

# **MAIN STREET POLICY PULSE: SMALL BUSINESSES AND HEALTH REFORM**

**MSA POLICY PULSE ISSUE BRIEF #1**

**Based on the 2009 Small Business National Issues Survey**



**November 2009**

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## 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 the views and priorities for health reform of small business owners interviewed in October and November 2009 in four states, including Arkansas, Indiana, Nebraska and North Carolina.

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 results presented in this report were gathered through a survey of 581 small business owners in four states. Surveys were collected through face-to-face and phone interviews with business owners between October 12 and November 15, 2009. The results show that participating small business owners in Arkansas, Indiana, Nebraska and North Carolina:

- 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 an approach to reform that gives small businesses a choice between private insurance and a public health insurance option, and believe a public plan option will help increase competition and drive down costs; and,
- Are willing to contribute financially to get quality, affordable health coverage for their businesses;
- Believe that, in general, employers who can afford to should share in the responsibility of contributing toward employees' health coverage; and
- Believe government should play a strong role in guaranteeing access to quality, affordable health care.

## BACKGROUND

Small businesses are the engine of the U.S. economy. Small businesses create jobs and deliver basic goods and services to communities 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 42.7 million people.<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> 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>3</sup>

Small businesses are seeing health insurance costs escalate rapidly in relation to payroll.<sup>4</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* reported earlier this year that more small businesses are dropping health coverage in the face of accelerating costs and declining revenues due to the recession.<sup>5</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>6</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>7</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 do larger groups (often around 10 percent).<sup>8</sup> And they face unpredictable rate increases because they can't spread risk effectively due to their small size.<sup>9</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>10</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>11</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>12</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>13</sup>

### **Addressing the Challenges Small Businesses Face**

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>14</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. However, this consensus leaves a number of critical questions to be answered.

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 door-to-door survey of 581 small businesses (defined as businesses with 100 or fewer employees) in Arkansas, Indiana, Nebraska and North Carolina conducted between October 12 and November 15, 2009.

Most surveys were administered through face-to-face interviews with small business owners in their places of business. Some surveys were also collected by phone. Locations ranged from business districts in downtown urban areas to clusters of locally-owned businesses in suburban neighborhoods to main streets in small rural towns.

Though not a random sample, the primarily door-to-door approach generated a response set from a broad cross-section of the small business community. This cross-section included businesses in the agriculture, auto, construction, general services, health, hospitality, industrial, professional services, restaurant, retail and technology sectors. The aggregated results present a "pulse of Main Street" window into small business owners' views on health care and health reform.

The report presents a summary of overall findings based on the combined results from the four states, followed by state breakout sections that review the results for each state separately.

Survey results are rounded to the nearest percentage point. In some cases, the combined reported tallies for a particular question may not add up to exactly 100 percent due to this rounding.

## OVERALL FINDINGS: COMBINED FOUR-STATE SUMMARY

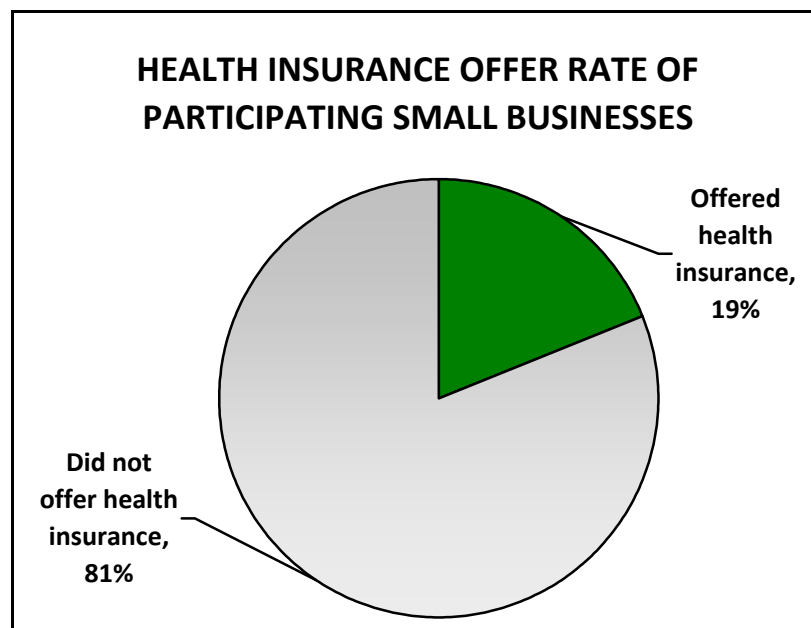
### General Information

In all, 581 small business owners from four states participated in the health care component of the 2009 Small Business National Issues Survey between October 12 and November 15, 2009. Responding business owners came from Arkansas, Indiana, Nebraska and North Carolina. More than 100 surveys were collected from small business owners in each state.

Sixty-one percent of responding business owners were small employers. Thirty-nine percent were self-employed entrepreneurs. Among the small employers, 76 percent had 1-5 employees, 14 percent had 6-10 employees, 7 percent had 11-25 employees and 3 percent had more than 25 employees.

### Health Insurance Offer Rate

Nineteen percent of participating businesses offered health insurance. Eighty-one percent did not.

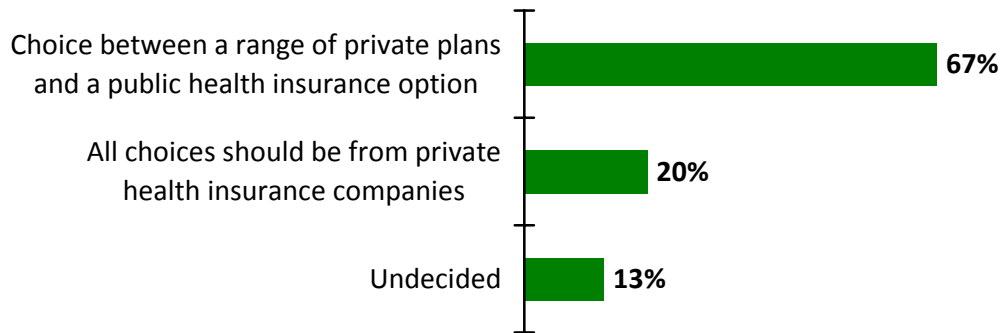


### Choice in Health Reform

The survey asked small business owners to respond to two approaches to expanding choice in health insurance, one where all the choices available to small businesses would be from private health insurance companies, and another where the choices would include a range of private plans and a public health insurance option.

By a margin of more than 3 to 1, responding small business owners favored the approach that includes the choice of a public health insurance option alongside private plans. Sixty-seven percent supported an approach with a public option, compared to 20 percent who supported an approach based solely on private insurance plans (13 percent were undecided).

