

Small-Business Owners' Views on Health Coverage and Costs

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ABSTRACT

ISSUE: For years, small-business owners have faced rapidly escalating health care coverage costs, which affects their employees, their business, and the economy.

GOALS: To better understand employers' perspectives on health care costs and to develop a targeted strategy for engaging and mobilizing to drive down costs and improve health outcomes.

METHODS: Key informant interviews, focus groups, and a nationwide survey.

KEY FINDINGS: Despite a healthy economic period, rising health care costs represent a major burden for small-business owners. As a result, most are taking steps to cut costs and would look favorably on policy changes that would help curb the cost of providing health care coverage to employees. Their preferences are not ideological; policy prescriptions across the spectrum find favor. There is significant interest in banding together with other business owners to advocate for a different approach to health care.

CONCLUSION: The weight of health coverage and costs threatens the competitiveness of small businesses. There are many health policy solutions that would help small businesses.

TOPLINES

- ▶ Rising health care costs are a top concern for small-business owners.
- ▶ Small-business owners support a broad range of solutions — including market-based and regulatory — to curb climbing health care costs.



INTRODUCTION

There are an estimated 30.7 million small businesses (defined as those with fewer than 500 employees) in the United States, employing approximately 60 million people.¹ Small firms make up 99 percent of U.S. employers, and these businesses create 66 percent of new private-sector jobs.² Small businesses, like their larger counterparts, have not been shielded from the increasing cost of health care. Without advantages such as a larger pool of insured employees, more bargaining power with health insurance companies, and the benefit of full-time human resources personnel, small-business owners are often left with little recourse and few options when a health insurance carrier hikes costs.

Small-business owners meet critical needs for communities, employing more than 47 percent of the private-sector workforce and accounting for about one-third of America's export value.³ This importance requires policymakers to consider the needs and unique circumstances of small-business owners. Further, the American public trusts small business as an institution. Gallup found that 70 percent of Americans have high confidence in small business, compared to just 21 percent who feel similarly about larger businesses.⁴ As trusted local pillars, they have the ears of policymakers invested in small-business owners as a constituency.

We saw the power of small-business support during the passage of the Affordable Care Act (ACA), when business owners played a significant role in building critical support for several portions of the law, such as the small-business health care exchange. Throughout the debate, small-business owners were called upon to talk about their difficulties managing health care costs.

In the first half of 2019, we conducted three phases of research (key informant interviews, two focus groups, and a national survey of 500 small employers) to better understand small employers' current thoughts and perspectives on rising health care costs and prices, their appetite for change, and any levers they may be willing to use.

Only small-business owners who offered health insurance to their employees and who had two or more employees were included in the focus groups and survey. In both focus groups, about a third of the participants reported having 26 or more employees. In the survey of small-business owners who provide health care to their employees, about a third of the respondents reported having 26 or more employees.

KEY FINDINGS

Small-business owners are doing well and are optimistic about the future.

Most small-business owners in the survey rated current economic conditions highly (76%) (data not shown). Their businesses are doing well — 85 percent described them as excellent or good. The larger the business, the more likely owners were to report good conditions and a positive outlook for the next year.

Health care cost is a major problem.

The survey reveals that health care costs are top of mind for small businesses. When asked to choose their top two challenges, they cited the cost of providing health coverage to employees and attracting new customers (Exhibit 1).

Not surprisingly, the cost of providing health coverage to employees looms larger the smaller the business, but this issue plagues businesses regardless of size (Exhibit 2).

