

# Health Insurance Crisis Threatens Small Businesses

## LEGISLATION CREATING BIGGER POOLS OF EMPLOYEES IS BEST OPTION

by U.S. Senator Olympia J. Snowe (R-Maine)



**A**S I PREPARED TO BECOME CHAIR of the Senate Committee on Small Business and Entrepreneurship, I met with a wide variety of small businesses in my home state of Maine. During those meetings, there was one message I heard from every small business owner I spoke with: “We are getting crushed by the high cost of health insurance, and we have nowhere to turn to alleviate the burden.”

This led me to convene my first hearing as Chair of the Senate Committee on Small Business in February 2003 to explore the crisis small businesses currently face in their efforts to find affordable health care for their employees, and that has remained the number one issue of discussion in my conversations with small businesses in the months since.

Small businesses in Maine and across the country are crying out for more health insurance options. Many of these small business owners made it clear that in their markets, they have only one choice for a health care provider. Even when they band together in local purchasing pools, they are unable to attract other insurance carriers to provide them with less expensive and more flexible options. Many have cut back on the coverage and increased the costs to employees, but they still find it almost impossible to provide health insurance.

At this writing, an estimated 43 million people in the United States are without health insurance and about 60 percent of these, or about 24 million, are in fact employed by a small business or are part of a family in which a member is employed by a small business. Many of the small businesses for which these “employed but uninsured” individuals work want to provide health benefits for their employees. The owners understand the necessity of health insurance, but desire and affordability do not go hand-in-hand.

The catch is that these small businesses cannot jeopardize their very survival by allocating scarce and needed resources to provide health coverage for their employees. The costs for providing health benefits are skyrocketing for everyone, and are going up even more quickly for small business. For 2003, health insurance premiums for small businesses went up an average of 13.9 percent, on top of a 12.7 percent increase the year before. This was the third straight year of such a double digit increase. Costs for employers with between three and nine employees went up 16.6 percent, and I have heard directly from small businesses whose premiums were increased 30 percent, 40 percent, and even 50 percent! Moreover, 24 percent of all firms employing between three and 199 workers

were forced to increase employee deductibles in 2002, according to the Kaiser Family Foundation poll. For millions of Americans, any raises they received in 2002 were overwhelmed by higher health care costs, leaving them unable to increase their standard of living.

And the smaller the business, the heavier the cost burden, if health insurance is even an option. For businesses with fewer than 10 workers, the employer and employees together pay, on average, about 8 percent more in premiums than the amount paid by larger companies. This crisis only grows as the business gets smaller. In businesses with fewer than 50 employees, just 47 percent currently provide any health insurance benefits, and the Department of

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Labor (DOL) has reported that only 24 percent of small businesses that employ “low-wage” workers offer health plans. In all, 84 percent of small firms in a recent survey conducted by the Kaiser Family Foundation said that high premiums and inability to qualify for group rates were among the primary reasons they do not offer their employees health benefits. If we can do more to help small businesses cope with that burden, and provide health care for their employees, we will make significant progress in our efforts to reduce the ranks of the uninsured in this country.

And as we reduce the number of uninsured, we can improve

the quality of the small business workforce. During my meetings with small business owners, many have told me that when they hire employees, the first thing new hires ask about is the health insurance package. Often, employees are even willing to take less in salary if they understand that the difference is going towards their health care benefits. Making health care affordable for small businesses instantly improves the opportunity for small businesses to hire the workers they want, and therefore creates jobs and improves the economy overall.

The most promising approach to addressing this problem is the Association Health Plan (AHP) model, which would allow small businesses to pool together on a national basis, through their bona fide associations, to take advantage of their market power to reduce costs and increase options. Early this year, I introduced legislation, "The Small Business Health Fairness Act of 2003" S.545, to make AHPs available nationwide.

"The Small Business Health Fairness Act of 2003" will improve access to affordable health care for small businesses by giving them the same advantages currently enjoyed by large employers and unions. President Bush has expressed this very well when he said that, "It makes no sense in America to isolate small businesses as little health care islands unto themselves. We must have association health plans."

My bill, S.545, will allow associations to design health insurance plans tailored to meet their members' needs and pool their employees on a national basis. Under this plan, associations would be able to either purchase their insurance from a provider, or self-insure in the same way that large employers and unions currently do. These AHPs would be monitored and regulated by the Department of Labor's (DOL) Employee Benefits Security Administration in the same way that more than 275,000 plans offered by large employers and unions are currently regulated. The DOL currently oversees health insurance plans that cover 72 million people and has demonstrated its commitment to effectively monitoring health plans.

Studies by the Small Business Administration, the General Accounting Office, and the Congressional Budget Office have all found that insurance plans structured similarly to AHPs operate with between 13 and 30 percent lower administrative costs. These lower costs can then be translated into reducing premiums for subscribers or providing more benefits.

In the same way that large employer self funded plans and union plans can design their own benefits outside the state benefit mandates, so too will associations will be able to tailor their AHPs to meet the needs of their members and their employees. This will allow AHPs to have a national plan just like the self funded plans of large employers and unions. By administering one national plan, it will further reduce administrative costs instead of trying to administer a plan subject to the mandates of each state.

Even though the benefit mandates will not be in effect, associations will need to design their plans to attract the number of employees needed to make them work. This means that they will naturally provide a full range of benefits similar to what many states currently require. In many cases, the plans offered

by large employers and unions are the most generous plans available. People will often stay in those jobs specifically to keep their health care coverage.

S.545 would also provide extensive new protections to ensure that the health care coverage is available when employees need it. Associations sponsoring these plans would need to be established for at least three years for purposes other than providing health insurance. This is intended to prevent the current epidemic of fraud and abuse that is occurring through sham associations who take money from unsuspecting small businesses and then cease to exist when someone files a claim.

In addition, self-funded AHPs would be required to have sufficient funds in reserve, specific stop-loss insurances, indemnification insurance, and other funding and certification requirements to make sure the insurance coverage would be available when needed. None of these requirements apply to any of the self-funded plans currently regulated by the Department of Labor - neither the large employer plans under the "Employee Retirement Income Security Act" (ERISA) nor the union plans under the "Taft-Hartley Act."

The time for stalling on providing relief for small businesses unable to get affordable health insurance is over. The House passed its bill similar to S.545 in June 2003, with a resounding bipartisan vote that included 36 Democrats. Because of the coming elections, our window for opportunity will be small this year.

We must act quickly to enact the "Small Business Health Fairness Act of 2003." Creating national AHPs is the most feasible means to bring small businesses more health insurance choices by fostering greater competition in a marketplace that is failing to serve the legions of our nation's most important employers.

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*Olympia J. Snowe, Chair of the Senate Committee on Small Business and Entrepreneurship, is Maine's senior Senator, and is currently serving her second term in the US Senate.*