

Small Business Responds to the Crisis in Healthcare

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For years, state policy makers have been struggling to find a solution to one of the most insidious problems of our time: the growing number of North Carolinians without health insurance coverage. To date, these efforts have not met with success, and as the cost of health care continues to skyrocket, a solution seems more elusive than ever.

Who Are the Uninsured?

The 2000 U.S. Census brought a shocking number into focus: 1,154,000 uninsured persons in North Carolina place us seventh among the 50 states in numbers of people without insurance coverage. Of these, 62% have a family head who is self-employed or who works for a business with 100 or fewer employees. Since the September 2000 census date, moreover, North Carolina has experienced the highest level of job loss in the country. These newly unemployed workers now join the ranks of the chronically uninsured: those who make too much money to qualify for taxpayer-supported health programs, especially Medicaid, but not enough to be able to afford to purchase health insurance on their own.

North Carolinians have watched with dismay as well-meaning lawmakers enacted dozens of new rules and regulations with the intent of creating a system of quality health care at a reasonable cost. The great majority of these measures

have failed, and many have had the opposite effect. Costs have increased, driving the number of uninsured individuals ever higher.

Small Employer-Based Programs

A 2001 survey of North Carolina members of the National Federation of Independent Businesses (NFIB), all of whom own small businesses, indicates that 77.4% are currently offering health care coverage for themselves and their employees, despite feeling the pinch of the current recession. But consecutive years of large premium increases are taking a huge chunk out of revenues, and if the trend continues, it will threaten the viability of many businesses. In response to the skyrocketing costs, more employers than ever are shifting premium payments to workers. Only 57.6% of employers are still covering 100% of their employees premiums, and 38.6% plan to increase the employee's contribution in order to be able to continue offering coverage at all. Yet, according to the 2001 NFIB survey, when asked to contribute to their own health insurance plans, 42.2% of employees declined coverage altogether. The experience of the State Employees Health Plan in 2001 demonstrates the same conclusion.

Further premium increases will mean higher costs not just for employers but, according to the National Bureau of Economic Research, for employees as well, in the form of reduced wages, reduced work hours, or loss of employment. Many people do not understand that—through the provisions of ERISA (Employee Retirement Income Security Act), a federal law prohibiting state regulation of self-insured employee benefit programs—most larger businesses, being self-insured, are exempt from cumbersome state health care mandates. Small businesses, however, enjoy no such exemption, so state proposals are discriminatory in that they put the cost burden solely on smaller businesses. Additionally, small

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businesses don't have the numbers to get discount rates on health insurance and they can't afford to self-insure, so they must pay for everything the legislature dishes out, whether they can afford it or not.

Small companies that do offer insurance often must make a difficult choice between keeping the business going and offering health benefits. The bottom line is that the cumulative price of these so-called "health care reform" measures will, at some point, exceed what employers can afford to pay. While studies have borne out that most independent business owners do not open businesses simply for the money, the fact remains—and policy makers must realize—that these small employers, the chief drivers of our economy, must make a profit in order to survive. The truth is that the average small business owner makes less than \$40,000 per year, and every dime that lawmakers spend comes directly out of the business owner's pocket. Removing opportunities for profit will only net *more unemployed people*, as employers are forced to close their doors in the wake of skyrocketing costs and a slow economy.

So, while individually each proposal designed to expand health care may seem reasonable, the cumulative effect will greatly lessen the ability of small employers to afford health insurance coverage. Policymakers, then, need to be aware that what is politically expedient may come with a high price tag, as well as clearly foreseeable and harmful consequences for health care consumers.

More Regulation is Not the Answer

There is no question that the growing number of mandated benefits and other regulations of the health care industry (and those who pay for it) has led directly to increased premium costs. And there is no question that increased costs cause people to drop health care coverage. Despite a clear understanding that regulation drives up consumer prices in every other sector of the American economy, policy makers continue to add costly regulations to the health care sector. As a result, health care costs have risen at a much higher rate than other consumer goods and services. Make no mistake about it: government regulations are nothing more or less than unfunded mandates. However well-intended, these proposals are never about whether or not the regulation is a good idea. They are simply a question of who is going to pay. The Congressional Budget Office estimates that for every one percent increase in the cost of health insurance, 200,000 people will lose their insurance.

In many cases, proposals ignore the uninsured in favor of the few who actually have health coverage but are dissatisfied with it (witness the recent NC Patient's Bill of Rights). Yet the end result is that costs go up, people drop coverage, and more are uninsured. Certainly no one believes that patients who are denied coverage and truly wronged should have no

recourse. But it must be remembered that uninsured individuals are denied the health care they need *every single day*. No federal court, state court, or independent review panel is ever going to get them the care they deserve. It is very important that we balance the rights of insured patients with the need to make sure more North Carolinians can afford insurance in the first place.

Affordability is Key

The proliferation of studies (including those by NFIB) on the lack of participation in health insurance programs all come to the same conclusion: The key barriers to coverage are affordability and accessibility. Despite the wealth of evidence to the contrary, policy makers operate under the assumption that small employers will continue to pay for coverage regardless of the price tag, and each session of the North Carolina General Assembly nets more cost-driving health care measures without affordability options.

