



# **The Small Business Solution**

## **How To Make Health Care More Affordable For Granite State Small Businesses**

March 2012

**NHPIRG**  
Education Fund

# **The Small Business Solution**

## **How To Make Health Care More Affordable For Granite State Small Businesses**



March 2012

*Author*

Addie Shankle, NHPIRG Advocate

**NHPIRG**  
— Education Fund

# Acknowledgments



## Author

Addie Shankle, NHPIRG Advocate

The author bears any responsibility for factual errors. The recommendations are those of NHPIRG Education Fund. The views expressed in this report are those of the author and do not necessarily reflect the views of our funders or those who provided review.

© 2012 NHPIRG Education Fund.

Thanks to Steve Blackledge and Mike Russo of U.S. PIRG Education Fund for their involvement in the writing, production and editing of this report.

Special thanks to Ilya Slavinski for his help and involvement with the research process.

**Some Rights Reserved:** NHPIRG Education Fund issues this report under a Creative Commons “some rights reserved” license. You are free to copy, distribute, or display the work for non-commercial purposes, with attribution. For more information about this Creative Commons license, visit: <http://creativecommons.org/licenses/by-nc-nd/2.5/>

**NHPIRG Education Fund:** With public debate around important issues often dominated by special interests pursuing their own narrow agendas, NHPIRG Education Fund, a 501(c) (3) organization, works to protect consumers and promote good government. We investigate problems, craft solutions, educate the public, and offer Granite Staters meaningful opportunities for civic participation. For more information about NHPIRG Education Fund, or for additional copies of this report, please visit [www.nhpirg.org](http://www.nhpirg.org).

*Cover photo: Wikimedia Commons*

*Layout: Alec Meltzer, [meltzerdesign.net](http://meltzerdesign.net)*

# Table Of Contents



<b>Executive Summary .....</b>	<b>1</b>
<b>Introduction .....</b>	<b>3</b>
<b>The Root Of The Problem.....</b>	<b>4</b>
<b>The Survey .....</b>	<b>5</b>
<b>Recommendations.....</b>	<b>7</b>
<b>Conclusion .....</b>	<b>8</b>
<b>Endnotes.....</b>	<b>9</b>



# Executive Summary



Most small business owners in New Hampshire would like to offer health care to their employees but have been priced out of the option. Often small business owners cannot afford to cover even themselves. Many of them have been forced to choose between keeping their business open and offering health insurance benefits, while their employees have been forced to choose between keeping their job working for a locally owned shop and finding employment which offers coverage.

Only when small businesses, independent contractors, sole proprietors and individuals are able to obtain coverage and attain the personal economic stability that comes with having health insurance without abandoning their business ventures will New Hampshire meet our economic potential. Health care reform in the Granite State must create a marketplace which offers affordable plans for small groups and individuals, and can do by advancing two key policies: setting up a pro-consumer health care exchange, and creating a strong, transparent process for reviewing premium increases.

## Exchanges

State health care exchanges are marketplaces of insurance products, virtual stores where consumers can compare and purchase health insurance plans. An exchange makes health care better and more affordable for small businesses, micro businesses, and individuals through the implementation of such a marketplace. If exchanges are constructed and governed in consumer friendly ways, they can level the playing field.

Health care exchanges may pool together the buying power of small businesses and individuals, and negotiate for better rates on behalf of the group. This type of exchange is sometimes called an “active purchaser” model, but “active negotiator” is a more accurate description. Health care exchanges which follow the active negotiator or active purchaser model can make rates and products which have until now been available only to big companies and their employees, available to small businesses and individuals. For this reason, it is critical that the state health care exchange is consumer-run, rather than being dominated by representatives of the insurance industry.

## Rate Review

Small business owners have seen their premiums and deductibles skyrocket in recent years, even though proposed rate hikes from insurance carriers are submitted to the Department of Insurance, and the Department has the option of rejecting those proposals. The rate review process isn't transparent to New Hampshire consumers but it should be. The State should improve and modernize its databases which tracks rate hikes imposed on consumers and enable a forum for continuous public input.

The state health care exchange should also play a role the rate review process. The exchange should have the authority to reject unreasonable rate increases for products sold in the exchange. And again, for it to play a positive role in rate review, the exchange's governance board must be free of industry influence.

## Survey Results

Last fall, NHPIRG researchers went door to door, and interviewed over 200 small business owners about their health care concerns. Small business owners answered an anonymous survey and were invited to share their related experiences. Fewer than 25% of small business owners we surveyed offer coverage to employees through their businesses, including to themselves.

