

# **The Pulse of Arkansas Small Business**

## ***Arkansas Small Business Owners' Views on Health Reform***



**The Main Street Alliance**

**July 2009**

## INTRODUCTION

As the national dialogue on health reform unfolds, small businesses are a critical voice that deserves to be heard. Small businesses are the engine of the U.S. economy, creating jobs and delivering essential services; health reform that works for small businesses will help fire that engine and drive economic recovery. As real-life experts on the problems in the current health care system, small business owners have important perspectives on how to solve these problems and make health care work for businesses and the economy.

This report focuses on Arkansas small business owners' views on health reform. Compared to large employers, small employers and self-employed entrepreneurs are at a particular disadvantage in the small group and individual health insurance markets. Small businesses have limited means for purchasing insurance and limited bargaining power. As a result, small businesses frequently go without coverage for their employees (and owners, too) or receive less coverage in the plans they are able to buy, placing their health and financial security at risk.

The data presented in this report were gathered through a survey of 180 Arkansas small business owners. Surveys were collected through face to face interviews with business owners in Pine Bluff, Hot Springs, Malvern, Monticello, Stuttgart, Dumas and Little Rock. The results indicate that Arkansas small business owners:

- Are struggling to keep up with the rising costs of health care and need meaningful health reform so they can contribute to economic recovery;
- Support approaches to reform that include more public oversight of insurers and a choice between private insurance and a public health insurance plan;
- Are willing to contribute toward health coverage for their employees, but can't do it without a system of shared responsibility where the costs are shared; and
- Want government to play a stronger role in making health care work for businesses and employees.

## KEY FINDINGS

The data presented in this report was gathered through a survey of 180 Arkansas small business owners (50 or fewer employees). Surveys were collected through face to face interviews with business owners. Forty-two percent of surveys came from Pine Bluff, 45 percent more from Hot Springs, Malvern, Monticello and Dumas, and the remainder from Stuttgart and Little Rock. The survey gathered information about small business owners' health insurance status and gauged their support for different approaches to health reform.

### Participant Profile and Insurance Status

- Seventy-two percent of participating businesses were small employers; 28 percent were self-employed entrepreneurs.
- Among small employers, 82 percent had one to five employees, 14 percent had six to 10 employees, and four percent had 11 to 50 employees.
- Ninety-one percent of responding small businesses did not currently offer health insurance.

### Small Business Views on Approaches to Reform

- Asked about public oversight of private insurers, 62 percent of responding business owners said there should be more public oversight of private health insurance companies; 14 percent said there should be less, and 23 percent were undecided.
- Asked about approaches to health reform they support, 75 percent of participating small businesses expressed support for a meaningful role for a public health insurance plan in reform; 15 percent supported reform with only private insurance options, and 10 percent were undecided.
- Asked their view of how a proposed public health insurance option would impact the insurance marketplace, 63 percent said they believed a public health insurance option would increase competition and reduce costs; 14 percent said they believed a public health insurance option would have an unfair advantage over private insurance plans; 22 percent were undecided.

### Willingness to Contribute Toward Health Coverage

- The survey asked business owners if they were willing to contribute financially to get quality, affordable health coverage for their businesses. Many (54 percent) were undecided. Of those that expressed a clear opinion, 82 percent said they were willing to contribute and 18 percent said they were not.
- Asked at what level they would be willing to contribute toward health coverage, participants who specified a level responded as follows: 48 percent said they were willing to contribute four to seven percent of payroll or more, 43 percent said they were willing to contribute one to three percent of payroll, and nine percent said they were not willing to contribute at all.

### Role of Government

- Asked about the role they believe government should play in health care, 41 percent were undecided. Of those that expressed a clear opinion, 68 percent said government should play a strong role in guaranteeing access to quality, affordable health care. Thirty-two percent said access to quality, affordable health care should be left up to the free market, and government should not intervene.