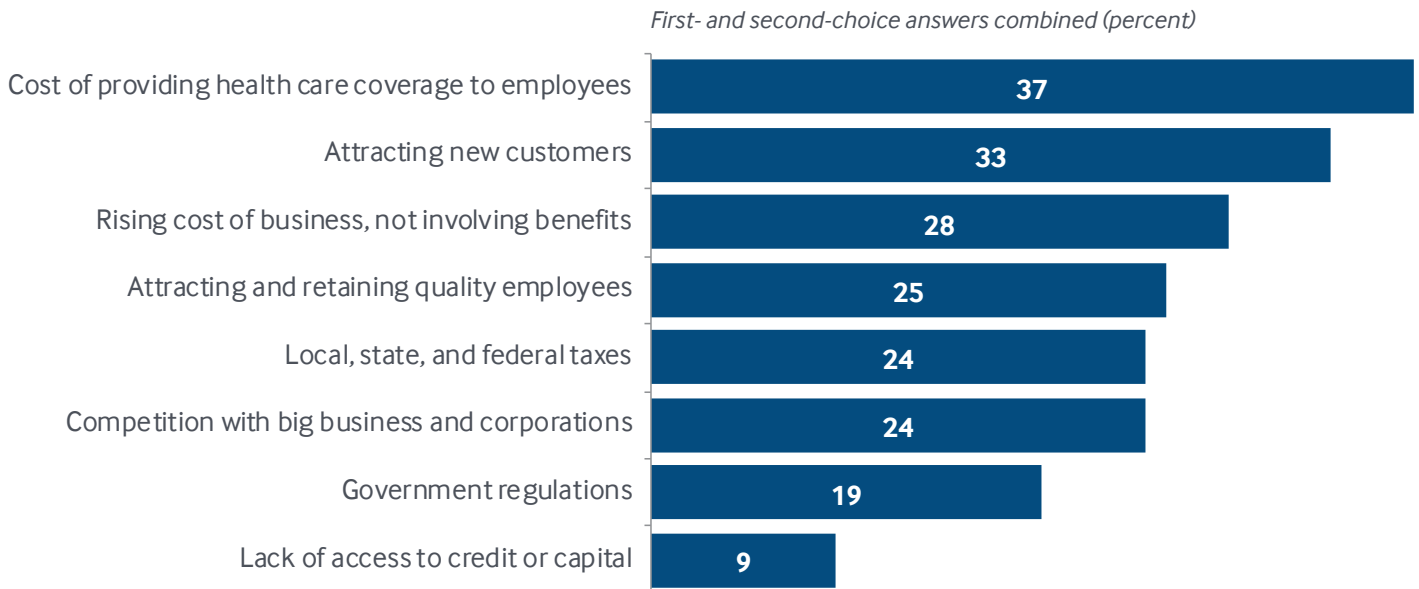
The price tag on health insurance is a significant pain point for small employers. The problem extends to recruiting and retaining talent. To compete with larger employers, small employers are hard-pressed to offer benefits like health insurance, even as the benefit takes up a larger share of the bottom line.

Two-thirds of businesses (69%) said the problem has been getting worse. They reported that costs have increased over the last four years; one-third of this group reported annual increases of 10 percent or more. Businesses with fewer employees cited bigger increases than larger businesses. Employers cited prescription drugs and lack of choice of health care plans as pain points (Exhibit 3).

Exhibit 1. Top Problems for Small-Business Owners



Which one of these do you consider the biggest challenge facing your business?

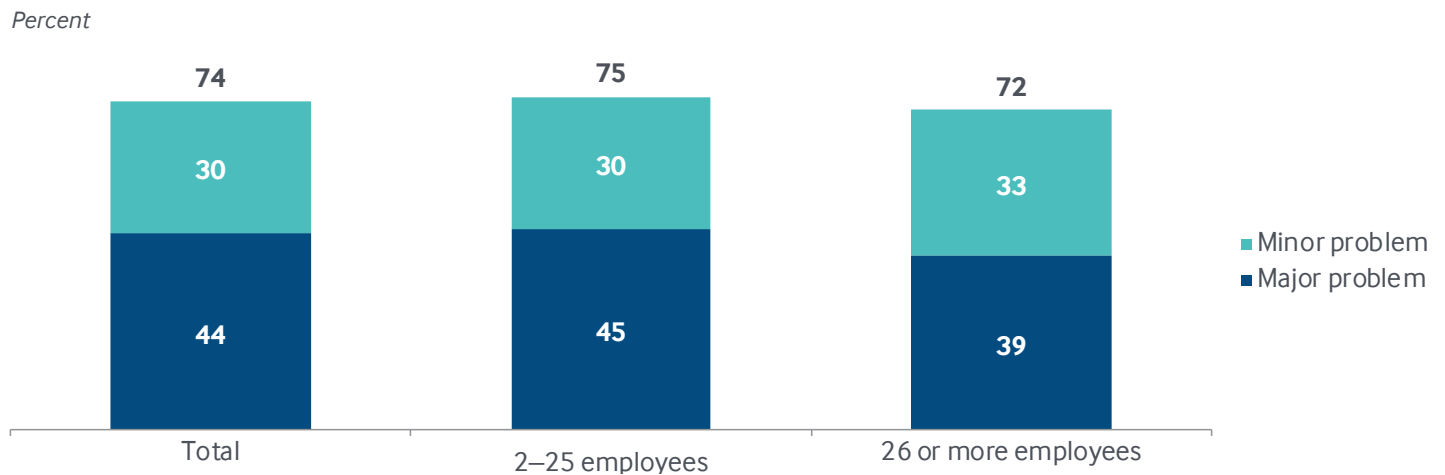


Data: Authors' analysis of online nationwide poll of 500 small-business owners who provide health coverage to their employees, Apr. 4–10, 2019.

