



REFORM OF THE STATE-REGULATED HEALTH INSURANCE MARKET TO STOP FORCING SMALL EMPLOYERS TO DROP COVERAGE

DESCRIPTION

New Jersey's health insurance system has identifiable flaws that can be fixed. State lawmakers can act to limit cost increases, making health insurance more affordable for small employers.

BACKGROUND

The cost of health insurance has exploded in recent years, making it too expensive for many New Jersey employers to afford. As a consequence the percentage of private-sector employers providing health insurance coverage for their employees is falling.

This trend has been documented in NJBIA's annual Health Benefits Survey. The Association found in its 2007 survey that the average cost of employee health coverage soared by 11 percent to a record \$7,561 per employee in 2006. Given the effects of compounding, the total average cost has grown by 80 percent over the last five years.

NJBIA's survey found that fast-rising costs have taken a toll on the State's smallest employers, those with two to 19 employees. Increasing numbers of small businesses are dropping coverage altogether because they can no longer afford it.

Eighty-two percent of businesses with two to 19 employees provided coverage in 2006, the survey found. This was down from 87 percent in 2004, and a high of 92 percent in 2003. When those employers who no longer provide coverage were asked why, most said it was too costly.

**Health Plan Costs Rise 11.3% in 2006
 Fourth Year of Double-Digit Cost Increases**

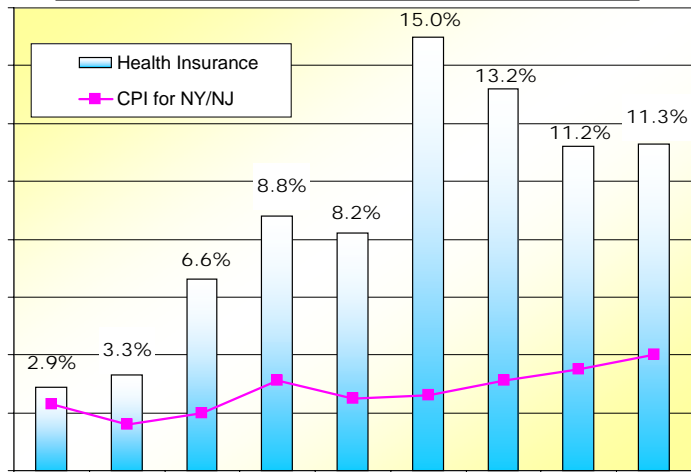


Table 1

**Health Insurance Cost Increases
 By Size of Company**

Company Size	Average Cost in 2006	Percent Change from 2005
2-19 employees	\$7,577	12.0%
20-50 employees	\$7,014	9.9%
51-99 employees	\$6,952	9.5%
100 or more	\$8,851	9.8%
All companies	\$7,561	11.3%

This is the average amount paid by employers for employee health coverage. It does not include any employee portion of premiums.

If costs continue to explode in New Jersey, growing numbers of employers almost certainly will be forced to drop health insurance coverage. This will cause the number of uninsured New Jerseyans to grow as well.

NJBIA POSITION

New Jersey needs to make the State's regulated insurance programs more flexible. The State's highly regulated programs for individual (IHC) and small-group insurance (SEH) were put in place in 1992. These programs must be overhauled to give purchasers more choice and flexibility in plan design.

The Legislature should allow small employers more flexibility in the design of their own plans. Permit them to purchase insurance benefits that are best suited to their particular workforce and to exclude coverage of certain medical services they do not want or need.

New Jersey also should reduce to three from five the number of standard health plans that all HMO/insurance providers must offer. Too many standard plans drive up administrative and insurance costs. Finally, the State should offer a low-cost, basic coverage plan as an option for employers looking for more affordable insurance.

ARGUMENTS IN SUPPORT OF MARKET REFORM

While many view health insurance reform as a national issue, New Jersey's health insurance system has identifiable flaws that can be fixed. Lawmakers can do much to fix the flaws by refusing to enact costly new coverage mandates, injecting more flexibility into the State's regulated insurance markets, and giving employers who do provide coverage a State tax benefit.

Any plan to reform the State's health insurance system should target employers who purchase their health insurance through the State's regulated health insurance programs. These include the Individual Health Coverage Program (IHC), which covers individuals (including sole proprietors of small businesses); the Small Employer Health Benefits Program (SEH), which covers groups with two to 50 employees; and the regulated large-employer market (51 or more employees.)

Twenty-seven percent of New Jersey's population (about 2.1 million people) currently receives insurance coverage through these regulated insurance programs. The rest of the covered population receives its insurance predominately through employer self-funded plans, Medicare or Medicaid.

COST

Reform of the State-regulated health insurance market will be a no-cost solution to rising premiums.

LEGISLATIVE HISTORY

A measure which begins the process of market reform received consideration during the 2004-2005 Legislative session. A-3359/S-2773 passed the Assembly and died on second reading in the Senate.

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