

**Recommendation Form for the  
2015 Transition to Employee Choice  
Due to HHS June 2, 2014 for FF-SHOP States**

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**Instructions:** Please fill out the following form and attach your recommendation for a one year transition to employee choice including an evidence-based assessment of the full landscape of the small group market in your State.

**State:** Illinois

**Insurance Commissioner (signature):** *Andrew Baumgardner*

Please adequately explain that it is in your expert judgment, based on a documented assessment of the full landscape of the small group market in your State that the 2015 Transition to Employee Choice would be in the best interest of small employers and their employees and dependents, given the likelihood that implementing employee choice would cause issuers to price their products and plans higher than they would otherwise price them. Please base your recommendation on discussions with those issuers expected to participate in the SHOP, including naming those issuers, and keep your recommendations specific to 2015 since this is a one year transitional policy.

**See attached letter.**



# Illinois Department of Insurance

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PAT QUINN  
Governor

ANDREW BORON  
Director

June 2, 2014

Via electronic email to [shop@cms.hhs.gov](mailto:shop@cms.hhs.gov)

The Honorable Kathleen Sebelius  
Secretary  
U.S. Department of Health and Human Services  
200 Independence Avenue, S.W.  
Washington, D.C. 20201

## **Re: Transition to Employee Choice**

Dear Secretary Sebelius:

Illinois recommends delaying Employee Choice for 2015 given evidence that implementing Employee Choice would cause adverse selection in the marketplace, causing issuers to increase premiums. In my expert judgment, delaying Employee Choice for one year would be in the best interest of small employers and their employees and dependents in Illinois. Based on all of the evidence before the IDOI, requiring Employee Choice beginning in 2015 would cause potential disruptions in the marketplace, including a decrease in choices for consumers and higher premiums.

### ***The Small Group Market in Illinois***

The small group on-exchange market in Illinois accounts for approximately 1% of the total market (on and off-exchange) in Illinois according to an enrollment data call the IDOI conducted recently. The total number of lives insured by small group on-exchange plans through SHOP was estimated at 340. In an already exceedingly small market, the advent of Employee Choice will increase pricing, as issuers will set premiums at an increased rate based on the difficulties presented by adverse selection and risk spreading. Based on all of the evidence before the IDOI, we have concerns that premium rates in the small group market would be prohibitively high if the option for Employee Choice is implemented in 2015. Moreover, IDOI has contacted issuers in Illinois regarding Employee Choice. Approximately 6 out of 13 issuers contacted indicated that they would not participate in SHOP in 2015, and indicated their concerns with requiring Employee Choice. Critically, there will only be approximately two or three dental carriers participating in SHOP. The lack of choice is detrimental to Illinois consumers.

### ***Expected Higher Costs***

Employee Choice is a new requirement in 2015 and the experience associated with this choice in the public marketplace is still unknown. As such, insurance carriers will need to rely on prior experience from other types of products with employee choice and prior research. The Wakely Consulting Group conducted a study in 2012 for the Robert Wood Johnson Foundation<sup>1</sup> on the impact of employee choice across carriers. The study estimates that allowing employee choice across issuers within a metal tier

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<sup>1</sup> "Design Considerations in Structuring Employee Choice for SHOP Exchange," Wakely Consulting Group for the Robert Wood Johnson Foundation, December 2012 [http://www.rwjf.org/content/dam/farm/reports/issue\\_briefs/2012/rwjf403432](http://www.rwjf.org/content/dam/farm/reports/issue_briefs/2012/rwjf403432)

would result in an impact of 0.5% for adverse selection. If employee choice was extended to full choice across all tiers and carriers, the impact of adverse selection is about 4.5%.

Further, carriers believe the option of Employee Choice will add costs to the administrative expenses in the small group market. In general, the investments by carriers to support the administrative function of participating in the public marketplaces have been in the millions of dollars. In addition, there were significant manual work-arounds needed for enrollment in the past year. The IDOI has been told that as a result of issues surrounding enrollment and billing, administrative expenses associated with the Illinois Marketplace vary within a maximum of 5% of premium. The implementation of the Employee Choice option in the small group market is significantly more complex. As such, the cost to carriers could be dramatic, further reducing the incentive for carriers to participate.

### *Evidence from Issuers*

Approximately seven (7) issuers reported that they plan to participate in SHOP in 2015; however, a majority had serious concerns about the Employee Choice option and indicated that they would be forced to price accordingly if Employee Choice was mandated. For instance, Health Care Services Corporation/Blue Cross Blue Shield of Illinois (BCBSIL), Illinois' largest issuer, stated the cost of Employee Choice would be significant. BCBSIL noted that administrative costs would increase due to lack of economies of scale on key functions such as enrollment and billing. Further, technological capabilities have not been proven successful on a large scale and are likely to impose additional significant costs. In addition, BCBSIL reported that adverse risk selection in a market with employee choice will increase costs substantially. All of these costs will have to be taken into account and spread across the market, to the detriment of small businesses and their employees.

Other issuers contacted echoed BCBSIL's concerns over higher premiums, as follows:

- BEST Life and Health reported they would participate in SHOP, however, because Employee Choice converts the group market into a de facto individual market, their premium costs would increase.
- Dentegra is still undecided about whether it would participate in SHOP, it stated that Employee Choice would cause higher administration costs, and produce adverse selection because the choices for dental would include products with low and high actuarial values. Delaying Employee Choice would ensure that risk was spread more evenly among a small group's employees and controls against adverse selection and high premiums.
- Met Life stated that if Employee Choice was required, this would cause a change in their pricing.

The conclusion based on the responses from issuers is that overall costs and premiums will increase significantly in Illinois' SHOP in 2015 with Employee Choice. As a result, consumers in Illinois will have fewer choices in SHOP, in addition to increased premiums, if the Illinois Marketplace participates in the Employee Choice option. Furthermore, offering Employee Choice requires new technological and additional functional aspects on both the healthcare.gov website and issuers systems, and IDOI is concerned the website and the administrative transactions associated with Employee Choice will not in place in time, thus causing a repeat of some of the technology-based problems seen on the website in 2014.

Sincerely,



Andrew Boron, Director