

Employer Views on the Future of Employment-Based Health Benefits: The Small Business Perspective

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Bob Graboyes is Senior Healthcare Advisor at the National Federation of Independent Business. With 350,000 members nationwide, NFIB is the voice of small business in America. For decades, NFIB's members have said healthcare is their most serious problem, distracting them from what they do best – earning a living and creating most of the country's new jobs. For this reason, healthcare reform is NFIB's number one priority. You can find much more information on healthcare and small business at www.nfib.com and at www.FixedForAmerica.com.

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The advent of employer-sponsored insurance (ESI) in the 1940s was, in my view, a profoundly unfortunate development. That said, I am agnostic on the questions of whether the system will ever disappear and whether it should. Regardless of its shortcomings, ESI has spent over 60 years laying down broad, deep roots in the American economy. Its performance is, in many ways, admirable.

ESI, however, is considerably more problematic for small business (including the self-employed) than it is for large employers. For decades, healthcare has weighed heavily on the minds of small business owners and employees. They desperately need reforms, and reforms of the right sort.

Today, I'm going to talk about some of the particular problems ESI presents for small firms and some of the solutions that we at NFIB would like to see enacted.

A Brief Digression

The somewhat accidental origins of ESI are well-known. I've always found a fascinating irony in the timing of its advent. In 1947, songwriter Merle Travis wrote one of the classics of country and western music; those here of a certain age will know the lyrics:

“You load sixteen tons and what do you get? Another day older and deeper in debt.
St. Peter don't you call me, cause I can't go. I owe my soul to the company store.”

“Sixteen Tons” recalled bitter memories of the “truck system,” under which employers paid workers partly in cash and partly in nontransferable payments-in-kind such as company-owned housing and scrip for food and clothing. Labor unions rightfully hated the truck system and understood that employees paid for these goods and services in the form of lower wages. The system imposed an unpleasant dependency on employees and reduced

competition in the markets for food, clothing, and shelter. The irony is that the song “Sixteen Tons” appeared at the very end of the truck system for food, clothing, and shelter and the beginning of the truck system for health insurance. And many of the problems with ESI echo the problems of that earlier system.

That said, here we are, and the question is how we improve the employer-based system we have.

The Virtues of ESI and the Small-Business Caveat

Even though I’m not the biggest fan of employer-sponsored insurance, but I have no trouble rattling off its very real virtues:

- First among them is that an employer can be an excellent basis for a stable, well-balanced risk pool and a superb vaccine against adverse selection;
- Firms can bring their market power to bear in purchasing health insurance and health-related goods and services;
- Human resources departments are far better than I am, or than most people are, at evaluating health insurance policies; and
- Firms can be great providers of healthcare goods and services. In my 20s, I had no primary care doctor because my employer had an in-house clinic and, fortunately, I never needed to go elsewhere. I’ve regularly enjoyed in-house gymnasiums and wellness advice from company nutritionists. (I’ll note that a century ago, during the truck system’s heyday, perhaps half the physicians in the U.S. were employed by factories, mines, and railroads.)

However ... for the small businesses I represent, these advantages are not so strong. A small business, and especially a micro-firm, isn’t large enough by itself to form a stable risk pool. A small firm doesn’t have a lot of market power. It generally doesn’t have a human resources department. The dry cleaner or eyeglass shop down the street isn’t going to have an in-house gymnasium. For these reasons, ESI presents small business with some unique problems and some very definite needs in the way of reform.

The Problems for Small Business

So what are the problems that a small business faces that may not be so evident to someone coming from a large-firm environment?

- **Costs:** Small business healthcare costs are high, rising, and unpredictable. Small groups pay, on average, 18 percent more than large groups do for equivalent coverage, and small-firm costs have risen 119 percent since 1999. For many small firms and for many of their employees, costs put health insurance beyond reach.
- **Market inefficiency:** Small group insurance markets are inefficient and impose high search and administrative costs on the firms and their employees.
- **Fragmentary information:** With no in-house HR specialists, information is hard to come by and difficult to compare, making small businesses overly dependent on the advice of brokers and agents.

- **Lack of competition:** Firms often face a marketplace with very few carriers. It is generally impossible for a small firm to offer more than one policy to its employees – thus forcing dissimilar people into one-size-fits-all policies.
- **Inadequate pooling:** Small groups often comprise small, unstable pools. Unlike self-insured plans, small group pools are restricted to the borders of a single state. A single ill family member can render coverage unaffordable or unavailable for an entire firm.
- **Tax inequities:** The tax system creates major inequities between the large-group, small-group, and individual markets.

So what can we do about these problems? Here are some of the items NFIB favors:

- **Exchanges to lower transactions costs:** Health insurance exchanges/portals should be present in every state to expedite the gathering of information, the comparison of plans, and the enactment of transactions. An exchange could encompass a multi-state region. Conceivably, some areas could have multiple, competing exchanges. An exchange has to be done correctly. In the 1990s, California created an exchange with conflicting roles, and so it failed. Massachusetts has done better, though there too, the exchange may carry too many regulatory responsibilities. Right now, we're keeping our eye on Utah, which seems to be developing a promising model.
- **Market reforms:** The small group and individual markets need major overhauls. Rating and access rules matter heavily to our members.
- **Plan flexibility:** Rules on minimum creditable coverage must not squelch innovation or preclude flexible benefit design. We have favored high-deductible and other consumer-driven plans. We oppose excessive benefit mandates. And we are concerned about the pervasiveness of fee-for-service, as opposed to coordinated care models.
- **No employer mandates or pay-or-play:** NFIB strongly opposes employer mandates or pay-or-play schemes. Pay-or-play leads to perverse incentives. It's a recipe for replacing full-time workers with part-timers, machines, foreign outsourcing, or layoffs. It's vital to remember that the cost of employer mandates and pay-or-play ultimately falls on employees, not employers. Employer contributions should remain voluntary.
- **Maintain private markets:** Market reforms and private insurance are important, and we strongly oppose a public option which, we believe, would wreck the private markets.
- **Broader market:** NFIB has opposed splitting small-group into multiple markets by size. In general, we favor merging the individual and small-group markets over time. We favor interstate pooling and purchasing. And we would like employers to have the option of giving individual employees greater choice over their policies.

In sum, I think we agree that ESI has its advantages. For small business, the advantages are not nearly as substantial. With some identifiable changes, though, we think ESI can be considerably improved for small business.