Our efforts revealed that Granite State small business owners overwhelmingly believe that the rising cost of health insurance has negatively impacted New Hampshire's economic growth. Almost 80% of Granite State small business owners say that the high cost of health care coverage has hurt New Hampshire's overall economy and business community. We asked if the state exchange should have the authority to reject unjustified rate hikes by insurance companies, and the authority to *require* insurers to offer more cost-effective products in our state. 73% said "yes" and only 8% said "no."

The vast majority of business owners we surveyed favor state action to reform and improve health care options for individuals and small businesses. We found that 83% of small business owners would support a state health care

exchange that pools the buying power of individuals and small businesses to negotiate with insurance carriers and secure lower rates on behalf of the group. Only 3% of small business owners polled do not want the state to take action to create an active purchaser exchange. Thirteen percent of small business owners say they don't know.

Though small businesses are the backbone of our economy in New Hampshire, only 11% of small business owners surveyed believe that their interests are represented in the health care debate in Concord.

## Key Recommendations

- Legislators should form a strong state health care exchange which pools the buying and negotiating power of individuals and small businesses.
- The exchange must be run by and for businesses and consumers.
- New Hampshire's rate review process should be more transparent.
- The consumer-run state exchange should have rate review authority which allows the group to reject unjustified rate hikes proposed by carriers.

*"What we pay is out of control, I pay \$800. Talk about stifling someone who might have some potential, someone who wants to start a shop but has a family. They can't do it."*

– *Ralph of Ralph's House of Tone  
Dover*

# Introduction



The current health insurance marketplace in New Hampshire does a disservice to the backbone of our state's economy—our small businesses. Though the resilience of our local businesses is a huge part of what has kept us from feeling the recession as deeply as most other states have, Granite State small business owners say that their interests are not represented in the health care debate in Concord.

Many small business owners cannot afford to cover themselves, let alone their employees. The exorbitant cost of small group and individual plans has priced many out of coverage altogether, or high deductibles have brought them to conclude that the plans simply aren't worth the cost. As New Hampshire lawmakers consider options for health reform they must understand that small business owners remain strongly opposed to the status quo and want to see substantial changes in the current health care marketplace.

One of the most important opportunities facing state leaders is to create a new insurance marketplace called an exchange. State health care exchanges are virtual stores where consumers can compare and purchase health insurance plans. They can also pool together the buying power of small businesses and individuals, and negotiate for better rates on behalf of the group – an approach called the “active purchaser” or “active negotiator” model. If exchanges are constructed and governed in consumer-friendly

ways, they can level the playing field for our small businesses. Exchanges which follow the active negotiator or active purchaser model and are governed by and for consumers can make products which have previously been available only to big companies accessible to small businesses, sole proprietors, independent contractors, their families and their employees.

Because many sole proprietors, independent contractors and other very small businesses get their coverage on the individual market, they need health care to work on both the small group and individual markets. An exchange that covers and negotiates on behalf of individuals as well as small groups can do that. The exchange members will be a large constituency if the exchange is properly constructed, and that will create access for all Granite Staters to purchase products which have, until now, only been available to big companies.

Proper implementation of the exchange by leaders in Concord is critical, because without any authority or power, the exchange will implode and health insurance rates will continue to skyrocket as the quality of the products plummets. The only way to stop ever-rising premiums is to empower consumers by allowing them to pool their resources in a consumer-governed purchasing group. Achieving the benefits of reform will only come about upon the implementation of legislation which sets up a *consumer driven* state health insurance exchange.

# The Root Of The Problem

The smallest businesses and their employees pay an average of 18% more than bigger companies pay for the same policy. About half of America's 46 million uninsured are small business owners and their employees and their dependents. [1]

Prior research and our survey suggest that the small business owners have interests and opinions that favor major reform overhauls to present policies, and that small business owners feel largely unheard in the health care debate. [2] Most lobbying groups, associations and Chambers of Commerce represent big and small businesses. Few to none exclusively represent small and micro businesses. It is not surprising that the policies which focus on improving the plight of very small businesses and their employees are underrepresented when they do not align neatly with the interests of larger companies.

The fate of small businesses and individuals in the insurance market are closely tied. The only option many small business owners and their employees have is to shop for insurance on the individual market. Small business owners and their employees often seek coverage on the individual market, but find obtaining insurance individually unaffordable or impractical. According to the Commonwealth Fund, "Nearly 70 percent of small firm workers who

*"My manager is no longer with me because I can't offer health care. It's not the guy with a hundred people on their payroll, it's those of us with one or two people on."*

– Dori, Sister Crows  
North Conway

attempted to buy coverage on the individual market found it difficult or impossible and never bought a plan." [3]

As health care costs rise, those who haven't been priced out of coverage have less disposable income to spend. This impacts our small businesses in every way. Not only do small business owners and their employees pay more for coverage every time rates go up, but so do the patrons they rely on for business. It's no surprise that when asked, the overwhelming majority of small business owners want to see state leaders step in to prevent continued rate hikes by the insurance companies.



