



February 20, 2020

The Honorable Shane E. Pendergrass, Chair
Health and Government Operations Committee
Room 241 House Office Building
6 Bladen St.
Annapolis, MD 21401

Re: Letter of Support — House Bill 1329 — Maryland Health Benefit Exchange — Establishment of Small Business Health Insurance Subsidies Program

Dear Chair Pendergrass,

The Maryland Health Benefit Exchange (MHBE) respectfully submits this letter of support for House Bill (HB) 1329 – Maryland Health Benefit Exchange—Establishment of Small Business Health Insurance Subsidies Program. HB 1329 would require the MHBE to establish and implement a Small Business Health Insurance Subsidies Program to provide subsidies to employers purchasing health insurance offered on the Small Business Health Options Program (SHOP) Exchange.

The Small Business Health Options Program (SHOP) was implemented by the Affordable Care Act (ACA) in 2010 for employers who want to provide health and/or dental insurance to their employees. The ACA also established a tax credit available to plans that purchase employee coverage through SHOP, to help lower the cost of employee coverage. A firm may only claim the credit for 2 years, and must meet certain criteria to be eligible for the credit¹:

- Have fewer than 25 full time-equivalent (FTE) employees for a taxable year
- Pay an average annual salary of less than \$55,000 per FTE
- Contribute at least 50 percent towards employee-only health insurance premiums

Even with the availability of a federal tax credit, SHOP enrollment in Maryland, and nationally, has remained low. While the Congressional Budget Office originally estimated that 4 million people would enroll in SHOP nationwide by 2017, only 232,698 individuals had enrolled by the end of the projected year.² In Maryland, only 140 different active groups are currently participating, with only 748 covered lives as of December 2019.³

Over the last year, MHBE has engaged with small employers to understand how we could better help them offer coverage to their employees. One issue that small employers raised is that they face cash flow issues, and financial assistance available on a monthly basis, rather than through a yearly tax credit, would be more helpful. MHBE is developing a State Innovation Waiver application to the federal government to allow the State to administer the federal small business healthcare tax credit subsidy to small businesses as a monthly premium payment. HB 1329 would establish the framework for MHBE to

¹ ACA §1421; 26 USC § 45R(d)(1)

²CMS. (May 15, 2017). *The Future of SHOP*.

³ MHBE SHOP Enrollment Data (2019)



administer federal pass-through funding received through the waiver, combined with any state funds allocated to support the program. MHBE has contracted with Lewis and Ellis Consultant services to model certain subsidy scenarios for the small business marketplace in anticipation of the creation of a subsidy program in Maryland.

Despite low enrollment rates to date, analyses of Maryland-specific data show that there is a lot of opportunity for SHOP in Maryland. According to Department of Labor, Licensing, and Regulation (DLLR) data analyzed by The Hilltop Institute (report attachment in appendix), around 99,096 Maryland firms are currently eligible for a tax credit under SHOP.⁴ In addition, market research conducted by MHBE indicates that 47% of businesses surveyed had no knowledge of the SHOP program. However, more than 84% of businesses reported that changes such as those outlined in HB 1329 would have a positive impact on their decision to sponsor a group health plan through SHOP.⁵

Finally, the MHBE's statutory charges include, among other things, reducing the number of uninsured in the State and assisting qualified employers in the State in facilitating the enrollment of their employees in qualified health plans in the small group market and in accessing small business tax credits.⁶ HB 1329 will help the MHBE to achieve its statutory mission.

MHBE staff can be made available to provide additional assistance on the implications of HB 1329. For further discussions or questions please contact Johanna Fabian-Marks, Director of Policy and Plan Management at johanna.fabian-marks@maryland.gov.

Sincerely,

A handwritten signature in black ink that reads "Michele Eberle". The signature is written in a cursive, flowing style.

Michele Eberle
Executive Director

⁴ The Hilltop Institute Memorandum on SHOP

⁵ MHBE Insights on Group Health Insurance Plans Among Maryland Small Businesses

⁶ MD. Code Ann., Ins. Art. § 31-102(c).



Appendix

- The Hilltop Institute Memorandum on SHOP
- MHBE Insights on Group Health Insurance Plans Among Maryland Small Businesses



MEMORANDUM

To: JP Cardenas, Kris Vallecillo, and Jessica Grau
CC: Alice Middleton
From: Laura Spicer, Alexis Smirnow, Chuck Betley, Morgan Henderson,
and Brenna Tan
Date: Updated November 7, 2018
Re: SHOP Analysis

Introduction

The Maryland Health Benefit Exchange (MHBE) is seeking innovative ways to promote enrollment in the Small Business Health Options Program (SHOP), and one option is to seek a Section 1332 waiver to obtain federal pass-through funds for the SHOP tax credit so that the credit could be provided to plan sponsors in advance. SHOP enrollment in Maryland has remained low, with 111 active groups and 644 covered lives as of December 31, 2017.¹ Nationally, SHOP enrollment has also been low. As of January 2017, 27,205 groups with 232,698 covered lives were enrolled in SHOP marketplaces.² This is significantly less than the Congressional Budget Office's estimate that four million people would enroll in SHOP coverage by 2017 nationwide.

