



Small Business, the Affordable Care Act and MNsure

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Introductory information

Small Business Minnesota's role in health insurance reform

In 2013, Small Business Minnesota (SBM) took an active role in shaping Minnesota's health insurance exchange (what is now "MNsure"). SBM provided testimony, met with legislators, hosted small-business forums on MNsure and continues to provide MNsure news and information to small-business owners. To date, SBM reminds legislators, reporters and others that the cost of health insurance continues to dominate most, if not all, reputable surveys as small-business owners' top concern.

A note about defining "small business"

Small Business Minnesota defines "small business" as any business, for profit or nonprofit, that has fewer than 100 employees, including one-person businesses. (About one in three small businesses are one-person companies.) This is the definition that will be used for the purpose of this paper. According to the Minnesota Department of Employment and Economic Development, this definition describes more than 500,000 businesses in the Minnesota and these businesses employ 52 percent of the state's workforce.

By comparison, the [Federal Small Business Administration defines "small business"](#) as for profit, independently owned and not dominant in its field.¹ Maximum allowed size based on employees ranges up to 1500 depending on the particular industry, and annual revenue caps vary by industry reaching as high as \$21.5 million. Other organizations define "small" as synonymous with "independent" (not publically traded). Cargill is one example of an independent business; it has annual revenues well over \$100 billion and around 140,000 employees. Others define "small" by the number of owners; Koch Industries has only 3-4 owners with annual revenues over \$100 billion and around 70,000 employees. There are countless, and perhaps some ridiculous, definitions of "small business."

About Small Business Minnesota

Small Business Minnesota formed in 2008 as a nonprofit, nonpartisan membership organization of small business owners with headquarters in Minnesota who have less than 100 employees. In 2015, the organization reorganized to focus primarily on public policy advocacy. It is often the voice of small business where only big-business voices exist. SBM also offers resources and information as well as membership meetings and occasional forums with noted guest speakers.

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¹ "What is SBA's definition of a small business concern," U.S. Small Business Administration, SBA.gov, www.sba.gov/content/what-sbas-definition-small-business-concern

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The need to address small business public-policy concerns: These businesses may be small, but they are big economic drivers

Small business contributes to our economy as much as, if not more than, big business.

Nationally, [according to the United States Small Business Administration](#), 99.7 percent of all businesses are small. Small businesses employ more than 50 percent of our private-sector workforce and are widely believed to be the future's most robust job creator, currently responsible for two out of three new jobs. Small businesses contribute more than 50 percent of the United States' Gross Domestic Product (GDP), generate the vast majority of new patents and make up 97 percent of our exporters (contributing almost 30 percent of our export revenue).²

Small business nationally:

- ✓ **Employ more than 50 percent of the U.S. workforce**
- ✓ **Creating 2/3 of all new jobs**
- ✓ **Contributes 50 percent of the GDP**
- ✓ **Generates the vast majority of new patents**
- ✓ **Makes up 70% of our exporters, generating 30% of all exported goods and services**

Minnesota has had, for many years, [more Fortune 500 companies per capita](#) than any other state.³ Currently, it holds the No. 2 spot with 18 Fortune 500s headquartered in Minnesota. (Connecticut takes the No. 1 spot with 15 Fortune 500s headquartered in that state.) However, small businesses employ more Minnesotans than all those Fortune 500 companies combined. According to the Minnesota Department of Employment and Economic Development (MN DEED), Minnesota has more than 500,000 small businesses and, collectively, these small businesses employ 52 percent of Minnesota's workforce. Additionally, Minnesota small businesses make up a significant portion of our exports and are currently the state's No. 1 job creator, hiring more new-job employees than large businesses.

Note: Both the MN DEED and Small Business Minnesota (SBM) define "small business," as having 100 or fewer employees.

² Small Business Administration, www.usgovinfo.about.com/cs/businessfinance/a/sbatopten.htm

Also confirmed by the Minnesota Department of Economic and Employment Development and National Bureau of Economic Research and Council of Economic Advisors, www.nber.org/info.html

³ "Fortune 500, 2014," Fortune magazine, <http://fortune.com/fortune500> . Also see MN DEED explanation and interactive map on Fortune 500s located in the United States.

Small business's top concern: Affordable healthcare

Affordable healthcare is THE top concern for small business. Both [local](#) and [national surveys](#) as well as surveys conducted by SBM, find that affordable health care consistently ranks as the No. 1 concern for small business owners.^{4 5} It outranks concerns with taxes, regulations and even business growth. Many small business owners in Minnesota are uninsured and even more are unable to offer insurance to their employees.