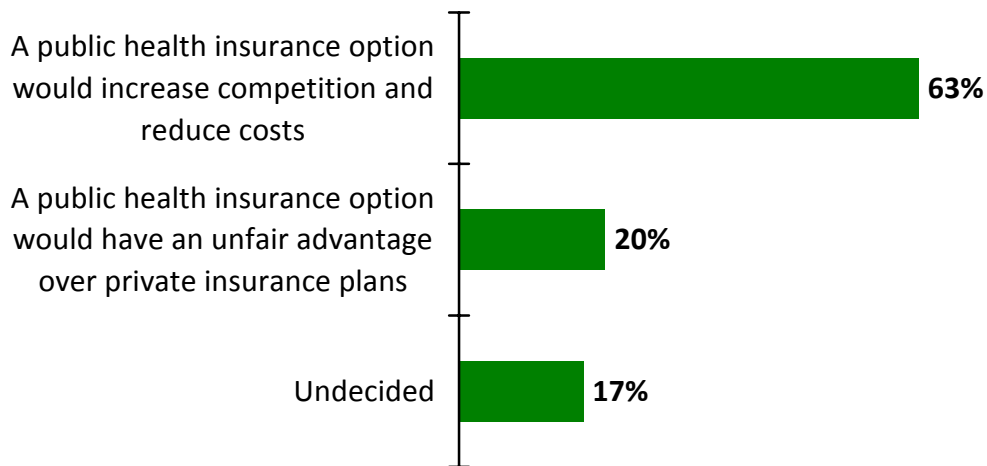
### SMALL BUSINESS PREFERENCES AMONG COMPETING APPROACHES TO HEALTH REFORM



#### Competition

Asked whether they believe a public health insurance option would have an unfair advantage or whether it would increase competition and reduce costs, respondents said it would increase competition and reduce costs. The margin was 3 to 1: 63 percent believed a public option would increase competition and reduce costs, and that if private insurers are more efficient they shouldn't have trouble competing with a public plan, while 20 percent believed a public option would have an unfair advantage and private plans wouldn't be able to compete and would get crowded out (17 percent were undecided).

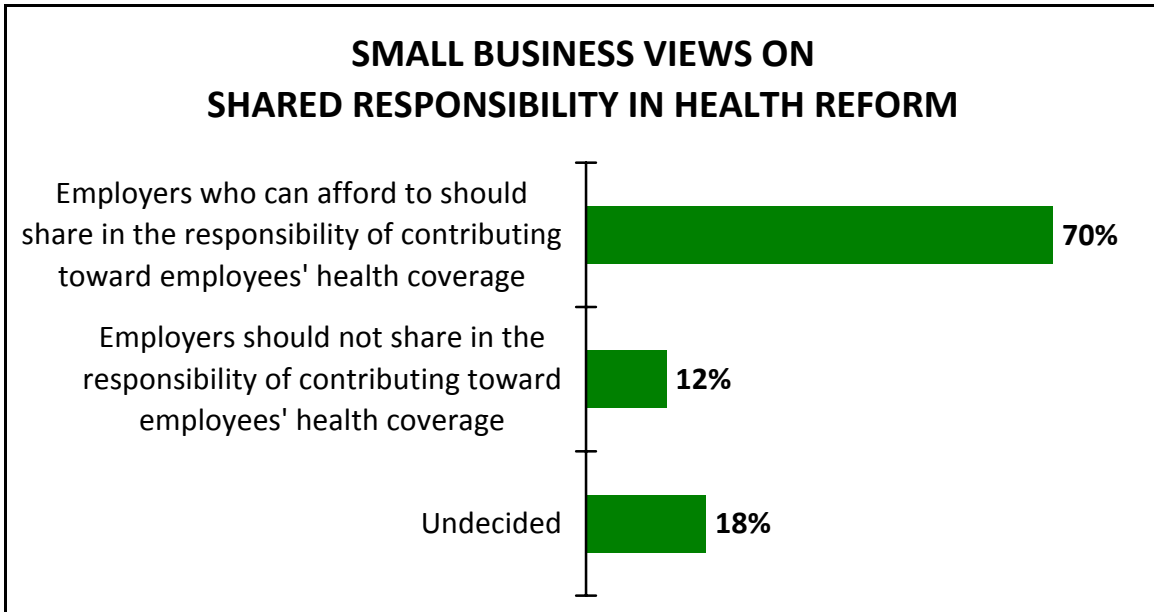
### SMALL BUSINESS VIEWS ON THE IMPACT OF A PUBLIC OPTION ON THE MARKETPLACE



#### Willingness to Contribute and Employer Responsibility

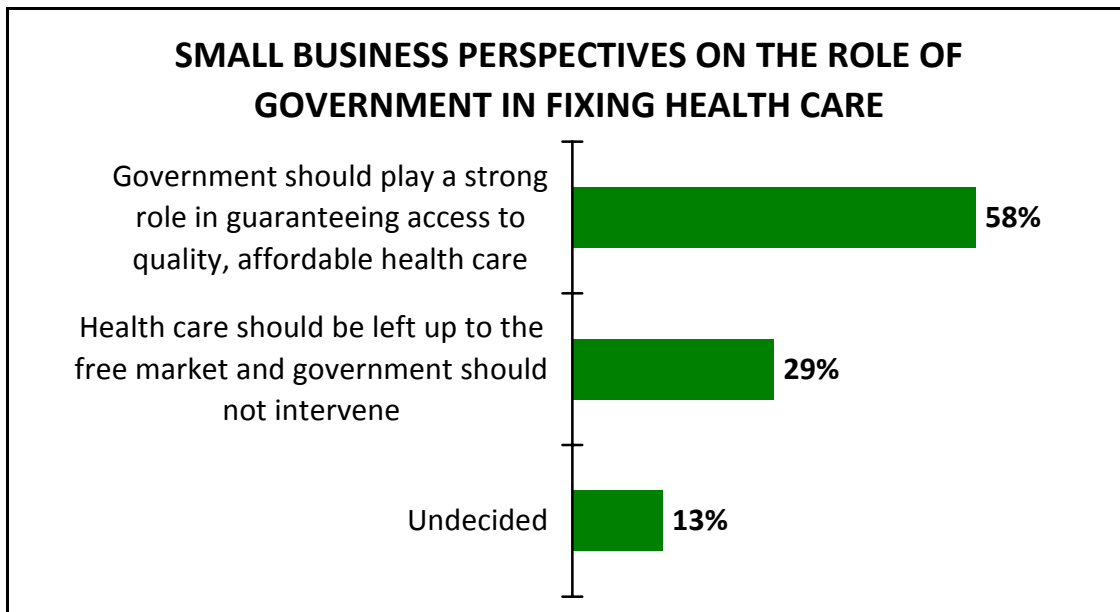
Fifty-nine percent of responding small business owners said they were willing to contribute financially to get quality, affordable health coverage for their business, compared to 17 percent who said they were not willing. Twenty-five percent of respondents were undecided.

By a margin of almost 6 to 1, responding business owners said they believe employers who can afford to should share in the responsibility of contributing toward employees' health coverage: 70 percent in favor to 12 percent opposed, with 18 percent undecided.



### Role of Government in Fixing Health Care

When asked about the proper role for government in addressing the nation's health care challenges, 58 percent of respondents said government should play a strong role in guaranteeing access to quality affordable health care. Twenty-nine percent of respondents said health care should be left up to the free market and government should not intervene. Thirteen percent were undecided.



## STATE FINDINGS: ARKANSAS

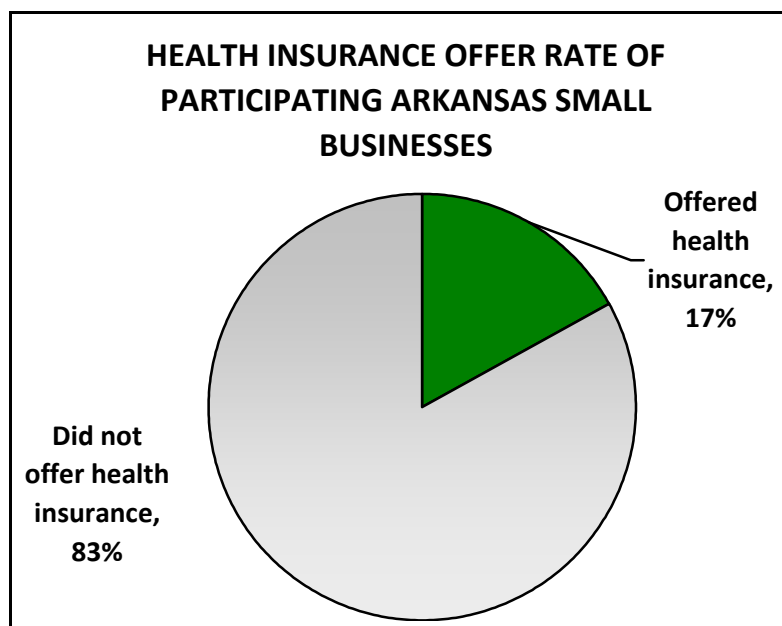
### General Information

In Arkansas, 142 small business owners participated in the survey. Responding business owners came from Pine Bluff, Little Rock and Hot Springs.