Advanced payment could potentially resolve some of the liquidity issues that prevent small employers from offering coverage to their employees. To assess this option, the MHBE requested The Hilltop Institute to estimate the following:

- The total number of employers in the state who are eligible to receive the tax credit
- The total number of employees who could benefit from the program
- The potential federal premium tax credit pass-through amount available in Maryland

In reviewing the literature, Hilltop identified a previous study that the Lewin Group conducted for Families USA, which estimated the number of small businesses eligible for the SHOP tax credit in 2011 using their Health Benefits Simulation Model. This simulation model includes a

¹ MHBE. (February 20, 2018). *MHBE SHOP – Update*. Presentation to the MHBE Board of Trustees.

² CMS. (May 15, 2017). *The Future of SHOP*. Retrieved from <https://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/The-Future-of-the-SHOP-CMS-Intends-to-Allow-Small-Businesses-in-SHOPs-Using-HealthCaregov-More-Flexibility-when-Enrolling-in-Healthcare-Coverage.pdf>.

synthetic firm module that is based on Medical Expenditure Panel Survey data, the 1997 Robert Wood Johnson Foundation employer survey, and the 2006 Kaiser Family Foundation employer survey. In 2011, the maximum SHOP tax credit was 35 percent of the premium cost. This model estimated that 53,470 businesses in Maryland would be eligible for the 35 percent tax credit in 2011.³

Background

Prior Small Business Subsidies in Maryland

The Maryland Working Families and Small Business Health Coverage Act of 2007 created the Health Insurance Partnership, which provided subsidies to small businesses for purchasing health insurance. The subsidies were available to businesses with nine or fewer employees with low to moderate wages. This program was phased out with the enactment of SHOP under the Affordable Care Act (ACA). Like SHOP, the number of employers and covered lives under the Partnership remained low, with a range of 221 to 423 participating employers and 1,050 to 1,951 covered lives between 2009 and 2013.⁴

Brief Overview of SHOP

As small businesses are not required to offer health insurance coverage, the SHOP tax credit is intended to provide an incentive to small businesses to offer coverage for their employees. To qualify, the small employer must⁵:

- Have fewer than 25 full-time equivalent employees (FTEs) for the taxable year
- Pay average annual wages of less than \$50,000 per FTE (indexed annually for inflation beginning in 2014)
- Maintain a “qualifying arrangement” whereby the employer contributes, for each employee who enrolls in a qualified health plan offered by the employer through the exchange, a uniform percentage of at least 50 percent of the premium cost of the qualified health plan

Tax Credit Amount

Beginning in 2014, the maximum credit is 50 percent (35 percent for tax-exempt organizations) of the employer’s premium payments. The small business tax credit beginning in 2014 is only available for two consecutive years. If the number of employees is greater than 10 or the average annual wage is greater than \$25,000 (adjusted for inflation), two reduction factors are applied. If the number of FTEs is greater than 10, then the credit is multiplied by the number of FTEs in excess of 10 divided by 15. If the employer’s average annual wages are greater than \$25,000 (adjusted for inflation), the average annual wages above \$25,000 are divided by \$25,000. The

³ Families USA and Small Business Majority. (2012). *Good Business Sense: The Small Business Health Care Tax Credit in the Affordable Care Act*. Retrieved from

https://familiesusa.org/sites/default/files/product_documents/Small-Business-Health-Care-Tax-Credit.pdf

⁴ Maryland Health Care Commission. (January 1, 2016). *Health Insurance Partnership Final Report*.

⁵ ACA §1421; 26 USC § 45R(d)(1).

credit is multiplied by the fraction of average annual wages in excess of \$25,000. The sum of the two calculations is the overall reduction of the tax credit.

Other States

In December 2016, the federal government approved Hawaii's Section 1332 waiver that would allow the state to waive certain ACA provisions related to employer-based coverage because Hawaii already had extensive requirements regarding employer-sponsored health insurance that are stricter than the ACA.⁶ Hawaii requested federal pass-through funding in lieu of the small employer tax credit for their state premium supplementation fund. Hawaii estimated that the value of the small business tax credit since 2010 was \$182 million based on full utilization by all eligible employers and the maximum annual value of the credits for each employer multiplied by two years. For 2017 through 2021, Hawaii estimated that the tax credit savings would be approximately \$9 million per year or \$46 million total. This estimate assumed a 5 to 15 percent uptake for the credit on an annual basis, simplified by using an average of 10 percent. This analysis also assumed an even distribution of participation in the tax credit across the five-year waiver period and that the uptake of the tax credit prior to the waiver was negligible.