### BACKGROUND

Small businesses are the engine of the economy in Arkansas and across America. In 2006, 5.9 million businesses in the U.S. (98 percent of all firms) had fewer than 100 workers. These businesses employed a total of 42.7 million people. In Arkansas, 51,000 businesses (95 percent of firms in the state) had fewer than 100 workers; these businesses employed 367,000 people. More than four out of five Arkansas businesses were even smaller: 46,000 Arkansas businesses (86 percent of all firms) had fewer than 20 workers, 40,000 (75 percent of all firms) had fewer than 10 workers, and 30,000 (57 percent of all firms) had fewer than five workers.<sup>1</sup>

#### **Small Businesses Struggle to Find Quality Health Coverage They Can Afford**

Despite the integral role small businesses play in the economy, recent research indicates that the health care system is not working for America's small businesses. Only 43 percent of small businesses with fewer than 50 workers nationwide offered health coverage to their employees in 2006, compared to 96 percent of businesses with 50 or more employees.<sup>2</sup> In Arkansas, 29 percent of businesses with fewer than 50 workers offered coverage, compared to 92 percent of businesses with 50 or more employees.<sup>3</sup> Compared to larger businesses, small businesses that do purchase insurance obtain lower quality coverage – often without dental benefits and with higher deductibles – despite the fact that their premiums have increased at a faster rate.<sup>4</sup>

Small businesses are seeing health insurance costs escalate rapidly in relation to payroll.<sup>5</sup> Rising costs are forcing small business owners across the country to make difficult choices about cutting back on benefits or dropping coverage entirely. This problem has become particularly acute during the current economic downturn. *The Wall Street Journal* recently reported that more small businesses are dropping health coverage in the face of accelerating costs and declining revenues due to the recession.<sup>6</sup>

Health care costs have long been a struggle for small businesses, but the portion of small businesses considering cutting benefits is growing. One study has found that one in ten small businesses is looking at dropping health coverage entirely.<sup>7</sup> Additional research has found that one third of small businesses may be forced to reduce coverage, including dropping it entirely or cutting back in other ways.<sup>8</sup> The small businesses able to retain coverage may find that the combination of higher out-of-pocket costs and more limited coverage affects the affordability and accessibility of health care.

#### **Small Businesses at a Disadvantage in Health Insurance Markets**

Small businesses face a number of serious challenges in the small group health insurance market. Without bargaining power to negotiate with insurers, small business owners are vulnerable to steep year-to-year rate hikes. They pay more in administrative costs (often 20 to 25 percent of each premium dollar) than larger groups (often around 10 percent).<sup>9</sup> And they face unpredictable rate increases because they can't spread risk effectively due to their small size.<sup>10</sup>

The version of competition that prevails in state small group health insurance markets places small businesses at a disadvantage. Rather than promote competition based on quality and affordability, the current market structure leads insurers to compete for "good risk" (young, healthy people) and avoid so-called "bad risk" (people they expect to cost more) in order to maximize profits. Depending on the market, carriers do this through a variety of mechanisms, ranging from preexisting condition waiting periods and rating practices based on expected health needs to the strategic design of benefit plans and rejection of applicants with health conditions.<sup>11</sup>

Furthermore, the high level of concentration in insurance markets leaves small businesses without meaningful choices or the leverage that comes from having a credible threat of taking their business elsewhere. According to the American Medical Association, 94 percent of metropolitan insurance markets across the U.S. are “highly concentrated” based on the index used by federal regulators.<sup>12</sup> In Arkansas, the state’s largest insurer (Arkansas BlueCross BlueShield) controls a 75 percent share of the market; only five other states have an insurer with a higher market share in their state.<sup>13</sup> This type of market concentration leaves small businesses, especially those in rural areas, without real, affordable health care choices.

Unable to afford coverage as a group, many small business owners and employees are forced to turn to the individual health insurance market. States’ individual markets, however, are beset with even greater problems than the small group market. In many states insurers have greater latitude to raise rates in the individual market and spend a smaller portion of each premium dollar on health care.<sup>14</sup> Applicants also face rejection based on preexisting conditions and wind up with higher out-of-pocket costs than if they were covered through group insurance.<sup>15</sup>

### **Addressing the Challenges Faced by Small Businesses**

Small business owners rate fixing health care as a top policy priority. According to a 2008 survey by the Robert Wood Johnson Foundation, 42 percent of small business owners thought making health care more affordable should be the first or second priority for the next President and Congress. This put affordable health care ahead of all other issues, including energy independence (39 percent), tax breaks for small businesses (31 percent), and avoiding tax increases (24 percent).<sup>16</sup>

The challenges small businesses face with health care have risen to the forefront of the public discussion over reform, with elected officials and a wide range of stakeholders agreeing that health reform is necessary to promote the future prosperity of small businesses. This consensus leaves a number of critical questions to be answered, though.

