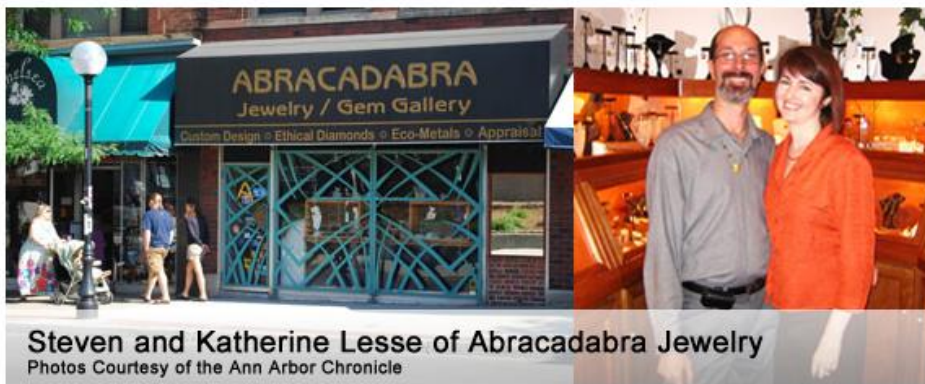


Michigan

Small Businesses at Risk:

How Entrepreneurs Slip Through the Health Care System's Cracks



Steven and Katherine Lesse of Abracadabra Jewelry
Photos Courtesy of the Ann Arbor Chronicle



Herb David of Herb David Guitar Studio



Occasionally Gift Shop
Owned by Linda Brinker

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Small Businesses at Risk:

How Entrepreneurs Slip Through the Health Care System's Cracks

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&

Michigan Small Business Owners

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Small Businesses at Risk:

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America's small businesses stand at the forefront of innovation. Our entrepreneurs are the first to adopt new technologies and take new approaches in old industries. As engines of job creation, small businesses are the leading edge that pushes our economy forward.

They are also, unfortunately, on the front lines of the health care crisis.

Many of the problems faced by small businesses are the same ones that plague our families: premiums that rise far faster than wages, endless red tape, and a bewildering insurance marketplace where consumers have few choices and even less bargaining power.

And where they face problems that differ – a whole business's premiums going up when one employee gets sick, the difficulty of recruiting and retaining good employees when health care is so expensive – these failures of our health care system can lead to small businesses shutting their doors, killing jobs and harming our economy.

To be sure, small businesses are not the only group that needs health care reform. The unsustainable status quo burdens individuals and families, state and federal governments, as well as large and small businesses. But over 60 million Americans work for small businesses,¹ and the problems they encounter are a key component of the case for reform.

This issue brief examines the many ways our health care system fails small businesses across the country. In addition to drawing on research documenting the scope of these problems, we also include testimonials from small businesses that we have spoken to. Their stories illustrate the risk that health care poses for small businesses – and what needs to be done to fix it.

I – Rising Costs

Ask small business owners about health care, and the first thing they will talk about is the drumbeat of rising health care premiums, year after year after year.² Indeed, annual premiums for family coverage for employees of small businesses have more than doubled since 1999, growing at an

¹ U.S. Small Business Administration, 2006. http://www.sba.gov/advo/research/us_06ss.pdf

² U.S. PIRG Education Fund, *The Small Business Dilemma*, July 2009, available at <http://www.uspirg.org/home/reports/report-archives/health-care/health-care/the-small-business-dilemma---how-rising-health-care-costs-are-tough-on-small-business>.

average pace of over 12% per year.³ This increase occurred while median family incomes only rose 29% over the entire decade.⁴

These unsustainable increases are the fundamental problem that afflicts small businesses – maintaining coverage, much less offering richer benefits to their employees, takes an ever-increasing portion of their revenues. Hiring a new employee becomes more and more expensive, not just because wages increase but because health care premiums for new hires are unaffordable. Indeed, without reform, projections show that health care costs will force small businesses to cut 178,000 jobs by 2018.⁵ Lashed to such a treadmill, many businesses fall behind, forced either to drop coverage or close their doors.

And the problem will only get worse. MIT economist Jonathan Gruber has estimated that if we do nothing and allow health care costs to continue as they have been, small businesses will spend twice as much as they do now by the end of the next decade.⁶ Unless businesses' earnings somehow also double, that rise represents a significant barrier to entrepreneurs starting new small businesses, and an ongoing drain on existing establishments.

