

Health Insurance: A Plan to Help Small Businesses

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By Douglas MacMillan

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One Harvard expert calls on the feds to reinsure insurers, making it cheaper for small outfits to provide health benefits for workers. Small-business owners are constantly struggling to provide affordable health insurance for their employees, many of whom number among the 46.6 million Americans who are uninsured, according to Census Bureau data. While alternative strategies [see BusinessWeek.com, 3/16/06, "Fighting Off Health-Care Headaches"] and nonprofit initiatives [see BusinessWeek.com, 5/22/06, "The Health-Insurance Crunch"] offer short-term fixes, one expert has a long-term solution.

In *Reinsuring Health* [May 2006, Russell Sage Foundation Publications], Katherine Swartz, professor of health policy and management at Harvard's School of Public Health, explains how small businesses and the self-employed have come to face high premiums, and outlines a new take on reinsurance -- a protection for health insurance companies against the risk of high losses. Her plan calls for state and federal governments, rather than just the health insurance companies themselves, to help finance and redistribute the cost of high-risk applicants.

BusinessWeek.com reporter Douglas MacMillan recently discussed with Swartz what reinsurance could mean for small businesses. Edited excerpts of their conversation follow:

Who is uninsured in our country and why?

Who is actually uninsured is different today than it was 25 to 30 years ago. During the 1980s we had lots of manufacturing jobs. We had more people who had previously been used to getting good, solid middle-class jobs with just a high school degree. At the same time, we had this shift toward outsourcing and towards the service sector.

People who had either lost their jobs or had graduated high school in the late 1970s, who had anticipated going to work for the steel mills or the car companies or any other large, heavy duty manufacturing companies -- they got picked up in these service-sector jobs. If you look at most service-sector companies, they are much smaller. And small companies as a rule [are less likely to] offer health insurance.

Why is it so important for small-business owners to provide health coverage to their employees?

I think most employers are concerned about the health of their employees. You get workers who are more productive, who don't have as many sick days. From another point of view, if a small-business employer is worried that he might lose a really good worker to another employer in town that does offer health insurance benefits, it would help him.

Why is it so difficult for small businesses to offer health insurance?

It's a high cost. It costs more per person, in part because of the administrative costs of running a health insurance policy. But the primary thing is that the risk is higher in small companies compared to the risk in the large-employer sector.

Has risk always been higher for small businesses?

Yes, but [the influence of high risk] has particularly been noticeable in the last 20 to 30 years as more people are having to get jobs in these small companies.

What concerns insurance companies the most about small businesses?

They're worried about adverse selection. The risk for the insurance companies is [greatest in] the disproportionate share of the people in small companies applying for health insurance who for some reason think they will have medical problems down the road. This means getting a large number of people who have extremely high costs. And by extremely high costs, I mean annual expenditures above \$50,000.

And this means high premiums for the small-business owners?

Exactly. When you're starting a company, you don't have a lot of extra cash flow. In the first couple of years of business, a company of 10 people may not be able to afford an insurance policy because of these premiums.

>How has the government come into play? Have they made it more accessible?

Not really. That's why I think there's so much interest now in what can we do to help small businesses, because a lot of them are telling politicians [that they] can't afford this any more. Sen. Bayh from Indiana and Sen. Lincoln from Arkansas recently put in a legislative proposal to make health insurance more accessible and more affordable.

It would set up a temporary reinsurance pool -- for two years the federal government would provide reinsurance to insurers who offered small businesses health insurance. If there were enough data gathered over a two-year period showing that the workers in these small businesses were generally very healthy, then the insurers in the small business market would not be so worried about offering insurance to these small employers.

>What is reinsurance and why is it needed on a federal level?

Reinsurance is basically insurance for insurers. If you deal with their adverse-selection problem head on by offering reinsurance to these companies -- saying if you get some people who have extremely high costs, then this government reinsurance program will pay for most of those costs -- what that does is really significantly lower the premiums, because the insurance companies don't take that risk any more.

>How much would a reinsurance program cost the federal government?

Reinsurance is sold in [income] layers: you could have a layer from \$50,000 to \$100,000, where the government program might pay 75% of the costs, and then from \$100,000 to \$200,000, where the federal program might pay 80% of the costs. The total cost of the program would depend on what share of the risk is being taken by the reinsurance program, and what share was being taken by the insurers.

>What can small-business owners do to help get a reinsurance program in motion?

I think they could be talking with their congressional representatives and senators. [They should] say they are in a bind, and that they would like to offer health insurance to their employees but can't afford these premiums now.

Right now there are a number of states discussing this, and it's because they don't perceive that something is going to happen at the national level for a couple years. But I think this should be a federal issue because the uninsured problem is national, and some states don't have as much money to deal with it as other states -- and those states tend to have a large number of people working in small businesses.

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