How are small business owners coping in the current system? What types of reforms do small business owners support to fix health care? Are business owners willing to contribute to employees’ coverage? And, what role do business owners want lawmakers and government to play in making health care work for small businesses? The survey upon which this report is based posed these questions.

## **METHODOLOGY**

This report is based on a survey of 180 Arkansas small businesses (defined as businesses with 50 or fewer employees) conducted in June and July of 2009. Surveys were administered through face-to-face interviews with small business owners in their places of business.

Participating businesses came from Pine Bluff, Hot Springs, Malvern, Monticello, Stuttgart, Dumas and Little Rock. Forty-two percent of surveys were collected from Pine Bluff, 17 percent from Hot Springs, 12 percent from Malvern, 10 percent from Monticello, 7 percent from Stuttgart, 6 percent from Dumas and 6 percent from Little Rock.

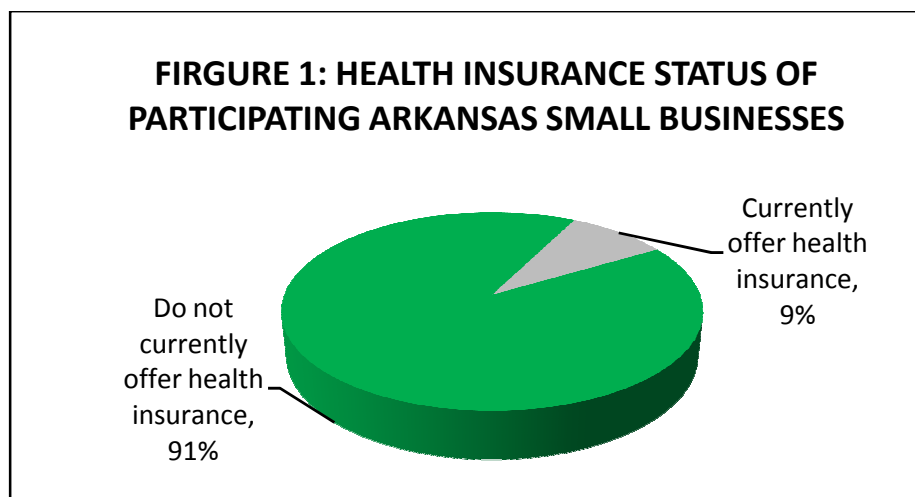
## FINDINGS

### PARTICIPANT PROFILE AND INSURANCE STATUS

In all, 180 Arkansas small businesses (businesses with 50 or fewer employees) participated in the survey. Forty-two percent of surveys came from businesses in Pine Bluff, 45 percent from businesses in Hot Springs, Malvern, Monticello and Dumas, and the remainder from Stuttgart and Little Rock.

Seventy-two percent of participating small business owners were small employers; the remaining 28 percent were self-employed entrepreneurs. Eighty-two percent of responding small employers had between one and five employees; 14 percent had six to 10 employees; four percent had 11 to 50 employees.

Ninety-one percent of participating small businesses did not currently offer health insurance.



