



# THE KEYSTONE OF NATIONAL HEALTH REFORM

## How Reforms Will Impact Utah Small Businesses

A Utah Health Policy Project Issue Brief

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### BACKGROUND

Health reforms currently being debated in Congress are vital to the success of small businesses. Utah has a lot at stake, given that our 60,000 small businesses employ more than half of the state's workforce. 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.

### WHAT'S RIGHT FOR SMALL BUSINESS...

The good news for small business is that the reform process is *generally* on the right track in solving the most pernicious and perplexing problems impacting small businesses. They provide relief from rising costs while leveling the playing field. The following provisions will benefit Utah small businesses:

- **Insurance reforms** to do away with the built-in disadvantages faced by small groups and individuals in the insurance marketplace. This includes 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;
  - 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.

#### **Enhancing the Impact of the Exchange**

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.

For the viability of Utah's economy 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.

- **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.<sup>i</sup> An employer requirement will level the playing field and minimize the need for new taxes. *Yet, similar to the individual mandate, this new requirement must be 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.

## STRENGTHENING THE PROPOSALS FOR SMALL BUSINESSES

Currently **small businesses lack the buying power of large employers, so they pay an average of 18% more for the same level of benefits.**<sup>ii</sup> They also lack the resources to handle the administrative hassle of shopping for insurance. Further, to achieve the goals of the exchange, **the pool must be as large as possible.** 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.

To ensure a successful exchange marketplace and small business viability, 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.<sup>iii</sup> **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.

The Senate HELP committee passed an amendment allowing employers with up to 50 employees into the exchange, an amendment made by Senator Merkley (OR, D). As it stands today, two of the House bills limit participation in the exchange to small businesses with less than 10 employees. The House Ways and Means version expand the exchange in year two to businesses with up to 25 employees. The House proposals do not go far enough to ensure the success of Utah's small businesses.

**Limiting the exchange puts mid-size small businesses at a competitive disadvantage and ignores their struggles with health care costs. An amendment allowing small businesses with up to 50 employees must be carried to bolster Utah's economic recovery and long term viability.**

<sup>i</sup> Small Business Majority. Report: Utah Small Business Healthcare Survey. June 23, 2009.

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

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

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