
THE WILLIAMS GROUP

HUMAN RESOURCES MANAGEMENT CONSULTANTS

Compensation, Training, Employee Relations
Organization Development, Personnel Administration, Recruitment
Labor Relations & Workforce Diversity

HEALTH INSURANCE ISSUES FOR SMALL & MINORITY- OWNED BUSINESSES

INTRODUCTION

My name is Ted Williams ... After living in the San Francisco Bay Area for more than 20 years and the New York metropolitan area for three years, I came to Iowa in 1994 to accept the position of Director of Human Resources for the Iowa Board of Regents.

I've been a proud resident of Iowa for 12 years and I'm gratified that I have been asked, in my capacity as President of the African American Business Association, to outline the concerns of minority businesses regarding health insurance.

I'm in a unique position to express the views of many small businesses in addition to minority businesses.

For the last 5 years I've been the Facilitator for the monthly small business networking sessions sponsored by the State of Iowa, Iowa State, the Principal and Wells Fargo.. We provide information on a variety of business-related topics and a forum for small business owners to discuss business concerns.

I am also a small business owner myself – Co-Principal of The Williams Group, a human resources management consulting and training firm – 2007 marks our 20th anniversary. Our clients include not only a national base of corporate clients, but also corporate, small, startup and expanding businesses throughout Iowa. As a consultant, I'm thoroughly familiar with the roadblocks and frustrations small businesses face when it comes to providing health insurance benefits for their employees and for themselves.

It's no surprise to me that health insurance is ranked as the top business concern for small businesses (National Federation of Independent Business's Educational Foundation)

"Knowledge allows one to do the right thing at the right time almost all the time"

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SMALL BUSINESS INSURANCE STATISTICS

The bulk of small businesses employ fewer than 9 workers; in fact, more than 50% of small businesses are sole proprietors with no employees at all. Self-employed individuals aren't eligible for group health plans with their lower costs.

Almost half of uninsured workers are either self-employed or work for businesses with fewer than 25 employees. (Kaiser Family Foundation survey)

26.3% - just over a quarter of self-employed workers are uninsured (some fortunate self-employed individuals have spouses with employer-provided insurance)

31.2% - just over a third – of businesses with fewer than 25 employees are uninsured. The smaller the firm, the more likely that its workers are uninsured

A preponderance of minorities are employed by small firms, an important factor in the racial disparity of uninsured workers

Latinos 38.7%

Blacks 23.7%

Contrasted with 13.2% of whites (Kaiser Commission on Health Insurance Coverage)

Attainability/Affordability of Insurance for Self-Employed and Small Businesses (Study by non-profit The Commonwealth Fund)

Our employer-based health insurance system offers few choices for the self-employed or other individuals without group insurance – private plans are either unattainable or unaffordable

9 of 10 (89%) of those who seek private insurance end up not buying a plan – 1 in 5 who apply are turned down or charged more due to a pre-existing condition

2 of 5 who bought private plans with a high deductible found that some of their medical costs weren't covered

People with high deductible plans (both private and employer-based) are more likely to delay care or forego buying prescription drugs. They end up with high medical debts, lower income are likely to charge medical costs to a credit card

COMPARISON OF LARGE AND SMALL EMPLOYERS

Although employer-based insurance has many flaws, it's been a workable vehicle for many; however, for the majority of workers in small firms, this system of health insurance is non-existent or totally dysfunctional.

I can't stress enough that small and minority-owned businesses have distinctly different challenges when it comes to health insurance than larger businesses. Finding affordable quality coverage not only directly affects growth of a small business through recruitment and retention but also the very viability of a business.

You can't force small employers to act like large firm sponsors of insurance. The advantages of employment-based insurance apply far less or not at all to the self-employed and small firms. Examples:

Risk Pools – The viability of risk pools depend on 3 elements: size, stability and randomness

Large firms have large, stable pools to spread insurance risks

In small firms, hiring one employee with a disability or serious health condition drastically affects insurance rates. Insurers can charge a higher premium based on a group's health status and claims rate.

Small employers have a much higher turnover rate

Ability to Bargain and Negotiate – Small firms don't have any clout. Employers need at least 10 employees to begin to try to negotiate competitive rates.

Smaller firms have much higher administrative costs.

Firms with less than 10 employees pay 30% over premium costs for overhead

Firms with more than 500 employees only pay 12% over premiums costs

(Congressional Budget Office study)

Choice of Plans and Quality of Benefits – Small firms that do provide insurance tend to offer a one-size-fits-all plan and benefits such as dental insurance are rare; 87% of large firms offer dental benefits.