Hawaii used state employment data, valuation estimates from the Lewin Group, and the federal tax credit formula to estimate the tax credit savings. Using market size data and the tax credit eligibility estimates, Hawaii determined a distribution of employers based on the number of FTEs and average salaries, which was then paired with the allowable credit per employee and the average employee count. This analysis allowed Hawaii to estimate the total value of tax credit savings and the amount of federal pass-through funds they could receive.

Data Sources and Methodology

Identifying the Number of Potentially Eligible Businesses

To conduct the analysis, Hilltop first identified the number of businesses in the state with 25 or fewer employees. The Maryland Department of Labor, Licensing, and Regulation (DLLR) provided Hilltop with a list of Maryland-based small businesses with 25 or fewer employees, which was developed by the InfoGroup. The data set grouped business into three categories: 1-5 employees, 6-10 employees, and 11-25 employees. The data set also included the firm's industry classification or sub-classification using the North American Industry Classification System (NAICS) coding. The list initially contained 193,202 businesses, which decreased to 186,772 after cleaning.

To understand the underlying data set, Hilltop had a conference call with DLLR staff and learned the following. The state of Maryland has a contract with the InfoGroup to provide employer data to several state agencies, including DLLR, and these agencies use the data for various reports. The InfoGroup has a national employer database that they validate by calling every employer. The InfoGroup provides the state of Maryland with data twice per year. Unfortunately, Hilltop cannot independently validate the data. Anecdotal reports from DLLR staff indicate that

⁶ *Hawaii Section 1332 Waiver Proposal*. Retrieved from https://governor.hawaii.gov/wp-content/uploads/2014/12/REVISED-Hawaii-1332-Waiver-Proposal_-August-10-2016.pdf

employers occasionally call with corrections to their information, but they have not observed any major issues. DLLR staff did note that the data are only updated twice per year and that small businesses tend to be volatile. To help validate our numbers, DLLR provided us with the following data from their *Quarterly Census of Employment & Wages; Employment; Quarter 4, 2017*: 106,788 private sector firms with 1-25 employees, with 681,639 employees. These counts are similar to Hilltop's median estimates using the data gathered by InfoGroup.

In response to questions from the MHBE Board, Hilltop inquired with DLLR to determine whether the data set includes sole proprietors. DLLR responded that they think it excludes sole proprietors, but were not able to confirm. Hilltop conducted additional analyses to verify this assumption and concluded that it seems unlikely that the data set includes sole proprietors. Please see Appendix I for further details of this analysis.

For estimating the average annual wages of these businesses, Hilltop used income data aggregated by Data USA (<https://datausa.io/about/>) from the American Community Survey (ACS) 5-Year Estimates and available for download as text files from the Data USA website.⁷ The estimated annual average salary was identified for each of the 44 public use microdata areas (PUMAs) in Maryland for each of the 20 NAICS categories provided in the DLLR dataset.

To map the average wage for each NAICS category to each of the firms in Maryland, Hilltop created a crosswalk using the Missouri Census Data Center's Geographic Correspondence Engine (<http://mcdc.missouri.edu/websas/geocorr14.html>). This crosswalk mapped each zip code in Maryland to its corresponding PUMA. Please note that several zip codes are assigned to more than one PUMA. If a zip code was assigned to multiple PUMAs, Hilltop averaged the wage across each of the PUMAs located in that zip code.

Data from DLLR were excluded from the analysis if:

- There were missing data points
- The firm's zip code was set to "99999"
- The NAICS classification was recorded as "Unclassified," as wage data are not provided for this category
- The firm's zip code was not assigned to a PUMA

To estimate the potential number of employees who could benefit from the program, Hilltop used the employer size ranges provided by DLLR to create minimum and maximum ranges within categories. The final analysis included 99,096 small businesses with an imputed average wage within the SHOP thresholds.

⁷ These data are aggregated by Deloitte, Datawheel, and Cesar Hidalgo, Professor at the MIT Media Lab.

Average Premium

Hilltop obtained the average 2017 small group premium amount from the Maryland Insurance Administration's (MIA's) presentation to the Health Insurance Coverage Protection Commission on September 27, 2017, which was \$323 per month, or \$3,876 per year.

Inflation Adjustment

The average annual wage threshold for SHOP eligibility is \$50,000, and the threshold for adjusting the premium tax credit amount is \$25,000, both adjusted by the chained consumer price index for all urban consumers (C-CPI-U) for calendar years after 2016. Hilltop obtained the 2016 adjusted amounts from a report by the Government Accountability Office (GAO), which were \$51,800 and \$25,900, respectively.⁸ The Bureau of Labor Statistics calculated the C-CPI-U for 2017 to be 2 percent, resulting in 2017 thresholds of \$52,836 and \$26,418.⁹ Per IRS rules, these are then rounded to the nearest thousand, which is \$53,000 and \$26,000, respectively.

Results

To estimate the maximum potential amount of federal pass-through dollars, Hilltop estimated the premium tax credit amount for each firm in the data set using the following formulas. Since employer size was provided in ranges, we developed estimates for both the upper and lower bounds of those ranges, as well as the median.

