

## **FIVE ADDITIONAL WAYS HEALTH REFORM HELPS SMALL BUSINESSES**

Small businesses want to provide health coverage for their workers, but they face extraordinary challenges in doing so, including premiums that are 18 percent higher on average than large businesses pay for the same coverage. Health reform legislation signed by the President includes a number of important benefits to help make coverage more affordable:

### 1. **Creates Health Insurance Exchanges to Increase Bargaining Power and Reduce Administrative Costs.**

- **Status Quo: Small Businesses Have Little Bargaining Power, Face High Administrative Costs.** Currently, small businesses face not only premiums that are 18 percent higher than large businesses pay, but also face higher administrative costs to set up and maintain a health plan. The premiums they pay have 3 to 4 times as much administrative cost built into them as plans in the large group market. They are also at a disadvantage in negotiating with insurance companies because they lack bargaining power.
- **Solution: Health Insurance Exchanges will Provide More Choice, Lower Prices, and Greater Bargaining Power for Firms with up to 100 Employees:** Health reform will change this dynamic. Starting by 2014, firms with 100 or fewer workers will be able to pool their buying power and reduce administrative costs by purchasing insurance through a health insurance exchange. According to the Congressional Budget Office, coverage that small businesses purchased through an exchange “would have lower administrative costs, on average, than the policies those firms would buy under current law, particularly for very small firms.”

### 2. **Ends Price Discrimination against Small Businesses with Sick Workers.**

- **Status Quo: Small Businesses with Sick Workers Face Higher Prices, Sudden Price Increases.** Currently, small businesses with just one sick worker can face significantly higher premiums, and having a worker fall ill can lead to a precipitous price increase – raising premiums just when insurance is needed most.
- **Solution: Ending Price Discrimination Based on Illness:** Health reform will end this price discrimination. Starting in 2014, “community rating” rules will prohibit insurers from charging more to cover small businesses with sicker workers or raising rates when someone gets sick.

3. **Increases Health Care Security to Unlock Entrepreneurship.**

- **Status Quo: Health Insurance Insecurity Creates “Job Lock,” which Inhibits Entrepreneurship.** Our current health care system inhibits entrepreneurship and small business formation by locking workers — especially those with families or with any sort of health problem — into jobs at large firms that offer family coverage and have a big enough risk pool to absorb the cost of covering pre-existing conditions. This “job lock” causes many workers to stay at large firms even if they would be more productive working at a small business or starting their own business.
- **Solution: Health Security Empowers Entrepreneurship:** By providing health security for every American and eliminating exclusions for pre-existing conditions and price discrimination against those who are sick, health reform will make it easier for small businesses to attract the best workers and easier for entrepreneurs to strike out on their own.

4. **Reduces the Hidden Tax on Small Business Employees with Health Insurance.**

- **Status Quo: Hidden Tax Adds \$1,000 to Every Premium:** Currently, the cost of treating the uninsured adds a “hidden tax” of over \$1,000 to every health care premium.
- **Solution: Reduce Hidden Tax by Dramatically Expanding Coverage:** Health reform will significantly reduce this tax by covering an additional 32 million Americans by 2019.

5. **Reduces Premiums in the Small Group Market.**

- **Status Quo: Higher Premiums Mean Coverage Is Unaffordable for Small Businesses.** In a recent national survey, nearly three quarters of small businesses that did not offer benefits cited high premiums as the reason.
- **Health Reform Will Lower Costs, Making Coverage More Affordable:** Taken together, the measures described above will significantly reduce premiums for small businesses. According to the Congressional Budget Office, health reform will reduce the cost of a given plan in the small group market by 1-4 percent by 2016.