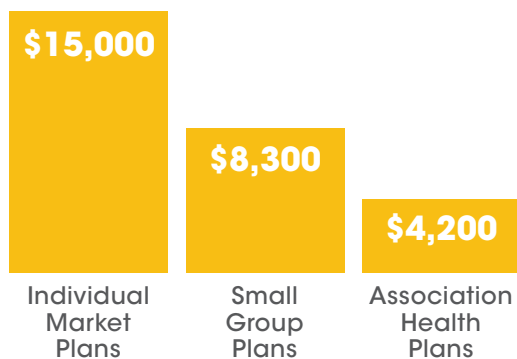
EXPANDING ACCESS TO ASSOCIATION HEALTH PLANS COULD HELP FAMILIES LIKE THE BUCHANANS JOIN TOGETHER WITH OTHERS IN THEIR INDUSTRY OR REGION TO GET ACCESS TO ADDITIONAL OPTIONS WITH LOWER PREMIUMS.

The savings: Up to \$10,000 or more per year

Working owners and small business employees are expected to see significant savings by transitioning to association health plans from the individual and small group markets. By 2022, the average premium for these new plans is expected to be up to \$10,800 lower than average individual market premiums and up to \$4,100 lower than average small group premiums.³⁶

PREMIUMS COULD BE UP TO \$10,800 LOWER FOR ASSOCIATION HEALTH PLANS

Projected average premium in 2022 under high enrollment scenario, by market



Source: Avalere Health

Early adopters are already seeing significant savings. New associations have already formed in Minnesota, Nebraska, and Nevada, offering comprehensive health plans at rates that are up to 35 percent lower.³⁷

Lower premiums will provide a greater opportunity for affordable coverage to millions of Americans, including “mom and pop” small businesses, farmers, and entrepreneurs working for themselves. As these small business owners save on premiums, many will be able to reinvest those savings back into their businesses, growing the economy, and providing well-paying jobs with better benefits.

The opportunity: Remove barriers to AHPs

While the new rules remove barriers at the federal level, action is still needed in the states to ensure more small businesses gain access to these affordable options. Some states have regulations that do not allow all types of association health plans to exist, while insurance departments in other states simply have not yet weighed in on how they will adjust to the new rules. Still others have unnecessary barriers to entry that prevent associations from doing business in those states.

States can ensure their citizens are able to take full advantage of these improvements with a few simple steps.

1

STATES SHOULD WORK TO ELIMINATE LEGAL BARRIERS WHICH DISCOURAGE THE CREATION OF NEW ASSOCIATION HEALTH PLANS AND CLARIFY EXISTING LAWS TO ENCOURAGE BUSINESS OWNERS TO JOIN TOGETHER TO PROVIDE AFFORDABLE HEALTH INSURANCE.

2

STATES SHOULD CLARIFY EXISTING LAWS TO GIVE HUSBAND AND WIFE TEAMS ACCESS TO AFFORDABLE HEALTH INSURANCE.

3

STATES SHOULD ELIMINATE LAWS THAT ESTABLISH ARTIFICIAL WAITING PERIODS BEFORE NEW ASSOCIATIONS CAN BEGIN OFFERING HEALTH INSURANCE.

4

STATES SHOULD REMOVE REGULATIONS WHICH FORCE ASSOCIATION HEALTH PLANS TO COMPLY WITH SMALL BUSINESS INSURANCE REQUIREMENTS—WHICH ARE INTENDED FOR MUCH SMALLER AND MORE VOLATILE GROUPS—AND GIVE THESE BUSINESSES THE FLEXIBILITY TO DESIGN HEALTH INSURANCE PLANS THAT ARE BEST SUITED FOR THEIR EMPLOYEES.

5

STATES SHOULD ALLOW SELF-INSURANCE—WITH STRONG FINANCIAL SAFEGUARDS—TO GIVE ASSOCIATION HEALTH PLANS THE SAME OPTIONS AS LARGE EMPLOYERS.

Expanding access to association health plans would reduce the burden of rising health insurance costs faced by small businesses and entrepreneurs, helping up to four million Americans gain access to new, affordable options.

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APPENDIX. FOUR MILLION AMERICANS COULD SOON JOIN ASSOCIATION HEALTH PLANS

STATE	PROJECTED ENROLLMENT INCREASE	STATE	PROJECTED ENROLLMENT INCREASE
Alabama	45,000	Montana	18,000
Alaska	8,000	Nebraska	22,000
Arizona	53,000	Nevada	24,000
Arkansas	30,000	New Hampshire	18,000
California	613,000	New Jersey	133,000
Colorado	81,000	New Mexico	17,000
Connecticut	30,000	New York	242,000
Delaware	9,000	North Carolina	110,000
District of Columbia	17,000	North Dakota	12,000
Florida	232,000	Ohio	98,000
Georgia	118,000	Oklahoma	45,000
Hawaii	27,000	Oregon	71,000
Idaho	24,000	Pennsylvania	152,000
Illinois	163,000	Rhode Island	13,000
Indiana	50,000	South Carolina	42,000
Iowa	32,000	South Dakota	11,000
Kansas	42,000	Tennessee	67,000
Kentucky	44,000	Texas	368,000
Louisiana	58,000	Utah	33,000
Maine	25,000	Vermont	8,000
Maryland	115,000	Virginia	114,000
Massachusetts	92,000	Washington	118,000
Michigan	117,000	West Virginia	13,000
Minnesota	47,000	Wisconsin	61,000
Mississippi	34,000	Wyoming	8,000
Missouri	81,000	TOTAL	4,000,000

Source: Authors' calculations

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26. The universe of individuals potentially transitioning from the nongroup market to association health plans consists of self-employed workers who purchase health insurance directly from an insurer in the nongroup market.
27. This analysis focuses on self-employed individuals in the nongroup market working primarily in the agriculture, construction, transportation, professional services, and other services sectors as the most likely sectors to participate in association health plans, excluding self-employed individuals in other sectors.
28. This analysis excludes all self-employed individuals in the nongroup market with incomes below 250 percent of the federal poverty line from the potential universe of association health plan enrollees because they are highly subsidized and qualify for plans with reduced cost sharing, suggesting few will transition to association health plans.
29. This analysis excludes the ten percent of self-employed individuals in the nongroup market with the poorest health status from the potential universe of association health plan enrollees because individuals in poorer health are generally less responsive to premium changes and are expected to be less likely to transition to association health plans.
30. The universe of individuals potentially transitioning from current employer-sponsored coverage at small employers to association health plans consists of nonelderly adults enrolled in employer-sponsored insurance plans.
31. This analysis focuses on individuals enrolled in employer-sponsored insurance working primarily in the agriculture, construction, transportation, professional services, and other services sectors as the most likely sectors to participate in association health plans, excluding individuals in other sectors.
32. This analysis uses state-specific distribution of employees, health insurance offer rates, eligibility rates, enrollment rates, and self-insured plan use among private sector employees to determine the share of adults with employer-sponsored insurance who work at small businesses and who are not already enrolled in self-insured plans.
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15275 Collier Boulevard | Suite 201-279

Naples, Florida 34119

(239) 244-8808

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