Exhibit 2. Cost of Providing Health Care Coverage Is an Issue for Small-Business Owners




Thinking specifically about your business, is the cost of providing health care coverage to employees a major problem, a minor problem, not much of a problem, or not a problem at all?

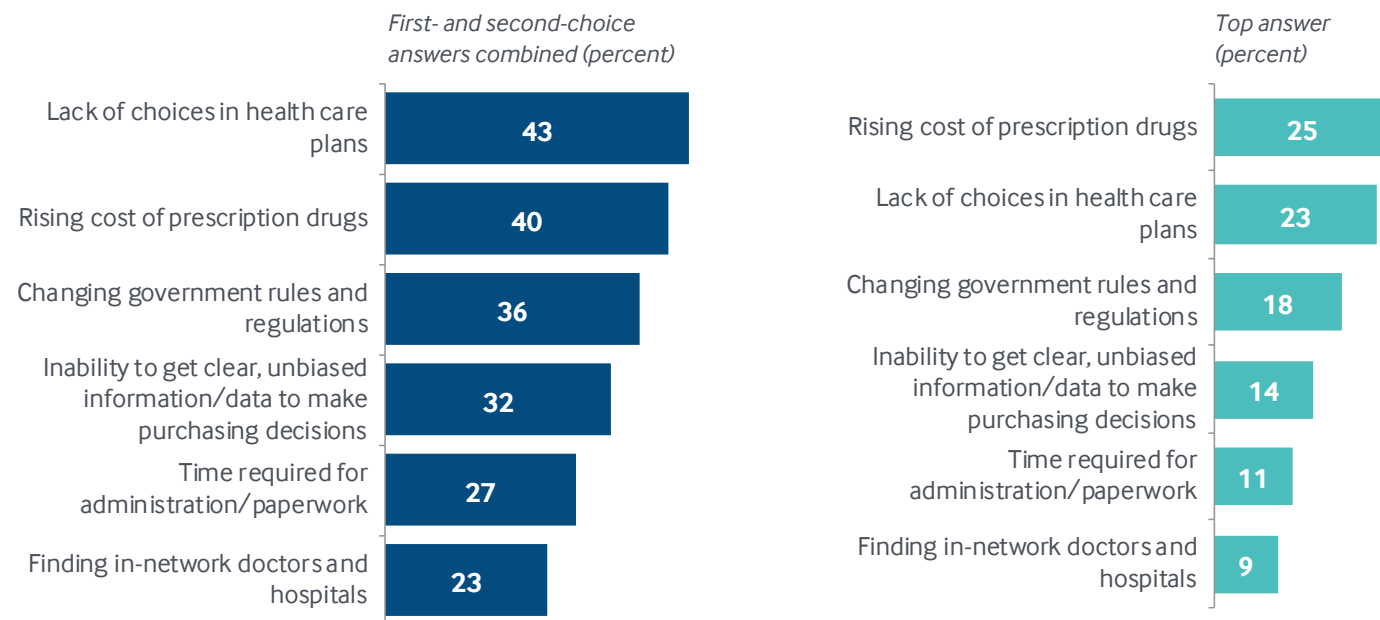


Note: The sample size for small-business owners with 2 to 25 employees is 352 respondents; the sample size for small-business owners with 26 or more employees is 148 respondents.

Data: Authors' analysis of online nationwide poll of 500 small-business owners who provide health coverage to their employees, Apr. 4–10, 2019.

Exhibit 3. Biggest Challenges to Providing Health Care Coverage

 Outside of costs, which one of the following do you consider the biggest challenge when it comes to providing health care coverage to your employees?



Data: Authors' analysis of online nationwide poll of 500 small-business owners who provide health coverage to their employees, Apr. 4–10, 2019.

Focus group findings also revealed that many small-business owners make painful decisions around health care quickly, often because they lack choice or the time or resources to wade through the policy information. Without a human resources professional on staff, small-business owners then often have to take more time later to find an alternative when a health care plan becomes too costly.

Small-business owners have taken active steps to lower their own health care costs.

Over half of employers say they have made adjustments in the past four years to decrease the costs of providing health care, with many shifting the cost burden onto employees. Nearly half said they have increased deductibles or copayments for their employees, one-quarter required employees to pay higher premiums, and 16 percent either reduced or eliminated dependent coverage (Exhibit 4). In addition, 29 percent of small-business owners negotiated with their current carriers and slightly more than one-quarter changed carriers. One-third have considered discontinuing health care coverage for their employees.

Health care brokers have a large impact on the selection of health benefits.

When asked what resources they have used to make benefit selection decisions, including choosing plans, the most-used resource was health care brokers (69%). The next-most used resource was an internal human resource department (43%). Small-business owners view health care brokers as helpful (92%); more than half (51%) said health care brokers are very helpful (data not shown).