# The Survey



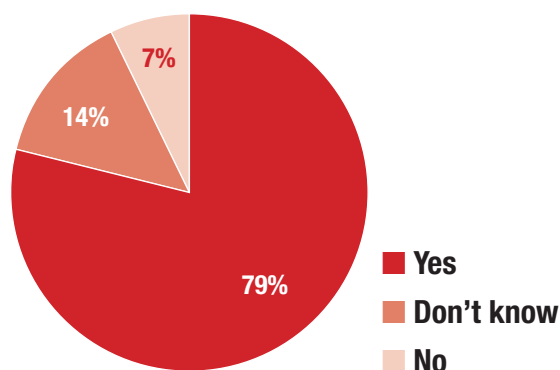
Last fall, NHPIRG researchers went door to door, and interviewed over 200 small business owners relative to their health care coverage, and options. Small business owners who answered our anonymous questionnaire were invited to share additional health care concerns and experiences.

We asked small business owners if they are able to offer health care coverage to their employees. Fewer than 25% of small business owner we surveyed offer coverage to employees through their businesses, including to themselves. Most small business owners we talked to aren't covered through their business. Many have no health care coverage at all. If they are covered, they often are covered through a spouse's employer.

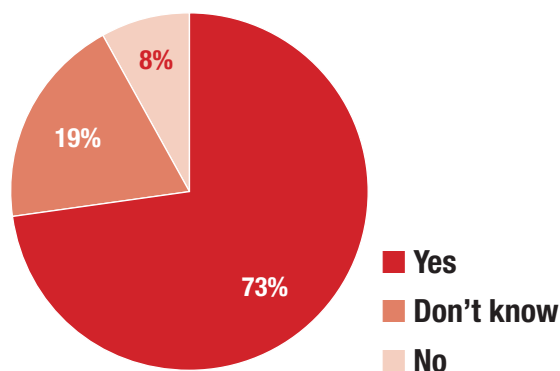
Our efforts revealed that Granite State small business owners overwhelmingly believe that the rising cost of health insurance has negatively impacted New Hampshire's economic growth. Almost 80% of Granite State small business owners say that the high cost of health care coverage has hurt New Hampshire's overall economy and business community.

The small business owners we reached placed the responsibility for high premiums squarely on the insurance carriers. We asked if the state exchange should have the authority to reject unjustified rate hikes by insurance companies, and the authority to *require* insurers to offer more cost effective products in our state. 73% said "yes" and only 8% said "no."

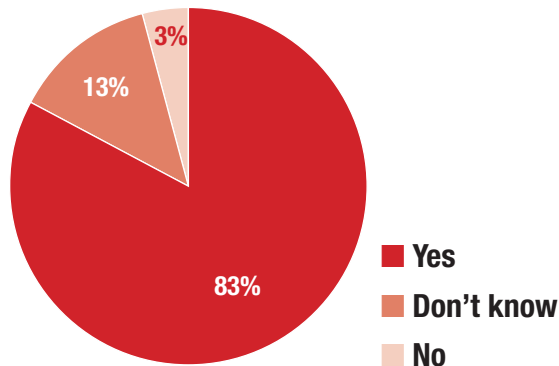
*Has the cost of health insurance negatively impacted New Hampshire's overall economy and business community?*



*Should the State Exchange have the authority to reject unjustified rate hikes by the insurance companies and require insurers to offer more cost effective products?*



*Would you support a measure by the legislature to design an exchange which is an active purchaser or active negotiator of insurance?*



The vast majority of business owners we surveyed favor state action to reform and improve health care options for individuals and small businesses. We found that 83% of small business owners would support a state health care exchange that pools the buying power of individuals and small businesses to negotiate with insurance carriers to secure lower rates on behalf of the group. Only 3% of small business owners polled do not want the state to take action to create an active purchaser exchange. Thirteen percent of small business owners say they don't know.

Although there was no question in our survey relative to the governance of the exchange, many small business owners volunteered their concern that insurance industry representatives could and would try to control the exchange. We agree. In our recommendations, we suggest the advisory board of the exchange should be dominated by business owners and consumers

Though small businesses are the backbone of our economy in New Hampshire, only 11% of small business owners surveyed believe that their interests are represented in the health care debate in Concord.

# Recommendations



## The Exchange

New Hampshire lawmakers should focus on constructing and fostering a successful marketplace for individuals and small groups to purchase insurance. A strong state health care exchange is the best way to realize such a market, and it is a policy which has overwhelming support from small business owners.

