

Health Care Reform is Crucial for Small Businesses

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Health care is the number one concern for small businesses today. The current health care system places a heavy burden on many small business owners because it does not provide access to affordable coverage for them and their employees. Small businesses pay up to 18 percent more for insurance coverage for their workers compared with large firms. These higher insurance costs mean lower profits for the firm and lower take-home wages for employees. As a result, many small businesses face a competitive disadvantage in both the market for their products and the market for hiring the most talented workers.

A new report by the Council of Economic Advisers, released on Saturday, looks at both the challenges faced by small businesses under the current health care system and the likely benefits of health care reform for this important community.

Because of the higher costs they face, small business owners are far less likely to provide health insurance for their workers than large firms. Less than half of firms with three to nine workers offer any type of health care coverage, while 99 percent of firms with 200 or more employees offer employer-sponsored insurance. As costs continue to rise, more small business owners are reducing or dropping coverage for their employees. As a result, workers are left with the individual insurance market, where prices and restrictions are high, as their only option.

Any successful health care reform must improve access to affordable coverage for small business owners and their employees. Health care reform, as envisioned by the President and the current draft legislation, does just that.

The proposals working their way through Congress include the creation of an "insurance exchange" where both small businesses and individuals can purchase coverage. By pooling risk and spreading administrative costs over larger numbers of people, the exchange will make available high quality plans at affordable rates for small businesses.

The current draft bills also include a tax credit for small businesses that provide health care coverage for their workers. This benefit will make it easier for small businesses to provide coverage. Together with the exchange, these reforms will help small firms' bottom line, allowing them to focus more of their attention on running their business and creating jobs.

Concerns continue to be raised over the so called "pay-or-play" fees that are designed to encourage larger firms to maintain employer-sponsored insurance coverage. The current proposals exempt small businesses from these fees. For example, the draft bill from the Senate Health, Education, Labor, and Pensions Committee exempts firms with fewer than 25 workers, which is over 90 percent of all firms in the United States. Most of the remaining firms are already providing coverage.

The truth is that most small business owners want to provide health care coverage for their employees. They know the current individual insurance market places an untenable financial

burden on their workers, whom they often view as family. But, if a small firm decides not to provide coverage, the exchange provides a way for its workers to get quality coverage at affordable rates. Low-income workers, who often work in small firms, will be able to qualify for subsidies to help cover the cost of health insurance. Assuring coverage at a reasonable price is a win for workers who would otherwise risk being one serious illness away from financial disaster, and a win for small businesses, which benefit from a healthier and more stable workforce.

Health care reform will also help spur the growth of entrepreneurship and innovation. Today, some of the most talented Americans resist starting or joining a small business because of the lack of health insurance coverage or a pre-existing condition that will make them ineligible for coverage if they leave their current job. Removing this barrier will reduce so-called “job lock,” and in turn bolster small businesses and drive overall economic growth.

All of this leaves out what may be the most important benefit of health care reform to small businesses: successful reform will have enormous benefits for the economy as a whole. Small business owners are some of the most passionate advocates of successful health care reform that truly slows the growth rate of health care costs. They, like health care experts across the spectrum, know that skyrocketing health care costs threaten to lower standards of living for all Americans and lead to unsustainable budget deficits.

Small businesses are an engine for innovation and job creation. Firms with fewer than 20 employees accounted for approximately 18 percent of private sector jobs in 2006, but nearly 25 percent of net employment growth from 1992 to 2005. Today’s broken health care system, however, places burdens on small businesses that stifle this critical piece of our nation’s economy. The reform proposed by the President and working its way through Congress addresses this crucial issue facing small businesses and will provide access to affordable health care options for them and their workers.