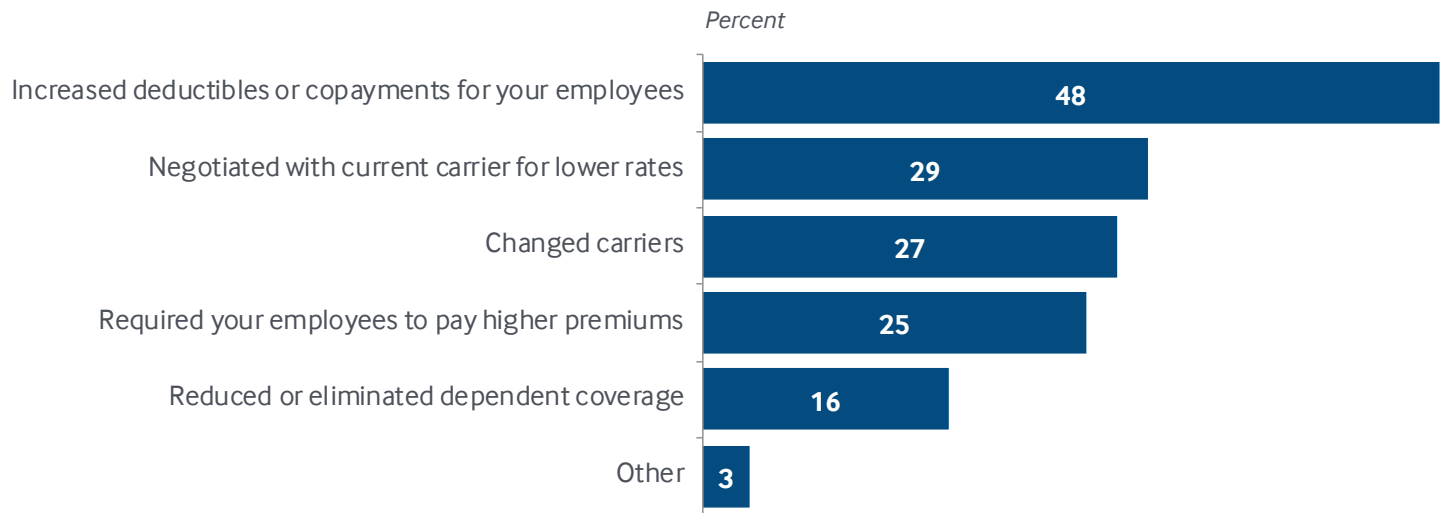
Employers don't believe there is a clear culprit.

Nearly all small-business owners believe all parties — pharmaceutical companies, health insurance companies, the federal government, and health care providers — are at least somewhat responsible for rising health care costs. Pharmaceutical companies and health insurance companies get the most blame, with 60 percent or more finding both very responsible for rising health care costs, 15 to 20 percentage points more than the federal government and health care providers (Exhibit 5).

Exhibit 4. Adjustments Made by Small-Business Owners



Which of the following actions have you taken or adjustments have you made to decrease the cost of providing health care coverage to your employees?