Eighty-five percent of responding business owners were small employers. Fifteen percent were self-employed. Among the small employers, 92 percent had 1-5 employees, 6 percent had 6-10 employees, 2 percent had 11-25 employees and 1 percent had more than 25 employees.

### Health Insurance Offer Rate

Seventeen percent of participating Arkansas businesses offered health insurance. Eighty-three percent did not.

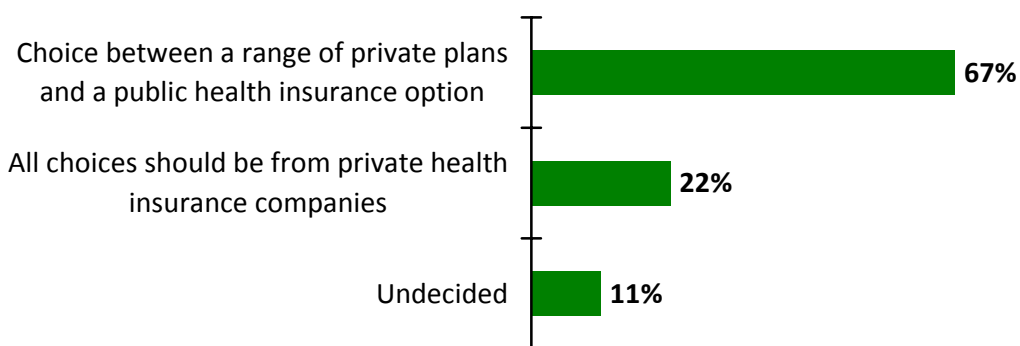


### Choice in Health Reform

The survey asked small business owners to respond to two approaches to expanding choice in health insurance, one where all the choices available to small businesses would be from private health insurance companies, and another where the choices would include a range of private plans and a public health insurance option.

By a margin of 3 to 1, responding Arkansas small business owners favored the approach that includes the choice of a public health insurance option alongside private plans. Sixty-seven percent supported an approach with a public option, compared to 22 percent who supported an approach based solely on private insurance plans (11 percent were undecided).

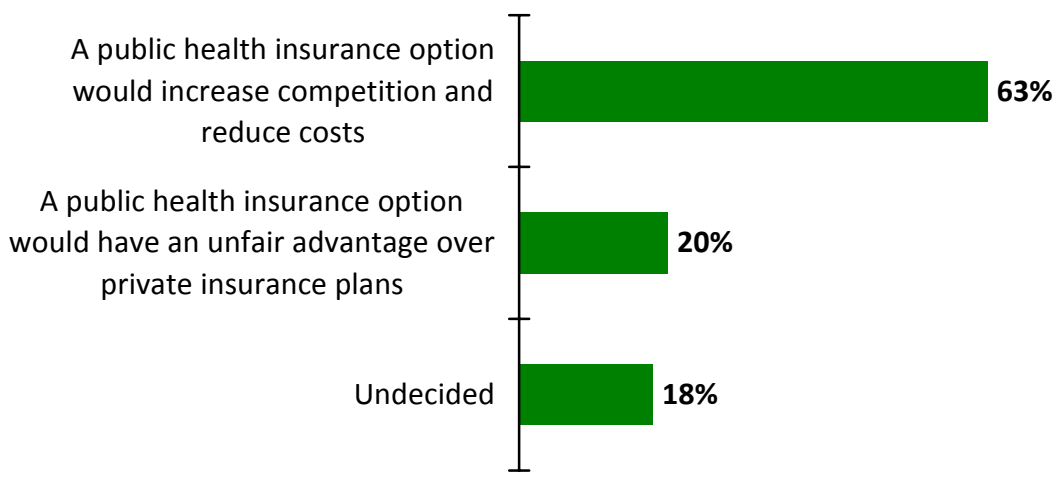
### ARKANSAS SMALL BUSINESS PREFERENCES AMONG COMPETING APPROACHES TO HEALTH REFORM



#### Competition

Asked whether they believe a public health insurance option would have an unfair advantage or whether it would increase competition and reduce costs, Arkansas respondents said it would increase competition and reduce costs. The margin was 3 to 1: 63 percent believed a public option would increase competition and reduce costs, and that if private insurers are more efficient they shouldn't have trouble competing with a public plan, while 20 percent believed a public option would have an unfair advantage and private plans wouldn't be able to compete and would get crowded out (18 percent were undecided).

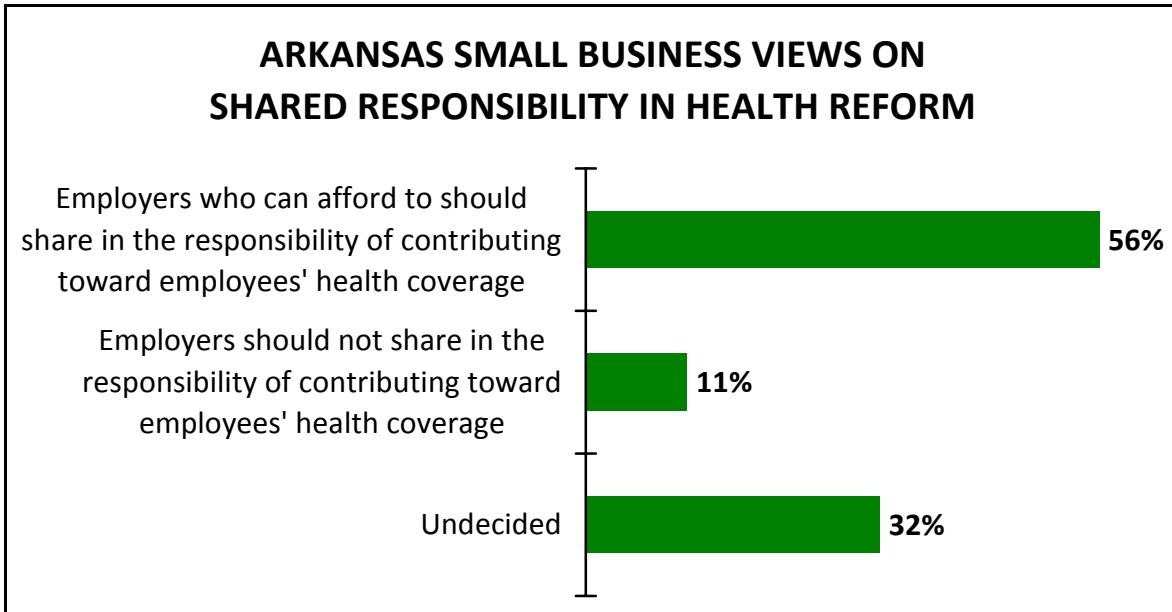
### ARKANSAS SMALL BUSINESS VIEWS ON THE IMPACT OF A PUBLIC OPTION ON THE MARKETPLACE



