

Small Business and the Healthcare Crisis

Small business owners pay more for health benefits than large firms.

The small business economy includes 6 million businesses and 21.7 million self-employed people. Both groups are at a disadvantage in the healthcare marketplace—small firms can't get the same health plan discounts as can large firms. And the self-employed are stuck in the individual insurance market with its higher costs and restrictions on applicants with any history of illness.

The data show that small businesses pay more than large ones:

- Firms with 1 to 9 workers (the vast majority of small businesses) paid adjusted premiums 18% higher than those paid by firms with 1,000 or more workers, according to a 2006 study supported by the Commonwealth Fund.
- They also pay more in administrative costs—27% of premiums for very small firms, compared with 9% for businesses of at least 100 employees, the Congressional Budget Office estimates.
- Small business health insurance premiums have risen 113% over nine years, a growth rate of nearly 9% annually, according to Kaiser Family Foundation surveys.

Many uninsured people work for a small employer.

These higher costs make it harder for small firms to provide insurance, which is why the smaller the firm, the less likely it is to provide health insurance.

- 99% of large firms offer healthcare coverage, while 78% of firms with 10 to 24 workers offer coverage; that drops down to just 49% among firms with fewer than 10 workers, the Kaiser Family Foundation has found.
- The percent of smaller employers offering health plans has declined over time as premiums have risen—it dropped from 57% in 2000 to 49% in 2008, the Kaiser survey said.

These trends mean that many of the uninsured are employed but work for small companies that don't offer coverage:

- Of the 45 million uninsured Americans in 2007, 22.3 million (about half) were self-employed or worked for small businesses, say Employee Benefit Research Institute estimates.

The economy relies on small businesses' vibrancy.

- Of the 142 million people working in the private sector, 42% work for themselves or for businesses with fewer than 100 employees.
- In a healthy economy, small businesses create 75% of net new jobs. When the economy is recovering from a recession, small firms play an even greater role in job creation, responsible for all new positions.
- Small businesses have trouble attracting talented employees—or don't get started in the first place—because people can't afford to leave jobs that provide health insurance, a phenomenon economists call "job lock."