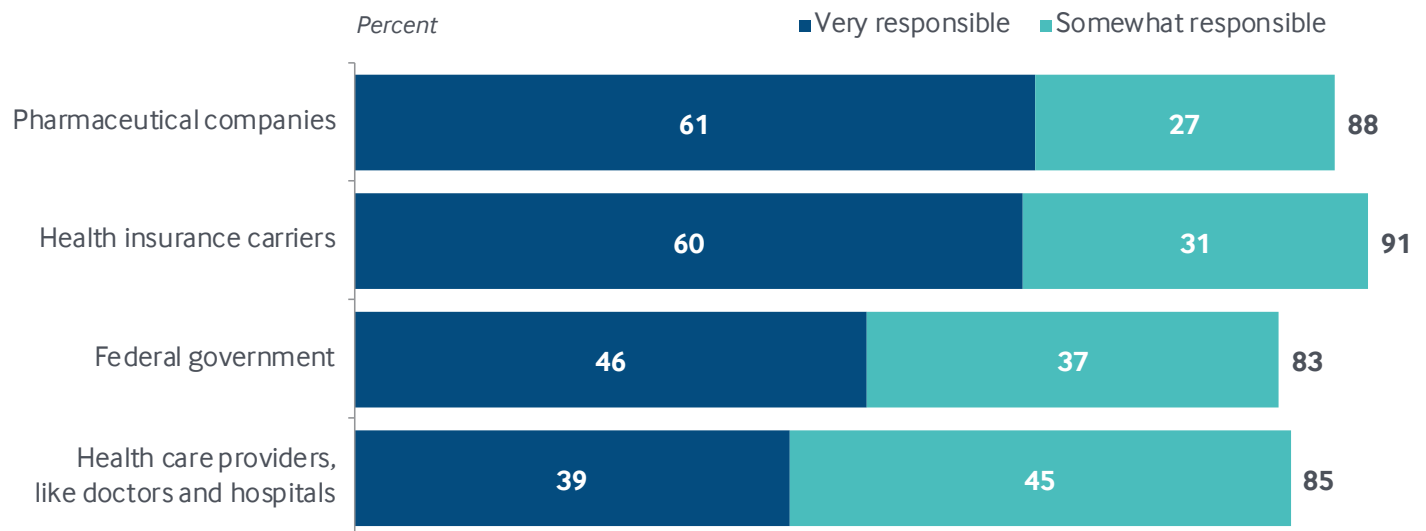


Data: Authors' analysis of online nationwide poll of 500 small-business owners who provide health coverage to their employees, Apr. 4–10, 2019.

Exhibit 5. Blame for Rising Health Care Costs



Below are groups that some people might say are responsible for the rising costs of providing health care. For each group, please indicate how much responsibility you think they have for those rising costs.



Note: Segments may not sum to total because of rounding.

Data: Authors' analysis of online nationwide poll of 500 small-business owners who provide health coverage to their employees, Apr. 4–10, 2019.

Small-business owners support broad change.

Ideologically, many employers prefer private-sector solutions to government solutions. Yet all options provided to curb costs — both market-based and regulatory options — find support among business owners. This includes solutions considered either conservative or liberal. Indeed, the same constituency that supports cuts in regulations and bureaucracy also supports a national single-payer health plan. Proposals that address the rising cost of prescription drugs are particularly popular among small-business owners, including several ideas that are currently being deliberated in Congress (Exhibit 6).

When asked about specific solutions, respondents said that allowing small-businesses to purchase their health insurance together to gain market power, efforts to increase transparency, access to unbiased information, and accountability for brokers would be helpful (Exhibit 7).

Small-business owners demonstrate an interest in advocating for themselves.

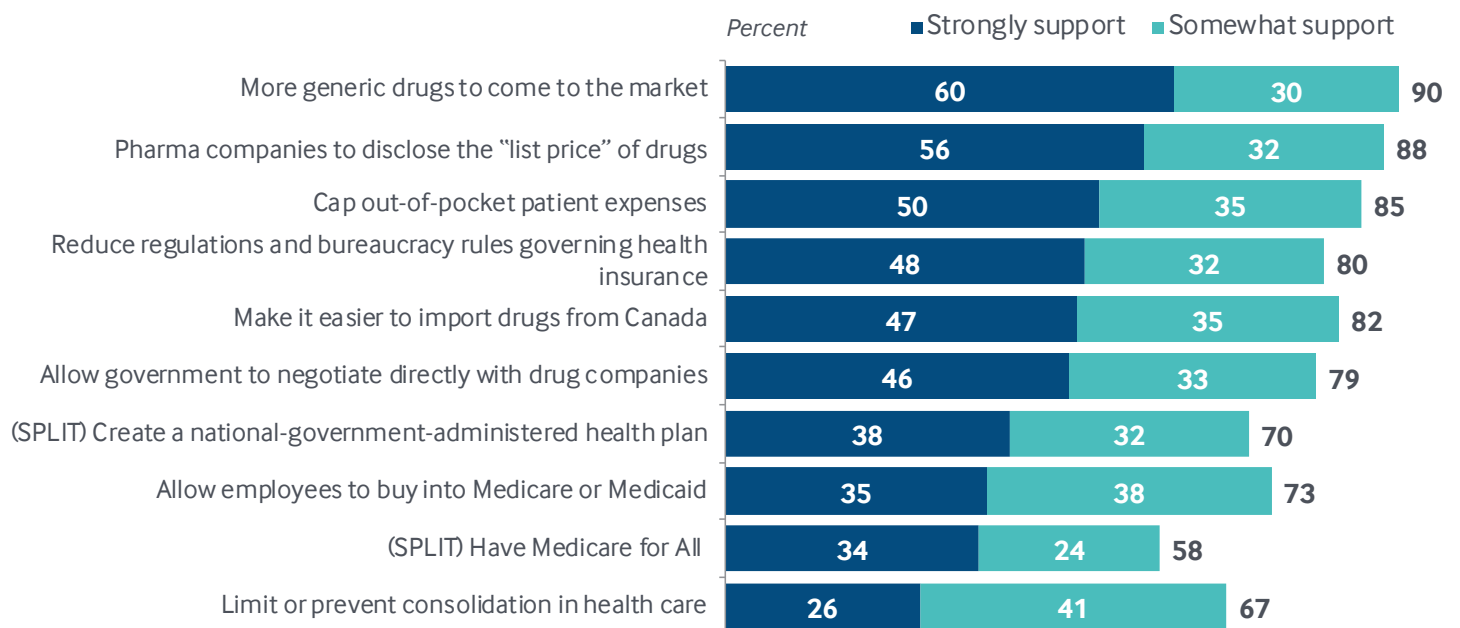
About two-thirds of small-business owners surveyed have already spoken with other owners about health care costs, and 92 percent are willing to work together to push for changes to make health care more affordable. Nearly half (49%) said they were very willing to do so (data not shown).

