

# LOWER PREMIUMS, STRONGER BUSINESSES:

*How Health Insurance Reform Will Bring Down Costs for Small Businesses*

## ***Relief from crushing premium increases.***

Across the country, America's businesses are struggling as the cost of health care continues to skyrocket. Premiums for employer-based health insurance have more than doubled since 2000, a growth rate three times that of wages.<sup>1</sup> By 2025, one in every four dollars in our nation's economy will be spent on health care<sup>2</sup> – money that could have been invested in our nation's businesses. Rising health care costs cut into employee wages and impede hiring and business growth.

Small businesses, the backbone of job creation in our economy, are disproportionately burdened by the financial strains caused by rising health care costs.<sup>3</sup> On average, small businesses pay up to 18 percent more than large firms for the same health insurance policy.<sup>4</sup> This difference is due in part to high broker fees (which can be up to 10 percent of premiums),<sup>5</sup> and health plan administrative costs that are three to four times those in the large group market.<sup>6</sup> These higher costs discourage small businesses from covering their employees. In a recent national survey, nearly three-quarters of small businesses that did not offer benefits cited high premiums as the reason.<sup>7</sup>



Source <sup>4</sup>



Source <sup>7</sup>

Health insurance reform will lower premiums for small businesses in four important ways.

**Creates a health insurance exchange.** Health insurance reform will create a health insurance exchange that pools small businesses and their employees with millions of other Americans to increase purchasing power and competition in the insurance market (a luxury only large firms currently enjoy). Increased purchasing power and competition, in turn, make premiums more affordable. The exchange will also reduce administrative costs for small businesses and their employees by enabling them to easily and simply compare the prices, benefits, and quality of health plans.

Without reform, current data trended forward indicate that by 2016, average health insurance premiums for a single policy in a firm with less than 50 employees will be approximately \$6,700.<sup>8</sup>

According to the Congressional Budget Office, the premium for the second-lowest cost “silver” single policy in the amended Senate Finance health insurance reform bill would be \$5,000.<sup>9,10</sup> This means that with health insurance reform, the average small business would have an option to choose a lower cost plan in the exchange. Choosing that option could save 25 percent on the premium of a single policy. For smaller firms with less than 10 employees, the savings could be even higher, at 28 percent.<sup>11, 12</sup>

**Provides a small business tax credit.** On top of the potential savings created by the health insurance exchange, an estimated 3.6 million small businesses nationwide could qualify for a tax credit to make coverage for their employees even more affordable (see Appendix for state level information).<sup>13</sup> For example, a firm with 9 employees and an average wage of less than \$20,000 per employee could receive a credit of 35 percent off its premium costs in 2011 under the amended Senate Finance bill, or a credit of 50 percent off its premium costs under both the Senate Finance and House Tri-Committee bills in 2013.

**Ends the “hidden tax” on small businesses that provide health insurance.** Premiums are high, in part, because of a “hidden insurance tax” of more than \$1,000 added onto every family policy that covers the cost of care for those without insurance.<sup>14</sup> Health insurance reform will benefit small businesses that already provide health care by expanding health care coverage to all Americans and removing this hidden tax. These reforms will enable streamlined, efficient coverage for all Americans.

**Prevents arbitrary premium hikes.** In the current health insurance system, small businesses can see their premiums skyrocket if just one or two workers fall ill and accumulate high medical costs. Health insurance reform will prevent insurance discrimination based on health status, meaning that small businesses will no longer be unfairly penalized if a worker falls ill.

Premium costs are also burdensome for small businesses because of high administrative costs in the health insurance industry, including marketing and profits. In recent years, several states’ insurance commissioners have rejected unjustifiably high premium increases in the small group and individual insurance markets.<sup>15</sup> Health insurance reform will crack down on excessive insurance overhead by limiting the amount insurance companies can spend on administrative costs. Reform will also require transparency among insurance companies so small business owners can see exactly how insurance companies spend their premium money and make informed decisions when choosing a health plan.

### ***Insurance security and portability for a more productive workforce.***

The percentage of firms offering health insurance coverage has declined precipitously over time, in large part because of the erosion among small businesses. Between 2000 and 2009, health insurance offer rates among firms employing less than 10 workers declined from 57 percent to 46 percent.<sup>16</sup>

While the risk of losing coverage is real for all Americans – regardless of age, health status, gender, employment status, or income – workers in small businesses and their families are particularly vulnerable. An employee of a small business is 50 percent more likely to lose job-based coverage than an employee of a large business.<sup>17</sup>

The problem is even more pronounced for young adults, who are more likely to work for small businesses than older adults.<sup>18</sup> A full one in four young adults with employer-based insurance through a small business with less than 50 employees lost coverage within two years.<sup>19</sup>