Affordable health care is a key factor to small business success

- **Attract and retain top talent:** Benefits like health insurance are critical to [attracting](#) and [retaining top talent](#).^{6 7} [A Georgetown University study](#) found that 75 percent of employees view health insurance as a major job selection factor.⁸
- **Access to the hiring pool:** Since most job applicants view health insurance as important, a hiring pool shrinks when a business cannot provide health insurance. For applicants with preexisting conditions, healthcare benefits may be a *requirement* to accepting a job offer.

Hiring pools are not solely about quantity but also quality and qualifications. The more a hiring pool shrinks, the greater the chances that some of the most qualified candidates disappear.

- **Reduce costly turnover:** Human resource professionals and small business owners understand the high cost of turnover. Employees who develop medical conditions or an illness may leave a job for better healthcare benefits with another employer. We have heard from employees who left one employer for another when they planned to become pregnant or when they developed a condition that required ongoing medical treatment, like diabetes. Replacing those employees is time-consuming and expensive. Costs include recruitment, training, acclimating and loss of productivity when the employee is not replaced immediately.
- **Reduce costly absenteeism and loss of employees:** Employers also understand the high cost of absenteeism. Employees without affordable health care often forgo preventative care, resulting in lingering undiagnosed and untreated medical conditions which can lead to more severe and costly medical events later on. In the worst cases, [one study published in the American Journal](#)

⁴ www.zanebenefits.com/blog/bid/322563/Health-Insurance-Top-Concern-for-Small-Business-Owners-in-2014

⁵ "Small biz owners' top 2014 concern, health insurance," Benefits Pro. www.benefitspro.com/2013/10/23/small-biz-owners-top-2014-concern-health-insurance

⁶ "Employers underestimate the importance of healthcare in attracting and retaining top talent," Aligning Rewards with the Changing Employment Deal, Watson Wyatt, 2007. www.worldatwork.org/waw/adimLink?id=17180

⁷ How to Attract -- And Retain -- Staff When You Can't Pay Big Bucks www.entrepreneur.com/article/223516#ixzz2rjLaiWlr

⁸ Employers' Benefits from Workers' Health Insurance," Ellen O'Brien, Georgetown University, www.ux1.eiu.edu/~lsghent/obrien.pdf

[of Public Health](#), estimates that 18,000 Americans die each year because they lack health insurance, while [another study](#) puts that figure as high as 45,000.^{9 10}

- **Increase productivity:** Productivity is vital to profitability or sustainability and meeting goals. A healthy workforce is a more productive workforce. Employees who do not feel well or who are worried about their own or family members' unaddressed health needs may not work to their full potential.
- **Maintain employer reputation:** Most employers care about their employees' health or, at minimum, want to convey that they care about their employees. Maintaining a reputation as a good employer is a key to attracting and retaining employees, as well as maintaining a reputation as a good "corporate citizen" that helps attract business and public support.
- **Allocate time to running a business rather than acting as a healthcare administrator:** Numerous small-business owners have told SBM that they want to run a business, not spend countless hours reviewing health insurance policies, comparing rates and benefits. They also spend time administering policies and enrolling new and current employees. Many small business owners do not have the staff, expertise or time to obtain the best plans at the best costs, and the personnel costs spent on health insurance administration takes them away from business operations and depletes their bottom line.
- **The business owner is also an employee:** The business owner is an employee, too, with the same needs for healthcare for him/herself and, if applicable, a family. About one in three small businesses in Minnesota are a single business owner with no employees. Business owners, whether or not they have employees, need affordable health insurance to remain productive and at work. [A 2012 Kaiser Family Foundation study](#) found that one in four business owners with fewer than 25 employees lacked health insurance for themselves¹¹ and the [U.S. Census Bureau](#) reported up to 16.3 percent of small business owners were uninsured in 2010.¹²

Preventative and maintenance healthcare is vital to health. If a business owner becomes too ill to work, it can close down a business and cost jobs.

