Estimating the Potential for SHOP in Maryland

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Presentation Outline

- Overview and Policy Context
- Study Design and Findings
- Next Steps
SHOP Overview

• SHOP = Small Business Health Options Program
• Small businesses not required to offer health insurance
• SHOP provides tax incentives for small businesses to offer coverage
SHOP Tax Credit

- Only available for 2 years
- Only available through Exchanges
- Maximum is 50% of employer’s premium payments (35% for tax-exempt employers)
- Reduction factors apply if:
  - # employees >10
  - Average annual inflation-adjusted wages >$25,000
- Obtained by filing tax Form 8941 or 990-T
Enrollment Options in Maryland

- **Employer Choice**: Employer selects one carrier, and all SHOP plans across all metal levels for that carrier are available.

- **Employee Choice**: Employer selects up to 2 metal levels of coverage from all participating carriers.

<table>
<thead>
<tr>
<th></th>
<th>Carrier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Platinum</td>
<td>A</td>
</tr>
<tr>
<td>Gold</td>
<td></td>
</tr>
<tr>
<td>Silver</td>
<td></td>
</tr>
<tr>
<td>Bronze</td>
<td></td>
</tr>
</tbody>
</table>

- **Employee Choice**: Employee

- **Employer Choice**: Employer

- **Employee Choice**: Employer
Maryland implemented small group market reforms in the 1990s, including:

- Guaranteed issue
- A standard set of benefits
- Community rating

- Initial, steady premium increases that leveled off
- State subsidies for small, low-wage firms 2008-2014
- Policy engaged state-based marketplace
Low SHOP Take-Up

• As of December 2018, 167 groups and 831 covered lives in Maryland
• As of 2017, nationally, 27,000 groups and 230,000 covered lives
• Congressional Budget Office estimated enrollment of 4 million by 2017
Reasons for Low Take-Up

- Liquidity issues, as the credit is redeemed with tax filing
- Lack of awareness
- Too much paperwork
- SHOP a lower priority than the individual market
- Tax credit amount too small and too short
- Lack of employee choice models in some states
- Recent federal actions
Maryland Study
Data Request

- Requested under Hilltop’s contract with the Maryland Health Benefit Exchange
- Number of employers in the state who are eligible to receive the tax credit
- Number of employees who could benefit from the program
- Potential federal premium tax credit pass-through amount available in Maryland
Data Required

- # of firms by size by industry classification
- Average wages
  - Inflation adjustment
- Small group premiums
Data Source for # of Small Firms

- Maryland Department of Labor, Licensing, and Regulation (DLLR)
  - Dataset developed by InfoGroup
- Variables available:
  - Number of employees - range only
  - North American Industry Classification System (NAICS) Code
  - ZIP code for business location
Data Source for Average Wages

- American Community Survey (ACS) 5-Year Estimates as aggregated by DataUsa [https://datausa.io/](https://datausa.io/)
- Variables available:
  - Average wage for each NAICS code
  - Primary use microdata area (PUMA)
- Inflation adjustment
  - Chained consumer price index for all consumers
  - Rounded to nearest thousand
Calculating the Tax Credit

- = 50% average premium – reduction factors
- Average small group premium obtained from Maryland Insurance Administration
  - $3,876 per year or ($323 PMPM)
Reduction Factors

- Reduction factors adjust for:
  - Number of employees
    - 1 to 10 employees
    - 11 to 25 employees
  - Average wage
    - $0 to $26,000
    - $26,000 to $53,000
Formulas
Tax Credit =

- 1-10 employees and annual wage < $26k:
  $3,876*.5

- 1-10 employees and annual wage $26-53k:
  ($3,876*.5) - [($3,876*.5)*((Average wage-$26,000)/$26,000)]

- 11-25 employees and annual wage < $26k:
  ($3,876*.5) - [($3,876*.5)*((number of employees – 10)/15)]

- 11-25 employees and annual wage $26-53k:
  ($3,876*.5) - [($3,876*.5)*((Average wage-$26,000)/$26,000) +
  ($3,876*.5)*((number of employees – 10)/15)]

- If reduction factor > 50% of the average premium, tax credit set = to $0
## Results Lower Bound Estimates

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Number of Firms</th>
<th>Firm Size</th>
<th>Base Premium</th>
<th>Reduction Factor</th>
<th>Premium Credit</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $26,000</td>
<td>8,403</td>
<td>1</td>
<td>$16,285,014</td>
<td>$0</td>
<td>$16,285,014</td>
<td>8,403</td>
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<td>$26,000 - $53,000</td>
<td>2,815</td>
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<td>$5,455,470</td>
<td>*exceeds base premium</td>
<td>$0</td>
<td>2,815</td>
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<td>$62,051,078</td>
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<td>*exceeds base premium</td>
<td>$0</td>
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<td>11</td>
<td>$203,117,904</td>
<td>119,189,259.29</td>
<td>$83,928,645</td>
<td>104,808</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>99,096</strong></td>
<td></td>
<td><strong>$454,026,888</strong></td>
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<td><strong>$216,722,278</strong></td>
<td><strong>234,276</strong></td>
</tr>
</tbody>
</table>
Estimates were also calculated assuming a 30 percent take-up rate among a random sample of businesses:
- $126 million premium credit
- 183,000 eligible employees

Estimates calculating the lower-bound estimate were prepared for each legislative and congressional district in Maryland.
Only firms with at least one FTE are eligible for the SHOP tax credit. Sole proprietorships are ineligible.

Examined the distribution of firm sizes against the Current Population Survey (CPS) and concluded it is unlikely that the data include sole proprietors.
Next Steps

• HB1098 passed during the 2019 session
  ◦ Authorizes the exchange to apply for a 1332 waiver to administer the tax credit

• 1332 waiver application process beginning this summer
  ◦ Will waive the ACA SHOP requirement
  ◦ State to use the pass through to advance and potentially extend the tax credit
  ◦ Other innovations tbd through stakeholder engagement
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