#### Willingness to Contribute and Employer Responsibility

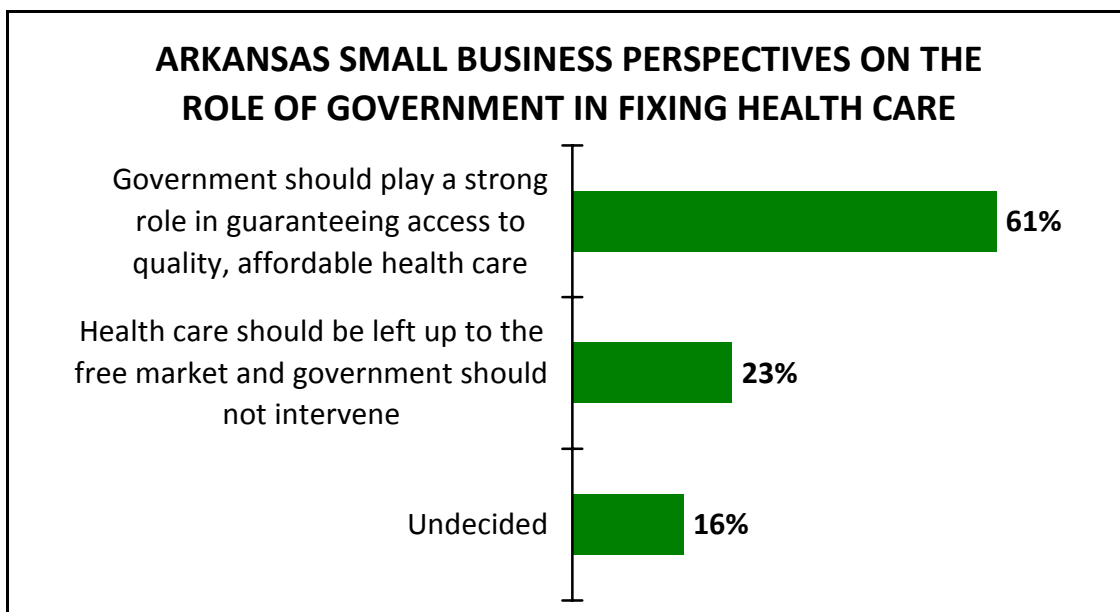
Sixty-three percent of responding Arkansas small business owners said they were willing to contribute financially to get quality, affordable health coverage for their business, compared to 11 percent who said they were not willing. Twenty-six percent of respondents were undecided.

By a margin of 5 to 1, Arkansas business owners said they believe employers who can afford to should share in the responsibility of contributing toward employees' health coverage: 56 percent in favor to 11 percent opposed, with 32 percent undecided.



### Role of Government in Fixing Health Care

When asked about the proper role for government in addressing the nation's health care challenges, 61 percent of Arkansas small business respondents said government should play a strong role in guaranteeing access to quality affordable health care. Twenty-three percent of respondents said health care should be left up to the free market and government should not intervene. Sixteen percent were undecided.



## STATE FINDINGS: INDIANA

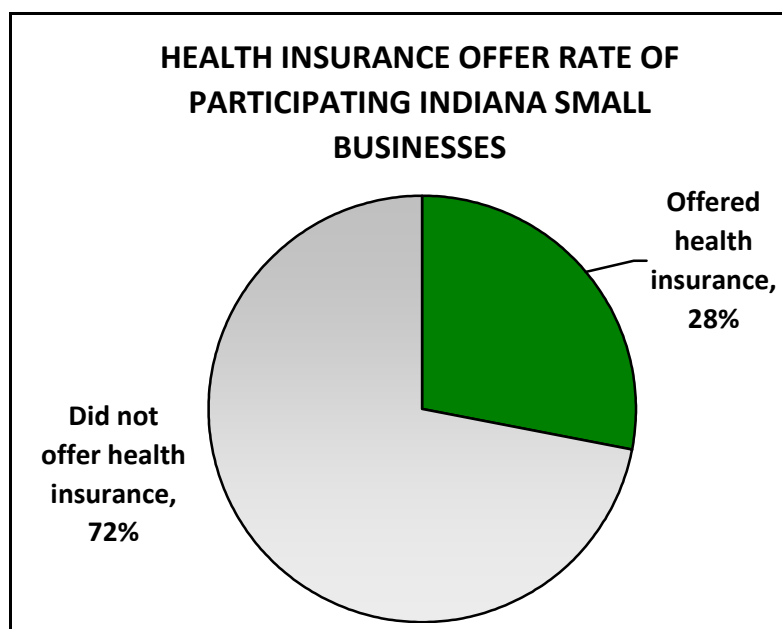
### General Information

In Indiana, 121 small business owners participated in the survey. Responding business owners came primarily from Bloomington, Nashville and surrounding towns.

Forty-three percent of responding business owners were small employers. Fifty-seven percent were self-employed. Among the small employers, 73 percent had 1-5 employees, 22 percent had 6-10 employees, 2 percent had 11-25 employees and 4 percent had more than 25 employees.

### Health Insurance Offer Rate

Twenty-eight percent of participating Indiana businesses offered health insurance. Seventy-two percent did not.

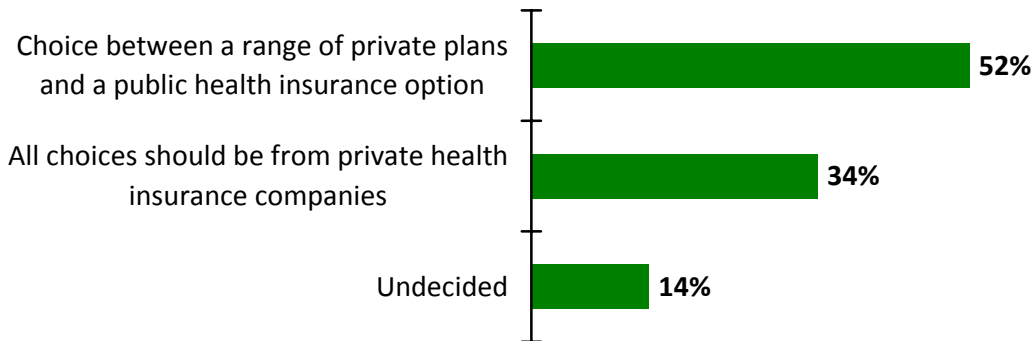


### Choice in Health Reform

The survey asked small business owners to respond to two approaches to expanding choice in health insurance, one where all the choices available to small businesses would be from private health insurance companies, and another where the choices would include a range of private plans and a public health insurance option.

By a margin of almost 20 points, responding Indiana small business owners favored the approach that includes the choice of a public health insurance option alongside private plans. Fifty-two percent supported an approach with a public option, compared to 34 percent who supported an approach based solely on private insurance plans (14 percent were undecided).

