



The Impact of Rising Health Care Costs on the Economy

EFFECTS ON SMALL BUSINESSES

Companies with 50 or fewer workers employ some 60 million Americans -- over one-third of the workforce. These firms produce about 30 percent of the nation's annual output of goods and services¹. In recent years, small firms have been a vital engine of job growth as larger firms have pared back their workforces.

But healthy as they have been, small companies face obstacles that large companies do not. One of those is the difficulty of obtaining health insurance for their workers due to high and rapidly escalating health costs and health insurance premiums.

The vast majority of owners of small businesses see the value of offering health insurance -- to attract and keep good employees and to protect them from unexpected - and potentially bankrupting -- medical costs. But health insurance is expensive, and the price is often too high for firms that are struggling to keep their businesses afloat, pay their bills, and give employees a competitive wage.

Coverage in small firms is declining chiefly because the cost of health insurance is high and rising rapidly:

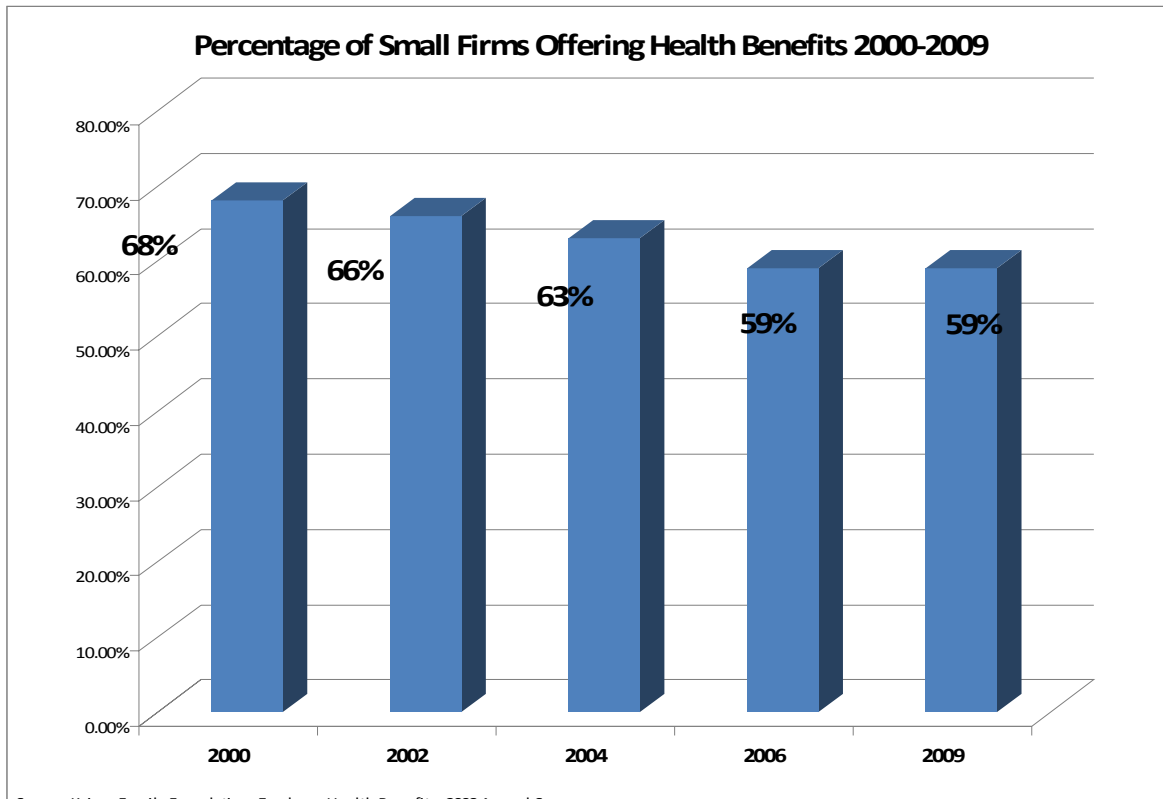
- **In 2009, premiums for small firms (3-199 workers) increased nearly 5 percent but smaller firms have been experiencing higher increases in the 9-10 percent range.**²

As a result of high and escalating health insurance costs, 266,000 firms -- 90 percent of which employ 3-24 workers -- stopped offering health coverage between 2000 and 2005².

- **Almost all midsize and large businesses (with more than 200 workers) offer health benefits, but 38 percent of all workers are employed in smaller businesses, where less than two-thirds of firms now offer health benefits to their workers**^{1,2}.

The percentage of small firms offering health insurance to employees dropped from 68 percent to 59 percent between 2000 and 2008². (See Figure 1.)

Figure 1



- **Premium increases have compelled many small firms which do offer health insurance to shift a greater portion of these costs to their employees.**

In 2009, only 39 percent of workers in the smallest firms (3-24 workers) were covered by *their* employer's health benefits. Only 49 percent of workers in all small firms are covered by *their* own employers' plans. Employees in small firms who have family coverage contributed \$1500 more a year for premiums in 2009 (\$4300 per year and nearly 40 percent toward the employer premium) than their counterparts in larger firms². The high costs have forced many low-wage workers to forego coverage although it is available from the company.

Employees in small firms also pay substantially higher deductibles than employees in larger firms. For example, compared to workers in large firms, workers in small firms enrolled in PPO plans must pay deductibles that are

100 percent higher when using in-network providers and 60 percent higher when using out-of-network providers².

Most small employers offer sound business reasons for providing health benefits to workers:

- **Many small firms report that it helps with employee recruitment and retention, and increases productivity. More than three-quarters report that offering health benefits is "the right thing to do"⁵.**

Most small employers that *do* offer health benefits report that it has a positive impact on various aspects of the business, such as recruitment, retention, employee attitude and performance, employee health status, and the overall success of the business. Those firms not offering health benefits are more likely than those offering them to report that most of their employees are high-turnover and stay on the job only a few months.

Small firms have always paid more for health insurance than large companies. The main reason is that they lack the bargaining clout of large companies. The smallest firms are also far more vulnerable to sharp premium increases if their employees need expensive medical care. And small firms pay higher fees to insurers to have their health insurance plans administered.

Almost all states now have laws that bar insurance and managed care companies from denying coverage to small businesses (50 or fewer workers) just because their employees happen to be older or sicker. Most states also limit the amount an insurance company can boost its premiums for small businesses in a single year. While these laws have helped some small firms buy and keep coverage, they have had little impact overall. High insurance costs still prevent many small firms from offering coverage.

We need comprehensive health care reform where all Americans -- whether they work at a small firm or for a major corporation -- are covered by health insurance. We also need a national cost management strategy whereby average annual percentage increases in health care costs and insurance premiums are brought into alignment with increases in national economic growth. Slowing the rate of increase in health care costs will go a long way in promoting small business growth.

Notes

1. U.S. General Accountability Office (GAO), Private Health Insurance: Small Employers Continue to Face Challenges in Providing Coverage (GAO-02-8), October 2001. www.gao.gov/new.items/do28.pdf.
2. The Henry J. Kaiser Family Foundation. *Employer Health Benefits: 2009 Annual Survey*. September 2009.
3. The Henry J. Kaiser Family Foundation. *Employer Health Benefits: 2009 Annual Survey*. September 2009.

4. The Henry J. Kaiser Family Foundation. *The Uninsured: A Primer, Key Facts About Americans without Health Insurance*. January 2006.
<<http://www.kff.org/uninsured/>>.
5. Testimony of Paul Fronstin, Before the Committee on Small Business, U.S. Senate, 05 February 2003.

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