

The Economic Impact of Healthcare Reform on Small Business

Executive Summary

June 11, 2009

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Introduction

More than any other sector of the economy, small business suffers from our broken healthcare system. From spiraling premium costs to inadequate access to quality healthcare for themselves and their employees, small business owners have seen their prospects for growth diminished and their profits slashed by today's patchwork of inefficient healthcare options.

As the nation now debates comprehensive healthcare reform, America's entrepreneurs understand the need to focus on practical and effective solutions. For most of them, the tired political demagoguery of past healthcare debates cannot be allowed to trump the need for wholesale change. The cost of doing nothing is simply too high.

Against this backdrop of a failing system and the prospect of true reform, Small Business Majority commissioned noted economist and Massachusetts Institute of Technology professor Jonathan Gruber to apply his trusted healthcare economics microsimulation model to the small business sector—specifically those businesses with 100 or fewer employees. Using his model, Dr. Gruber analyzed the continued impact of no reform on small business costs, jobs, wages and profits over the next ten years and contrasted that with three different reform scenarios, all based on the shared responsibility model proposed by President Obama and now being debated on Capitol Hill.

This study represents the first ever application of the Gruber Microsimulation Model (GMSIM) to a broad range of small business success benchmarks under health reform. The results are clear: Small businesses will be far better off under a thoughtfully reformed healthcare system based on shared responsibility among individuals, business, government and the healthcare industry—as long as such a system includes provisions that reflect the particular financial constraints faced by small businesses. Under the models considered, shared responsibility includes tax credits to enable small business owners to better afford coverage options (based on the size of the business), coupled with a payment, on a sliding scale, to be made by employers who don't offer health insurance (also based on the size of the business).

The analysis demonstrates that the type of healthcare reform that is emerging from today's debate will save small businesses hundreds of billions of dollars in costs, protect small business wages and jobs—and allow small business owners to continue to reinvest in and grow our economy.

Key findings

The study compares three healthcare reform scenarios with each other and contrasts them with a continuation of the existing system. The reform options analyzed all include a financing system of shared responsibility. Three scenarios were considered, with a sliding scale of tax credits to be provided to employers who offer insurance, and a sliding scale of payments from employers who don't. The three scenarios can be characterized as providing **limited** support for small employers, **expanded** support for small employers, or **significant** support that would protect small business owners (see pages 5-6).

For each of the scenarios, the effects on four benchmarks of small business success are examined: (1) costs, (2) jobs, (3) wages and (4) profits, while also analyzing the effect on “job lock” (the concept that workers stay in jobs longer than they would like because they can't replicate the benefits the jobs provide). The report shows that, in just about every case, reform would likely reduce costs, save jobs, preserve wages, bolster profits and virtually eliminate “job lock” when compared to doing nothing.

Specifically, the study shows that over the next ten years the three reform scenarios considered would:

- **Dramatically reduce the costs small businesses pay to provide health insurance to their employees.** Healthcare costs are growing faster than the overall economy. Without reform, small businesses will pay nearly \$2.4 trillion dollars over the next ten years in healthcare costs for their workers. With reform, the study shows that small businesses can save as much as \$855 billion, a reduction of 36 percent, money that can be reinvested to grow the economy (see page 9).
- **Save small business jobs.** Healthcare costs are rising so quickly that there is no way to prevent some job loss due to those costs. Without reform, the study shows that 178,000 small business jobs will be lost in 2018 as a result of healthcare costs. Depending on the particular mechanism used to help small businesses meet their healthcare obligations, healthcare reform can save up to 128,000 of these jobs, reducing job losses by as much as 72 percent (see page 11).

- **Preserve wages for small business employees.** As healthcare costs rise, businesses pass those costs on to their workers, which usually results in lower wages or stagnant wage growth. Without healthcare reform, the study shows that \$834 billion in small business wages will be lost due to high healthcare costs over the next ten years. Reforming healthcare, and providing support to small businesses under a new system of shared responsibility, can save workers up to \$309 billion in wages over the next ten years (see page 14).
- **Bolster small business profits and competitiveness.** Rapidly rising healthcare costs also weaken the economic market. Without reform, small businesses will continue to spend more and more on healthcare, limiting their ability to reinvest in their businesses and start new ventures. Over the next ten years, the study shows that small businesses will lose \$52.1 billion in profits to high healthcare costs. Healthcare reform can reduce these losses by more than 56 percent, saving \$29.2 billion in small business profits and allowing small business owners to reinvest those dollars in the economy (see page 17).
- **Ease, and likely eliminate, “job lock.”** Today, many workers with health insurance are “locked” in their jobs because they worry they can’t find a job with comparable benefits. The analysis shows that 1.6 million small business workers suffer “job lock”—roughly one in 16 people currently insured by their small business employers. Healthcare reform will ensure that individuals and families can purchase the coverage they need at an affordable rate, likely bringing the new rate of job lock close to zero. This change will remove a major barrier to people who want to become entrepreneurs or join thriving small businesses (see page 17).

Conclusion

Small businesses in the United States are suffering great harm under our current healthcare system and will likely fare far better under a substantially reformed system along the lines of what is currently being debated in Washington—as long as such a system offers appropriate levels of assistance to small businesses in meeting their healthcare obligations.

Small Business Majority

Small Business Majority is a national nonprofit nonpartisan organization, founded and run by small business owners, that brings the voice of America's 27 million small businesses to the public policy table. We are focused on solving the single biggest problem facing small businesses today: the skyrocketing cost of healthcare. We use scientific research to understand and represent the interests and needs of all small businesses, from sole proprietors to 100-person companies.

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