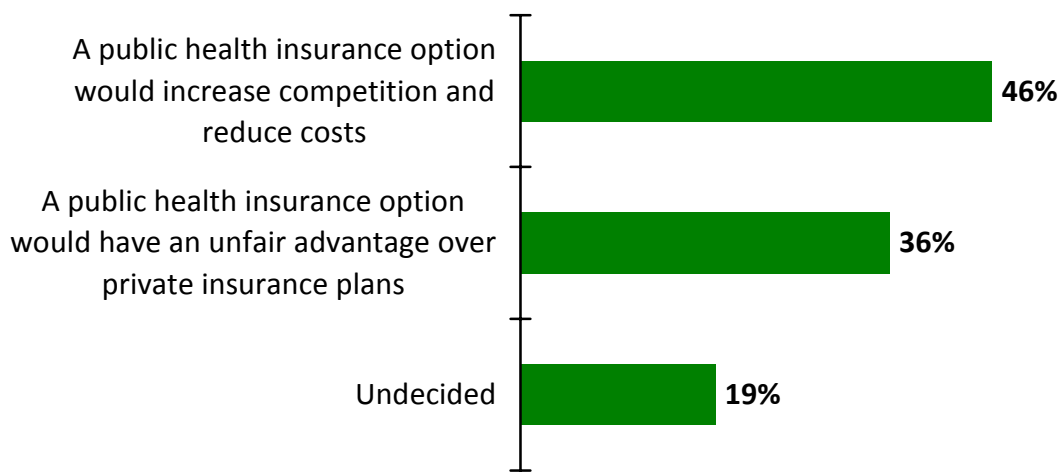
### INDIANA SMALL BUSINESS PREFERENCES AMONG COMPETING APPROACHES TO HEALTH REFORM



#### Competition

Asked whether they believe a public health insurance option would have an unfair advantage or whether it would increase competition and reduce costs, Indiana respondents favored the view that it would increase competition and reduce costs. Forty-six percent believed a public option would increase competition and reduce costs, and that if private insurers are more efficient they shouldn't have trouble competing with a public plan, while 36 percent believed a public option would have an unfair advantage and private plans wouldn't be able to compete and would get crowded out (19 percent were undecided).

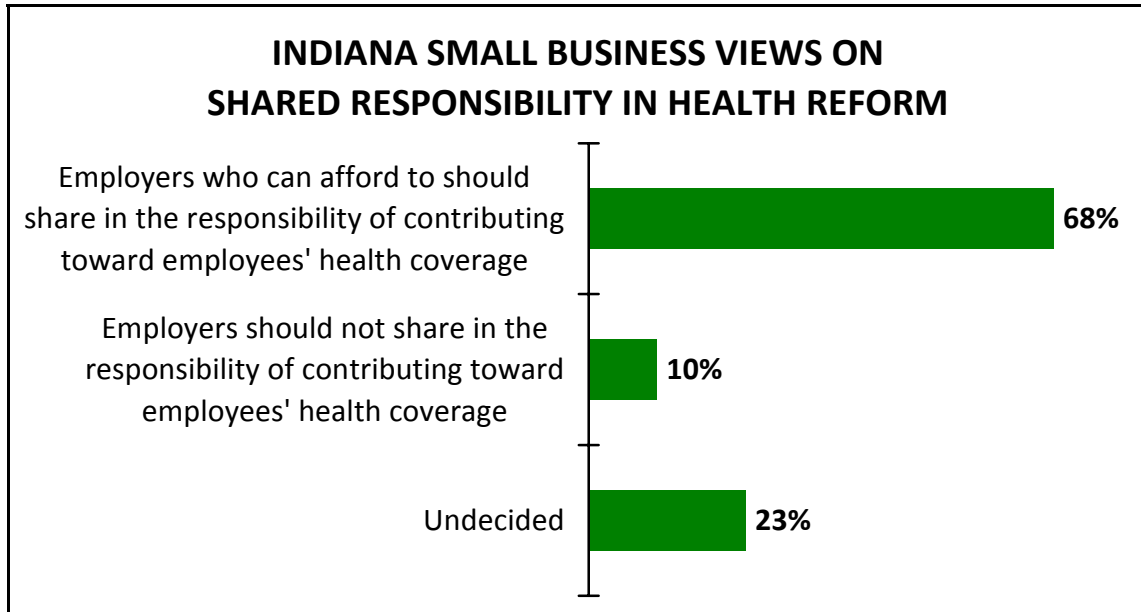
### INDIANA SMALL BUSINESS VIEWS ON THE IMPACT OF A PUBLIC OPTION ON THE MARKETPLACE



#### Willingness to Contribute and Employer Responsibility

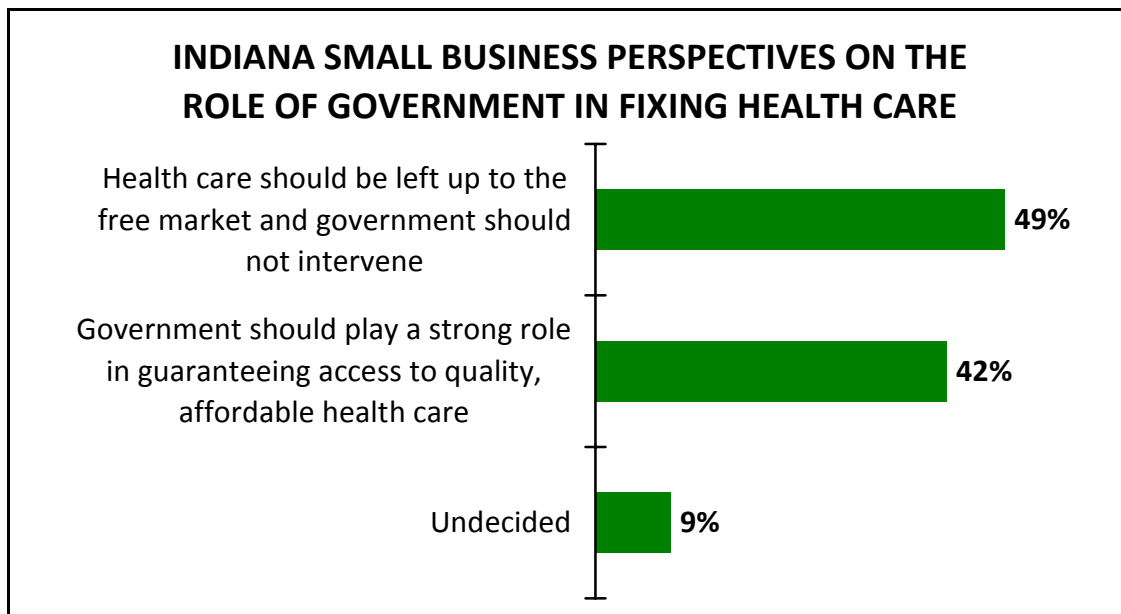
Thirty-five percent of responding Indiana small business owners said they were willing to contribute financially to get quality, affordable health coverage for their business, compared to 19 percent who said they were not willing. Forty-six percent of respondents were undecided.

By a wide margin, Indiana respondents said they believe employers who can afford to should share in the responsibility of contributing toward employees' health coverage: 68 percent in favor to 10 percent opposed, with 23 percent undecided.



### Role of Government in Fixing Health Care

When asked about the proper role for government in addressing the nation's health care challenges, 49 percent of Indiana small business respondents said health care should be left up to the free market and government should not intervene. Forty-two percent of respondents said government should play a strong role in guaranteeing access to quality affordable health care. Nine percent were undecided.



## STATE FINDINGS: NEBRASKA

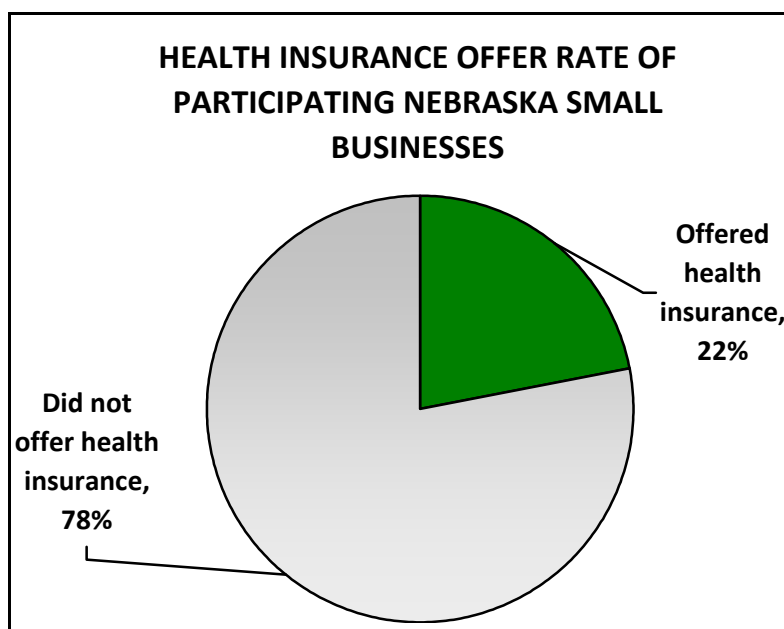
### General Information

In Nebraska, 119 small business owners participated in the survey. Responding business owners came primarily from Lincoln and Omaha.

