



*Georgetown University Health Policy Institute*

**CENTER ON HEALTH  
INSURANCE REFORMS**

U.S. House of Representatives Small Business Committee Hearing:

“Reimagining the Health Care Marketplace for  
America’s Small Businesses”

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Chairman Chabot, Ranking Member Velázquez, and members of this committee: Thank you for the opportunity to participate in today's hearing about the health care marketplace for small businesses. My name is Dania Palanker. I am an assistant research professor at Georgetown University's Center on Health Insurance Reforms. However, the views I share here today are my own and do not represent those of the university, its faculty or staff.

### **History of Barriers to Health Insurance Benefits for Small Businesses**

Small business owners have long struggled to provide health insurance to their workers, facing high and often volatile premiums. These struggles have existed for decades. One of the goals of the Patient Protection and Affordable Care Act (ACA) was to lessen these burdens. Relative to large businesses, small businesses had a lack of market power for negotiating premiums and high administrative costs associated with covering a small number of workers. In addition, minimum participation requirements used to safeguard against adverse selection meant that small businesses could often only offer one plan and had to cover a hefty portion of their workers' premiums in order to get enough workers to enroll. If small businesses did not offer coverage, their workers often could not get covered through the individual market because of preexisting condition exclusions or unaffordable premiums.

These pressures contributed to a steady decline in the number of small businesses offering coverage in the years leading up to the passage and implementation of the ACA and left employees of small businesses more likely to be uninsured. In 2012, only half of businesses with 3 to 9 workers offered health insurance benefits and less than three quarters, 73 percent, of businesses with 10 to 24 workers offered health insurance benefits. In comparison, 98 percent of business with 200 or more workers offered health insurance in the same year.<sup>1</sup> The small group market provided coverage to only a minority of small business owners. Only one in five, 19 percent, of small businesses owners with 24 or fewer workers received health insurance through the small group market in 2011. Twenty-five percent of small business owners with 24

or fewer workers were uninsured and 30 percent purchased non-employment based private insurance – primarily through the individual market.<sup>2</sup>

### **Lack of Federal Benefit Requirements Left Small Business Owners and Their Workers Without Adequate Coverage Before the ACA**

Workers of small businesses who received insurance historically had less generous coverage than those working for large employers, with much higher deductibles and lower employer contributions for dependent coverage.<sup>3</sup>

Before the ACA, there was no federal requirement that businesses with less than 15 employees include maternity coverage as part of their health benefits. The Pregnancy Discrimination Act, which requires employers that provide health insurance benefits cover pregnancy related services on the same basis as other health care services, applies only to employers with 15 or more employees. In 2010, only 15 states required all small group market health insurance products to cover maternity services.<sup>4</sup> Therefore, health plans for the smallest employers, with less than 15 workers, were not required to cover maternity services in 35 states and the District of Columbia - leaving some workers and their spouses without coverage for tens of thousands of dollars in prenatal care and childbirth costs. The average cost of childbirth in 2010 was about \$30,000 for a vaginal delivery and over \$50,000 for cesarean delivery.<sup>5</sup> Median household income in 2010 was \$49,445,<sup>6</sup> lower than the average cost of a cesarean childbirth.

Additional essential health benefits were excluded from some small group plans. In 2010, health insurers in 23 states were not required to include mental health coverage in small group plans, leaving many employees and their dependents without important mental health services.<sup>7</sup> Similarly there was no federal requirement to cover substance use disorder treatments, including addiction counseling, inpatient treatments and prescription drugs. Some plans excluded all prescription drug coverage. Sixteen percent of the three largest small group market health insurance products in each state only covered prescription drugs as an

optional benefit in 2011, meaning that small businesses could purchase a plan without prescription drug coverage.<sup>8</sup> If these products were purchased without the prescription drug benefit, small business workers with conditions such as asthma, diabetes, cancer, and hypertension were left without coverage for medications to manage their illnesses.

### **The ACA Improved the Small Group Health Insurance Market**

The ACA sought to address many of the failures of the small group insurance market. The ACA established a set of national minimum standards that took aim at the most glaring problems in the small group market. All new health insurance plans offered in the individual and small group market must cover a set of essential health benefits – including maternity and newborn care, mental health and substance use services, prescription drug coverage, preventive services, pediatric services, and hospitalization. As a result, people who work for small businesses that offer coverage are now more likely to have affordable access to health care that can keep them healthy – such as preventive services and medications to manage chronic conditions. Consistent with protections in the individual market, the small group reforms prohibit health underwriting, so insurers cannot charge higher premiums to groups with higher expected health costs; require first-dollar coverage of preventive services without cost-sharing, such as cancer screenings; ended annual and lifetime benefit limits; banned pre-existing condition exclusions; and capped enrollees' annual out-of-pocket liability. These protections also apply to small business owners, the self-employed, and workers of small businesses who purchase health insurance through the individual market. In addition, insurers offering products in the small group market are now required to set rates using a single risk pool that includes all enrollees across their small group plans in the state. Finally, small businesses can avoid having to meet minimum participation thresholds if they obtain coverage during a November-to-December open enrollment period.