However, business owners are also discriminating in the kind of advocacy they are willing to participate in. They are mixed about phone banking federal or state representatives and averse to hiring an advocacy firm. Instead, they are more willing to be part of an organization that offers group health insurance and advocacy and to join a volunteer association where they discuss ways to control costs with others (Exhibit 8).

Exhibit 6. Proposals to Control Health Care Costs



Below are suggestions some people have made to reform health care in this country. For each solution, please indicate whether you support it or oppose it.



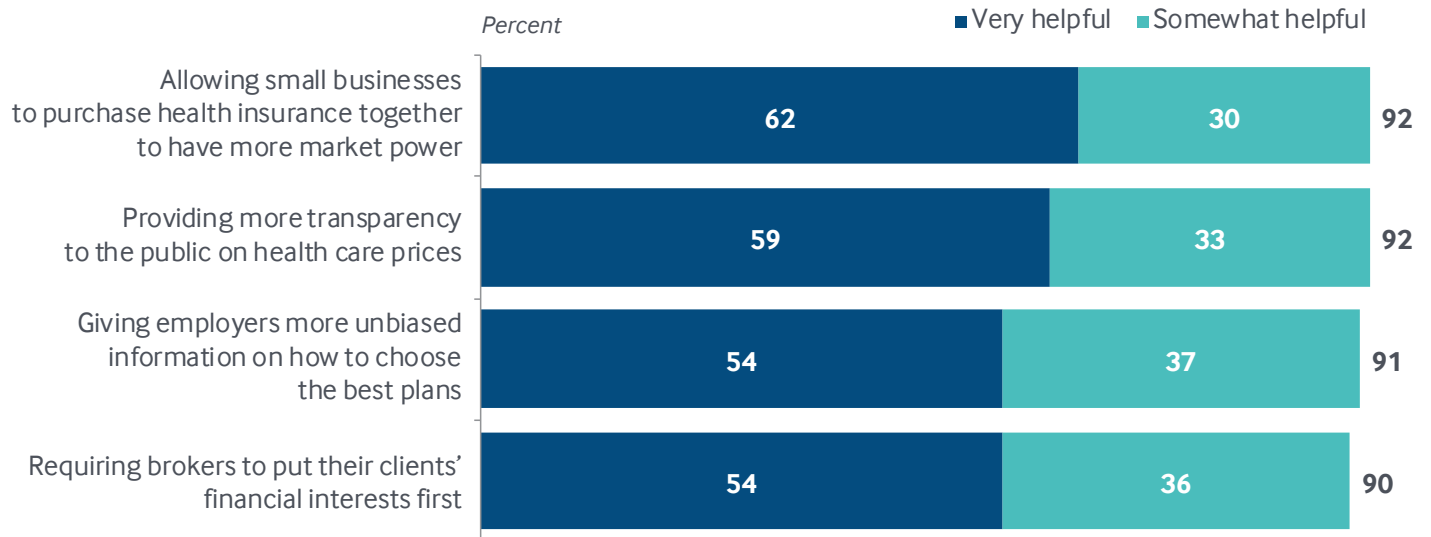
Note: A split sample divides respondents into two groups in order to gauge responses when there are variations of an option.

Data: Authors' analysis of online nationwide poll of 500 small-business owners who provide health coverage to their employees, Apr. 4–10, 2019.

Exhibit 7. Proposals to Control Health Care Costs for Your Business



Thinking about your own business, for each of the following solutions please indicate whether that solution would be helpful for you to reduce health care costs.

