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## Health Care Reform: SHOP Exchanges and the UMC

The U.S. Department of Health and Human Services (HHS) has published **rules** governing the Small Business Health Options Program (SHOP) established under the Affordable Care Act (ACA, i.e., federal health care reform). The SHOP is part of the public health insurance exchanges (also called Health Insurance Marketplaces) established through the ACA. SHOP offers health insurance coverage options to small employers.

SHOP may be a cost-effective option for some local churches and other employers in The United Methodist Church (UMC) to provide coverage for lay employees. As such, SHOPS may be particularly relevant to church employers that have 50–100 employees because employers with 50–100 full-time equivalent employees will be required to offer health insurance to their full-time employees as of January 1, 2015 or pay the ACA's employer shared responsibility penalty.

Depending on a UMC local church's annual conference rules, SHOP may or may not be a suitable option for health coverage of clergy serving the local church. Some annual conferences have rules that require the local church to cover full-time appointed clergy through the annual conference health plan. Other annual conferences allow each local church to choose whether to cover clergy through the annual conference plan, or to adopt a small group market health insurance plan, or to simply permit the clergyperson to purchase an individual insurance policy on the open market.

### Purpose of SHOP

The ACA requires each state to establish an American Health Benefit Exchange (i.e., a "Marketplace") to facilitate the purchase of qualified health plans (QHPs) for individuals who do not have access to employer-provided health insurance. The ACA also requires states to establish a SHOP exchange for small employers. In states that have not established a SHOP Marketplace (exchange), small employers will have access to the federally facilitated SHOP exchange. The SHOP is designed to assist small employers in providing health coverage to their employees through QHPs offered in the small group health insurance market.

SHOP's original intention was to allow adopting employers to offer multiple insurance plan options to employees. Each employee would then select his or her insurance coverage, and the employer would pay all or part of the premium bill. Insurance obtained through a SHOP Marketplace can be paid by the employer and remain exempt from income tax to the employee.

Despite delays to certain functions and services of SHOP during its initial rollout in Fall 2013, SHOP ultimately will be able to:

- Reduce volatility (year-to-year changes) in health premiums for small employers by pooling small-business buying power and risks, and gaining economies of scale;
- Offer employers and employees choices of multiple insurers, providers and plans;
- Make comparison-shopping among plans easier for small employers and their employees; and
- Reduce small employers' burden of administering health benefits.

## SHOP Characteristics and Functions for Employers

SHOP functions and rules will vary by state. States with a federally facilitated SHOP Marketplace will share the same functions and rules. States that establish their own SHOP exchanges may customize the functions and rules somewhat. To fully understand SHOP options, small employers should contact their state's SHOP or the federally facilitated SHOP.

Generally, SHOP QHPs must meet all requirements that apply to the Health Insurance Marketplace for individual QHP coverage, such as covering essential health benefits and preventive services, and not excluding pre-existing conditions. However, generally the QHPs available through the SHOP exchanges are not eligible for the premium tax credits for individuals based on income. Additionally, the QHPs offered through SHOP are only allowed to change premium rates at a uniform time—monthly, quarterly or annually as specified by SHOP. Once the QHP is adopted by the employer and enrolled in by employees, QHPs cannot change rates to any employer during the course of the plan year. SHOPS provide calculators that allow employees to calculate their premium share for particular plans after their employer's contribution to help them choose plans.

From the small employer's perspective, SHOP exchanges provide some unique functions, including:

- Managing employees' enrollment and eligibility requirements;
- Allowing employers to select which level(s) of coverage ("bronze, silver, gold or platinum") to offer to their employees;
- Aggregating premiums related to payment, including providing to employers monthly invoices that identify the employer contribution, the employee contribution and the total amount due;
- Collecting from employers the total premium amount due;
- Paying the QHP issuers with premium monies collected from employers;
- Ensuring that each QHP meets the ACA and SHOP requirements; and
- Requiring that QHP issuers make any changes to rates only at a uniform time (quarterly, monthly or annually).

