

Effects of health insurance on small businesses in the us



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1. Problem statement

With over half of the American workforce employed by small businesses, these organizations are the backbone of the American economy. Small businesses are the innovators and the main employers in the American work force; they play a vital role in the nation's economic recovery. But with the increasing government regulations over health insurance affecting their revenues, small business owners are facing peril in their near future which will affect not only the owners but the work force as a whole.

2. Description: How Small Businesses are being affected by Health Insurance?

2. 1. Increased Health Insurance Charges

Increased government regulations in terms of health insurance may cause increased financial strain on owners while decreasing their revenues dramatically. Many employers have a difficult time purchasing coverage for their workers because they have fewer employees, so the cost of health insurance per worker is higher than that for a corporation who has a larger employee pool. Insurance costs for small businesses have increased 129 percent since 2000.

Small businesses with less than five hundred employees create more than two-thirds of the jobs in the American economy, but an excessive amount of their revenue is going toward inflated health insurance premiums, and not where it should be directed - growth and expansion, which would lead to the employment of more individuals(Landrieu, 2009).

2. 2. Payments of Small Businesses' Employees

Small business employees pay an average of 18% more in premiums than those in large firms for the same benefits. Small businesses and their employees are frequently charged more for the same health insurance coverage than large employers and their workers. Due to this the employers of the small businesses have to face greater difficulty in providing the facilities to their employees.

2. 3. Health Insurance State Laws

In many states, if business owners purchase insurance for themselves they must cover their employees as well. This leaves many sole-proprietors unable to afford the luxury of health insurance. They desire to cover their workers, but unlike bigger corporations and firms, they are unable to deduct the expense on their tax return.

2. 4. Higher Administrative Costs

The prices that small and large firms paid for health insurance and the value of the products purchased are similar. However, insurers of small health plans have higher administrative expenses than those who insure larger companies. Also, operating expenses are all higher for small health plans too. Small firms received slightly less generous health insurance benefits, according to calculations of actual value.

For these reasons, small businesses offer health care coverage to a lower percentage of their work force and are a different type of customer than large firms.

3. Solution

Improving access to credit by small businesses is a crucial step in supporting economic recovery and job creation. Since the financial crisis began, small businesses have faced a perfect storm: the pulling back of lending by banks, deterioration in the value of real estate that they often rely on for collateral and weakened sales. The following proposals can help solve our problem to an extent.

3. 1. The Proposed Solutions

Small business owners can benefit from a new proposal that would allow their workers to be pooled with the employees of other smaller businesses (Anonymous, 2009). The proposed solutions are

- **Allow Insurance To Be Sold to Associations.** There are some 16, 000 associations in the United States, and six million people are already insured through such organizations as the National Association for the Self-Employed. Association health plans allow small business owners to pool resources, negotiate with insurers and purchase insurance plans for members. However, the existence of 50 sets of state regulations is a barrier to low-cost health insurance. If small firms could buy health insurance with uniform federal regulations, they could enjoy the same lower administrative costs and greater bargaining power as large firms.
- **Let Businesses Purchase Health Insurance from Insurers in Other States.** Protection from interstate competition allows politicians to impose expensive mandates and costly regulations. Allowing businesses to purchase coverage across state lines would create

more competitive insurance markets. Interstate competition would give more people access to affordable insurance.

- Let Businesses Contribute to the Cost of Employee-Owned Insurance. Health insurance in the United States is largely tied to employment because employer contributions for health insurance are tax deductible business expenses and do not count as taxable income for employees. Premiums for employer-paid health benefits avoid all income taxes and the (FICA) payroll tax. By contrast, employees of small businesses without employer-provided health benefits get no tax relief.

Small business employers should be able to contribute to the cost of health policies purchased by their employees. Their workers would get portability, but at premiums closer to the cost of group insurance. As a result, insurance coverage would follow people from job to job and workers would not face a disruption in benefits when their employment changes.

3. 2. Benefits of the proposed solutions

The proposed solutions can help the Small businesses in the following ways

- The insurance company would then be able to offer them lower rates; more employees would be pooled together, thus lessening the cost per person.
- Loosening government regulations and offering health insurance relief to sole-proprietors would bring about other benefits.
- The gained revenue could then be used to train employees properly, incorporate the tools necessary for their work to be completed in a

timely and effective manner, and hire qualified, motivated employees with a strong work ethic.

- Their businesses would then be able to grow, thus decreasing the unemployment rate.
- This in turn would stimulate the economy and increase the betterment of life not only for the employees in question but for Americans as a whole.
- As the businesses will grow, this will develop greater struggle amongst the businesses and as a result will help in increasing the Competition. Competitive market always results in betterment.
- Small business owners and their workers will be focused Small business owners will be passionate about their businesses.
- Innovative small businesses are prize targets of larger corporations that often find it more cost-effective to acquire than to innovate on their own. By decreasing the pressure on these businesses, they will be able to make more innovations.
- Small businesses know that their livelihood is based on their customers. Small is great for customers. Therefore, by reducing stress of these businesses, they will be able to provide better customer care.

This topic has been researched using a number of different sources. For instance, ProQuest provides an abundance of information regarding the nature of the health insurance regulations that are being imposed on sole-proprietors. Two of the cited articles addressed the issue specifically from the sole-proprietor's point of view which helps to shed some light on the issue on hand as to how these owners are directly affected by stringent

health insurance regulations, what impact it has on both them and their employees and what would be the best course of action to take to make this work for everyone involved (Landrieu, 2009).

The other article chosen was written in an objective point of view, stating the struggling nature of sole-proprietors, how they long to provide adequate health insurance for their workers but cannot manage to do so since it is not tax deductible. Some pertinent facts and statistics are also utilized in all of the cited publications in order to explore the effects of this issue and evaluate their implications.

These articles do provide some quantitative statistical grounding, based on which some conclusions can be drawn. At the same time, most of the research on hand will be qualitative. In order to curb the limitations inherent to using the qualitative method exclusively, we must utilize the quantitative part as much as these resources allow.

While the resources available won't solve the problem once and for all, the closeness of all the writers to both the insurance sector and to the small businesses promises to provide some valuable insight on the issue, from a both qualitative and quantitative approach.

4. Conclusion

People should be able to purchase, with pretax dollars, health plans that are portable from one job to the next, just as group plans do. Employers should be able to help pay the premiums on those individual plans. To avoid costly state mandates, small businesses should be allowed to purchase plans similar to those purchased by large companies that self-insure. If a solution

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for this problem of health insurance effecting small firms is solved, small businesses could create a national marketplace where insurance companies and care providers compete for individuals on price and quality.

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