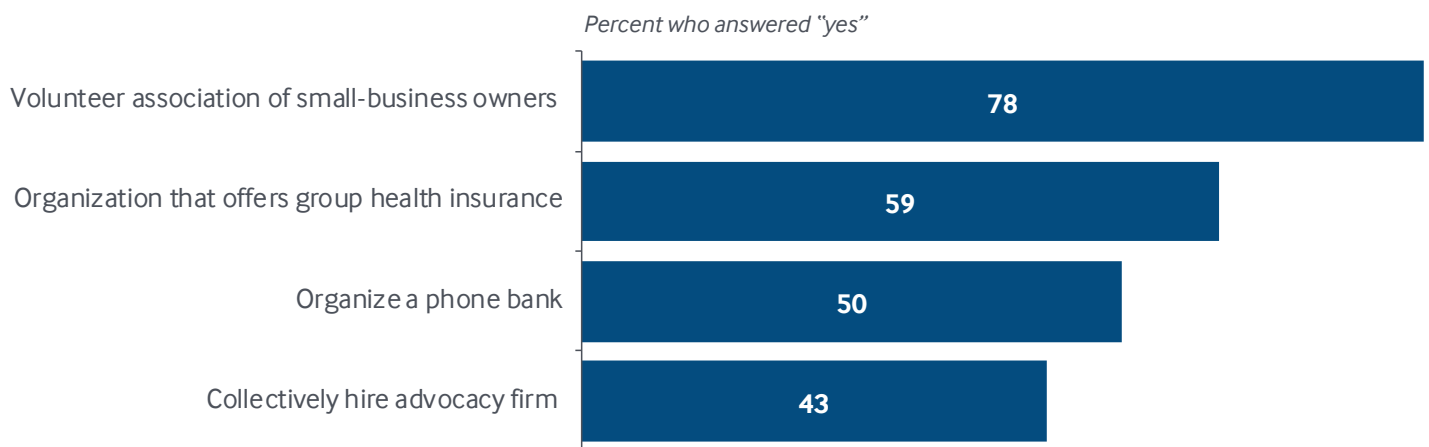


Data: Authors' analysis of online nationwide poll of 500 small-business owners who provide health coverage to their employees, Apr. 4–10, 2019.

Exhibit 8. Small-Business Owners Banding Together



Below are some types of ways you would be able to join with other small-business owners in your community and state in order to push for changes in the health care system to make health care more affordable. Please indicate for each method whether or not you would be willing to participate in that way.



Data: Authors' analysis of online nationwide poll of 500 small-business owners who provide health coverage to their employees, Apr. 4–10, 2019.

DISCUSSION

Common themes emerged from this research that are aligned with anecdotal evidence and commonly held understandings and assumptions about the health care cost burden of small employers. Primarily, it is clear that health care costs are arguably the major concern for small businesses. Though small employers report taking steps to reduce the burden, often by shifting some of the costs onto their employees, few have considered dropping coverage altogether.

Increasing health care costs is not sustainable for small employers. They want change and are willing to take pragmatic steps. This desire for change does not adhere to party lines; across the ideological spectrum, small-business owners are open to a range of possible solutions. Those favored by small employers require legislative action, primarily at the federal level, to help small employers affordably provide health insurance to their employees.

Surprisingly, there was an openness to concepts that might be construed as extreme, like Medicare for All or a single-payer system. Other options, such as a Medicare or Medicaid buy-in, also found favor. Though business owners tend to be a conservative group, we did see an unexpected and almost apolitical frame on the issue of health care. Small-business owners did not ascribe blame to one actor or the other. They saw solutions as independent of party of origin, signaling an interest in policy and action from policymakers rather than a strict adherence to political ideology. However, it is important to note that support for various solutions presented in the survey could erode when probed further. Additional research may be necessary to further substantiate which solutions small-business owners most support.

The survey also highlighted the importance of the role of health insurance brokers in decision-making for millions of Americans. In the survey, small employers were generally positive — and at times enthusiastic — about their brokers. However, the informant interviews revealed a mixed assessment, with more focus on the role brokers play in the industry. Some employers raised concerns about brokers' priorities and the potential need for solutions that ensure they put their client's financial interests first.

CONCLUSION

This research reaffirms what both policymakers and stakeholders know to be true: health care costs are taking a toll on small businesses in terms of money and time. Small-business owners often lack a human resources professional or the personnel enjoyed by their large competitors. They often make decisions quickly and then have to take more time down the road to adjust a health plan that has grown too costly to continue.

Small-business owners are taking steps to alleviate the problem. Unfortunately, without policy action their tools remain limited. They need support from policymakers to address the issue in a way that ensures they can continue to compete and employ millions of Americans in the future. For policy and lawmakers looking to support small employers, the time to act on health care is now.

HOW WE CONDUCTED THIS STUDY

We conducted qualitative and quantitative research among small-business owners in early 2019. The first phase of research included 45-to-60-minute phone or in-person informant interviews with stakeholders representing individual small-business owners, business associations, health care policy experts, and health care brokers. These interviews were conducted in January and February 2019.