- **Bankruptcy due to medical bills and the economic ripple effect:** Medical costs (either due to poor insurance or lack of insurance) are the [leading cause of personal bankruptcy](#),¹³ outpacing

⁹ 2009 American Journal of Public Health, 2009. http://prescriptions.blogs.nytimes.com/2009/09/17/harvard-medical-study-links-lack-of-insurance-to-45000-us-deaths-a-year/?_php=true&_type=blogs&_r=0

¹⁰ Institute of Medicine. Committee on the Consequences of Uninsurance (Jan. 13, 2004). *Insuring America's health: principles and recommendations*. Washington, DC: National Academies Press. p. 25. www.alibris.com/Insuring-Americas-Health-Principles-and-Recommendations-Institute-of-Medicine/book/8051797

¹¹ "What Obamacare Means for Small Business," Bloomberg Business Week, October 4, 2012 www.businessweek.com/articles/2012-10-04/what-obamacare-means-for-small-employers-in-2013

¹² 2010 U.S. Census Bureau survey and findings, www.census.gov/2010census

¹³ American Journal of Medicine, Center for Disease Control, many other sources. Search for "Leading cause of personal bankruptcy" and 2 million non-advertisement results emerge citing medical bills as the cause.

unpaid credit card bills and mortgage.¹⁴ The Center for Disease Control and Prevention conducted [a large survey and found](#) that more than one in four families was burdened by medical expenses in 2012, one in five was paying off medical debt, and 9 percent had bills that they could not pay at all.¹⁵

A business owner's personal bankruptcy almost always directly impacts his/her business.

Unlike publically traded companies, almost all small businesses are privately owned by one or just a few individuals. For the vast majority, this means that personal finances are intricately tied to business profits. A small business owner's profits are typically his/her salary. A small business owner facing financial challenges from unpaid medical bills may take money out of the business. If the business owner files bankruptcy, business assets and jobs are jeopardized. The business may close costing the owner his/her income and employees their jobs.

With an [average annual income of \\$34,000-\\$70,000](#)¹⁶, (other sources have the average as \$40,000) small business owners are more likely to face bankruptcy than their big business counterparts or CEOs of public companies, some who take home annual salaries in the tens-of-millions.

The closing of a small business can have an economic ripple effect. Other businesses may be affected, especially businesses that were an integral part of the supply chain. If employees lose their jobs, they will most likely cut down on spending at other local businesses. Closing a business can also affect competition by narrowing choice which can increase the costs of goods or services. Losing a business can also be a blow to the community where it was based.

This is not meant to be an all-inclusive list.

¹⁴ Many studies verify this claim. One such study in 2013 analyzed data from the U.S. Census, Centers for Disease Control, the federal court system and the Commonwealth Fund, a private foundation that promotes access, quality and efficiency in the health-care system. The study: <http://bit.ly/1EABa0> and some of its story coverage in the news. Story coverage: <http://www.cnbc.com/id/100840148>, <http://www.today.com/money/biggest-cause-personal-bankruptcy-medical-bills-6C10442408>. And another study: http://www.businessweek.com/bwdaily/dnflash/content/jun2009/db2009064_666715.htm

¹⁵ "Study confirms, families being crushed by medical bills," Business Insider, 2014. www.businessinsider.com/nchs-financial-burden-of-medical-care-2014-1#ixzz2rht6Ooyd

"The implications of these findings go beyond mounting debt and thinning [bank accounts](#). When people have medical-related financial stress, they often miss out on potentially life-saving treatment. [An earlier report by The Commonwealth Fund](#) found that "two-thirds of people with a medical bill or debt problem went without needed care because of cost — nearly three times the rate of those without these financial problems...The ACA's strict limits on the maximum annual amounts people can spend on health-related expenses — \$6,350 for an individual plan and \$12,700 for a family plan — are designed to offer some protection against spiraling medical debt. (That benefit will not kick in on all plans [until 2015](#).) ...It's important to note that in its current form, the ACA will reduce, but [not necessarily end medical bankruptcies](#) and other [healthcare](#)-related financial problems."

¹⁶ Average Small Business Salary, Chron, <http://smallbusiness.chron.com/average-income-small-business-owners-5189.html>. (And American Express report put the average salary at \$68,000 in 2013, www.businessnewsdaily.com/5314-entrepreneur-salaries.html)

For small businesses, Affordable health insurance is limited and more expensive

[According to the Council of Economic Advisers](#) small businesses pay up to 18 percent more per worker than large firms for the same health-insurance policy.¹⁷

Many factors limit the ability for small businesses to offer health insurance:

- **Small businesses have less bargaining power.** With size comes leverage. Large businesses hold an attractive market for insurance companies. The many employees in a large business are the many customers to a healthcare provider. The largest employers offer thousands or even tens of thousands of customers. Insurers will negotiate costs to gain these customers, lowering the cost per employee. Meanwhile, there is less incentive to negotiate with a typical small business to insure a handful of employees.

Competitive bidding for the health-insurance business of a small employer is also stifled knowing that small businesses have less cash reserves and less future revenue than big businesses. With little negotiating power and smaller purses, small employers often give up quality and/or affordable deductibles to gain access to health insurance.