SHOPS also have the following characteristics (some of which also apply to non-SHOP plans):

- Premiums are based on the employer's principal business address, rather than individual employees' home addresses.
- The federally facilitated SHOP prohibits varying coverage for different classes of employees (for example: owners vs. salaried vs. hourly employees).
- Employer contributions toward SHOP coverage are not taxable to employees;
- Employees' personal contributions toward their premiums can be paid on a pre-tax basis through the employer's cafeteria plan, if one exists.
- The federally facilitated SHOP allows for coverage of retirees. However, retirees must pay at the same contribution rate that active employees pay.
- Insurers (QHP issuers) are responsible for providing summaries of benefits and coverage to employers and employees.
- Employers will be notified of the option to renew SHOP coverage 90 days before the end of the plan year. If the employer elects to stay with the same QHP, employees can be automatically renewed.

## SHOP Eligibility

SHOP plan eligibility is limited to small employers, based on these ACA definitions:

- Small employer: **at least 1 but not more than 100** full-time equivalent employees (FTEEs).
  - However, for 2014 and 2015, states may choose to limit SHOP eligibility to small employers with no more than 50 FTEEs. Starting in 2017, states may choose to expand SHOP eligibility to employers with up to 250 FTEEs.
- Full-time employee: averages **30** hours per work week.
  - Part-time and full-time employees are included in the count to calculate total FTEEs.

HHS also published simplified forms for **employers** and **employees** to use to apply for SHOP coverage. SHOPS will also have online options for small employer adoption and enrollment by employees.

### **Minimum Participation**

Insurers (QHP issuers) may impose a 70% workforce participation requirement for small employers to partake in the federally facilitated exchange SHOP coverage. State SHOPS also may establish minimum participation requirements. If a SHOP allows employee choice among QHPs, the minimum participation requirement is applied for the employer at the SHOP level (across all plan options), rather than at the single issuer or QHP level. For example, a 70% participation standard is met if 7 of 10 non-waivered employees buy insurance from three different issuers under employee choice.

In the SHOP's first open enrollment period (November 15–December 15, 2013 for 2014 coverage), however, employees can obtain coverage through the SHOP on an interim basis even if an employer falls below the minimum participation threshold. However, insurers will be allowed to invoke the minimum participation requirement for plan renewals for 2015 coverage. Small employers are required to keep records of coverage held by employees to substantiate minimum participation and to ensure that employees do not have double coverage.

SHOP rules for waivers (employees not counted toward the minimum participation requirement) vary from state to state. Some states will not count employees and dependents who waive coverage due to coverage through another employer's plan (for example, a spouse's employer-provided plan); some states will not count employees eligible for Medicaid or other government coverage when calculating the total eligible for enrollment. Some SHOPS require that small employers *only* offer coverage through the SHOP if they choose to offer a plan for employees, so that the SHOP effectively becomes the entire small group health insurance market in those areas (for example, in the District of Columbia and Vermont).

### **SHOP Enrollment Periods for Employees**

In addition to the traditional annual enrollment period most plans provide, an employee or dependent generally has 30 days from the date of a triggering event to enroll in a QHP through the SHOP exchange. Triggering events, which are similar to special enrollment rules that apply to traditional employer plans under the Health Insurance Portability and Accountability Act (HIPAA), include but are not limited to:

- Employee or dependent loses other minimum essential coverage;
- Employee gains a dependent or becomes a dependent through marriage, birth, adoption or placement for adoption;
- Employee or dependent who was not previously a citizen, national or lawfully present individual gains such status;
- Employee or dependent gains access to new QHPs due to permanent change in residence;
- Employee or dependent is determined to be newly eligible or newly ineligible for an advanced premium tax credit under the ACA;
- Employee or dependent becomes eligible or loses eligibility for Medicaid, or dependent becomes eligible for premium assistance under the Children's Health Insurance Program (CHIP). This triggering event allows 60 days for enrollment or disenrollment.

### **SHOP Limitations in 2014**

During its first year—2014—SHOP will have some limitations on its full functionality:

- State-run exchanges have two options for SHOP operations:
  - 1) Employee choice model—Allow employers to select a “metal tier,” and then offer access to all QHPs in that metal tier to employees. This is how the SHOP was designed to operate, and some states will have this functionality for their SHOP exchanges;
  - 2) Scaled-back operation, allowing the SHOP to require an employer to select a single QHP for all employees.
- The federally facilitated SHOP will permit employers to select only a single QHP for all employees.