Key informants included:

- Anne Zimmerman, CPA: Zimmerman & Co CPAs, Cincinnati, Ohio
- Lisa Goodbee, PE: Goodbee Associates, Denver, Colorado
- Jamil Poonja: Stride
- David Chase: Small Business Majority
- Todd McCracken: National Small Business Association
- Chris Hartmann and Marci Buckner: National Association of Health Underwriters
- Bob Galvin: Blackstone
- Frank Knapp: South Carolina Small Business Chamber of Commerce
- Kelly Brough, Abram Sloss, Holli Riebel, and Laura Giocomo Rizzo: Denver Metro Chamber of Commerce
- Don DePerro: Greater Columbus Chamber of Commerce

The second phase of research was two online panel focus groups conducted by GQR in partnership with Public Private Strategies on February 11 and 13, 2019, with small-business owners who provide health coverage to their employees. In both groups, about a third of the participants had 26 employees or more. There was a fairly wide distribution geographically, with 28 percent of respondents from the Western U.S., 33 percent from the South, 19 percent from the Midwest, and 21 percent from the Northeast. The group included a majority of suburban businesses (about three-quarters of the overall participant group), 21 percent were urban, and a small number of rural business owners. Republicans slightly outnumbered Democrats in these groups.

As is always the case, focus group findings are not statistically projectable, but the open-ended comments provide insight and dialogue that would be impossible to pull out of a quantitative survey.

The third phase of research was an online nationwide survey of 500 small-business owners who provide health coverage to their employees conducted by GQR in partnership with Public Private Strategies that was fielded from April 4 to 10, 2019. Respondents surveyed in this poll are from across the nation: 18 percent from the Northeast, 21 percent from the Midwest, 37 percent from the South, and 24 percent from the West. Forty-seven percent of respondents identified as Republicans, 39 percent identified as Democrats, and 11 percent identified as independent of either party. About a third of the respondents have 26 or more employees. Because the online sample is based on those who initially self-selected for participation in the panel rather than a probability sample, no estimates of sampling error can be calculated.

NOTES

1. U.S. Small Business Administration, Office of Advocacy, "2019 Small Business Profile," SBA, 2019.
2. U.S. Small Business Administration, Office of Advocacy, "What's New with Small Business," 2018.
3. SBA, "What's New," 2018.
4. According to an August 2017 Gallup poll, 70 percent of Americans have confidence in small business. See Frank Newport, "Business Gets Bigger Even as Americans Prefer Small," *Polling Matters* (blog), Gallup, Aug. 22, 2017.

ABOUT THE AUTHORS

Rhett Buttle is founder and principal at Public Private Strategies. Before founding Public Private Strategies, Mr. Buttle served as a business advisor to Secretary of State Hillary Clinton, Health and Human Services Secretary Sylvia Burwell, and was a member of the White House Business Council. Mr. Buttle is also a senior fellow at the Aspen Institute.

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Angela Simaan is senior communications advisor at Public Private Strategies, with more than 10 years of experience in strategic communications, media relations, public policy, and project management. Ms. Simaan has led communications teams for both public and private organizations, and was previously a broadcast journalist with *CNN*, *Al Jazeera English*, and *Al Arabiya News* in Washington, D.C.; a digital editor with the Qatar Museums Authority; and the chief editor of the first bilingual arts and cultural magazine in Doha, Qatar.

Editorial support was provided by Deborah Lorber.

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APPENDIX

Large-Scale Solutions

Adopt policies that increase competition by encouraging more generic drugs to come to the market.

Reduce regulations and bureaucracy rules governing health insurance carriers and health care providers.

Make it easier to import drugs from Canada.

Limit or prevent consolidation in health care.

(SPLIT) Create a national government–administered health plan similar to Medicare open to anyone, but one that would allow people to keep the coverage they have.

(SPLIT) Have a national health plan, sometimes called Medicare for All, in which Americans would get their insurance from a single government plan.

Adopt policies that increase competition by encouraging more generic drugs to come to the market.

Allow the government to negotiate directly with drug companies on drug prices for Medicare, rather than relying on pharmacy benefit managers.

Cap out-of-pocket patient expenses.

Require pharmaceutical companies to publicly disclose the manufacturing cost or “list price” of drugs.

Note: A split sample divides respondents into two groups in order to gauge responses when there are variations of an option.

Data: Authors' analysis of online nationwide poll of 500 small-business owners who provide health coverage to their employees, Apr. 4–10, 2019.



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The mission of the Commonwealth Fund is to promote a high-performing health care system that achieves better access, improved quality, and greater efficiency, particularly for society's most vulnerable, including low-income people, the uninsured, and people of color. Support for this research was provided by the Commonwealth Fund. The views presented here are those of the authors and not necessarily those of the Commonwealth Fund or its directors, officers, or staff.