Small businesses now have choices. They can continue to offer their workers the same plan they had before the ACA, unless the issuer made the decision to terminate the plan. Small

businesses can choose to purchase coverage in the traditional small group market or use the Small Business Health Options Program created under the ACA. Small businesses can also help workers purchase coverage through the individual market, including providing premium support through a health reimbursement account following the recent passage of the 21<sup>st</sup> Century Cures Act. Small businesses can also choose not to offer coverage, as there is no penalty for employers with fewer than 50 full time equivalent employees that do not offer health insurance to their workers. Finally, small business owners and individuals who are self-employed can enroll themselves and their families in individual market coverage without fear they will be denied because of their health status – and some are eligible for financial assistance for premiums and cost sharing or are eligible for Medicaid because of the Medicaid expansion under the ACA.

### **Small Business Workers and the Self-Insured Have More Access to Coverage**

Prior to the ACA, many small business owners and their workers did not have the option to enroll in coverage through the individual market. People were denied coverage because of pre-existing conditions including a history of a cesarean section, a cancer diagnosis, arthritis, or even acne. Those who did receive coverage could have services to treat a pre-existing condition excluded. Sometimes even services to treat an entire body part was excluded from coverage, such as excluding any services related to a limb that that person had previously injured. Premiums were higher for those that insurance companies considered high risk, often making coverage unaffordable. Pregnancy was considered a preexisting condition so women who were pregnant were either unable to get coverage or could only get coverage excluding services related to their pregnancy. Even if a woman was not pregnant at time of enrollment, almost 80 percent of plans in the individual market excluded maternity and an additional 9 percent only covered limited maternity benefits.<sup>9</sup> Twenty percent of people enrolled in the individual market had no coverage for prescription drugs.<sup>10</sup> Mental health and substance use treatment services were also commonly excluded, with 18 percent of people enrolled in individual market

coverage lacking coverage of mental health services and 34 percent lacking coverage of substance use treatment services.<sup>11</sup>

As a result, many people experienced “job lock” – a term for people feeling locked into their job because it is the only source for health insurance.<sup>12</sup> Job lock prevented small businesses that were unable to provide health insurance, or adequate health insurance, from attracting talented workers. It also reduced entrepreneurship, because many remained in jobs solely to retain needed health benefits for themselves or a family member, even though they had dreams of starting their own business.<sup>13</sup> Women planning to start families might not take the risk of giving up employer coverage because maternity benefits were unavailable in the individual market. People with chronic conditions or in the midst of medical treatment were unable to take the risk that they would lose coverage for the services they needed.

### **Small Business Owners and Their Workers Are Now Able to Access Health Insurance**

Evidence shows that small business owners and entrepreneurs are now getting covered because of the ACA – through both the SHOP and individual health insurance marketplaces. Almost 10 percent of small business owners – 1.4 million people - purchased coverage through the individual health insurance marketplace in 2014.<sup>14</sup> With enrollment having risen each year since 2014, even more small business owners likely purchase coverage through the health insurance marketplace today. All of the plans through the marketplace are comprehensive plans that cover essential health benefits. Many small business owners and their employees receive financial assistance through premium tax credits and lower cost sharing. In states that expanded Medicaid, there is a health care safety net for entrepreneurs as they start a new business that is not immediately profitable.

Small businesses are also seeing a reduction in the uninsured rate of their workers. In the decade leading up to the passage of the ACA, the amount of small business workers covered by their employer dropped significantly. The share of small-business workers covered by

employer-based health insurance fell from 43 to 33 percent between 2000 and 2010.<sup>15</sup> As a result, prior to the implementation of the ACA, almost one quarter of employees of small businesses with under 50 workers, were uninsured. In comparison, only 7.6 percent of employees of large firms were uninsured.<sup>16</sup> Within the first year of ACA implementation, by March 2015, the uninsured rate for small business workers fell by 10.8 percentage points. The coverage gains were primarily due to 3.1 million employees newly enrolled in the individual insurance market and 1.7 million newly enrolled in Medicaid.<sup>17</sup>

### **Small Business Health Costs Are Growing More Slowly**

Small businesses are also benefiting from an unprecedented slowdown in health care cost growth since the passage of the ACA. Prior to the implementation of the ACA, small businesses often paid up to 18 percent more than large employers to provide health insurance.<sup>18</sup> In the years leading up to the passage of the ACA (2004 to 2010), premiums for family coverage increased by an average 6.0 percent per year for small firms with 3 to 199 employees. While premiums continued to grow after the passage of the ACA, the rate of growth slowed to an average 5.4 percent per year from 2010 to 2016.<sup>19</sup> Based on a large scale survey of employers across the United States, for small businesses with less than 50 employees, the average annual increase in premiums between 2010 and 2015 (the latest year for which data is available) was only 4.0 percent for individual coverage and 4.2 percent for family coverage.<sup>20</sup> Between 2014 and 2015, the increase in average premium was only 1.0 percent for individual coverage and 2.2 percent for family coverage.