- For firms with 1-10 employees and an annual average wage less than \$26,000, the formula is:

$$\$3,876*.5$$

- For firms with 1-10 employees and an annual average wage above \$26,000, the formula is:

$$(\$3,876*.5) - [(\$3,876*.5)*((\text{Average wage}-\$26,000)/\$26,000)]$$

- For firms with 11-25 employees and an annual average wage less than \$26,000, the formula is:

$$(\$3,876*.5) - [(\$3,876*.5)*((\text{number of employees} - 10)/15)]$$

- For firms with 11-25 employees and an annual average wage above \$26,000, the formula is:

$$(\$3,876*.5) - [(\$3,876*.5)*((\text{Average wage}-\$26,000)/\$26,000) + (\$3,876*.5)*((\text{number of employees} - 10)/15)]$$

In cases where the premium reduction factor exceeded 50 percent of the average premium, the premium tax credit was set to zero.

⁸ <https://www.gao.gov/assets/680/675969.pdf>

⁹ https://www.bls.gov/news.release/archives/cpi_01182017.pdf

Table 1 assumes that each business had the minimum number of employees in the firm size range and assumes that all businesses take up the tax credit. This results in an estimate of \$217 million.

Table 1. Lower Bound Estimates of Minimum Potential SHOP Pass-Through

Income Range	Number of Firms	Firm Size	Base Premium	Reduction Factor	Premium Credit	Number of Employees
\$0 - \$26,000	8,403	1	\$16,285,014	\$0	\$16,285,014	8,403
\$26,000 - \$53,000	2,815	1	\$5,455,470	* ¹⁰ exceeds base premium	\$0	2,815
\$26,000 - \$53,000	74,360	1	\$144,109,680	\$82,058,602	\$62,051,078	74,360
\$0 - \$26,000	2,737	11	\$58,347,366	\$3,889,824	\$54,457,542	30,107
\$26,000 - \$53,000	1,253	11	26,711,454	* exceeds base premium	\$0	13,783
\$26,000 - \$53,000	9,528	11	203,117,904	119,189,259.29	\$83,928,645	104,808
Total	99,096		\$454,026,888		\$216,722,278	234,276

Table 2 assumes that each business had the maximum number of employees in the firm size range¹¹ and assumes that all businesses take up the tax credit. This results in an estimate of \$792 million. Please note that this table is provided for illustrative purposes only. As businesses may skew toward the smaller side of the employee range, this is likely a large overstatement.

Table 2. Upper Bound Estimate of Maximum Potential SHOP Pass-Through

Income Range	Number of Firms	Firm Size	Base Premium	Reduction Factor	Premium Credit	Number of Employees
\$0 - \$26,000	8,403	10	\$162,850,140	\$0	\$162,850,140	84,030
\$26,000 - \$53,000	2,815	10	\$54,554,700	*exceeds base premium	\$0	28,150
\$26,000 - \$53,000	74,360	10	\$1,441,096,800	\$820,586,019	\$620,510,781	743,600
\$0 - \$26,000	2,737	24	\$127,303,344	\$118,816,454	\$8,486,890	65,688
\$26,000 - \$53,000	302	24	\$14,046,624	13,647,425	399,199	7,248
\$26,000 - \$53,000	10,479	24	487,399,248	* exceeds base premium	\$0	251,496
Total	99,096		\$2,287,250,856		\$792,247,010	928,716

¹⁰ *Depending on the average wage and number of employees, the reduction factor may exceed the premium, and the tax credit is thus set to zero.

¹¹ We used 24 employees instead of 25 as the maximum, as the formulas constructed for the tax credit become zero for firms with 25 employees.

Table 3 assumes that each business had the median number of employees in the firm size range and assumes that all businesses take up the tax credit. This results in an estimate of \$418 million.

Table 3. Estimate of Potential SHOP Pass-Through Using Median Firm Size

Income Range	Number of Firms	Firm Size	Base Premium	Reduction Factor	Premium Credit	Number of Employees
\$0 - \$26,000	5,140	3	\$29,883,960	\$0	\$29,883,960	15,420
\$26,000 - \$53,000	2,102	3	\$12,221,028	* exceeds base premium	\$0	6,306
\$26,000 - \$53,000	56,505	3	\$328,520,070	188,166,533.88	\$140,353,536	169,515
\$0 - \$26,000	3,263	8	\$50,589,552	\$0	\$50,589,552	26,104
\$26,000- \$53,000	713	8	\$11,054,352	* exceeds base premium	\$0	5,704
\$26,000- \$53,000	17,855	8	\$276,823,920	\$154,691,391	\$122,132,529	142,840
\$0 - \$26,000	2,737	18	\$95,477,508	\$50,921,338	\$44,556,170	49,266
\$26,000 - \$53,000	6,724	18	234,560,016	* exceeds base premium	\$0	121,032
\$26,000 - \$53,000	4,057	18	141,524,388	110,718,935	\$30,805,453	73,026
Total	99,096		\$1,180,654,794		\$418,321,201	609,213

