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## Firms Start to Drop Health Plans, Back Marketplaces

Small companies are starting to turn away from offering health plans as they seek to reduce costs and increasingly view the health law's marketplace as an unprofitable and affordable option for workers.

**SMALL BUSINESS**

In the latest sign of a possible shift, WellPoint Inc. said Wednesday its small-business-plan membership is shrinking faster than expected and it has lost about 300,000 people since the start of the year, having a total of 1.56 million in small-group coverage.

During a call with analysts to

discuss third-quarter earnings, the No. 2 insurer said it had projected a five-year migration to "substantially reduce" small-business membership, but it now thinks the dropoff will be compressed into two years.

Going forward, with the health law's marketplaces running and functioning well, small employers will likely re-evaluate exchanges as an option for their

employees, said Wayne DeVry, WellPoint's chief financial officer. "We think [that] will become even clearer as a more prominent decision that they'll make this quarter," he said.

Some other insurers have taken a similar trend. Aetna Inc. Chief Financial Officer Shawn M. Gortch said the company was seeing "some erosion at the bottom of the market" among employees with low to mid-level pay.

Kaiser Permanente is using "some contractors" in the small-group market, particularly in places where insurers are offering cheap individual plans,

said Joe Smith, the company's vice president for small health coverage.

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have recently turned down the plan in favor of cheaper exchange options.

It's not yet clear how widespread the shift will ultimately be. An April survey by the International Foundation of Employee Benefit Plans found that 22.1% of employers with 50 or fewer employees said they "definitely will" be offering health benefits in five years, while an additional 42% said they "very likely" would. Among large employers with 500 or more employees, about three-quarters fell into those two categories.

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## Firms Start to Back Health Marketplaces



Blake Meaux, owner of Mr. Muscle Cars, in July he ended the firm's health plan in July but is offering to pay half the cost of workers' premiums.

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The health law doesn't penalize companies with fewer than 50 workers that don't offer coverage, and those with fewer than 500 employees won't face fines until 2016.

Some employers are taking premium increases to keep offering coverage as they shift to plans that meet the law's requirements—though this impact has been delayed for many because the Obama administration has allowed states and insurers to keep older plans in effect.

Mr. Meaux, owner of Mr. Muscle Cars in Cooke, Texas, said his 13-employee company ended its health plan in July after being told its premiums could double or rise even higher.

"The company could not afford it, and the employees couldn't afford it," Mr. Meaux said. He talked over the issue with workers and brought in an

agent to connect them with individual coverage. He is offering to pay about half the cost of workers' individual premiums, the same share paid under the group plan.

The law has also eliminated several reasons small employers offered group plans to ensure employees could get coverage. Workers with pre-existing health conditions can now buy coverage on their own, and insurers can't charge them more based on their health history, as they could before the law took effect.

The law includes subsidies for lower-income workers that can sometimes be as generous as the amount small employers were paying toward health benefits. Indeed, insurers and brokers say small employers in lower-income industries are far more likely to switch.

"That's often the main determining factor," said Michael Z.

Stahl, a senior vice president at HealthMarketplace Inc., an agency that focuses on individual coverage and works with a growing number of small businesses.

King Per LLC, a golf retailer in Flushing, Mich., decided to end its plan in February as it was facing an expected rate increase. Ryan Goffin, the company's chief financial officer, said those with relatively low wages, such as warehouse workers, are paying about the same amount toward their coverage as they did before because of the federal subsidy.

For employees who made too much to qualify for subsidies, King Per in some cases offered a subsidy bonus to make up for the lost health benefits.

"The few people who were affected the most, we made sure we make them whole," said Mr. Goffin.

Insurers, for their part, are moving to recapture the lost

business by signing up employees to their individual plans—a possibility raised by WellPoint, which is a big player in the health-law consumer exchanges.

Mr. DeVry, WellPoint's finance chief, said the company aimed to "become indifferent on where that customer wanted to buy their product."

Medical Mutual of Ohio, which said it is seeing the strongest shift away from offering health benefits among the small- and mid-size employers with just two or four workers, is working to ease the transition for companies that want to move from a group plan to individual coverage.

"That's the best way to maintain the membership," said Dan Smith, a vice president who oversees small-group business. He added that the insurer is replacing "a very high percentage" of those who employees are dropping plans.

**Blake Meaux**  
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