Small businesses also benefit from rating protections in the ACA. Before the ACA, a small business could see a large double digit rate increase because one or two workers had high medical costs – such as an HIV diagnosis or a premature baby in the NICU. Such rate increases forced small businesses to decide between financial losses or dropping health coverage for their workers. Small businesses with largely female workforces often paid higher premiums than those with largely male workforces. Some employers were even charged more because of

their industry since insurers adjusted premiums based on the occupation of the employees. Now, insurers can only vary rating in both the individual and small group markets based on age, family size, geography, and tobacco use.

## Conclusion

Prior to the implementation of the ACA, the small group health insurance market failed small businesses and their workers. The result was that those who owned and worked for small businesses often went without health insurance. The ACA has improved the market by ending some insurance practices that left people without coverage for important services and protecting small businesses from large premium spikes resulting from their workers' medical claims, while also giving small businesses and their workers more options for coverage. The increased insurance rate among small business workers shows that the ACA is improving access to coverage.

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<sup>1</sup> Claxton G, Rae M, Panchal N, et al., "Employer Health Benefits Survey 2012," The Kaiser Family Foundation and Health Research and Educational Trust, 2012. Available at: <https://kaiserfamilyfoundation.files.wordpress.com/2013/03/8345-employer-health-benefits-annual-survey-full-report-0912.pdf>. (accessed February 5, 2017).

<sup>2</sup> Numbers include owners of businesses employing 1 to 24 employees, including the business owner, with income of at least \$2,500. Levitt L, Damico A, Claxton G, How Small Business Owners Get Health Insurance, Kaiser Family Foundation Blog, September 28, 2012. Available at: <http://kff.org/health-reform/perspective/how-small-business-owners-get-health-insurance/>. (accessed February 5, 2017).

<sup>3</sup> Blavin F, Garrett B, Linda B, et al., "Monitoring the Impact of the Affordable Care Act on Small Businesses: Literature Review," Urban Institute, October 2014. Available at: <http://www.urban.org/sites/default/files/publication/33696/413273-Monitoring-the-Impact-of-the-Affordable-Care-Act-on-Employers.PDF>. (accessed February 4, 2017).

<sup>4</sup> Data collection and analysis by researchers at the Center on Health Insurance Reforms, Georgetown University, Pre-ACA State Maternity Coverage Mandates: Individual and Small Group Markets, Kaiser Family Foundation. Available at: <http://kff.org/other/state-indicator/pre-aca-state-maternity-coverage-mandates-individual-and-small-group-markets/?currentTimeframe=0>. (accessed February 4, 2017).

<sup>5</sup> Truven Health Analytics, "The Cost of Having a Baby in the United States," January 2013. Available at: <http://transform.childbirthconnection.org/wp-content/uploads/2013/01/Cost-of-Having-a-Baby1.pdf>. (accessed February 4, 2017).

<sup>6</sup> DeNavas-Walt C, Proctor B, Smith J, U.S. Census Bureau, Current Population Reports, P60-239, "Income, Poverty, and Health Insurance Coverage in the United States: 2010," September 2011. Available at: <https://www.census.gov/prod/2011pubs/p60-239.pdf>. (accessed February 4, 2017).

<sup>7</sup> Data collection and analysis by researchers at the Center on Health Insurance Reforms, Georgetown University, Pre-ACA State Mandated Benefits in the Small Group Health Insurance Market: Mandated Coverage in Mental Health, Kaiser Family Foundation. Available at: <http://kff.org/other/state-indicator/pre-aca-state->



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<sup>8</sup> U.S. Department of Health and Human Services, Assistant Secretary for Planning and Evaluation, “Essential Health Benefits: Comparing Benefits in Small Group Products and State and Federal Employee Plans,” December 2011. Available at: <https://aspe.hhs.gov/basic-report/essential-health-benefits-comparing-benefits-small-group-products-and-state-and-federal-employee-plans#apa>. (accessed February 4, 2017).

<sup>9</sup> Codispoti L, Courtot B, Swedish J, et al., “Nowhere to Turn: How the Individual Health Insurance Market Fails Women,” National Women’s Law Center, 2008. Available at: <https://nwlc.org/wp-content/uploads/2015/08/NWLCReport-NowhereToTurn-81309w.pdf>. (accessed February 4, 2017).