Small firms end up with much higher deductibles than large firms

Many plans have state-mandated benefits – for example, in Iowa a plan must cover diabetes yet carriers place a rider on individuals with diabetes. I approve of inclusive coverage but under the current system these mandates affect a small business's ability to expand. A recent study showed that the greater the number of state-mandated benefits, the less probable it is that a self-employed business person will hire additional workers – the cost is too much

ECONOMIC EFFECTS OF CURRENT SYSTEM

Health insurance issues correlates with small businesses' ability to compete locally, nationally and globally

Inability to offer insurance negatively affects ability to recruit and retain employees – talent will go to larger firms that offer benefits

The cost of providing coverage to existing employees discourages small firms from hiring new employees

Sole proprietors' own need for health insurance competes with the additional cost of adding new workers in order to grow

REAL LIFE SMALL BUSINESS EXAMPLES

My situation: After I left the Regents, I exhausted my COBRA benefits (I paid premiums to continue group insurance for 18 months.

I then converted to an individual family plan in which premiums were over \$1800 a quarter with a 10% co-pay. That made a quite a dent in my ability to expand my business.

That was bad enough, but my insurance company then forced me to accept a series of excluded health conditions as a condition of obtaining insurance. I had no choice but to go for it if I wanted insurance. So now I have insurance that doesn't apply to the health condition I need it for.

In addition, the price of my premiums kept rising. When it reached \$2600 a quarter with no end in sight, (\$10,400 a year!!!) I felt that I had no choice but to convert to an HSA. Under my family plan, I pay only \$935 a quarter in premiums but I'm responsible for the first \$5100 in medical expenses. This type of plan is only viable for those who are fortunate enough to have a spare \$5000 lying around. And don't forget – it still doesn't include any of my family's excluded medical condition.

I find that physicians are baffled by the concept of an HSA and I have to educate them. When I ask the cost of a procedure or a medication, the physician has no idea about market costs.

I would love to expand my business and hire professional employees but there is no way that I could afford to pay their salaries and offer health insurance.

I'm in better shape than most small business owners. Some of them have personal coverage through a spouse's employer. Most of them have no insurance for themselves or their employees.

Under these conditions, there's no way that we can compete with larger businesses or small businesses from overseas whose countries offer national health coverage.

PROPOSED SOLUTIONS

Too many proposed solutions seem to be grounded in the employment-based model. Please remember that many small business owners can't even afford insurance for themselves, let alone their employees.

Many small businesses are afraid that proposed reforms may make things worse rather than ameliorate the situation. We ask that lawmakers follow the physicians' credo of "First, do no harm."

Many well-intentioned reforms may have **unintended consequences**.

For example, in 1974 Hawaii enacted legislation that required private sector firms with more than 20 employees to provide health insurance. The legislation was well-intentioned but the upshot was that employers increased the employment of part-time workers who worked less than 20 hours a week to avoid the mandate. Employers also increased the number of hours worked by full-time employees with the thought being that since insurance coverage was mandated anyway, it was good business to maximize the number of hours worked. The employment of workers who worked 20-35 hours a week dramatically decreased since those employees became the most expensive to employ under the insurance coverage mandate.

Mandated insurance coverage Some proposed reforms advocate that employers be required to provide health insurance coverage.

For reasons I've already described, lumping in small businesses with large corporations is like comparing apples to oranges. This type of legislation would be a disaster for small businesses unless there is a significant change in the health insurance industry.

There can be no mandated health insurance coverage without accounting for the financial constraints of small businesses.

At a minimum, mandated insurance coverage would require premium assistance for small businesses in some form, perhaps government subsidies.

Obviously, the current employment-based model of insurance coverage necessitates that a market be created for private insurers to compete for new customers to spread the risk for small businesses.

It's been suggested that creating larger employee pools would assist small businesses but many questions remain.

For example, insurers are reluctant to offer nationwide pools since their insurance products must comply with 50 different state mandates that determine how they set rates, determine eligibility and delineate offered services. Small businesses have fundamental doubts about whether cost-effective employer pools can be formed in the current environment.

It's questionable whether small businesses have the bargaining power or the financial capability to provide their employees with truly affordable comprehensive health insurance without substantial state and/or federal assistance.

From the small business perspective, a broader, national approach offers more promise. It's been suggested that the Federal Employee Health Benefits Program be opened to include small businesses or that Medicaid and Medicare be expanded to encompass small businesses. Obviously these solutions are beyond the realm of the Iowa State legislature.

In the meantime, small businesses are looking for assistance, not more red tape that restricts them. Small businesses and the self-employed seem to fall between the cracks. If you can't help them, please don't make their position more difficult.

The legislature might consider restricting insurance companies' ability to exclude pre-existing conditions or offer subsidies to cover those conditions. This would make HSA's more palatable to employers and employees.

Small businesses are an important component of the State's economic engine – they provide jobs and opportunities. Health insurance reforms can increase the viability and productivity of small businesses or they can inadvertently stifle small business vitality. Please give careful consideration to the intended and unintended consequences of your actions.

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