

MAKING HEALTH INSURANCE MORE AFFORDABLE FOR SMALL BUSINESSES IN MARYLAND

Introduction

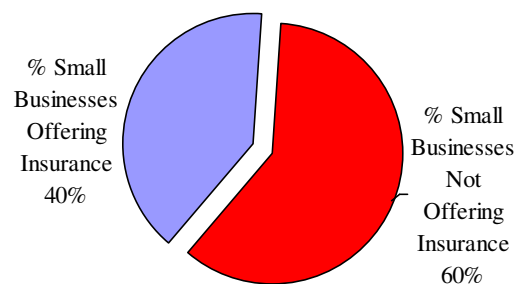
Martin O'Malley and Anthony Brown are dedicated to changing the direction of health care policy in Maryland. While the federal government continues to be unable or unwilling to confront our nation's growing health care crisis, states such as Maryland, at least for the time being, continue to be left on their own to confront the crisis within the context of balanced budget requirements and growing fiscal challenges in other areas. Improving and expanding Maryland's health insurance options are critical steps needed to make health insurance more affordable for small businesses and reduce the ranks of the uninsured.

The rising cost of health coverage is turning into an especially crippling economic crisis for both employers and employees in the small-business sector. Each successive year they are experiencing, as *Business Week* recently put it, another "bad case of sticker shock." Over the past few years, the incomes of most working families and the revenues of too many small businesses have stagnated or even declined. And while annual health insurance premiums for the private business sector as a whole have climbed 10 -15 percent, many smaller businesses face even larger increases. The Kaiser Foundation has found that typically less than 30 percent of low-income, full-time workers in such small firms have job-based insurance. Up to one-fifth of workers nationally who are offered insurance reject it because they cannot afford the rising amount of their share of costs.

The numbers in Maryland are just as alarming:

- According to the Maryland Health Care Commission (MHCC), 87 percent of the state's uninsured live in households with at least one working adult;
- Only 40 percent of businesses with 50 or fewer employees provide health insurance; and
- the average cost of family-coverage premium levels consumes more than 13 percent of household income for typical workers in small businesses.

Fewer Than Half of MD Small Businesses Offer Health Insurance



The growing crisis in small business health care constitutes a serious threat to our state and nation's economic future. For the last few decades, small businesses have been the economy's main generator of innovation and new jobs. Yet small business owners continue to identify health care costs as a major impediment to their expansion. Out-of-control health costs can suppress wages, necessitate hiring freezes and lay-offs, stall research and development efforts, and drive fledgling businesses into bankruptcy.

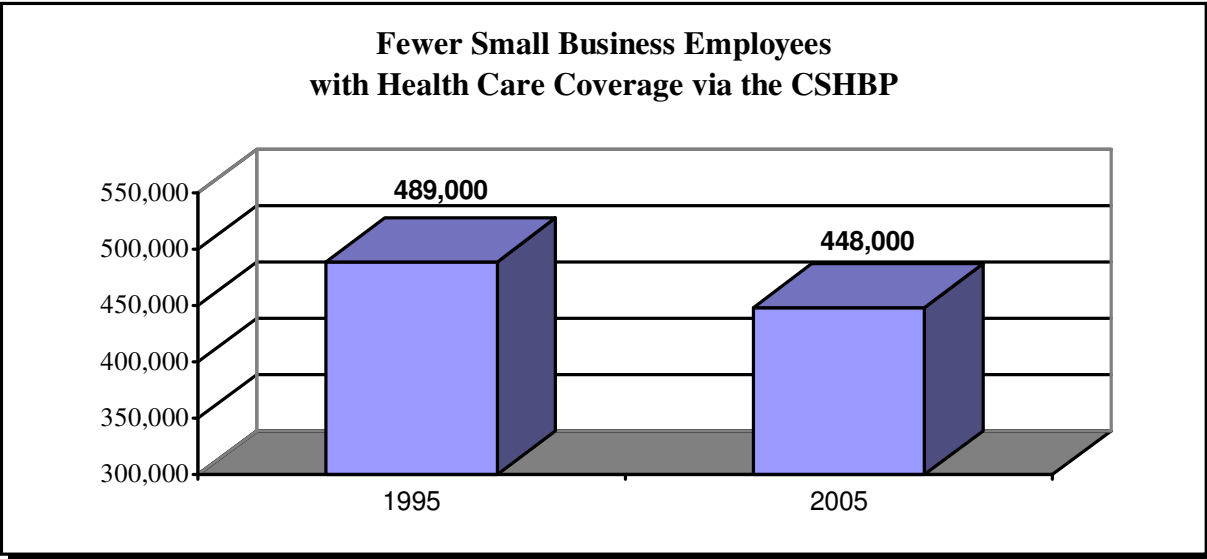
Maryland can and must do better.

Existing Efforts: Maryland Falling Behind

Maryland's Health Care and Insurance Reform Act of 1993 and subsequent modifications guarantee small businesses access to health insurance. Under the law, a small business is defined as a public or private employer with 2 to 50 eligible employees. Each business decides whether or not to buy health insurance, from whom to buy insurance and whether to recover all, part, or none of the premium from its employees. All insurance carriers participating in the small employer market must sell the comprehensive standard health benefit plan (CSHBP) to any small employer who applies for it and may sell riders to expand the covered services or lower the cost-sharing arrangements. Carriers are obligated to price the CSHBP separate from riders. Carriers may not deny coverage through the CSHBP to any individual in the group.

