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Executive Summary

When it comes to health care, American small business owners are getting a raw deal. While the current insurance marketplace offers some options to larger employers, it too often leaves small business owners on the outside looking in. They face unpredictable changes in costs, and far too often they are forced to choose between covering employees and the very survival of their businesses.

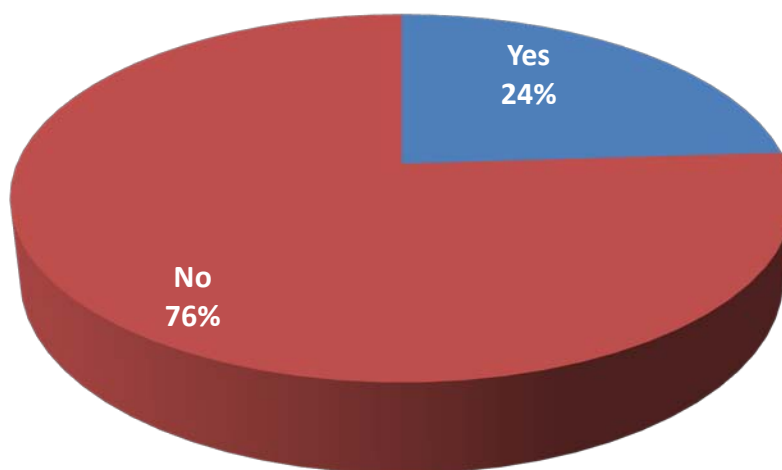
One crucial test of any health reform proposal is whether it offers a better deal to American small businesses. But the key Washington lobbies who claim to represent small businesses have been historically aligned with the political interests most opposed to reform. To more accurately reflect the diversity of views of small businesses on health care, the U.S. Public Interest Research Group has let small business owners to speak for themselves.

Three hundred and forty-three small business owners and managers across the country made their views heard through a survey which investigated the impact of health care costs on their businesses.

Survey Results:

Our efforts revealed that small businesses who do not currently offer coverage would overwhelmingly like to, but are stymied by high costs, complications and red tape. We discovered that those entrepreneurs who do make the sacrifices necessary to provide health care consider it less a moral obligation than a smart business strategy to increase employee productivity and attract and retain talented employees. Finally, we discovered that only a fraction of small business owners surveyed believed that their voices were being heard in the current health care debate.

Are the Interests of Small Businesses Being Recognized in the Health Care Debate?



- 78% of small businesses who do not offer coverage would like to do so.
- 80% of those owners who would like to offer coverage cite cost as a barrier
- 17% of those owners who would like to offer coverage say that they do not offer coverage because it is too complicated
- 55% of small businesses offering coverage do so to attract and retain good employees
- 27% of small businesses offering coverage do so to increase worker productivity
- Only 24% of owners surveyed felt that their interests were represented in the current health reform debate

Benefits of Health Reform:

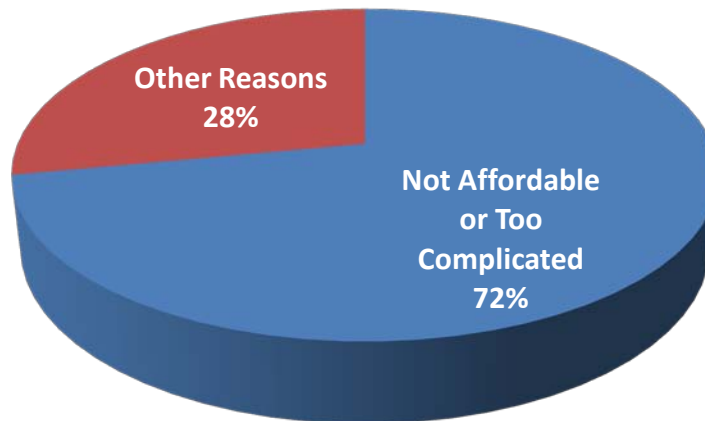
Successful reform could yield serious benefits for small businesses and the country as a whole. Recent analysis by MIT Professor Jonathan Gruber, commissioned by the Small Business Majority, found that health reform would save up to 128,000 small business jobs that would otherwise be lost due to high health care costs. Achieving these benefits will require ensuring that health reform legislation has a mix of policies that work for small businesses, including health insurance exchanges, ending discrimination in issuance, renewal, and pricing of coverage plans based on health history, small business tax credits, and most importantly, a comprehensive push to reduce the growth in overall health care spending.

In Their Own Words

The cost of health insurance for small groups has risen so much over the past few years that it is becoming too much of a hardship to maintain health coverage for our employees.

-Sign shop-Miami, FL

Reasons for not Offering Coverage



Introduction

Health care is a necessity for a every American, [but] the cost has increased by 100% or more over the last five years. [Small businesses] are too small to be attractive to insurance companies and they have taken full advantage. I have no political interest in protecting the supposed rights of insurance executives to continue their annual Hawaiian junkets at my expense.
-Computer networking - Chicago, IL

When it comes to health care, America's small business owners are getting a raw deal. While the current insurance marketplace offers some options to larger employers, the high cost of health care too often leaves small business owners on the outside looking in. They face unpredictable changes in costs. Too often these entrepreneurs are forced to choose between covering employees and the future of their businesses.

