



Small Businesses at Risk:

How Entrepreneurs Slip Through the Health Care System's Cracks

By Mike Russo

Attorney, Health Care Advocate, U.S. PIRG

&

Texas Small Business Owners

October 2009

Table of Contents

Small Businesses at Risk.....	2
I. Rising Costs.....	2
II. Declining Coverage	3
III. Attracting and Retaining Good Employees.....	4
IV. Low Bargaining Power.....	5
V. When Sickness Strikes.....	5
Conclusion	6
Texas Small Business Stories	8

Small Businesses at Risk:

How Entrepreneurs Slip Through the Health Care System's Cracks

America's small businesses stand at the forefront of innovation. Our entrepreneurs are the first to adopt new technologies and take new approaches in old industries. As engines of job creation, small businesses are the leading edge that pushes our economy forward.

They are also, unfortunately, on the front lines of the health care crisis.

Many of the problems faced by small businesses are the same ones that plague our families: premiums that rise far faster than wages, endless red tape, and a bewildering insurance marketplace where consumers have few choices and even less bargaining power.

And where they face problems that differ – a whole business' premiums going up when one employee gets sick, the difficulty of recruiting and retaining good employees when health care is so expensive – these failures of our health care system can lead to small businesses shutting their doors, killing jobs and harming our economy.

To be sure, small businesses are not the only group who need health care reform. The unsustainable status quo burdens individuals and families, state and federal governments, as well as large and small businesses. But over 60 million Americans work for small businesses,¹ and the problems they encounter are a key component of the case for reform.

This issue brief examines the many ways our health care system fails small businesses across the country. In addition to drawing on research documenting the scope of these problems, we also include testimonials from small businesses that we have spoken to. Their stories illustrate the risk that health care poses for small businesses – and what needs to be done to fix it.

I – Rising Costs

Ask small business owners about health care, and the first thing they will talk about is the drumbeat of rising health care premiums, year after year after year.² Indeed, annual premiums for family coverage for employees of small businesses have more than doubled since 1999, growing at an

¹ U.S. Small Business Administration, 2006. http://www.sba.gov/advo/research/us_06ss.pdf

² U.S. PIRG Education Fund, *The Small Business Dilemma*, July 2009, available at <http://www.uspirg.org/home/reports/report-archives/health-care/health-care/the-small--business--dilemma---how-rising-health--care-costs-are-tough-on-small-business>.

average pace of over 12% per year.³ This increase occurred while median family incomes only rose 29% over the entire decade.⁴

These unsustainable increases are the fundamental problem that afflicts small businesses – maintaining coverage, much less offering richer benefits to their employees, takes an ever-increasing portion of their revenues. Hiring a new employee becomes more and more expensive, not just because wages increase but because health care premiums for new hires are unaffordable. Indeed, without reform, projections show that health care costs will force small businesses to cut 178,000 jobs by 2018.⁵ Lashed to such a treadmill, many businesses fall behind, forced either to drop coverage or close their doors.

And the problem will only get worse. MIT economist Jonathan Gruber has estimated that if we do nothing and allow health care costs to continue as they have been, small businesses will spend twice as much as they do now by the end of the next decade.⁶ Unless business' earnings somehow also double, that rise represents a significant barrier to entrepreneurs starting new small businesses, and an ongoing drain on existing establishments.

“We used to pay 100% of the health insurance premiums for our employees; however, after a 17% increase in premiums last year and an additional increase of 18% this year, we had to ask employees to begin contributing to their health insurance payments. Our employees struggle to pay their share of health insurance premiums and the \$50 co-pay for every doctor’s visit on their salary.”

*Paul Nippes,
Just Kidding Around,
Montclair, NJ*

II – Declining Coverage

A natural consequence of the ongoing rise in small business health care costs is the decreasing proportion of firms who are able to offer benefits to their employees. Unsurprisingly, the percentage of small businesses who offer health care coverage has declined from 68% in 2000 to 59% currently.⁷

While some employees are able to find coverage nonetheless, many cannot. It is not simply a matter of hard-hearted businesspeople refusing to cover their employees to protect their bottom lines. Some small business owners have alternate sources of coverage, for example through a spouse. But many do not – and when they cannot afford health care for their business, they as well

³ Henry J. Kaiser Foundation, *Employer Health Benefits 2009 Annual Survey*, available at <http://ehbs.kff.org/>.

⁴ U.S. Census Bureau

⁵ Small Business Majority, *The Economic Impact of Health Care Reform on Small Business*, June 2009, available at http://www.smallbusinessmajority.org/econ_research.php.

⁶ *Id.*, p. 7.

⁷ *Employer Health Benefits 2009 Annual Survey*.