The State of Maryland, by incorporating these requirements into law, hoped to expand access and increase the affordability of health insurance for both small businesses and their employees. While this reform placed no obligation on the employer to either offer a group insurance plan or subsidize the plan for employees, it did provide interested small businesses a standard package of health benefits, a source of guaranteed coverage and renewal where coverage could not be denied based on pre-existing conditions and health status, and at costs that reflected participating small businesses' pooled risks and that were targeted to represent a manageable portion of workers' average wages (i.e., less than 10 percent of the average state wage).

The average cost of Maryland's basic small business health insurance plan in 2005 was \$4,573 per employee, up from \$4,335 per employee the year before. This marked the second consecutive year that premium costs exceeded the targeted 10 percent of average wage cap. Unfortunately, the percentage of companies that participate in the small group benefit plan declined from 42 percent in 2004 to 40 percent in 2005. The number of people covered by the benefit package also declined to 448,000 last year, down from 452,000 in 2004 after reaching a peak of 489,000 in 1995.



The oversight of the CHSBP falls to the Maryland Health Care Commission (MHCC), an entity created in 1999 to “establish a streamlined health care regulatory system in this state in a manner such that a single state health policy can be better articulated, coordinated, and implemented.” As demonstrated by the inability to successfully contain costs and reverse declining enrollment levels, it is clear that current efforts are falling short of small business owners’ and their employees’ needs.

Achieving Cost Savings Through Expanded Participation and Increased Options

Issues of access, affordability, and quality are inextricably intertwined and there is no “magic elixir” to cure Maryland’s health care maladies. Specific to the challenges facing Maryland’s small businesses, the State of Maryland through the MHCC must pursue a multi-pronged strategy to achieve cost savings, expand the numbers small businesses offering health insurance and employees covered, and reduce the ranks of the uninsured, including:

Establishing a statewide health insurance purchasing pool: While the CSHBP provides small businesses a guaranteed access point into the health insurance market, fewer and fewer Maryland small businesses are availing themselves of this option because of steadily increasing premiums or the lack of competitiveness in comparison to self-funded plans. Pooled purchases hold the promise of achieving greater economies of scale through greater shared risk, increased purchasing power, lowered administrative costs for small businesses, and greater choice and portability for employees. Beyond the declining base of small businesses in the two to 50-employee range that are participating in the CSHBP, consideration can be given to incorporating interested individual health insurance plan holders, non-profits and community-based organizations, and local governments into the pool.

Creating and capitalizing a statewide reinsurance fund: Health care premium costs for small businesses participating in the CSHBP or a statewide purchasing pool could be further contained or even diminished if coverage for a subset of the highest risk participants was accomplished via a reinsurance fund. The State of Maryland already boasts other insurance funds, the Injured

Workers Insurance Fund (IWIF) and the Maryland Automobile Insurance Fund (MAIF), which provide applicable models to consider for replication.

It should be acknowledged that while a reinsurance fund is a generally understood concept in Maryland, funding such an effort is an obvious obstacle. One potential option to capitalize such an effort can be found within the sizeable fund balance of the Maryland Health Insurance Plan (MHIP). The MHIP is a State-administered health insurance program for Maryland residents that do not otherwise have access to health insurance. The MHIP is funded via assessments on Maryland hospitals' net patient revenues to expand coverage and reduce the more than \$700 million annual cost of treating Maryland's uninsured.

As of the current fiscal year (FY2007), MHIP boasts a fund balance of over \$100 million. Part of this fund balance could be utilized to capitalize a statewide reinsurance fund for small businesses. Given the large percentage of the Maryland workforce employed by small businesses and the MHCC's estimate that 87 percent of Maryland's uninsured live in households with at least one working adult, it can be fairly argued that the significant fund balance accumulated by MHIP to expand coverage for the uninsured and reduce the cost of uncompensated care should be harnessed and directed toward a statewide small business reinsurance effort.

Expanding options to pay for health care costs: Small businesses' and employees' annual health care premiums reflect the over \$700 million annual cost associated with treating Maryland's uninsured. The MHCC estimates that in 2005, premiums for private employer-sponsored health care coverage were nearly \$1,000 higher as a result of costs associated with the uninsured.

As has been previously described, there are a large number of small businesses that do not offer their employees health care coverage. In addition, there are employees who decline coverage opportunities either because they currently are in good health or unable/unwilling to pay the costs of health coverage. While these businesses and employees might believe they are avoiding health care costs, these costs are being absorbed elsewhere across the Maryland health care system as evidenced by the more than \$700 million in health care costs incurred by the uninsured.

There are obvious compelling public policy reasons to reduce the ranks of the uninsured that include expanded access to less costly preventive care and reduced premium costs for those already with insurance. The State of Maryland must work aggressively to convert the more than \$700 million in health care spending for the uninsured into efforts that entice more of the uninsured into covered status. Options include cost-neutral efforts to pay a portion of health insurance costs with pre-tax dollars or narrowly crafted tax credits aimed at a subset of small businesses with low wage employees who typically are not offered or elect health insurance coverage through their employers.