It is no surprise that traditional Washington lobbies like the Chamber of Commerce, which claim to speak for small business are opposed to the comprehensive health reform under consideration in Congress.¹ But like many Washington lobbies claiming to represent small businesses, the Chamber has historically been aligned with the political interests opposed to reform. Research

suggests that the small business sector has interests and opinions that are far less monolithic than those advanced by these Washington lobbies and special interests. According to recent polls, small businesses find the costs of the health care status quo far less preferable than the prospect of reform.²

As policy-makers consider options for health reform, they must understand the impact that both the current situation and proposed health reform will have on small businesses and seek out the full range of views in this dynamic sector of the American economy. Intended as an aid to this process, this report summarizes existing research, quantifying the impact of rising costs on small businesses, and details the recent survey and story collection activities conducted by U.S. PIRG.

This spring, from May 28th through June 22nd) U.S. PIRG researchers circulated surveys to small business owners (and collected 309 surveys, through face-to-face interviews and via the internet. In most cases, U.S. PIRG researchers spoke with owners in their place of business. Small business owners filled out surveys and were also asked whether they wished to share a story about the health care challenges facing their business.

Small Businesses and Health Care Costs: Existing Research

Rising Health Care Costs: The Root Problem

I think it inexplicable how much the rate of yearly increases in health coverage has outpaced the average rate of inflation. I cannot think of any other product which I purchase be it housing, transportation, food or clothing which has had a comparable increase in price.
- Clothing store-Bethesda, MD

At the heart of the health care problem for small businesses lies the same challenge facing every citizen, family, and community in the country. Health care costs are currently growing faster than the overall economy. Researchers at the Center for Medicaid Services have found that health care spending is growing three times faster than wages.³ This has led to a crisis of affordability in all sectors of society, as businesses of all sizes are cutting back on what coverage they offer employees. State, local, and federal governments are struggling with massive short- and long-term fiscal imbalances, due in large part to health care obligations. Individual consumers are foregoing necessary medical care due to the cost. As health costs rise year after year, this affordability crisis is afflicting more and more of America. But among small businesses, their employees, and the communities that depend on them, the crisis is felt particularly acutely.

Impact on Small Business Owners

The cost of health insurance for small groups has risen so much over the past few years that it is becoming too much of a hardship to maintain health coverage for our employees.
-Sign shop-Miami, FL

Small businesses face a disadvantage in today's health insurance market, which forces them to pay more while getting less coverage. Today's insurance market rules confine them to the small group and individual insurance markets, while larger pools of employees at bigger companies can access more stable and better regulated large group insurance markets. Additionally, their smaller size compared to larger employers denies them the leverage needed to negotiate better deals on the price and comprehensiveness of their insurance plans. In short, insurance companies have the market power to tell small businesses to "take it or leave it." Furthermore, because of the small size of the pool of employees, just one employee with a serious illness, injury or disability can send an entire small business' rates through the roof. This lack of predictability and stability makes covering employees a difficult proposition for many small business owners.

Overall, the smallest businesses and their employees pay an average of 18% more than larger businesses pay for the same policy.⁴ To make matters worse, these high costs aren't stable. Rather than moving towards parity, health insurance premiums for small firms have increased by 113% since 1999.⁵

The costs for small businesses of continued premium increases will be tremendous. A recent report by Small Business Majority found that small businesses can expect to pay nearly \$2.4 trillion dollars over the next ten years in health care costs for their workers.⁶

- ¹ US Chamber of Commerce, Press Release, June 24, 2009, downloaded from http://www.uschamber.com/press/releases/2009/june/090624_healthcare.htm.
- ² Main Street Alliance, *Taking the Pulse of Main Street: Small Businesses, Health Insurance, and Priorities for Reform*, January 15, 2009.
- ³ Keehan, S. et al. "Health Spending Projections Through 2017, Health Affairs Web Exclusive W146: 21 February 2008.
- ⁴ Commonwealth Fund, *Benefits and Premiums in Job-based Health Insurance*, May 9, 2006.
- ⁵ Kaiser Family Foundation & Health Research and Educational Trust, *Annual Employer Health Benefits Survey, 1999-2007*.
- ⁶ Small Business Majority, *The Economic Impact of Health Reform*, June 11, 2009.
- ⁷ Health Benefit Research Institute and the Kaiser Family Foundation, *2008 Annual Survey of Health Benefits*, September 2008.
- ⁸ Small Business Majority, "Key Facts," downloaded from <http://www.smallbusinessmajority.com/keyfacts.php>.
- ⁹ U.S. Small Business Administration, *State of the Inner City Economies: Small Businesses in the Inner City*, 2005.
- ¹⁰ Small Business Majority, *The Economic Impact of Health Reform*, June 11, 2009.
- ¹¹ Small Business Majority, *The Economic Impact of Health Reform*, June 11, 2009.
- ¹² Small Business Majority, *The Economic Impact of Health Reform*, June 11, 2009.
- ¹³ Small Business Majority, *The Economic Impact of Health Reform*, June 11, 2009.
- ¹⁴ Small Business Majority, *The Economic Impact of Health Reform*, June 11, 2009.
- ¹⁵ Small Business Majority, *The Economic Impact of Health Reform*, June 11, 2009.
- ¹⁶ Small Business Majority, *The Economic Impact of Health Reform*, June 11, 2009.