“Although I have Blue Cross Blue Shield for my employees, premiums have jumped 32%. In order to keep premiums affordable, I have had to offer less coverage every year. Even with the reduced coverage, I've had to offer healthcare to employees at their own expense. At the moment, only three of 16 are on policy.”

*Susan Monroe
Three Chairs Co.
Ann Arbor, MI*

II – Declining Coverage

A natural consequence of the ongoing rise in small business health care costs is the decreasing proportion of firms that are able to offer benefits to their employees. Unsurprisingly, the percentage of small businesses that offer health care coverage has declined from 68% in 2000 to 59% currently.⁷

While some employees are able to find coverage nonetheless, many cannot. It is not simply a matter of hard-hearted businesspeople refusing to cover their employees to protect their bottom lines. Some small business owners have alternate sources of coverage, for example through a spouse. But many do not – and when they cannot afford health care for their business, they as well as their employees must go uninsured or seek coverage on the expensive, poorly-regulated individual market.

³ Henry J. Kaiser Foundation, *Employer Health Benefits 2009 Annual Survey*, available at <http://ehbs.kff.org/>.

⁴ U.S. Census Bureau

⁵ Small Business Majority, *The Economic Impact of Health Care Reform on Small Business*, June 2009, available at http://www.smallbusinessmajority.org/econ_research.php.

⁶ *Id.*, p. 7.

⁷ *Employer Health Benefits 2009 Annual Survey*.

Today, 26 million of America's 46 million uninsured are small business owners, employees, and their dependents.⁸ That so many workers are unable to obtain affordable health care is dramatic proof of the failures of the system.

"I would like to offer health care to employees, but I can't afford it. I gave one employee \$1/hr raise to help cover her costs. But that money is not tax deductible, it is subject to social security, and it only covers half the cost of a very basic plan. It does not even cover prescriptions. I do what I can to help, but costs are just too high.

I was covered under my husband until he retired, but now I have to pay a very high cost; my premiums just increased 18% to over \$600/month. I am looking forward to being eligible for Medicare in another five years or so."

*Nobuko Sakoda
Chelsea Flower Shop
Ann Arbor, MI*

III – Attracting and Retaining Good Employees

Health care costs pose problems beyond those that simply show up on business' ledgers. In order to prosper, small businesses need to be able to attract and keep high-quality employees. Health care is a key benefit, and those businesses that do not offer coverage are at a significant disadvantage. A recent survey of small business owners conducted by U.S. PIRG found that 55% of those who offered coverage cited attracting and retaining good employees as a primary reason for offering coverage.⁹

Ironically, health benefits can also make it harder to offer the wage increases necessary to retain workers. If a small business increases its personnel costs to keep up with rising health care premiums, it will be less able to give employees a raise. Over time, these choices add up. From 2009 to 2018, the aggregate loss to small business employees' wages due to health care costs will total \$834 billion.¹⁰

"I had an employee of seven years who did great work, but she had to move out of state. I wanted to continue employing her under contract and offer her health benefits, but because we couldn't document that she was working 30 hours a week our insurer wouldn't cover her. Now she's unemployed in a bad economy, and after six months she won't even have the option of buying health care from us anymore. It's a mess; we both want her to work here and get benefits, but insurance restrictions don't give us that choice."

*Katherine Lesse
Abracadabra Jewelry and Gem Gallery
Ann Arbor, MI*

⁸ Health Benefit Research Institute and the Kaiser Family Foundation, *2008 Annual Survey of Health Benefits*, September 2008.

⁹ *The Small Business Dilemma*.

¹⁰ *Economic Impact of Health Care Reform on Small Business*

IV – Low Bargaining Power

Small businesses know that the best way to keep costs down is to shop around. But this is no panacea for the ills that plague our health care system. Due to consolidation among health insurance companies, ninety-four percent of state health insurance markets qualify as “highly concentrated” under U.S. Department of Justice antitrust guidelines.¹¹ That means that there are not many insurance options to begin with.