Tables 1 through 3 above assume that every business will offer insurance and take-up the tax credit. Table 4 below adjusts these assumptions for the likelihood that not all businesses will choose to offer insurance. Table 4 assumes that 30 percent of Maryland businesses with 25 or fewer employees will offer insurance and take-up the tax credit, while also assuming that the median number of employees best represents the number per business. To create these estimates, Hilltop took a random sample of 30 percent of businesses and then applied the corresponding tax credit formulas. The resulting total tax credit amount is \$126 million. Please note that the 30 percent take-up rate is proposed as an example based on estimates from the Medical Expenditure Panel Survey, which show that just over 30 percent of businesses with 50 or fewer employees in Maryland offered health insurance in 2016. The take-up rate is lower for businesses with fewer than 10 employees.¹²

¹² Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 2016 Medical Expenditure Panel Survey-Insurance Component. Retrieved from https://meps.ahrq.gov/data_stats/summ_tables/insr/state/series_2/2016/tiib2.htm

Table 4. Estimate of Potential SHOP Pass-Through with 30 Percent Take-Up Rate Among Maryland Firms using Median Number of Employees per Firm

Income Range	Number of Firms	Firm Size	Base Premium	Reduction Factor	Premium Credit	Number of Employees
\$0 - \$26,000	1,582	3	\$9,197,748	\$0	\$9,197,748	4,746
\$26,000 - \$53,000	634	3	\$3,686,076	* exceeds base premium	\$0	1,902
\$26,000 - \$53,000	16,695	3	\$97,064,730	\$55,875,299	\$41,189,431	50,085
\$0 - \$26,000	1,042	8	\$16,155,168	\$0	\$16,155,168	8,336
\$26,000- \$53,000	206	8	\$3,193,824	* exceeds base premium	\$0	1,648
\$26,000- \$53,000	5,336	8	\$82,729,344	\$46,335,045	\$36,394,299	42,688
\$0 - \$26,000	841	18	\$29,337,444	\$15,646,637	\$13,690,807	15,138
\$26,000 - \$53,000	1,234	18	\$43,046,856	\$33,559,410	\$9,487,446	22,212
\$26,000 - \$53,000	2,024	18	\$70,605,216	* exceeds base premium	\$0	36,432
Total *	29,594				\$126,114,899	183,187

*The remaining 26,438 firms randomly selected from the pool of employers had average incomes exceeding \$53,000 per year and would not be eligible for this program.

Limitations

Please note that this analysis has a number of limitations, including the following:

- Hilltop does not have data on the validity of the underlying Maryland small business data set.
- The analysis uses estimates of average wages based on survey data.
- The analysis uses data aggregated by Deloitte's Data USA platform. We could not find documentation of their data aggregation process, such as the survey weights used.
- Firm sizes are estimated using ranges.
- The analysis assumes the 50 percent tax credit base, while tax-exempt small businesses are only eligible for a maximum 35 percent tax credit.
- The underlying data set may include part-time employees, whereas the SHOP tax credit is based on FTEs, so the number of eligible employees may be an over count.
- The analysis may overestimate the number of eligible employees in that some may be eligible for Medicaid or may have access to other health insurance through a parent or spouse.

Appendix I

This analysis seeks to assess whether firm size data in the DLLR data set— assembled by InfoGroup— includes sole proprietors. If so, this is problematic for analyses of the SHOP tax credit using the DLLR data because the credit only applies to firms with at least one full time equivalent employee—sole proprietors are ineligible. We assess this by comparing the distribution of firm sizes in the DLLR data with that obtained using a nationally representative household survey under two scenarios: 1) explicitly *excluding* sole proprietors from the survey, and then, 2) explicitly *including* sole proprietors from the survey.

Data obtained from InfoGroup reveals the following breakdown of firm sizes in Maryland in Table 1. The key figures are the proportions: of all firms with 25 or fewer employees, 66 percent have 1-5 employees, 21 percent have 6-10 employees, and 13 percent have 11-25 employees.

Appendix Table 1. Distribution of Firm Sizes in Maryland

	1-5 Employees	6-10 Employees	11-25 Employees
Count	123,033	39,899	23,840
Proportion	0.66	0.21	0.13

We compare this to the distribution of firm sizes in monthly waves from the Current Population Survey (CPS), a monthly household-level survey conducted jointly with the US Census Bureau and the Bureau of Labor Statistics. We use the following CPS survey questions in this analysis:

- Class of worker (self-employed, works for wage or salary, etc.)
- Has paid employees in first job (yes/no)
 - Only populated for self-employed persons
- Number of paid employees in first job
 - Only populated for individuals who have paid employees in their first job

These data are available in all base monthly surveys from January 2014 onwards. While there are questions for having paid employees in a second job, and the number of employees in a second job, only 13 survey respondents in Maryland report having a second job, so we disregarded this from the analysis.