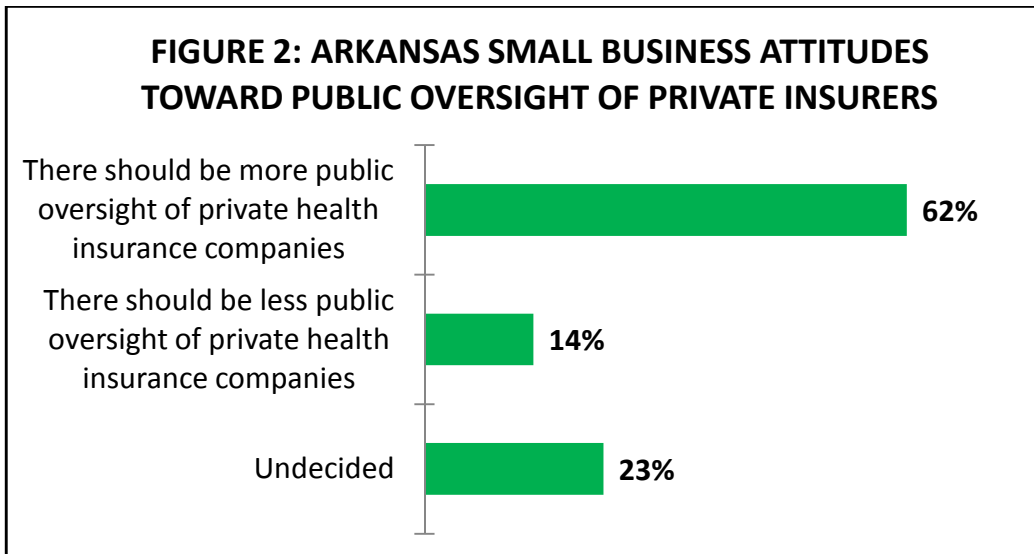
### SMALL BUSINESS VIEWS ON APPROACHES TO REFORM

To gauge the perspective of small business owners on possible approaches to health reform, the survey included questions gauging support among small business owners for different components of current reform proposals, including insurance market reforms and choice among private and public health insurance options.

#### Insurance Market Reform

The survey questioned small business owners about their attitudes toward public oversight of private insurers. Specifically, the survey asked if they believed there should be less or more public oversight of private health insurance companies.

Sixty-two percent of responding business owners said there should be more public oversight of private health insurance companies. Fourteen percent said there should be less public oversight. Twenty-three percent were undecided.



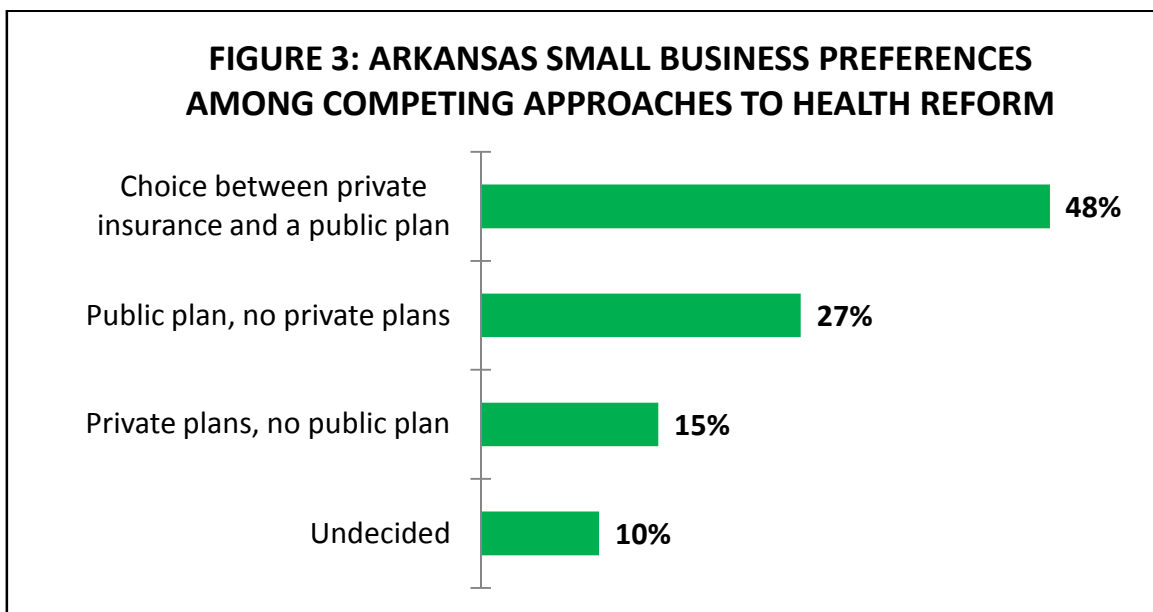
**Choice Among Private and Public Health Insurance Options**

