

## Help for Small Businesses

Many small businesses would like to offer health insurance to their employees, but they simply cannot afford to do so. Small businesses face a disadvantage when it comes to providing health insurance: With fewer employees, risk is spread among fewer people. This leads to higher premiums and administrative costs. Health reform will help remedy this situation and level the playing field for many small businesses.

The health reform proposals that are pending in Congress provide help to small businesses in two ways.

- First, the proposals will help many small businesses with the cost of providing coverage to their employees. This help will be provided through a new tax credit for up to 35 percent (in the House bill, up to 50 percent) of the small businesses' cost for employee coverage.
- Second, the proposals offer all small businesses the opportunity to purchase coverage in a new, regulated health insurance marketplace, known as an "exchange" or "gateway." In this market, small businesses will not have to pay more simply because one or two workers have health problems. While a range of plans will be available in this market, the benefits and cost-sharing will be standardized and transparent so that small businesses can more easily shop for coverage without paying high agent or broker fees. In some of the proposals, these new insurance plans would be required to spend a larger share of the premium dollars that they collect on health services rather than on overhead (administrative costs) and profits, thereby lowering premiums for small business.

### Making Health Care More Affordable for Small Businesses

- **Why we need it:**

While 96.5 percent of employers with 50 or more employees offer health insurance, less than half (43.2 percent) of employers with fewer than 50 employees do so. Those who work for the smallest firms (businesses with fewer than 10 employees) are the least likely to receive coverage.<sup>1</sup> What drives this disparity? Many small businesses point to the high cost of health coverage as the reason they do not offer health insurance to their employees. A survey of small businesses found that 63 percent of businesses that don't offer health coverage rated affordability as a major reason for their decision.<sup>2</sup>

- **What health reform will do:**

Health reform will provide tax credits to make it easier for many small businesses to afford coverage. Since 70.1 percent of all U.S. firms employ fewer than 25 people, the tax credits have the potential to improve coverage for many people.<sup>3</sup> These tax credits will make health coverage affordable for more small businesses and their employees.

## Availability of Quality Coverage

### ■ Why we need it:

Small businesses pay more for less when it comes to health coverage. For example, one study found that the smallest businesses pay up to 18 percent more than employers with 1,000 or more employees for the same level of benefits.<sup>4</sup> This disparity stems, in part, from administrative costs: Small businesses pay at least two times the administrative costs that large businesses pay for health insurance.<sup>5</sup> Another factor is market concentration: In at least 34 states, the five largest health insurers dominate 75 percent or more of the small group insurance market.<sup>6</sup> Furthermore, in 44 percent of major metropolitan areas, a single insurance company controls half or more of the market, and in 89 percent of major metropolitan areas, a single insurer controls at least 30 percent of the market.<sup>7</sup> This type of market concentration leaves little room for choice or competition.

### ■ What health reform will do:

Health reform will level the playing field, giving small businesses the opportunity to offer affordable, quality coverage to their employees at a fair price. It will create a new marketplace, or “exchange,” in which small businesses will be able to shop for coverage and easily compare prices, services, and the performance of health plans. Health reform will also promote competition among private insurers by requiring transparency of plan coverage and costs and by holding them accountable to their customers through a requirement that money collected in premiums be spent on providing health care services.

## A Healthy Workforce

### ■ Why we need it:

When workers go without health insurance, they are more likely to delay or forgo necessary care, including preventive care and care needed to manage chronic conditions.<sup>8</sup> As a result, uninsured adults are sicker and die earlier than people with insurance.<sup>9</sup> The rising prevalence of chronic conditions also affects the bottom line of small businesses. Care for people with chronic conditions now accounts for three-quarters of U.S. health spending, with diabetes alone costing more than \$174 billion annually.<sup>10</sup> Productivity losses due to chronic conditions cost even more: The economy loses an estimated \$260 billion a year in labor time due to health reasons.<sup>11</sup>

### ■ What health reform will do:

Many small employers point to health insurance as a major hiring incentive: Offering health insurance helps with recruitment, retention, and employee performance and health status. And these factors, in turn, foster the overall success of the business. On top of that, more than three-quarters of small businesses report that offering health benefits is “the right thing to do.”<sup>12</sup> Health reform will make doing the right thing much easier for many small businesses by providing subsidies for the contributions small business make to the cost of their employees’ coverage and providing an improved market where they can purchase coverage.