We applied the following coding logic for the firm size:

- a. Keep only households from survey months January 2014 – July 2018 (latest available data)
- b. Keep only individuals for which “class of worker” is “self-employed, incorporated”
- c. If have no paid employees, then firm size = 0
- d. If have paid employees, then firm size = number of paid employees (1-75)

This logic results in 570 survey respondents in Maryland representing firms with 0-75 employees.

We next proceed in two steps. First, we *exclude* sole proprietors (that is, firms with 0 employees) from the CPS data and calculate the distribution of implied firm sizes: 1-5, 6-10, and 11-25. Second, we repeat this but explicitly *include* sole proprietors in the CPS data, and calculate the distribution of firm sizes: 0-5, 6-10, and 11-25. We perform this exercise for firms in Maryland, firms in Maryland and neighboring states, and all firms in the US to assess whether small sample sizes from Maryland affect our results.

Appendix Table 2. Implied Firm Size Distribution from the Current Population Survey

Test 1: Sole Proprietors Excluded			
	1-5 Employees	6-10 Employees	11-25 Employees
MD Only	0.68	0.18	0.15
MD, DC, DE, PA, WV, VA	0.64	0.19	0.17
All US	0.66	0.19	0.15
Test 2: Sole Proprietors Included			
	0-5 Employees	6-10 Employees	11-25 Employees
MD Only	0.86	0.08	0.06
MD, DC, DE, PA, WV, VA	0.85	0.08	0.07
All US	0.87	0.07	0.06
Baseline: MD DLLR Data			
	1-5 Employees	6-10 Employees	11-25 Employees
MD DLLR	0.66	0.21	0.13

Across samples, we find that the distribution of firm sizes with sole proprietors *excluded* matches the distribution of firm sizes from the MD DLLR data much more closely than the distribution when sole proprietors are included (as highlighted in yellow). Therefore, it is unlikely that the MD DLLR data includes sole proprietors.

Insights on Group Health Insurance Plans Among Maryland Small Businesses

2019 Topline Report of Findings

Background and Objectives

Research among Maryland-based small businesses is needed to investigate knowledge, attitudes, receptivity and motivations around health insurance for employees overall and specifically about Maryland Health Connection's Small Business Health Options Program (SHOP). The research scope for an online survey of business owners and operators includes these five primary objectives:

- Investigate and clarify needs and the appetite for acquiring health insurance for employees.
- Identify obstacles that small businesses face in making insurance options available, including policy solutions that might address them.
- Gather feedback on overall and specific awareness of SHOP, including – how the program works and what it offers businesses who sponsor group health plans.
- Inquire about experience with SHOP, exploration of SHOP offerings or other insurance options available to small businesses.
- Explore and test motivations to sponsor a SHOP group health plan

- Administered by EurekaFacts
- 10-minute online survey
- n = 188
- Maryland-based businesses with 25 or fewer employees
- Owners and employees involved in health care decision-making (e.g. benefits manager)
- Conducted June 10 – July 23, 2019
- +/- 7.1% margin of error

Demographics

Number of Small Business Employees	
2-10 employees	70%
11-25 employees	30%

Source: Q2. MBHE SHOP Survey, June 10 – July 23, 2019.

Primary Position	
Owner	49%
Business manager	11%
General Manager	9%
Operator	6%
Other	6%
HR director/manager	4%
Benefits manager/specialist	4%
Comptroller	2%

Source: Q3. MBHE SHOP Survey, June 10 – July 23, 2019.

Number of Business Locations	
Only 1 location	37%
2 total locations	25%
3 or more locations	37%

Source: Q110. MBHE SHOP Survey, June 10 – July 23, 2019.
Note: Percentages may not total to 100% because of rounding.

Age	
18-29	29%
30-49	33%
50-64	31%
65+	7%

Source: Q102. MBHE SHOP Survey, June 10 – July 23, 2019.

The geographic distribution of survey participants is distributed among all MD Consumer Assistance/Connector Regions. This includes many counties with opportunity zones (where business zip codes match to census tracts designated as opportunity zones).

2018 Net Revenue (after taxes and expenditures)	
\$500K or less	49%
\$500,001 - \$1 million	18%
\$1 million+	34%

Source: Q108. MBHE SHOP Survey, June 10 – July 23, 2019.
Note: Percentages may not total to 100% because of rounding.

Gender	
Female	49%
Male	48%
Prefer not to answer/Other	4%

Source: Q101. MBHE SHOP Survey, June 10 – July 23, 2019.

Personally Covered by Insurance	
Yes	93%
No	7%

Source: Q106. MBHE SHOP Survey, June 10 – July 23, 2019.

Reasons to Sponsor Health Insurance

- More than six-in-ten businesses (63%) agree a major reason they provide health insurance is to attract, satisfy, retain, and invest in their employees.
- A majority also say a major reason to offer health insurance is because it is an important commodity.
 - Includes 56% who say offering it is the right thing to do.
 - And 51% say it is an additional form of compensation.
- Businesses are split on how important the health and financial benefits are as reasons to offering health plans.
 - 46% see it as a major reason to invest in a healthier workforce, compared to 37% seeing it as a minor reason.
 - Nearly evenly split about receiving financial incentive through tax credits: 39% major reason vs. 40% minor reason.