To gauge business owners’ opinions on whether health reform should be pursued exclusively through private insurance or with a role for a public health insurance option, the survey asked:

*Which of the following approaches to health reform do you support?*

- A) *Everyone getting health insurance through private health insurance plans.*
- B) *Everyone getting health insurance through a public health insurance plan.*
- C) *Giving everyone a choice between private health insurance and a public health insurance plan.*

In response to this question, 48 percent of participating businesses supported a choice between private insurance and a public plan, 27 percent supported reform focused solely on a public plan, 15 percent supported reform focused solely on private plans, and 10 percent were undecided.



In all, 75 percent of participating small businesses expressed support for a meaningful role for a public health insurance plan in health reform.

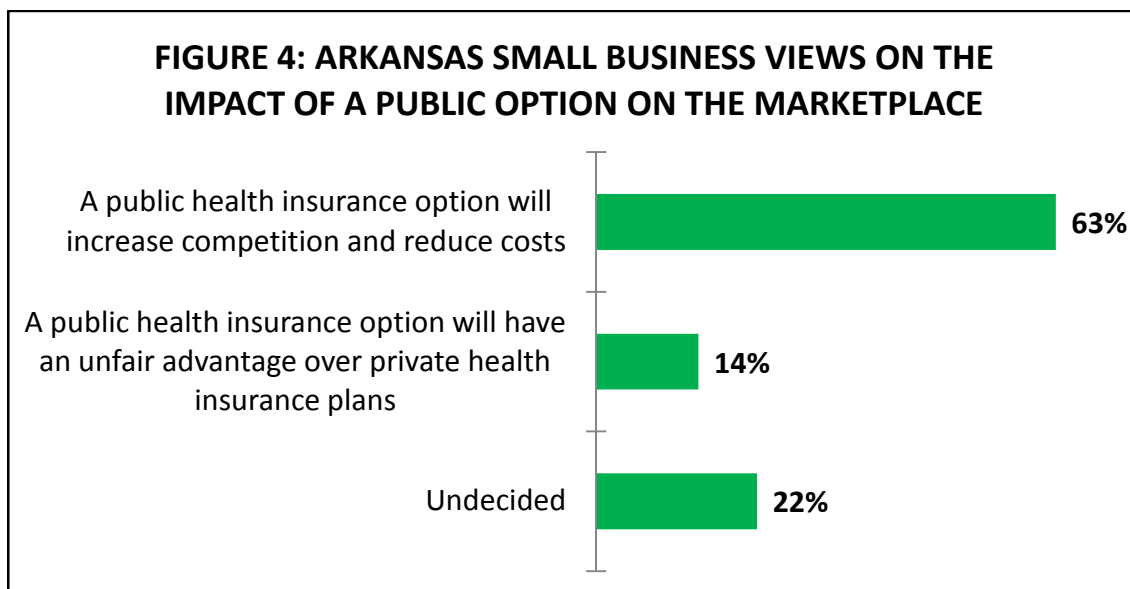
## Impact of a Public Option on the Marketplace

The survey also asked small business owners' opinions on the impact a proposed public health insurance option would have on the insurance market. Specifically, the survey asked:

*Do you believe that:*

- A) A public health insurance option will have an unfair advantage over private health insurance plans. The private plans won't be able to compete and will get crowded out.*
- or*
- B) A public health insurance option will increase competition and reduce costs. If private insurers are really more efficient than government, they won't have any trouble competing with a public plan.*

In response, 63 percent of participating businesses said they believed a public health insurance option would increase competition and reduce costs, compared to 14 percent who said they believed a public option would have an unfair advantage over private insurance plans; 22 percent were undecided.