- The premium aggregation function for the federally facilitated SHOP is delayed until 2015; however, state SHOPs that choose to provide the employee choice model in 2014 must also offer the premium aggregation function that streamlines premium billing for employees choosing from among all QHPs offered in a metal tier.

ACA uses “metal tiers” to describe varied level of coverage benefits in QHPs: bronze = 60%; silver = 70%; gold = 80%; and platinum = 90%.

*Enrollment Delays:* In a **press release** issued September 26, 2013, HHS acknowledged that the federally facilitated exchange SHOP Marketplace would not be ready to accept online enrollments on October 1 as initially planned; however, employers would be able to “start the application process and get an overview of available plans and premiums in their area.” Full online SHOP functionality—including the ability to enroll in plans—is expected in November 2013. SHOP plan coverage is expected to be available beginning January 1, 2014, for employers and employees that enroll by December 15. Enrollment in SHOP exchanges will be possible for adopting employers year-round in 2014.

Despite delay of the federally facilitated exchange SHOP, many state-based SHOPs were fully-operational for enrollment on October 1, 2013.

### **SHOP in 2015**

For plan years starting on or after **January 1, 2015**, both state and federal SHOPs must allow employers the option of offering the employee choice model of coverage. In 2015, the SHOPs will also be required to provide a premium aggregation function to adopting employers. Employers will be able to select one metal tier in the SHOP exchange. Employees could then choose coverage under any plan offered in that metal tier. The SHOP would handle most of the administrative work for these choices.

**Example:** An employer chooses to offer silver plan coverage. Employees can choose any silver plan offered through the SHOP Marketplace. SHOP would know the amount the employer has chosen to contribute to employee coverage. The SHOP would inform employees of only the employee cost (the personal contribution for coverage) for various plan options. The SHOP would then bill the employer for all employees. The bill would reflect the employer contribution, the employee contribution and the total cost. The SHOP would enroll employees in the plans they choose, collect premiums from the employer, and forward the premiums to the appropriate insurance carriers.

### **Small Business Health Care Tax Credit**

Small employers that enroll through a SHOP exchange will be eligible for the Small Business Health Care Tax Credit (Tax Credit), based on defined criteria. As of 2014, the Tax Credit will cover 35% for eligible tax-exempt organizations, including churches. For tax-exempt organizations, the Tax Credit is refundable against payroll taxes the organization pays on behalf of its employees. The Tax Credit will only be available through SHOP. You can read more about the Tax Credit in 2014 and beyond **here**.

### **UMC Considerations**

UMC local churches may want to investigate and consider SHOP coverage for their employees. SHOP coverage may work for lay employees. SHOP coverage also may work for appointed clergy in annual conferences that do not require appointed clergy to be covered through the annual conference health plan. If a local church’s annual conference does require clergy to be covered in the annual conference plan, then the local church will need to review the rules for the applicable SHOP. Even in those conferences that require clergy to be covered in the conference plan, a local church may be able to offer the SHOP coverage to all full-time lay employees and its full-time clergy, but have the clergyperson(s) decline the SHOP coverage because the clergy have coverage through the annual conference plan. Local churches considering this option should carefully assess their applicable SHOP rules and discuss the matter with their annual conference benefits office.

## **For More Information**

More information about SHOP is available at [www.healthcare.gov](http://www.healthcare.gov). Also, HHS has published **FAQs** and other **information** about participation in the federal SHOP.

The General Board continues to monitor federal health care reform and provide applicable information for annual conferences, local churches and other UMC employers, as well as information for individuals. Check the General Board's **health care reform web page** frequently for updates.

## **Questions and Information**

If you have questions or would like additional information, please send your inquiries to [healthcarereform@gbophb.org](mailto:healthcarereform@gbophb.org). General information about health care reform is available from the federal government at [www.healthcare.gov](http://www.healthcare.gov).

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