To what degree are the following a reason to sponsor a group health insurance plan for employees?

Attracting, satisfying, and retaining employees are greatest reasons to offer health insurance

	Major reason	Minor reason	Not much of a reason
Satisfying employee demand for health insurance coverage	63%	26%	11%
Investing in your employees is an investment in your business	63%	24%	13%
Attracting and retaining talented workers	63%	22%	15%
Offering health insurance is the right thing to do	56%	32%	12%
Providing additional forms of compensation to employees	51%	36%	13%
Making an investment in a healthier workforce	46%	37%	17%
Financial incentive, through tax credits, to do so	39%	40%	21%

Source: Q26, MBHE SHOP Survey, June 10 – July 23, 2019. Note: Percentages read across and may not total to 100% because of rounding.

Factors Influencing Decision-Making Process

How much does each statement influence your decision-making process on whether to provide employee health insurance?

	NET: A great deal/ Fair amount	NET: Not too much/ Not at all
Potentially high or variable cost of health insurance premiums over time	83%	18%
Upfront costs of providing health insurance	81%	19%
The structure and complexity of health plan options available	79%	22%
The ability to recruit qualified employees without providing health insurance	72%	29%
Employee options for subsidized coverage in the individual health insurance marketplace	69%	32%
Regulations and rules for health plan sponsorship	68%	32%
Conditions of your workforce, including turnover, part-time or seasonal work	61%	39%
Financial assistance through tax credits for the business	59%	42%
Practices of other small businesses within the industry	58%	42%

Source: Q27. MBHE SHOP Survey, June 10 – July 23, 2019. Note: Percentages read across and may not total to 100% because of rounding.

- If providing insurance, about eight-in-ten are significantly influenced by the upfront and potentially high costs compounded by the complexity of options available.
- About 70% of businesses consider conditions of not providing health insurance: 72% consider how to recruit qualified employees if no insurance offered, while 69% recognize the many options on the individual marketplace as an alternative.
- Also, 68% are at least a fair amount influenced by the rules for health plan sponsorship (which may influence if and how much sponsorship a business decides to offer).

Awareness of SHOP

- Only about two-in-ten small businesses (22%) have heard “a lot” about SHOP, 44% have heard “a little,” and as many as three-in-ten (34%) know “nothing at all.”
- Businesses with an annual net revenue of \$500,000 or more (30%) are more aware of SHOP than businesses with less net revenue (15%).
- More than four-in-ten small businesses (47%) use the Maryland Health Connection website to learn about SHOP. More than three-in-ten use an insurance company (38%) or healthcare.gov (34%).

Awareness of SHOP

2 out of 10 businesses are highly aware of SHOP

	A lot	A little	Nothing
Total	22%	44%	34%
Using Brokers	23%	43%	35%
Business Size			
10 or fewer employees	21%	45%	34%
11 to 25 employees	25%	42%	34%
Business Revenue			
Under \$500k	15%	43%	42%
\$500k or more	30%	45%	25%

Source: Q34. MBHE SHOP Survey, June 10 – July 23, 2019. Note: Percentages read across and may not total to 100% because of rounding.

Sources Used to Explore SHOP

Most businesses learn about SHOP through MHBE website

Type of Source	
Maryland Health Connection website	47%
Insurance company	38%
Healthcare.gov	34%
Insurance broker	30%
Other business / colleague	27%
Trade association or trade publication	19%

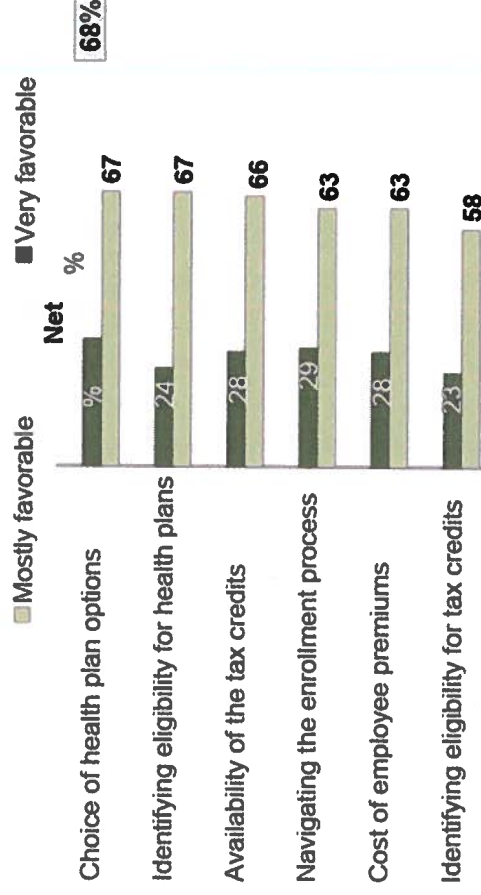
Source: Q35. MBHE SHOP Survey, June 10 – July 23, 2019. Note: Percentages are from a check all that apply list and do not total to 100%.