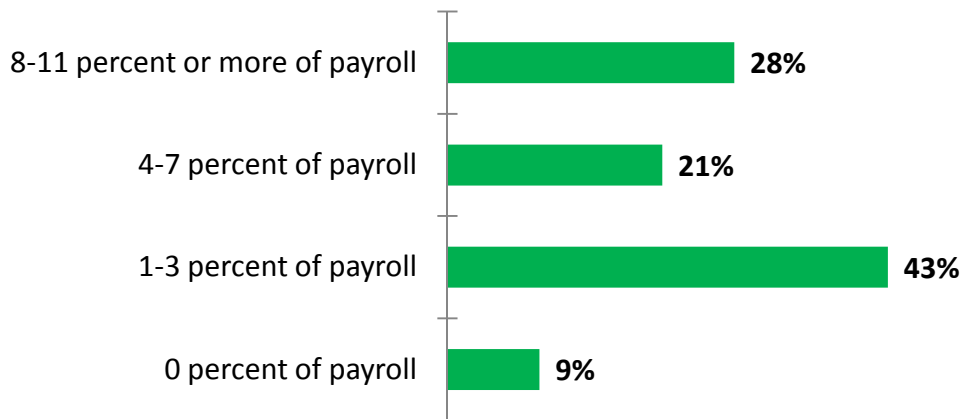
## WILLINGNESS TO CONTRIBUTE TOWARD HEALTH COVERAGE

The survey asked business owners if they were willing to contribute financially to get quality, affordable health coverage for their businesses.

Overall, 37 percent of respondents indicated they were willing to contribute, 8 percent indicated they were not, and 54 percent were undecided. Of those that expressed a clear opinion, 82 percent said they were willing to contribute and 18 percent said they were not.

Asked more specifically at what level they would be willing to contribute toward health coverage, participants who specified a level responded as follows: 48 percent said they were willing to contribute four to seven percent of payroll or more, 43 percent said they were willing to contribute one to three percent of payroll, and nine percent said they were not willing to contribute at all.

**FIGURE 5: WILLINGNESS TO CONTRIBUTE FOR HEALTH COVERAGE - ARKANSAS SMALL BUSINESS OWNERS**



## ROLE OF GOVERNMENT

The survey concluded by asking small business owners the following question:

*Do you believe that:*

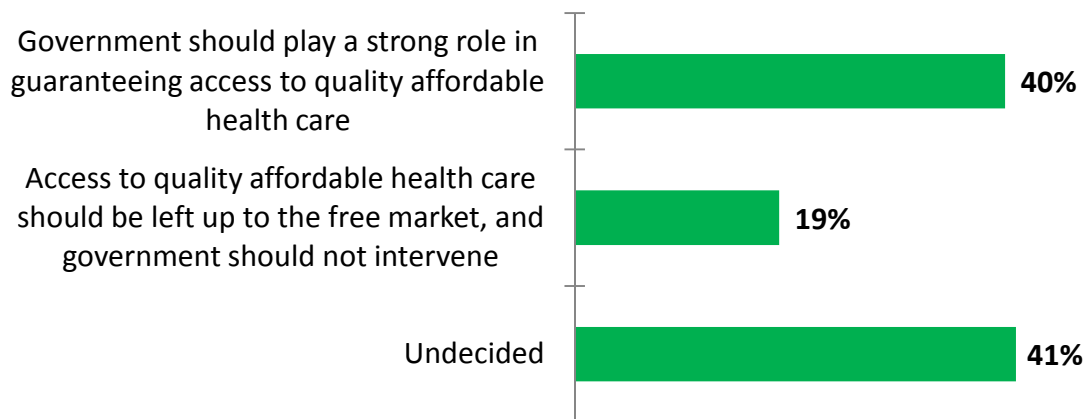
*A. Government should play a strong role in guaranteeing access to quality affordable health care.*

*or*

*B. Access to quality affordable health care should be left up to the free market, and government should not intervene.*

Overall, 40 percent of respondents said government should play a strong role, 19 percent said access to quality, affordable health care should be left up to the free market, and 41 percent were undecided. Of those that expressed a clear opinion, 68 percent said government should play a strong role and 32 percent said health care should be left up to the free market.