Seventy-one percent of responding business owners were small employers. Twenty-nine percent were self-employed. Among the small employers, 62 percent had 1-5 employees, 17 percent had 6-10 employees, 14 percent had 11-25 employees and 7 percent had more than 25 employees.

### Health Insurance Offer Rate

Twenty-two percent of participating Nebraska businesses offered health insurance. Seventy-eight percent did not.

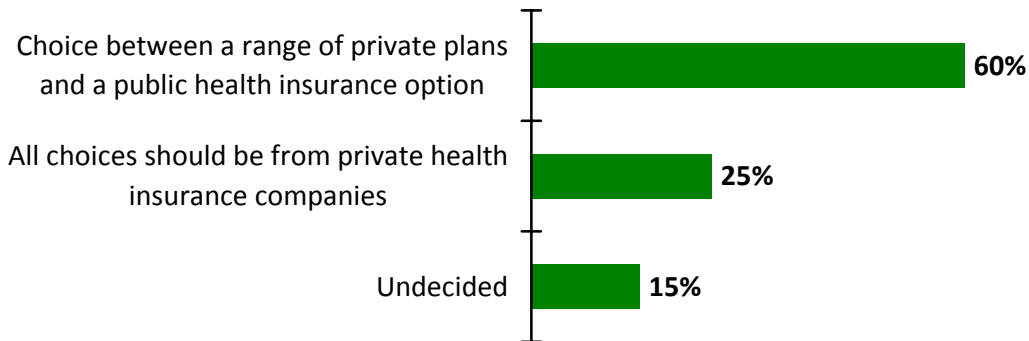


### Choice in Health Reform

The survey asked small business owners to respond to two approaches to expanding choice in health insurance, one where all the choices available to small businesses would be from private health insurance companies, and another where the choices would include a range of private plans and a public health insurance option.

By a margin of over 2 to 1, responding Nebraska small business owners favored the approach that includes the choice of a public health insurance option alongside private plans. Sixty percent supported an approach with a public option, compared to 25 percent who supported an approach based solely on private insurance plans (15 percent were undecided).

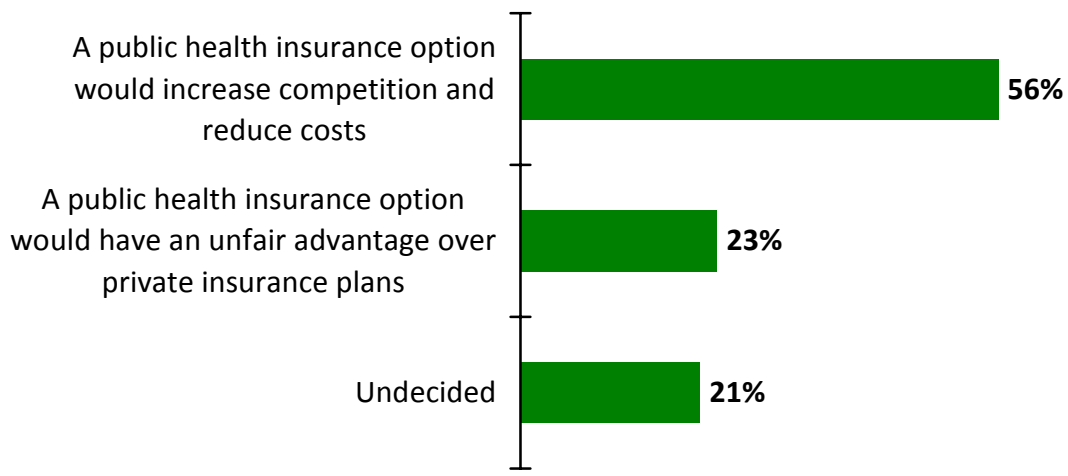
### NEBRASKA SMALL BUSINESS PREFERENCES AMONG COMPETING APPROACHES TO HEALTH REFORM



#### Competition

Asked whether they believe a public health insurance option would have an unfair advantage or whether it would increase competition and reduce costs, Nebraska respondents said it would increase competition and reduce costs. The margin was over 2 to 1: 56 percent believed a public option would increase competition and reduce costs, and that if private insurers are more efficient they shouldn't have trouble competing with a public plan, while 23 percent believed a public option would have an unfair advantage and private plans wouldn't be able to compete and would get crowded out (21 percent were undecided).

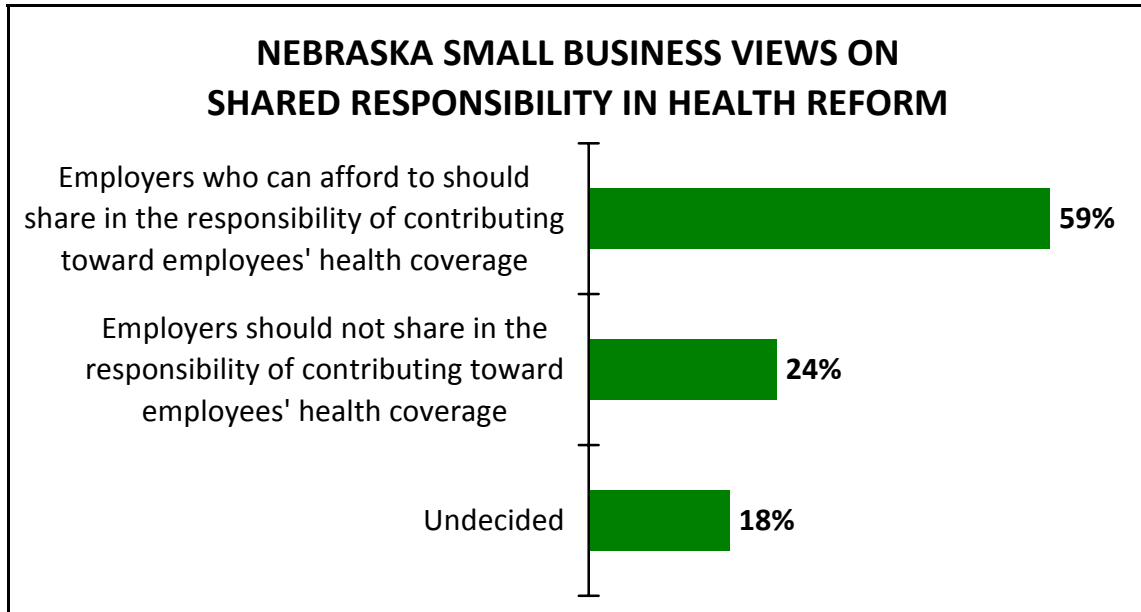
### NEBRASKA SMALL BUSINESS VIEWS ON THE IMPACT OF A PUBLIC OPTION ON THE MARKETPLACE



