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One Solution for the Small Group Market

Health insurance is usually divided into three primary groups:

- The individual market covers only individuals and their families;
- The small group market usually means two to 50 employees covered; and
- Large group is 50 or more employees.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) has harmed the small group market. It mandated guaranteed issue and other changes that have lead to insurer consolidation, rising premiums, and overall lower rates of coverage.

The individual market, by contrast, still manages to function pretty well in most states, providing lots of policies and a wide range of prices. That is, in part, due to the fact that the individual market still allows underwriting, along with riders and denial of coverage to those applying with a pre-existing medical condition.

A few states have sought to bypass these restrictions in the individual market by creating a so-called "group of one." "Groups of one" define individuals as a small group for health insurance purposes, providing them with all small group rights including guaranteed issue insurance. That approach fundamentally misunderstands insurance.

The bigger a group, the more insured people there are to spread out the cost of the few who need expensive medical care. As a result, many larger companies are able to obtain more favorable and predictable insurance rates. Large groups also have the advantage of self-funding their insurance plans, which provide both benefit flexibility and many unique pricing options. Very small groups — especially one to 10 lives — have much more volatile claims experience (leading to higher premiums) and fewer plan-design options. In essence, small employers face both higher average health insurance premiums and fewer health insurance options.

The Small Employer Dilemma. Health insurance in the small group market can be very expensive — $9,950 for a family according to a Kaiser Family Foundation survey of about 2,000 companies. Despite this significant expense, most small employers provide health insurance as a benefit for their employees. However, not all small employers have the funds available to pay that level of premiums. As a result, some are looking for a product that would not require group participation, could be issued on a voluntary basis, provides numerous plan options (to ensure affordability), and (for many of the part-time and seasonal employees) a plan that would be portable.

If employees without employer-provided coverage were given the option to obtain coverage in the less-expensive individual market — where about 16 million Americans currently are covered — many would take it.

Is there a model for that approach? Yes, "list billing," and it is something many states allow. A "list bill" solves the problem by allowing employers to make health coverage available on a voluntary basis, but in the less-expensive individual rather than the small group market.

ADVANTAGES OF LIST BILLING:

- Individual health insurance coverage provided through the workplace
- Easier to sign up
- Portable from job to job
- May provide some tax advantages
- Simplified payment process for the employee
- Allows employees to choose their own plans

What Is a List Bill? List billing is the process that allows a health insurance company to send employers a single bill for several employees' individual health insurance policies, if the employer and employee agree to payroll-deduct employee premiums.

The process usually begins with an agent identifying a company that does not offer health insurance to its employees. After obtaining an agreement from the employer, the agent offers any interested employees the opportunity to apply for the health insurance plan of their choice. Once accepted by the insurer, the employees agree to have the premiums deducted from their paychecks. The insurer, in turn, sends a single bill, listing each employee's premium — hence, "list bill" — to the employer.

However, list billing does have some restrictions common to the individual market. It is important to note that these plans are individually underwritten. That means that an older employee or one with a medical condition might have to pay higher premiums than younger and healthier employees. And in some instances, employees may be denied coverage because of a pre-existing medical condition. In those cases, the uninsured employees would have the option of entering the state's high-risk pool — similar to other applicants in the individual market.

Second, there is a debate over whether an employee is allowed a tax break for the cost of the premiums. Some believe that the situation under a list bill arrangement is no different than when a worker without employer-provided coverage buys his own policy in the individual market — there is no tax break for the insurance premiums.

Others argue that individual health insurance premiums, when paid through a list billing arrangement, are eligible to be paid on a pre-tax basis through Section 125, or cafeteria, plans. It is important to note that other types of voluntary benefits, such as short-term disability and dental plans, are allowed to be paid through cafeteria plans.

Employees Benefit from List Bill Arrangements. The large majority of the uninsured, about 83 percent, come from a household where someone is employed. These individuals may work part time, seasonally or for one of the many firms (especially small firms) that do not offer health insurance. Many of these employees could benefit from list billing.

- With no minimum participation requirements (as in the small group market), any employee who wants coverage can apply.
- The insurance policy is owned by the employee, not the employer, so the coverage will remain intact as long as the premiums are paid — even if the worker switches employers (though a new employer is not and should not be required to honor a list billing arrangement).
- The policy could cover only the worker, or it could include other family members.
- Insurers in the individual market sometimes charge a billing fee on each bill; list billing eliminates the billing fee.

If their employer takes advantage of a Section 125 plan, individuals may be able to have their premiums deducted on a pre-tax basis, which will increase their net take home pay and decrease the effective cost of their benefits.

In addition, by not having to seek out their own insurance agent, sort through numerous plan designs and companies, and keep track of their own premium payments, employees eliminate many of the transaction costs associated with buying health insurance.

Employers Benefit from a List Bill. Studies indicate that employers believe health insurance helps to attract and keep employees, leads to increased production, and may boost morale because employees believe they have a "good job," even if the employee must pay part of the premium. Many of these same advantages can be applied to list bill coverage. Although employees are paying the entire cost of the benefits, list bills allow employers to help employees find and purchase affordable health insurance.

List billing may also help employers reduce their tax liability. If employees and employers take advantage of the Section 125 plans, employees reduce their taxable income which also reduces an employer's liability for FICA tax.

What Is Needed to Make List Billing Widely Available? List billing is already allowed in many states, including Arizona, Illinois, Pennsylvania, Texas and West Virginia. However, at least two points should be made clear in federal law in order for workers and employers in every state to have a list bill option:

Congress needs to clarify that a list billing arrangement is not defined as group insurance. While this could be done for all small group policies, it is most pressing for the "micro groups" with two to 10 lives.

Second, Congress needs to clarify that any part of the premium paid by the employee through a Section 125 plan could be excluded from income — just as it is for employer-provided coverage in the small and large group market.

In other words, put coverage provided under a list bill on a level-tax field with all employer-provided coverage.

Conclusion. List billing alone will not solve the uninsured problem, nor is it a substitute for small group coverage. However, it does provide an option for an employer to help uninsured employees find affordable coverage, while reducing the costs and challenges of finding insurance.

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