**FIGURE 6: ARKANSAS SMALL BUSINESS PERSPECTIVES ON GOVERNMENT'S ROLE IN HEALTH CARE**



## CONCLUSION

Small businesses have found themselves at the center of the country's health insurance troubles. Without bargaining power to negotiate with insurers, small business owners are vulnerable to steep rate hikes come renewal time each year. Because of these rising costs, small businesses are routinely forced to reduce benefits by increasing deductibles and employees' share of premiums, or drop coverage altogether.

Small businesses pay more in administrative costs than larger groups, and they are penalized because they can't spread risk effectively due to their small size. And, small businesses must contend with the great complexity and lack of transparency in the health insurance market, which make it difficult for busy business owners to make informed decisions and determine whether their health care dollars are being spent well.

Without significant reform, small business owners and their employees will continue to be caught in a bind between paying unaffordable premiums and out-of-pocket costs, forgoing needed health care, and falling victim to mounting medical debt.

The Arkansas small businesses that participated in this survey have clear perspectives on the current health care system and what should be done to fix it:

- Arkansas small business owners support an approach to reform that increases public oversight of private health insurers.
- Arkansas small business owners support an approach to reform that includes the choice of a public health insurance plan over one that relies solely on expanded private insurance options.
- Arkansas small business owners are willing to contribute for good health coverage for their employees, but they can't do it without a system of shared responsibility where costs are shared by all stakeholders.
- Arkansas small business owners want government to play a stronger role in making health care work for businesses and employees.

## RECOMMENDATIONS

The results of this survey indicate support among Arkansas small business owners for concerted action to fix the health care system. Comprehensive health reform should address the concerns of Arkansas small businesses by incorporating the following features:

### **Affordable, Predictable Costs**

Small businesses need affordable avenues to contribute to health coverage for their employees. Stable, predictable costs for which business owners can budget from month to month and year to year would be a welcome replacement for the anxiety and unpredictability of premiums that skyrocket annually in the current system.

### **A Guarantee of Real Coverage**

Small business owners and employees should not be at a disadvantage when it comes to covered services and out-of-pocket costs due simply to the size of their business. Health care reform should include a guarantee of quality coverage: coverage that includes necessary services and financial protection, and that won't disappear when an entrepreneur seeks to start a new business.

### **Strong Oversight of Private Health Insurers**

Current regulatory standards are inadequate for protecting small businesses from harmful insurer practices, such as preexisting condition rejections and discriminatory rating practices. Small businesses need stronger oversight of insurers to end discriminatory practices in health insurance.

### **Real Choices, Including the Choice of a Public Health Insurance Plan**

Small business owners need real choices in health care, and they support reform that expands choice by including the choice of a public health insurance plan alongside private plans. Based on experience, business owners believe that insurance market reforms alone cannot be expected to restore choice and competition. A robust public health insurance option would give small businesses new leverage and bargaining power, encourage competition among private insurers, and help drive down costs.

### **A Commitment to Shared Responsibility**

Small businesses are willing to contribute to a health care system that delivers real value and in which all stakeholders pay a fair share. Under reform, government, business, employees, providers and insurers should all contribute to make the health care system work.