The erosion of employer-based coverage translates to a lack of insurance for millions of working Americans and their families. Nearly one-quarter of the uninsured – 11 million people – are employees of firms with less than 25 workers, even though they only make up approximately one-tenth of the nonelderly population.<sup>20</sup>

Workers who are not offered coverage by their employers are unlikely to obtain coverage through the individual market or from another source. This trend is even more pronounced for workers in small businesses. Among those shopping in the individual insurance market, nearly 70 percent of workers in small firms with less than 50 employees had difficulty finding affordable, quality coverage, compared with 54 percent of workers in large firms. A full one-third of small business employees shopping in the individual insurance market were discriminated against because of a pre-existing condition.<sup>21</sup> As a result, half of workers in firms with less than 50 employees that do not offer health benefits remain uninsured.<sup>22</sup>

The health and financial consequences associated with being uninsured can be devastating. The uninsured are less likely to receive preventive care, more likely to be hospitalized for conditions that could have been prevented, and more likely to die in the hospital than those with insurance.<sup>23</sup>

The economic consequences of uninsurance are also enormous, with an estimated lost productivity of roughly \$97 to \$194 billion in a year.<sup>24</sup> And small businesses are often hit harder when workers go on sick leave, because they cannot afford to maintain a “reserve pool” of workers to replace those who are absent.<sup>25</sup>

Health insurance reform will make coverage portable and accessible for small business employees in three important ways.

**Creates health insurance stability.** Through the health insurance exchange, Americans without access to affordable insurance on the job can compare prices and health plans in order to choose which quality, affordable option is right for them. The exchange will guarantee that families always have quality health insurance choices even if a family member loses a job, switches jobs, retires, moves, or gets sick. Families will no longer have to make life decisions – like whether to retire, work fewer hours, or switch jobs – based on the lack of affordable and meaningful coverage outside of their current employer-sponsored plan.

**Protects consumers against insurance market discrimination.** Health insurance reform will also prevent insurance companies from denying coverage based on a pre-existing condition or any other health problem, and it will prohibit insurance companies from charging more if someone is sick or a woman.

**Provides additional options for young adults.** For the millions of young adults who work in small businesses, health insurance reform will also allow them to stay on their parents’ employer-based insurance until the age of 26, providing an essential option for coverage.

### ***Access to high-quality coverage.***

Even when small business employees are able to obtain health insurance, they are often vulnerable to a lack of adequate coverage and high out-of-pocket costs. Nearly half of workers covered by a small business employer have insurance that limits the total amount the plan will pay for medical care (48 percent), compared with 37 percent of employees of large businesses. Nearly one in ten small business workers have a health plan that does not offer prescription drug coverage,

Source <sup>27</sup>

compared with 3 percent of large business employees.<sup>26</sup> As a result, workers in small firms are more likely to shoulder burdensome out-of-pocket health care costs. Thirty-six percent spent more than 10 percent of their household income on out-of-pocket medical expenses in 2007, compared with 27 percent of workers in larger firms. And almost one in four small business employees rate their health insurance as fair or poor.<sup>27</sup>

Health insurance reform will ensure high-quality coverage to protect small business employees and their families from high health care costs.

**Limits out-of-pocket spending and eliminates caps on benefits.** Health insurance reform will ensure that health plans cover basic benefits such as hospitalizations, prescription drugs, and physician office visits, and limit what insurance companies can force an individual to pay in out-of-pocket

expenses such as deductibles and co-payments. Health insurance reform will also eliminate yearly and lifetime limits on how much insurance companies cover when an individual is sick.

### ***Appendix: Number of Small Businesses Potentially Eligible for Premium Tax Credits by State***

State	Number of Businesses
AK	8,590
AL	47,088
AR	36,154
AZ	63,684
CA	391,521
CO	68,825
CT	37,611
DC	5,302
DE	10,477
FL	215,875
GA	106,295
HI	14,047
IA	48,593
ID	25,329
IL	143,674
IN	76,835
KS	42,977
KY	44,847
LA	50,987
MA	70,693
MD	56,593
ME	22,632

State	Number of Businesses
MI	109,017
MN	72,385
MO	79,891
MS	33,115
MT	24,185
NC	111,590
ND	14,688
NE	33,090
NH	16,831
NJ	106,537
NM	22,731
NV	24,013
NY	248,715
OH	118,005
OK	45,578
OR	58,291
PA	151,035
RI	14,118
SC	49,279
SD	16,420
TN	62,394
TX	222,525
UT	31,888
VA	93,421
VT	11,462
WA	92,494
WI	77,427
WV	19,953

Source: Agency for Healthcare Research and Quality; Special runs from the 2008 Medical Expenditure Panel Survey – Insurance Component. Businesses determined to be potentially eligible have 25 or fewer workers with an average wage less than or equal to \$40,000.

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