- **Small means higher risk and higher costs. Large means lower risk and lower costs:** Large employers offer a large pool in which to spread risk that, in turn, leads to lower costs. If one employee out of 1000 develops a health condition, enough people have "paid into the pool" to make the additional cost less noticeable, if not negligible. In a small company, there are fewer people paying into the pool which increases risk. In an organization of 50 employees, one had triple bypass heart surgery that noticeably increased premiums the following year. Therefore, insurance rates for small employers are almost always more expensive than for larger employers on a per-employee basis. Although, under the ACA, pre-existing conditions can no longer be a factor in determining health insurance rates.

During the 2013 Minnesota legislature prior to the enactment of the ACA, a Small Business Minnesota member and small business owner testified that when she turned 50, premiums increased so much that she could no longer afford insurance for her three employees. Many small-business owners similarly find that they simply cannot afford to provide health insurance for themselves and/or their employees, and families due to their small size. While the ACA no longer allows age to affect health insurance rates, employer size still remains a significant factor in negotiating price.

As noted previously, approximately one out of three small businesses in Minnesota is a one-person shop, meaning many business owners must find individual health insurance plans. Individual plans, like small group plans, are more expensive than large group plans on a per person basis. The next most common business size is 5 employees or less.

¹⁷ Council of Economic Advisers, www.whitehouse.gov/administration/eop/cea/Health-Care-Reform-and-Small-Businesses

- **Large employers have more options:** As mentioned previously, by sheer size, large employers have negotiating power. They are also more likely to hire professionals with expertise and time to negotiate and administer healthcare benefits. While large employers have the ability to negotiate with several insurers, they also often have the ability to self insure which can lower insurance costs significantly.

Further, larger employers are more likely to locate in metropolitan areas lowering their healthcare costs; at the time of this writing, ACA still allows for discrimination based on geography.

- **Small businesses have less money to pay for health insurance/health care:** Small businesses have less money and smaller reserves than large businesses. Typically, profits from a small business are the owner's salary that averages between \$30,000-\$70,000/year. The cost of health insurance for the owner and his employees comes directly out of the company's profits, lowering the owner's take home pay. A large-company CEO's salary is not affected by health insurance costs or, if it is, the CEO will still be earning far more than the average small business owner.

Consider this scenario: If just one individual policy costs \$500 per month or \$6000 per year, that's up to 20 percent of an average owner's income.

The status quo: High cost, low quality health care Bad for small business. Bad for our economy.

Typically a high price tag is indicative of high quality. However, in the United States, when it comes to health care, small businesses pay a lot for poor quality.

An [independent study commissioned by the Commonwealth Fund](#), found that the United States health care costs are the highest in the world and the lowest in quality.¹⁸ At the same time, according to the [2013 National Institutes of Health's study](#) of 17 high-income countries, the United States scores the worst or nearly the worst in key health measurements: low birth weight, infant mortality, heart and lung disease, sexually transmitted infections, adolescent pregnancies, injuries, homicides and rates of disability. Additionally, the United States ranks among the lowest for life expectancy.¹⁹ (However, in the United States, low life expectancy is compounded by high rates of homicides and accidents.)

¹⁸ Explaining High Health Care Spending in the United States: An International Comparison of Supply, Utilization, Prices, and Quality, 2012, www.commonwealthfund.org/~media/Files/Publications/Issue%20Brief/2012/May/1595_Squires_explaining_high_hlt_care_sending_intl_brief.pdf

¹⁹ "US Health in International Perspective: Shorter Lives, Poorer Health," national Institutes of Health (NIH), 2013, www.nap.edu/openbook.php?record_id=13497

Infant mortality alone is often used to judge a nation's level of health care. A [2014 study compiled by the CIA](#), compared infant mortality in 224 countries; the United States ranked 169.²⁰ Among the many countries that have better outcomes than the United States (and spend less on health care) are Guam, Taiwan, Hungary, Slovenia, Cuba.^{21,22,23} The World Health Organization (WHO) also confirms these findings.

High-cost health care puts our small businesses at risk. While we pay the most in United States for healthcare and yet have some of the worst healthcare outcomes in the world, excessively expensive health care makes it challenging and often impossible for small businesses to provide reasonable healthcare benefits, which in turn, places businesses and employees at risk. This risk is escalated by poor healthcare outcomes. (See section "Affordable health care is a key factor to small business success," page 4.)