NFIB supports accessibility and affordability provisions as part of any health insurance legislation. For example, the creation of Association Health Plans (AHPs) would allow small-business owners and their employees (who make up 60 percent of the uninsured) to band together and buy health insurance at a discounted group rate. It's a little bit like buying a case of soda at the supermarket, which is much more affordable per can than buying one can at a time from a vending machine. It is estimated that AHPs would help as many as 8.5 million currently uninsured Americans finally afford insurance—at absolutely no cost to the taxpayers. Medical Savings Accounts (MSAs), another option, would allow people to establish tax-free accounts and save up for future medical expenses. In Colorado, legislation has made it possible for small employers to provide "no frills" health insurance coverage for employees. While this is an idea whose time has come in North Carolina, recent experience demonstrates that it runs contrary to the will of the legislature.

Perhaps the most effective remedy for the growing ranks of the uninsured would be to grant tax breaks for providing health insurance. Current North Carolina law allows owners of corporations to deduct the costs of health care insurance; no such deduction, however, is allowed for the self-employed. NFIB believes that the legal structure of a business should not determine the deductibility of health insurance premiums. In 2001, legislation was introduced in both the NC House and Senate to provide this deduction. Despite the unanimous approval of the House Insurance Committee, budget leaders refused to take a vote on the measure in the House Finance Committee, citing budget concerns. Indeed, there was a \$22 million fiscal note attached to the bill. But the long-term savings would be great if this deduction were passed. It would remove thousands of people from the ranks of the uninsured whose health care is eventually borne by

business owners in higher premiums, by patients in higher health care costs, and by taxpayers in higher costs of community health services.

Rep. Bill Hurley, the House sponsor, believes that the deduction is important, but he'd like to take it one step further. Hurley feels that *anyone* who provides his or her own health care insurance should be allowed to deduct the cost of that insurance. For people for whom the burgeoning costs of health care are just beyond reach, this would provide a powerful incentive.

Tax credits and other incentives would go a long way toward helping those who are both unemployed and uninsured—or who simply cannot afford insurance—to take responsibility for themselves. Each of these positive steps—AHPs, MSAs, “No-Frills” policies, and tax deductibility or tax credits—would enable literally thousands of currently uninsured North Carolinians finally to afford the health insurance they desperately need. Any such proposals will fail in North Carolina, however, if lawmakers continue to turn a blind eye to the long-term benefits in light of short-term fiscal constraints.

Community-Based Solutions

Volunteer community action is working to put a dent in the problem. Dozens of volunteers from the First Methodist Church in Cary are working to promote the Alliance Medical Ministry, an organization which will provide quality medical care for working families with incomes under \$25,000. Sheila Ogle, a Cary small-business owner who is involved with the effort, acknowledges that the Alliance is not the answer to the big problem. The group cannot serve all of North Carolina's uninsured population. And the success of the Alliance depends entirely on volunteers, who rely solely on donated goods and services.

The Buncombe County Medical Society program and other similar models attempt to accomplish a similar goal in their own counties. These community-based programs are funded by grants and donations, and so are subjected to constraints similar to the Cary program. However, both the Medical Society programs and the Alliance Medical Ministry serve to corral the resources of the community for the good of the uninsured, and should serve as models for community-based action for the rest of North Carolina.

First, Do No Harm

Clearly, small business owners have a lot to add to the debate over how best to eradicate the problem of uninsured North Carolinians. But they resent the implication of many of the well-intentioned yet misinformed measures adopted by the legislature – that the answer to the problem is in the pockets

of small business owners alone. Given that ERISA guidelines take big businesses out of the debate and that *none* of the measures affect the unemployed, it's easy to see why small employers feel this way.

Most employers do provide their employees with good, basic health coverage, and furthermore, they *want* to provide it. In today's competitive marketplace, smart business owners know that providing health care coverage is one way to help them hire and retain good employees. However, the principle behind basic health care insurance is to furnish the most coverage possible for the greatest number of people. Each time the legislature adds another cost-driving benefit to this basic coverage, the price of the coverage goes up. While the intention is to provide better health care, small employers simply *can't* afford to add all the expensive bells and whistles and continue to cover everyone.

Of course, it would be in everyone's best interest if small business owners *could* provide every employee with the Cadillac of health care, with coverage for every eventuality—a fabulous tool to attract quality employees! Realistically, however, employers who want to provide for their employees and still survive as small businesses have a much greater chance of doing so if they can offer good, basic Ford Escorts.

Clearly, additional health care regulations on small employers will be counterproductive in responding to the challenge of increasing accessibility and affordability in health insurance. Lawmakers would do better to take the steps necessary to empower all individuals and families to make the health care choices that they need for their own situation. The bottom line is this: Taking *any* further action that raises health care costs is tantamount to holding a loaded gun to the heads of small business owners who are still struggling to provide health insurance for their employees. The 2001 NFIB/NC survey shows that of employers who are not currently offering coverage, 35.1% *did* offer it in the last ten years. This indicates a trend that cannot be ignored – employers cannot follow policy makers down the path of benefit-rich plans and out-of-control costs any longer.

However well-intended, any new regulation leaves unanswered the most critical question of all: who will be responsible for the huge number of North Carolinians who will still be without health insurance, even if new mandated benefits and regulations are adopted? And since small businesses continue to be the economic engine and the dominant creator of new jobs in North Carolina, particularly in these recessionary times, how can costly health coverage expansions that unfairly burden these businesses be good public policy?

And what about mandating coverage by all employers? This action will do no more than to force businesses to close down entirely, thereby adding to the rates of both the uninsured *and* the unemployed.

Our lawmakers should heed the first rule of medicine: First, do no harm.