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Unmerging Vermont's Individual and Small Group Markets

March 22, 2022

The time has come for Vermont to join 48 other states and unmerge the small group and individual markets permanently. By failing to do so, Vermont is foregoing $12 – 14 million in federal funding for 2023 while failing to meaningfully benefit Vermonters with incomes less than 400% of the federal poverty level. The loss of funding will occur regardless of the status of the recently expanded federal advanced premium tax credits.

A merged market benefits unsubsidized Vermonters by shifting $4.1 million of the cost of their health care to our struggling small businesses, non-profits, municipalities, and their employees. Meanwhile, the merged market saves those Vermonters who newly qualified for the expanded APTC only $1.9 million—and only in the event that federal premium subsidies are rolled back to 2020 levels—an amount that pales in comparison to the millions of federal dollars the merged market leaves on the table.

Impact of Unmerging the Markets

			With Rolled Back Advanced Premium Tax Credit (APTC)	With Expanded Advanced Premium Tax Credit (APTC)
1	Small Employers		($17.7M)	($17.7M)
2	Individuals	Direct Enrolled	$3.3M	$3.3M
3	Individuals	VHC Enrolled - Not Eligible for Subsidies	$0.8M	$0.8M
4	Individuals	VHC Enrolled - Only Eligible for Expanded APTC	$1.9M	($0.1M)
5	Individuals	VHC Enrolled - Always Eligible for APTC <400% FPL	($0.1M)	$0.1M
6	Federal Government		$11.9M	$13.6M
7	State of Vermont		($0.1M)	($0.0M)

As demonstrated in the above chart, merging the markets burdens Vermont small employers with $17.7 million of costs beyond those needed to cover their own health care (row 1), primarily to the benefit of the federal government (row 6). These small employers are the heartbeat of Vermont downtowns: bookstores, the corner grocery, carpenters, the hardware store, plumbers, the after-school program that offer arts and STEM and athletic enrichment to our kids, the yoga studio on Main Street—any employer with between two and 100 employees who purchases a small group health plan is shouldering this additional burden.

Who is benefiting from this cost shift? Primarily the federal government since a merged market means a lower benchmark for setting federal premium subsidies. Merging the markets also requires small employers to fund $4.1 million of premiums for Vermonters who are directly enrolled or not eligible for expanded federal subsidies (rows 4 and 5)—these are individuals with single coverage making over $159,700 or families of four earning in excess of $326,000. Merging the markets means asking Vermont's small employers, who are already struggling to stay open and keep jobs in Vermont, to subsidize the federal government and higher-income Vermonters.

Category	Single Income	Family of Four Income
VHC Enrolled - Not Eligible for Subsidies	Income over $159,700	Income over $326,000
VHC Enrolled - Only Eligible for Extended PTC	Income between $54,360 and $159,700	Income between $111,000 and $326,000
VHC Enrolled - Always Eligible for PTC <400% FPL	Income below $54,360	Income below $111,000

Merging the market has little impact on those eligible for subsidies (row 5), with or without APTC expansion, as well as the State (row 7).

To mitigate the full effect on Vermonters who recently qualified for the expanded APTC (row 4), the Legislature could dedicate $1.9 million of the General Fund to those who would no longer be eligible for subsidies in the event that federal subsidies are rolled back. This would eliminate the burden of unmerging the market for middle-income Vermonters.

Vermont's unique market structure is crushing the economic vitality of our small employers attempting to recover from the pandemic, limiting their ability to expand, to hire more employees, and to increase the tax benefit to the state. As we look to 2023 and economic recovery, it is time to permanently separate the small group and individual markets.