## Reducing the “Hidden Health Tax”

### ■ Why we need it:

The uninsured often put off treating their health problems until the situation is dire. When they seek care, they struggle to pay for as much of their care as they can, but few can afford to cover the full cost of care. Government and charity programs pick up a share, but a portion—known as “uncompensated care”—remains unpaid. To cover the cost of this uncompensated care, health providers charge higher rates when insured people receive care, and these increases get shifted to those who have private insurance in the form of higher premiums. This creates a “hidden health tax” that added more than \$1,000 to family premiums in 2008.<sup>13</sup>

### ■ What health reform will do:

Health reform means that most of the population will have high-quality, affordable coverage. Having most of the population covered pools the risk of health insurance among a greater number of people, which means that the cost of premiums can go down. This also helps cut down on administrative costs. Small businesses stand to gain substantially from this reform measure, due to the disproportionate share they already pay for health insurance.

## Eliminating “Job Lock”

### ■ Why we need it:

Many people stay at their jobs because they receive health insurance through their employer. This understandable decision leads to “job lock,” in which people do not pursue opportunities to either start their own business or work for an employer that doesn’t offer health coverage. It has been estimated that job lock reduces job mobility by approximately 25 percent.<sup>14</sup>

### ■ What health reform will do:

Health reform will remove the worry about how to obtain health insurance when deciding to start a business or work for an employer that doesn’t offer health coverage. This will help spur innovation and allow people to follow their dreams. It will also provide those small businesses that currently struggle to pay health care costs for themselves and their employees with a way to lower those costs and stay in business in a competitive market.

## Endnotes

- <sup>1</sup> *Medical Expenditures Panel Survey, Insurance Component, Table I.A.2, 2008*, available online at [http://www.meps.ahrq.gov/mepsweb/data\\_stats/summ\\_tables/insr/national/series\\_1/2008/tia2.pdf](http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2008/tia2.pdf).
- <sup>2</sup> Paul Fronstin and Ruth Helman, *Small Employers and Health Benefits: Findings from the 2002 Small Employer Health Benefits Survey* (Washington: Employee Benefit Research Institute, January 2003).
- <sup>3</sup> *Medical Expenditures Panel Survey, Insurance Component, Table I.A.1.a, 2008*, available online at [http://www.meps.ahrq.gov/mepsweb/data\\_stats/summ\\_tables/insr/national/series\\_1/2008/tia1a.pdf](http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2008/tia1a.pdf).
- <sup>4</sup> Jon Gabel, Roland McDevitt, Laura Gandolfo, Jeremy Pickreign, Samantha Hawkins, and Cheryl Fahlman, "Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii Is Up, Wyoming Is Down," *Health Affairs* 25, no. 3 (May/June 2006): 832-843.
- <sup>5</sup> General Accounting Office, *Small Employers Continue to Face Challenges in Providing Coverage* (Washington: GAO, October 2001).
- <sup>6</sup> Government Accountability Office, *State Small Group Health Insurance Markets* (Washington: GAO, February 2009).
- <sup>7</sup> American Medical Association, *Competition in Health Insurance: A Comprehensive Study of U.S. Markets 2008 Update* (Chicago: American Medical Association, 2008).
- <sup>8</sup> Kaiser Commission on Medicaid and the Uninsured, *The Uninsured: A Primer; Key Facts about Americans without Health Insurance* (Washington: Kaiser Family Foundation, October 2008).
- <sup>9</sup> David Baker, Joseph Sudano, Ramon Durazo-Arvizu, Joseph Feinglass, Whitney Witt, and Jason Thompson, "Health Insurance Coverage and the Risk of Decline in Overall Health and Death among the Near Elderly, 1992-2002," *Medical Care* 44, no. 3 (March 2006): 277-282; Institute of Medicine, *Insuring America's Health* (Washington: National Academy Press, 2002).
- <sup>10</sup> Centers for Disease Control and Prevention, *Chronic Disease Overview*, available online at <http://www.cdc.gov/nccdphp/overview.htm#2>, page last modified on November 20, 2008.
- <sup>11</sup> Karen Davis, Sara R. Collins, Michelle M. Doty, Alice Ho, and Alyssa L. Holmgren, *Health and Productivity among U.S. Workers* (New York: The Commonwealth Fund, August 2005).
- <sup>12</sup> Paul Fronstin and Ruth Helman, op. cit.
- <sup>13</sup> Kathleen Stoll and Kim Bailey, *Hidden Health Tax: Americans Pay a Premium* (Washington: Families USA, May 2009).
- <sup>14</sup> Brigitte Madrian, "Employment-Based Health Insurance and Job Mobility: Is There Evidence of Job-Lock?" *The Quarterly Journal of Economics* 109, no. 1 (February 2004): 27-54.



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