



HEALTH REFORM AND YOUR SMALL BUSINESS

National Reforms Impact on Business & What You Can Do

A Utah Health Policy Project Issue Brief/Call to Action

August 5, 2009

BACKGROUND

The health reforms currently being debated in Congress are vital to the success of small businesses – no wonder they have sparked such strident debate! Utah has a lot at stake, given that our 60,000 small businesses employ more than half of the state’s workforce. For that reason, we need to pay careful attention to the finer points of these bills. The goal of this brief is to “get under the hood” and spell out exactly what is going right and wrong with the proposed reforms.

Make no mistake: There is much to celebrate in the reform proposals currently under debate, and we need to make sure that those components make it into the final bill. But there are also some missteps--and now is the time to fix them. Some have argued that the current reform efforts are fatally flawed, and that we might as well go back to the way things were. Small businesses know that this is not an option – escalating health care costs are overwhelming them. To make sure the reforms are meaningful and effective, small businesses need to speak out NOW about how to improve upon them.

WHAT’S RIGHT FOR SMALL BUSINESS...

The good news for small business is that the reform process is *generally* on the right track. The Senate HELP Committee bill and the House bill, America’s Affordable Health Choices Act, go a long way to solving the most pernicious and perplexing problems impacting small businesses. They provide relief from rising costs while leveling the playing field. But the bill to watch, the main platform for bipartisan compromise, the Senate Finance Committee’s proposal, has yet to be released. To prepare for the Senate Finance proposal, we should be on the lookout for the following positive features of the bills that have passed out of committee:

- **Insurance reforms** will do away with the built-in disadvantages faced by small groups and individuals in the insurance marketplace by requiring insurers to cover everyone and prohibiting insurers from charging higher premiums because of health status or pre-existing conditions. These changes will ensure that small businesses are not saddled with unsustainable premium increases if they or one of their employees becomes sick or has an accident.
- **Creation of health insurance “exchanges” or “gateways”** to:
 - Spread risk more broadly, providing additional premium stability and predictability for small businesses;
 - Increase the purchasing power of small businesses by joining them together into larger groups for the sake of risk management;

What Needs Fixing in Reform Bills

To achieve the biggest impact while helping Utah’s small employers, any bill passed should **guarantee small businesses with 50 employees have the opportunity to purchase insurance through the new “exchanges” or “gateways”**.

With over three quarters of Utah’s small businesses employing 50 or less employees, this is especially important for the viability of small businesses and Utah’s economy.

Contact Congressman Matheson today:
(202) 225-3011

[Email Through Website](mailto:matheson.house.gov)

Website: <http://matheson.house.gov>

AND Contact Senator Bennett today:
(202) 224-5444

[Email Through Website](mailto:bennett.senate.gov)

Website: <http://bennett.senate.gov>

Ask them to carry an amendment that...

- Allows small businesses with up to 50 employees to participate in the “exchange”,
- Gives states the flexibility to set that limit higher,
- Allows businesses that hire new employees to continue to offer coverage in the “exchange”.

Over the long term expanding the exchange will reduce risk, increase stability, expand choice, and cut costs for small employers.

- Spread administrative costs over a larger base, lowering per person costs;
- Create a marketplace for employers and employees to shop for and compare plans, providing more choice and transparency.
- **An individual requirement to purchase insurance** with penalties for those who do not; there are exemptions for those who cannot afford it, and premium subsidies for those who need them. Requiring everyone to have insurance diminishes the likelihood of adverse selection, wherein the new risk pool within the exchanges attracts the oldest and sickest individuals, making it more expensive.
- **Shared responsibility** for costs among employers, individuals, government, providers and insurers, a policy that 67% of Utah's small businesses support.ⁱ An employer requirement will level the playing field and minimize the need for new taxes. *Yet, similar to the individual mandate, this new requirement is coupled with:*
 - Exemptions for some small businesses;
 - Tax credits for certain small businesses to purchase insurance;
 - Penalties for those who do not comply;
 - Cost containment strategies to slow the growth of health care costs and help small businesses sustain their investment in their employees.

For an in-depth side-by-side comparison of the bills go to www.kff.org/healthreform/sidebyside.cfm.

STRENGTHENING THE PROPOSALS

One of the main sticking points in the reform discussion is who will be able to access the newly created exchanges. But one thing is clear: to achieve the goals of the exchange, **the pool must be as large as possible**. Currently **small businesses lack the buying power of large employers, so they pay an average of 18% more for the same level of benefits**.ⁱⁱ They also lack the resources to handle the administrative hassle of shopping for insurance. A larger pool will not only spread risk and cost more broadly, but it will attract insurers who will see the pool as a good market opportunity. This, in turn, will increase competition and innovation. Further, a robust exchange will lay the groundwork for moving away from our current employer-based health system – a move embraced by an increasing number of employers and Utah's own Senator Bennett.

To ensure a successful exchange marketplace, reforms should at a minimum open the exchange to small businesses with **up to 50 employees**. In Utah, **only 32% of firms with less than 50 employees offer insurance to their employees**, while 91% of employers with over 50 employees offer insurance.ⁱⁱⁱ **With over three quarters of Utah's small businesses employing 50 or less employees**, this is especially important for the viability of Utah's economy and small business community.

As it stands today, the House is limiting participation in the exchange to small businesses with less than 10 employees. The House Ways and Means bill in year two will expand the exchange to businesses with up to 25 employees, but the House Energy and Commerce committee's proposal stays at employers with 10 or less employees. On the Senate side, the HELP committee bill was amended to allow employers with up to 50 employees into the exchange, but it is unclear where the Senate Finance committee will come down on this issue.

Limiting the exchange puts mid-size small businesses at a competitive disadvantage and ignores their struggles with health care costs. There are many stakeholders that do not want to see the exchange expanded because it is not in their interest to have a large pool with purchasing power. **Unless our delegation hears from you TODAY, this decision will be left to those with opposing interests.**

For a list and contact information of our delegation go to www.healthpolicyproject.org/NationalAction.html

ⁱ Small Business Majority. Report: Utah Small Business Healthcare Survey. June 23, 2009.

ⁱⁱ Gabel, Jon, et al. Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii Is Up, Wyoming Is Down, *Health Affairs*, May/June 2006.

ⁱⁱⁱ Kaiser Family Foundation State Health Facts, *Percent of Private Sector Establishments That Offer Health Insurance to Employees, by Firm Size*, 2006.