



## Health Care Challenges for Small and Micro Businesses

Several reports and studies have highlighted the continuing health care benefit challenges faced by small and micro businesses. An analysis of the data and findings suggests that health insurance is becoming more of an economic development issue and is harming the ability of small and micro businesses to compete and to attract employees.

Resolution of these issues is of paramount importance to rural people and rural communities – the rural economy is dominated by small businesses, and if the cost and availability of health care benefits render small businesses non-competitive and unable to expand and attract employees, the future of the rural economy is uncertain and the viability of rural communities unclear.

### **GOOD NEWS? NO, JUST LESS BAD**

The most important immediate consideration in any discussion of health care benefits and small businesses is cost. The bottom-line finding in any study or survey is that small businesses are increasingly being priced out of the health care benefits game.

The Annual Employer Health Benefits survey released by the Kaiser Family Foundation and the Health Research and Education Trust in September 2005 makes that abundantly clear. Despite the fact that health care benefits in the past year, on average, did not continue the recent trend of double-digit increases, the 9 percent average premium increase last year was still three times greater than the growth in wages and two and a half times greater than the rate of inflation.

Health insurance premiums have risen by 73 percent in the past five years. According to the Kaiser report, the average annual premium for family health insurance coverage (\$10,880) is now higher than the salary paid a full-time minimum wage worker.

With increasing costs of this magnitude, a choice will be forced upon small businesses: in a choice between wages and benefits, small businesses will make a selection that places more of the cost of health care benefits on either the employees or on society through government-provided health care or uninsured cost shifting.

### **TO OFFER OR NOT TO OFFER? THE BASIC DATA**

With health care benefit premiums soaring, it's no wonder that fewer small businesses are offering health insurance to their employees. Since 1996, the total number of employers offering health care benefits to employees has decreased from 69 to 60 percent, with, according to the Kaiser report, small business employers accounting for nearly the entire decline.

As one might expect, the percentage of employers offering health benefits declines with business size (or, in other words, with the number of employees). Nearly all businesses with

200 or more employees offer some sort of health benefits to employees. The number of large firms offering health benefits has remained stable since 1996.

However, less than half of the smallest business (those with less than 10 employees) offer employee health benefits. And that number is decreasing significantly – from 53 percent in 1996 (and 58 percent in 2002) to 47 percent in 2005. In just three years, nearly one-in-five of America's small businesses dropped health benefits for their employees.

### **WHAT ABOUT THE SMALLEST OF THE SMALL?**

The Kaiser study only examines those businesses with at least three employees. Therefore, it begs the question – especially for those concerned with rural impacts of the health insurance debate: what of the very smallest businesses and the self-employed, businesses more likely to be located in rural communities?

Into the breach offered by that question jumps the National Association for the Self-Employed (NASE) in its recent report, *Health Coverage and the Micro-business: A National Perspective* (also released in September 2005). In a survey of businesses with 10 or fewer employees (their definition of "microenterprise") culled from subscribers to a business magazine, the NASE report found much the same as the Kaiser report. Health insurance for small business is summarized by two characteristics: costly and less common.

The NASE study found that only 43 percent of small businesses presently offer health benefits to their employees or plan to offer such benefits in 2005. And, as with the Kaiser report, that number decreases as the number of employees decreases and as the business gets smaller.

Over three-quarters of self-employed do not provide health benefits through the business, and over 70 percent of businesses with two employees do not provide health insurance. Eighty-three percent of firms with gross sales under \$50,000 do not offer health insurance.

A caveat is in order: this does not necessarily mean that employees or business owners are without health insurance. In fact, about 80 percent of business owners responding to the NASE survey are covered either by a policy through the business or a spouse's policy.

What the NASE results do mean is that the traditional American practice of providing health care benefits through employment is on the decline (particularly among small businesses). This represents a shift of premium costs to the employee (at a time when premium costs are far outpacing wage increases, thus representing a real decrease in wage levels for some workers) or a shift to public programs such as Medicaid or children's health insurance programs.