A strong state exchange will have the authority to negotiate with the insurance companies on behalf of small businesses and individuals by pooling their buying power and working on their behalf. And that will create access to products for all Granite Staters which have, until now, only been available to big companies and their employees. Because so many micro businesses, their employees, sole proprietors and independent contractors rely on the individual market, it is important that individuals are able to enter into buying pools as well.

Proper governance of the exchange is crucial. The people running the exchange must have the will as well as the authority to govern in the interests of businesses and consumers. If the insurance industry or other special interests acquire undue influence over the state health care exchange, the quality of the products will devolve or the exchange may be designed or caused to fail altogether.

- Legislators should form a strong state health care exchange which pools the buying and negotiating power of individuals and small businesses.

- The Exchange must be run by and for businesses and consumers.

## Rate Review

Currently, the Department of Insurance reviews proposed rate hikes by insurance carriers in New Hampshire. The metrics by which the Department determines to accept or reject a proposed rate hike are vague, and the process itself happens entirely outside the view of the public. Granite Staters should have both the ability to easily monitor this process and the opportunity to offer input.

This year the DOI held the first ever public hearing to discuss insurance rates with the public, and to invite public testimony. [4] It's a strong start, but transparency and public comment should be continuous. The State should improve and modernize its databases which track rate hikes imposed on consumers. The state may use data from improved filings to review health insurance premiums and potentially provide recourse to people who have seen big rate hikes in their policies over the last several years.

In addition to the Department of Insurance transforming its current rate review process into one which is transparent to Granite State consumers and allows for public input, the consumer driven health care exchange should have a robust rate review process. The exchange should have the means and the authority to secure actuarial assessments of proposed rate hikes, and reject those hikes if they are unjustified.

- New Hampshire's rate review process should be more transparent.
- The consumer-run state exchange should have rate review authority which allows the group to reject unjustified rate hikes proposed by carriers.

## Conclusion

Small business owners have been a huge part of what has sustained New Hampshire through the downturn. We have not felt the recession to the same degree and extent most other states have due largely to the resilience of our local shop owners, independent contractor and entrepreneurs. Yet, these people don't feel represented in the health care debate that is so key to their continued success, and to our economic success as a state.

Small business owners are frequently unable to compete with bigger companies for the most skilled and qualified employees simply because they can't afford to provide health insurance benefits. Small business owners should be able to attract and retain capable employees based on the merits of the positions they offer and the working environment they provide. A vibrant, consumer run health care exchange which pools the buying power of small group purchasers will foster a more level playing field between our small businesses and big companies.

Most of New Hampshire's small business owners think that lawmakers should more tightly rein in insurance companies who operate here. Granite Staters have a strong tradition of thoughtfulness and caution when it comes to government

solutions to any problem. Yet, only 8% of small business owners are unsupportive of the public policies by which lawmakers could create a strong, consumer run state health exchange. An overwhelming 83% of small business owners in New Hampshire would like to see a state health care exchange with the active purchasing power to pool the buying and negotiating power of individuals and small businesses.

At a time when almost 80% of Granite State small business owners say with certainty that the high cost of health care coverage has hurt New Hampshire's overall economy and business community, and only 11% feel heard in Concord, lawmakers under the Golden Dome should take note. Small business owners have shown a clear consensus favoring a strong, consumer run, state based, active purchaser or active negotiator health care exchange in New Hampshire.

*"It hasn't put us out of business yet. But it will."*

— David Tomg, Earth Treasures Keene

# Endnotes



- 1 *Small Business Majority, Shopping Around, July 2011.*  
[http://www.smallbusinessmajority.org/reports/shop\\_exchange.pdf](http://www.smallbusinessmajority.org/reports/shop_exchange.pdf)
- 2 *U.S. PIRG, The Small Business Dilemma, July 2009.*  
[http://cdn.publicinterestnetwork.org/assets/UM2mjln-tRc\\_IroDL5F7YQ/USP-The-Small-Business-Dilemma.pdf](http://cdn.publicinterestnetwork.org/assets/UM2mjln-tRc_IroDL5F7YQ/USP-The-Small-Business-Dilemma.pdf)
- 3 *Commonwealth Fund, Affordable Coverage for Small Business Employees, September 2010.*  
<http://www.commonwealthfund.org/Blog/2010/Sep/Affordable-Coverage-for-Small-Business-Employees.aspx>
- 4 *Department of Insurance, Press Release: Insurance Commissioner Holds Hearing on Health Insurance Rates, October, 2011.*  
[http://www.nh.gov/insurance/media/pr/2011/documents/pr\\_102611.pdf](http://www.nh.gov/insurance/media/pr/2011/documents/pr_102611.pdf)