And once a small business does start exploring its few options, it finds that there are fewer good ones. Small employers have much less bargaining power than larger firms. Increased administrative costs also decrease the value of the benefits they are able to negotiate. The result is that small businesses pay 18 percent more than larger businesses would for the exact same policy – a penalty entrepreneurs can’t avoid merely because the size of their business lets insurers treat them like small fry.¹²

"We offered health insurance when we had more than ten employees, but when we dropped below that, our costs shot up. Now just my business partner and I are covered, and we change providers every three years or so because costs keep going up while coverage goes down. When I was looking at plans recently, I learned about the Blue Cross Blue Shield Healthy Living Plan, which gives incentives for preventative medicine. That sounded perfect for us, but when we looked into it, we found out that it's only for businesses with twenty-five or more employees. Smaller businesses don't get the "healthy living" option.

It's so difficult as a lay person to evaluate health care plans. If you want to evaluate the health content of food you have standardized nutritional information on the side of the box, and with something like a loan you have APR to compare, but with health care, there are exceptions all over the place, special cases. This makes it nearly impossible to compare plans and know what you're getting. For instance, I have two kids, and they were both delivered at home by midwives. We changed insurers between births. With one insurer getting prompt reimbursement was no problem, but with the other, getting reimbursed for the "non-standard birth" was a mess. You have no idea what your insurance is going to cover until you make the claim."

*Ryan Dibble
iQguys LLC
Ann Arbor, MI*

¹¹ American Medical Association, *Competition in Health Insurance: A Comprehensive Study of U.S. Markets: 2008 Update*.

¹² Commonwealth Fund, *Benefits and Premiums in Job-based Health Insurance*, May 2006, available at http://www.commonwealthfund.org/usr_doc/Gabel_benefitspremiumsjobbased_925_itl.pdf.

V – When Sickness Strikes

As bad as the picture is for many small businesses, it gets worse when the owner or an employee gets sick. With a “pre-existing condition” in an owner or employee’s medical history, a business’s ability to get a fair deal is reduced even further. In many states, insurers may refuse to cover the offending medical condition for a year, leaving the employee without coverage just when he or she most needs help.

Furthermore, because insurers adjust their rates based on the overall health of a business’s employees, an employee’s sickness can mean raised premiums for everyone. Along similar lines, businesses that have a workforce that’s older on average can face substantially higher rates compared to a younger company.

The power insurance companies have to dictate rates is exacerbated by the weak bargaining power of small firms, discussed above. For a business unlucky enough to have an employee who actually needs to use his or her expensive health care, things can get even worse.

"I recently turned 50 and as part of my check-up, my doctor advised me to get a colonoscopy. I contacted my insurance company and was originally told that they wouldn't cover it. The people who performed the colonoscopy attempted to find something to remove and test, as that increases the chance that insurance will cover the procedure. They nipped off five or six polyps, and it turned out that one was pre-cancerous. My doctor said that if I hadn't gotten the colonoscopy and had developed cancer, the treatment could've cost upwards of \$150,000. By getting the preventative care my insurance company told me not to get, I saved them money. And I still got a \$350 bill."

*Jeff Taras
P.J.'s Used Records
Ann Arbor, MI*

Conclusion

America’s small businesses are critical to our welfare, pioneering new technologies and approaches while creating the jobs that keep our economy growing. But our current health care crisis is putting their unique role at risk. Left unchanged, the status quo will drive small businesses into the red, kill jobs, stifle wages, and see many hard-working American entrepreneurs and employees without coverage when they get sick.

There are few more drastic illustrations of the need for health care reform than the challenges faced by our small businesses. Fortunately, the reforms currently under consideration in Congress address small business’ needs. Reforms approved by key committees would:

- Help small businesses to pool their bargaining power when buying insurance through new buying pools called exchanges.

- Set new rating rules on insurers that would prevent them from jacking up small businesses' rates when one employee gets sick.
- Offer tax credits to help small businesses provide health insurance to cover their employees.
- And a public health insurance option would give them the choice of a high-quality, low-cost plan and force private insurers to compete for small employers' business.

These changes will make our small businesses stronger, lowering their health care costs and keeping their employees healthier. When employees have health care, absenteeism declines and productivity increases. Lowered health costs will make it easier for entrepreneurs to hire new workers and create jobs, boosting the economy.

The stories contained in this report are only a sampling of those small business owners who are worried that their success will be prevented not by any lack of business acumen but rather by a failed health care system. Small businesses will not be the only beneficiaries of reform, but these policies would help all small businesses across America.