#### Willingness to Contribute and Employer Responsibility

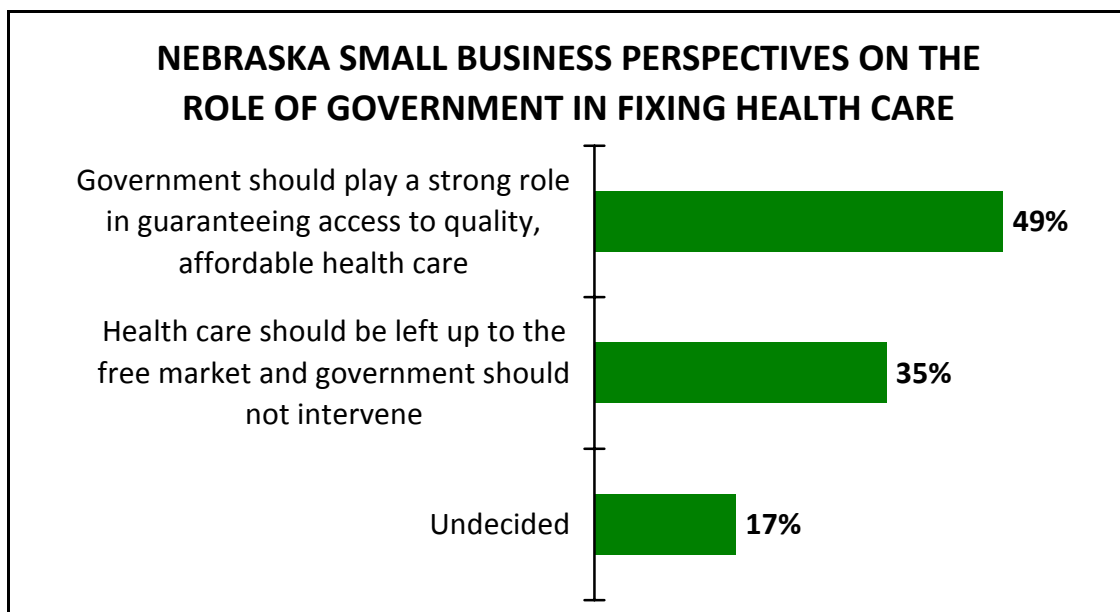
Fifty-seven percent of responding Nebraska small business owners said they were willing to contribute financially to get quality, affordable health coverage for their business, compared to 19 percent who said they were not willing. Twenty-four percent of respondents were undecided.

By a margin of over 2 to 1, Nebraska business owners said they believe employers who can afford to should share in the responsibility of contributing toward employees' health coverage: 59 percent in favor to 24 percent opposed, with 18 percent undecided.



### Role of Government in Fixing Health Care

When asked about the proper role for government in addressing the nation's health care challenges, 49 percent of Nebraska small business respondents said government should play a strong role in guaranteeing access to quality affordable health care. Thirty-five percent of respondents said health care should be left up to the free market and government should not intervene. Seventeen percent were undecided.



## STATE FINDINGS: NORTH CAROLINA

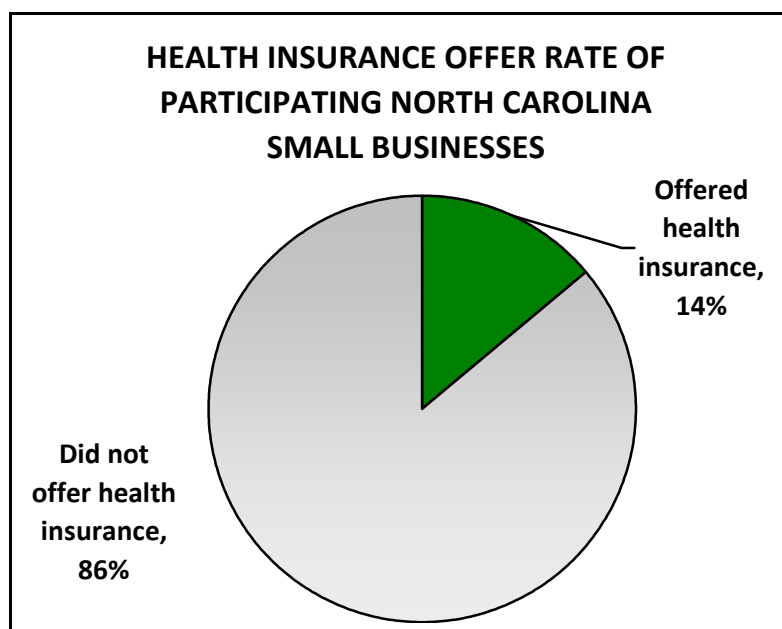
### General Information

In North Carolina, 199 small business owners participated in the survey. Responding business owners came from Wilmington, Charlotte, Lumberton, Wallace and Carolina Beach.

Fifty percent of responding business owners were small employers and fifty percent were self-employed. Among the small employers, 71 percent had 1-5 employees, 18 percent had 6-10 employees, 9 percent had 11-25 employees and 2 percent had more than 25 employees.

### Health Insurance Offer Rate

Fourteen percent of participating North Carolina businesses offered health insurance. Eighty-six percent did not.

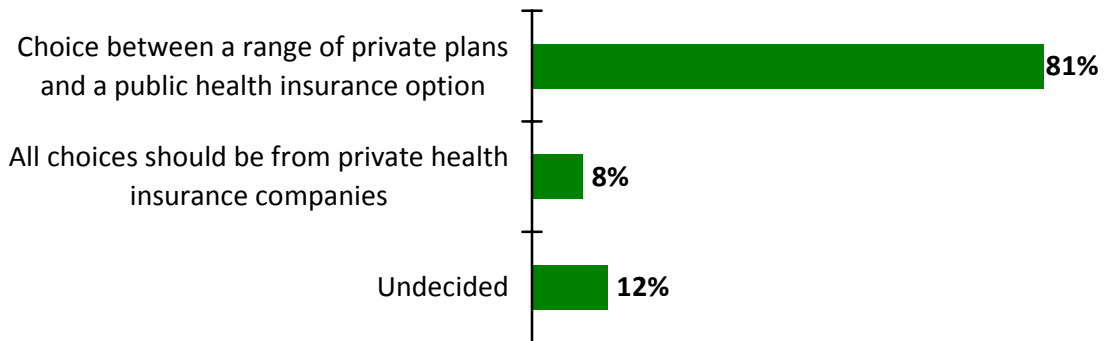


### Choice in Health Reform

The survey asked small business owners to respond to two approaches to expanding choice in health insurance, one where all the choices available to small businesses would be from private health insurance companies, and another where the choices would include a range of private plans and a public health insurance option.

By a wide margin, responding North Carolina small business owners favored the approach that includes the choice of a public health insurance option alongside private plans. Eighty-one percent supported an approach with a public option, compared to 8 percent who supported an approach based solely on private insurance plans (12 percent were undecided).