Rating Big Picture Characteristics of SHOP

- The choice of health plan options has the highest favorability (68%) and three-in-ten small businesses (31%) find this choice to be very favorable.
- While identifying their eligibility for health plans is favorable to more than six-in-ten businesses (67%), more than two-in-ten (24%) have a very favorable view of this characteristic.
- More than half of small businesses find identifying their eligibility for tax credits to be favorable (58%).

Favorability of SHOP Characteristics

More than half of businesses find the characteristics of SHOP to be favorable



Source: Q37. MBHE SHOP Survey, June 10 – July 23, 2019.

Major Drivers to Sponsor a Plan Through SHOP

- More than seven-in-ten businesses (75%) consider having the flexibility to choose their premium contributions to be a major reason to use SHOP.
- At least six-in-ten businesses (63% to 75%) rate each characteristic as a major reason for using SHOP.

Reasons to Use SHOP

More than six-in-ten businesses consider each characteristic to be a major reason

	Major reason	Minor reason	Not much of a reason
SHOP offers businesses flexibility to decide how much they want to contribute towards employee premiums	75%	21%	4%
SHOP offers a wide range of health plan options to choose from	71%	25%	5%
Employers can either choose an insurance company where employees have choice of coverage level, OR select coverage level where employees have choice of insurance company	71%	21%	8%
Businesses with 25 employees or fewer might be eligible for tax credits to help cover employee premiums	70%	20%	10%
All SHOP health plans are certified to include coverage of essential health benefits	63%	33%	4%

Source: Q45. MBHE SHOP Survey, June 10 – July 23, 2019. Note: Percentages read across and may not total to 100% because of rounding.

Views on characteristics of SEHITC through SHOP

- Maryland business owners and operators express highly positive views of the small employer health insurance tax credit (SEHITC) available to qualified Maryland businesses who enroll in SHOP.

- Six-in-ten or more of small businesses say it is “mostly positive” that the SEHITC helps to offset the cost of the business share of employee premiums (64%), that SEHITC covers up to 50% of the business contribution towards those premiums (63%), and that businesses can claim the SEHITC for up to two consecutive years (60%).
- Among those with positive impressions of these tax credit features, more than seven-in-ten say that offsetting premium costs and covering up to 50% of those premiums are “major reasons” that they would sponsor a group health plan through SHOP (76% and 75%, respectively).

- Views are somewhat mixed on the requirement that premiums be paid first before applying for tax savings at the end of the year (42% mostly positive vs. 33% mostly negative), and that the SEHITC phases out as a business employs up to 25 full time employees (40% mostly positive vs. 30% mostly negative).

- However, among those rating these factors positively, majorities say that they are major reasons to sponsor a SHOP group plan.

Businesses View Assistance With Premiums Positively and are a Driver for SHOP

Rating characteristics of the Small Employer Health Insurance Tax Credit (SEHITC) available through SHOP

	% saying aspect of SEHITC is ...			Among those saying “mostly positive”
	Mostly positive	Mostly negative	Neutral	
SEHITC via SHOP offsets premium costs	64%	17%	19%	76%
SEHITC covers up to 50% of premiums	63%	19%	18%	75%
Can claim SEHITC 2 consecutive years	60%	16%	25%	60%
Employers pay premiums first, and may then apply for savings on taxes	42%	33%	26%	57%
SEHITC phases out as businesses employ up to 25 FTEs at higher wages	40%	30%	31%	65%

Source: Q47/48, MHBE SHOP Survey, June 10 – July 23, 2019. Percentages read across.

Close to half say that making SEHITC available immediately would have “great deal” of impact on sponsoring SHOP

Maryland Health Connection and the SHOP program are considering changes to the SEHITC to make it available upon enrollment rather than at tax time.

- More than eight-in-ten businesses (84%) report that this change would have a positive impact on their decision to sponsor a group health plan through SHOP, including close to half (46%) who say it would have a “great deal” of effect.
- Businesses currently offering financial support for employee health insurance are slightly more likely to say that this change would have a “great deal” of impact on their decision to sponsor a SHOP plan than are those not currently providing financial support (50% vs. 40%).

Views on Making the SEHITC Available at the time of Enrollment Rather than at Tax Time

Impact on decision to sponsor a group health plan via SHOP (%)

	Among those currently offering financial support for coverage	
	Yes	No
Total		
Great deal	46%	40%
Fair amount	38%	40%
Not too much	11%	15%
Not at all	5%	5%
100%	100%	100%

Source: Q52. MHBSE SHOP Survey, June 10 – July 23, 2019. Note: Percentages read down and may not total to 100% because of rounding.

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This report was prepared in compliance with ISO 20252 International quality standard for market, public opinion and social research.



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