<sup>10</sup> Doty MM, Collins SR, Nicholson JL, and Rustgi SD, “Failure to Protect: Why the Individual Insurance Market is not a Viable Option for Most U.S. Families,” The Commonwealth Fund, July 2009. Available at: [http://www.commonwealthfund.org/~media/Files/Publications/Issue\\_percent20Brief/2009/Jul/Failure\\_percent20to\\_percent20Protect/1300\\_Doty\\_failure\\_to\\_protect\\_individual\\_ins\\_market\\_ib\\_v2.pdf](http://www.commonwealthfund.org/~media/Files/Publications/Issue_percent20Brief/2009/Jul/Failure_percent20to_percent20Protect/1300_Doty_failure_to_protect_individual_ins_market_ib_v2.pdf). (accessed February 4, 2017).

<sup>11</sup> U.S. Department of Health and Human Services, Assistant Secretary for Planning and Evaluation, “Essential Health Benefits: Individual Market Coverage,” December 2011. Available at: <https://aspe.hhs.gov/basic-report/essential-health-benefits-individual-market-coverage>. (accessed February 4, 2017).

<sup>12</sup> Blumberg L, Corlette S, Lucia K, “Timely Analysis of Immediate Health Policy Issues,” Urban Institute and Robert Wood Johnson Foundation, May 2013. Available at: [http://www.rwjf.org/content/dam/farm/reports/issue\\_briefs/2013/rwjf406367](http://www.rwjf.org/content/dam/farm/reports/issue_briefs/2013/rwjf406367). (accessed February 4, 2017).

<sup>13</sup> Ibid., See also; Fairlie RW, Kapur K, and Gates S, “Is Employer-Based Health Insurance a Barrier to Entrepreneurship?” *Journal of Health Economics*. 30, 146–162, 2011; DeCicca P, “Health Insurance Availability and Entrepreneurship.” Upjohn Institute Working Paper 10–167, April 2010. Available at: [http://research.upjohn.org/up\\_workingpapers/167/](http://research.upjohn.org/up_workingpapers/167/). (accessed February 4, 2017).

<sup>14</sup> Jackson E, Looney A, Ramnath S, U.S. Department of Treasury, Office of Tax Analysis, Working Paper 114, “The Rise of Alternative Work Arrangements: Evidence and Implications for Tax Filing and Benefit Coverage,” January 2017. Available at: <https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/WP-114.pdf>. (accessed February 4, 2017).

<sup>15</sup> Blavin F, et al., “Monitoring the Impact of the Affordable Care Act on Small Businesses.”

<sup>16</sup> United States Senate Committee on Small Business and Entrepreneurship. Hearing on King vs Burwell Supreme Court Case and Congressional Action that can be taken to Protect Small Businesses and Their Employees. April 29, 2015. 114<sup>th</sup> Congress 1<sup>st</sup> Session. (testimony of Linda J. Blumberg, Senior Fellow, The Urban Institute.) Available at: <http://www.urban.org/sites/default/files/publication/49836/2000206-The-Implications-of-a-Finding-for-the-Plaintiffs-in-King-v-Burwell-for-Small-Employers.pdf>. (accessed February 4, 2017).

<sup>17</sup> Lueck C, Health Coverage Gains for Small-Business Workers at Risk, The Center on Budget and Policy Priorities Off the Charts Blog, January 9, 2017. Available at: <http://www.cbpp.org/blog/health-coverage-gains-for-small-business-workers-at-risk>. (accessed February 4, 2017).

<sup>18</sup> Robertson R, Stremikis K, Collins SR, et al., “Jobs Without Benefits: The Health Insurance Crisis Faced by Small Businesses and Their Workers,” The Commonwealth Fund, November 2012. Available at: <http://www.commonwealthfund.org/publications/issue-briefs/2012/nov/jobs-without-benefits>. (accessed February 4, 2017).

<sup>19</sup> Georgetown University calculations based on data from Claxton G, Rae M, Long M, et al., “Employer Health Benefits Survey 2016,” The Kaiser Family Foundation and Health Research and Educational Trust, 2016. Available at: <http://files.kff.org/attachment/Report-Employer-Health-Benefits-2016-Annual-Survey>. (accessed February 4, 2017).

<sup>20</sup> Georgetown University calculations based on data from U.S. Department of Health and Human Services, Agency for Health Care Research and Quality, Medical Expenditure Panel Survey. Available at: [https://meps.ahrq.gov/mepsweb/data\\_stats/quick\\_tables\\_search.jsp?component=2&subcomponent=1](https://meps.ahrq.gov/mepsweb/data_stats/quick_tables_search.jsp?component=2&subcomponent=1). (accessed February 4, 2017).