## Endnotes

---

- <sup>1</sup> U.S. Census Bureau, “Number of Firms, Number of Establishments, Employment, and Annual Payroll by Employment Size of the Enterprise for the United States and States, Totals – 2006,” 2006 County Business Patterns, [http://www2.census.gov/econ/susb/data/2006/us\\_state\\_totals\\_2006.xls](http://www2.census.gov/econ/susb/data/2006/us_state_totals_2006.xls)
- <sup>2</sup> Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, Medical Expenditure Panel Survey – Insurance Component, Table II.A.2 (2006), [http://www.meps.ahrq.gov/mepsweb/data\\_stats/summ\\_tables/insr/state/series\\_2/2006/tiia2.pdf](http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2006/tiia2.pdf)
- <sup>3</sup> Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, Medical Expenditure Panel Survey – Insurance Component, Table II.A.2 (2006), [http://www.meps.ahrq.gov/mepsweb/data\\_stats/summ\\_tables/insr/state/series\\_2/2006/tiia2.pdf](http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2006/tiia2.pdf)
- <sup>4</sup> Jon R. Gabel & Jeremy D. Pickreign, Issue Brief, “Risky Business: When Mom and Pop Buy Health Insurance for Their Employees,” Commonwealth Fund, April 2004, p.2.
- <sup>5</sup> Christine Eibner, “The Economic Burden of Providing Health Insurance: How Much Worse Off are Small Firms?,” Kauffman-Rand Institute for Entrepreneurship Public Policy, 2008, p.37-38.
- <sup>6</sup> Dana Mattioli, “More Small Firms Drop Health Care,” *The Wall Street Journal*, May 26, 2009, <http://online.wsj.com/article/SB124329442612051953.html> [Hereinafter Mattioli].
- <sup>7</sup> Mattioli; Maureen Mersch & Mary Ann Armatys, “Challenges for Health Care in Uncertain Times, 2009: Hewitt’s 10<sup>th</sup> Annual Health Care Report,” Hewitt Associates, p.3, [http://www.hewittassociates.com/\\_MetaBasicCMAssetCache\\_/Assets/Articles/2009/Hewitt\\_2009\\_Emerging\\_Health\\_Trends\\_Survey\\_Report.pdf](http://www.hewittassociates.com/_MetaBasicCMAssetCache_/Assets/Articles/2009/Hewitt_2009_Emerging_Health_Trends_Survey_Report.pdf)
- <sup>8</sup> “Study Shows Small Business Owners Support Health Reform: Many Can’t Keep Up with Rising Health Care Costs,” Robert Wood Johnson Foundation Briefing Paper, December 2008, <http://www.rwjf.org/files/research/coveragesmallbizsummary2008.pdf> [Hereinafter RWJF Briefing Paper].
- <sup>9</sup> Lester Feder & Ellen-Marie Whelan, “Small Businesses, Large Problems: Health Care Costs Hit Small Employers,” Center for American Progress, October 30, 2008, [http://www.americanprogress.org/issues/2008/10/small\\_business\\_brief.html](http://www.americanprogress.org/issues/2008/10/small_business_brief.html) [Hereinafter Feder & Whelan].
- <sup>10</sup> Feder & Whelan.
- <sup>11</sup> Linda J. Blumberg, “Addressing Adverse Selection in Private Health Insurance Markets,” Statement before the Congress of the United States Joint Economic Committee, September 22, 2004, p.5; Yujing Shen & Randall P. Ellis, “How Profitable Is Risk Selection? A Comparison of Four Risk Adjustment Models,” *Health Economics*, vol. 11, 2002 (published online January 29, 2002 in Wiley InterScience, [www.interscience.wiley.com](http://www.interscience.wiley.com)), pp.165, 173.
- <sup>12</sup> “Competition in Health Insurance: A Comprehensive Study of U.S. Markets, 2008 Update,” American Medical Association, January 2009.
- <sup>13</sup> “Premiums Soaring in Consolidated Health Insurance Market: Lack of Competition Hurts Rural States, Small Businesses,” *Health Care for America Now!*, May 2009, p.5, [http://hcfan.3cdn.net/1b741c44183247e6ac\\_20m6i6nzc.pdf](http://hcfan.3cdn.net/1b741c44183247e6ac_20m6i6nzc.pdf)
- <sup>14</sup> Sara R. Collins, et al, “Squeezed: Why Rising Exposure to Health Care Costs Threatens the Health and Financial Well-Being of American Families,” The Commonwealth Fund, September 2006, p.21 [Hereinafter Collins]; Ella Hushagen & Cheryl Fish-Parcham, “Failing Grades: State Consumer Protections in the Individual Health Insurance Market,” *Families USA*, June 2008. Data on out-of-pocket costs refers to adults.
- <sup>15</sup> Collins, p.10.
- <sup>16</sup> RWJF Briefing Paper.

---

*The Main Street Alliance is a national network of small business coalitions in 15 states working with small business owners to advance a constructive dialogue about health reform that works for small business owners, employees and the economy.*

*For more information:*  
[www.mainstreetalliance.org](http://www.mainstreetalliance.org)  
[info@mainstreetalliance.org](mailto:info@mainstreetalliance.org)