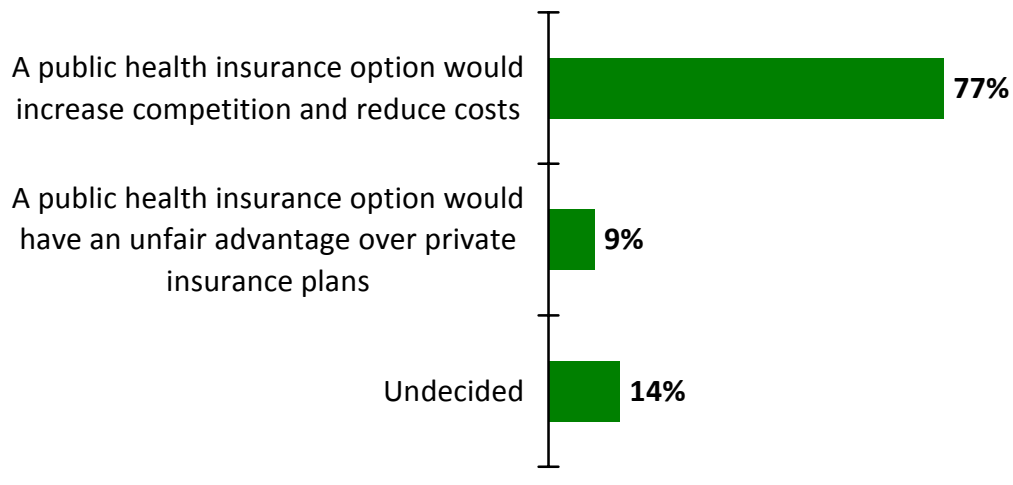
### NORTH CAROLINA SMALL BUSINESS PREFERENCES AMONG COMPETING APPROACHES TO HEALTH REFORM



#### Competition

Asked whether they believe a public health insurance option would have an unfair advantage or whether it would increase competition and reduce costs, North Carolina respondents said it would increase competition and reduce costs, again by a wide margin: 77 percent believed a public option would increase competition and reduce costs, and that if private insurers are more efficient they shouldn't have trouble competing with a public plan, while 9 percent believed a public option would have an unfair advantage and private plans wouldn't be able to compete and would get crowded out (14 percent were undecided).

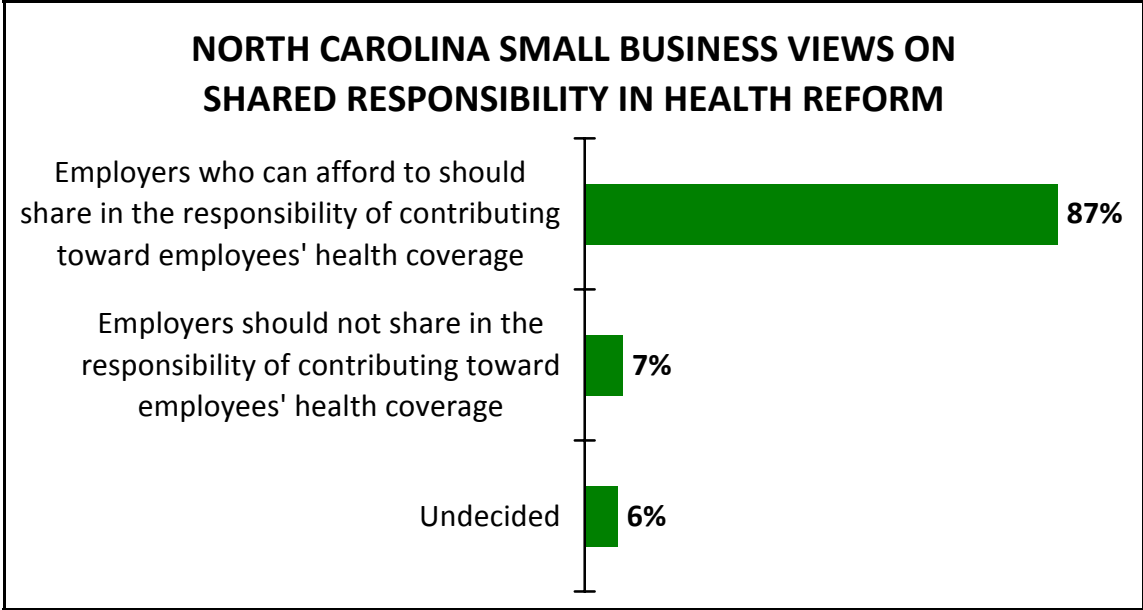
### NORTH CAROLINA SMALL BUSINESS VIEWS ON THE IMPACT OF A PUBLIC OPTION ON THE MARKETPLACE



#### Willingness to Contribute and Employer Responsibility

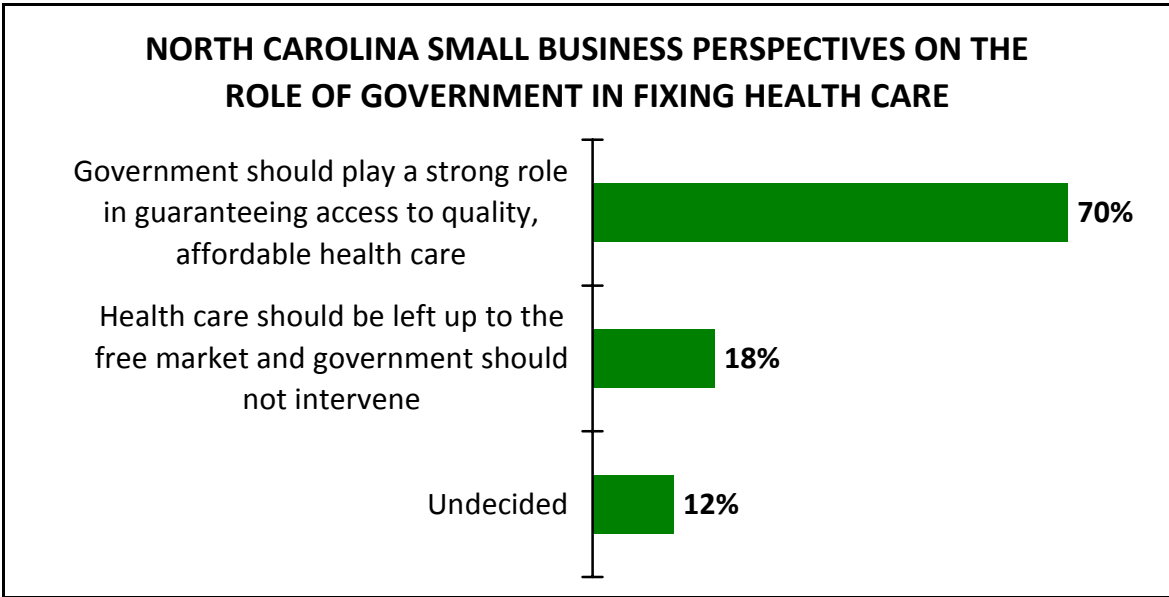
Seventy-one percent of responding North Carolina small business owners said they were willing to contribute financially to get quality, affordable health coverage for their business, compared to 18 percent who said they were not willing. Eleven percent of respondents were undecided.

North Carolina business owners said they believe employers who can afford to should share in the responsibility of contributing toward employees' health coverage: 87 percent in favor to 7 percent opposed, with 6 percent undecided.



### Role of Government in Fixing Health Care

When asked about the proper role for government in addressing the nation's health care challenges, 70 percent of North Carolina small business respondents said government should play a strong role in guaranteeing access to quality affordable health care. Eighteen percent of respondents said health care should be left up to the free market and government should not intervene. Twelve percent were undecided.



## 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 small business owners from Arkansas, Indiana, Nebraska and North Carolina who participated in this survey provided clear views on the current health care system and what should be done to fix it. Overall, these 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;
- Believe a model for reform with a public health insurance option will increase competition and reduce costs for small businesses;
- Are willing to contribute financially to get quality, affordable health coverage for their businesses;
- Believe employers who can afford to should share in the responsibility of contributing toward employees' health coverage; and,
- Believe government should play a strong role in guaranteeing access to quality, affordable health care.

## 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/subb/data/2006/us\\_state\\_totals\\_2006.xls](http://www2.census.gov/econ/subb/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> 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>4</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>5</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].
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*The Main Street Alliance is a national network of small business coalitions in 15 states working to achieve health reform that works for small business owners, their employees and the economy.*

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