An increase in the number of uninsured, especially among working adults, is one outcome of this trend. The long-term meaning is that the traditional American system of providing health care benefits is eroding without a real alternative for affordable, comprehensive coverage in place.

### **BARRIERS TO OFFERING HEALTH INSURANCE**

Really, among small business there is only one barrier to offering health insurance – cost. In the NASE report, nearly three-quarters of the businesses that did not offer health insurance

identified cost as an important barrier, and 62 percent identified cost as the single most significant barrier.

Similar results were found in Nebraska. The Bureau of Business Research at the University of Nebraska-Lincoln found in its September 2005 Business in Nebraska report that “health care benefit costs” represent the primary cost reduction priority for businesses in the state.

This report implies that the priority is greater for mid-size and large businesses (at least in gross numbers; it is the highest priority for all sizes of businesses in the state) because larger businesses provide health care benefits more frequently.

Smaller businesses may have other priorities because they've rid themselves of the cost of health care benefits by “getting out from under the whole benefits thing” (quote from Ron Wacks, President of the American Association of Microbusinesses, September 19, 2005, edition of The MicroEnterprise Journal).

## **GOOD BUSINESS, GOOD EMPLOYEES, AND MORAL OBLIGATION**

Small business owners believe there is some sort of discrimination in the health benefit marketplace against them. In the NASE report over 81 percent of businesses disagree that “small businesses have access to the same health insurance options as large businesses.” Further, nearly half of the respondents believed that the marketplace is not providing access to “health insurance options that fit my company’s needs.”

Despite these market failures, small business owners do feel that providing employee health care benefits is necessary. It appears roughly equal as to whether that comes from some sort of moral obligation or from a business requirement.

In the NASE report, 43 percent of respondents agreed that it is the responsibility of the employer to offer health insurance as an employee benefit (compared to 27 percent who disagreed). About 45 percent agreed that health care benefits are necessary to find and hire qualified people (compared to about 20 percent who disagreed).

This example of “doing well by doing good” is yet another market failure of the current system – employers want and need to provide health care benefits for their employees and for the future of their business, but the products and the cost in the marketplace (the supply side of the equation) are increasingly disconnected from demand.

## **WHAT'S NEXT?**

Issues surrounding health care benefits are crucial to the future of rural Americans. One can argue the health insurance issues a variety of ways – social justice, moral, religious, basic health outcomes. But all of those valid arguments can be combined with the most basic of arguments – economic.

Issues related to the cost and availability of health care benefits are crippling the competitiveness of American business, particularly small businesses. Health care benefits are necessary for small businesses to find and attract qualified employees (according to the NASE study).

In other words, health care benefits are necessary for small businesses to expand by allowing them to compete for qualified labor. And that is where the rural perspective becomes important – not only are rural people insured less and less comprehensively, but health care benefit issues are rendering those businesses that dominate the rural economy less viable and less competitive.

As we have written before, if we are to advocate for an entrepreneurially-based rural economy, we must also advocate for a health insurance system that serves entrepreneurs and small businesses (both owners and labor). To do otherwise dooms rural communities to labor challenges as workers seek employment with benefits at larger firms in larger communities, fewer entrepreneurs and businesses, and, ultimately, a less competitive economy.

We welcome your input on how to address these issues to benefit rural communities and rural businesses.

Contact: Jon Bailey, [jonb@cfra.org](mailto:jonb@cfra.org) or 402.687.2103 x 1013 for more information. Also send your comments his way.

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*Health Care Challenges for Small and Micro Businesses* was first published as a feature article in the Center for Rural Affairs Newsletter in December 2005. The author is Jon Bailey, Rural Research & Analysis Program Director at the Center for Rural Affairs.



Established in 1973, the Center for Rural Affairs is a private nonprofit working to strengthen small businesses, rural communities, and family farming and ranching through action-oriented programs addressing social, economic, and environmental issues.

The Center for Rural Affairs is located in Lyons, Nebraska, a small, rural town in northeast Nebraska. You can reach us at: 145 Main Street, PO Box 136, Lyons NE 68038-0136, phone 402.687.2100, fax 402.687.2200.