High-cost health care puts our economy at risk. [Studies compiled by the World Health Organization](#) (WHO), also confirm that the United States spends more on health care per capita than any other country (\$8,895 per person per year)²⁴ and, as mentioned previously, one out of every six dollars of our GDP; that's 17.9 percent of our GDP compared to an average of 9.8 percent in other countries. Economists argue that disproportionate spending on one segment (healthcare) limits the potential of our diverse, multi-segmented economy.

Addressing healthcare costs (and quality) for small businesses: Public policy favors the big-business healthcare industry over small-business needs

Knowing that healthcare costs are the No. 1 concern for small businesses and considering the disadvantage small groups face when trying to obtain healthcare, why aren't public policy makers and our elected officials rushing to offer solutions?

According to [2012 poll commissioned by the Public Affairs Council](#), 88 percent of Americans view small business favorably so much so that 68 percent are willing to pay more to do business with a small business than a big one.²⁵ It is not surprising then, that small business has been romanticized to mythological levels by many who commonly use the phrase "small business" for political theater and to influence public opinion. However, rarely are these fond feelings put into pragmatic public policy at any significant level. For the most part, public policy does not address small-business issues. Despite small

²⁰ CIA World Fact Book, 2014, www.cia.gov/library/publications/the-world-factbook/rankorder/2091rank.html

²¹ CIA World Fact Book, 2014, www.cia.gov/library/publications/the-world-factbook/rankorder/2091rank.html

²² Mundi Index, www.indexmundi.com/g/r.aspx?v=29

²³ "Graph of the Day. United States has really high infant mortality rate," Washington Post, 2013, www.washingtonpost.com/blogs/wonkblog/wp/2013/01/09/graph-of-the-day-the-united-states-has-a-really-high-infant-mortality-rate/

²⁴ World Healthcare Organization (WHO) statistics on healthcare costs, 2012, www.who.int/countries/usa/en/

²⁵ "Americans Views on Business During an Election Year," conducted by Princeton Research International, commissioned by the Public Affairs Council, 2012, <http://pac.org/pulse/files/2012/report.pdf>

business being a significant economic driver, the vast majority of business-related public policy favors big business including grants, tax-based funding, tax breaks and bonding. Too often public policy arguments said to help small businesses really help big businesses or wealthy business people.

Big business has many advantages when it comes to influencing public policy. Their resources are centralized and usually plentiful. They often can afford to hire lobbyists and make significant campaign contributions. Conversely, small businesses' resources are not centralized making it much more difficult to organize and influence; their funds, people and locations stretch to the furthest corners of a state and are located in standalone buildings, rented space, homes and garages.

The healthcare industry is big business.

The U.S. health care industry, the most profitable in the world, leaves small business out of the influence circle. Healthcare in the United States is big business. According to the [Organization for Economic Cooperation and Development](#),²⁶ as well as [others](#),²⁷ the United States far outspends every county on healthcare and no other country's health industry is as profitable as those in the United States.²⁸ One out of every six dollars of the U.S. GDP is spent on healthcare. [Health insurance providers spend](#) hundreds of millions each year on lobbying efforts.²⁹ There are 3000 registered lobbyists in the health industry in Washington, D.C.; that's six lobbyists for every member of Congress.³⁰ Some lobbyists are paid an annual salary of \$2 million.

The small business voice hijacked. As the health insurance/healthcare reform debate rages on, few are looking out for the needs of small business. Even though small businesses make up 52 percent of the workforce and contribute 50 percent of the GDP, they have yet to effectively organize and, frankly, will not be paying any one lobbyist let alone an army of lobbyists \$2 million a year anytime in the near future.

Even those organizations claiming to be "the voice of small business," are in fact lobbying for the big-business healthcare industry. It was after all, the National Federation of Independent Businesses (NFIB), a self-proclaimed "voice of small business," that served as the lead plaintiff in the Supreme Court case seeking to overturn the Affordable Care Act (ACA). The NFIB provides a questionable argument that the ACA is bad for small businesses because of something it calls "[the Small Business Health Insurance Tax](#),"

²⁶ Health spending, Organization for Economic Cooperation and Development (OECD), <https://data.oecd.org/healthres/health-spending.htm>

²⁷ Health Costs: How the U.S. Compares with Other Countries, PBS, October 2012, www.pbs.org/newshour/rundown/health-costs-how-the-us-compares-with-other-countries

²⁸ 2012 OECD health data, oecd.com

More at: www.pbs.org/newshour/rundown/2012/10/health-costs-how-the-us-compares-with-other-countries.html

²⁹ Open Secrets, lobbying expenses, www.opensecrets.org/lobby/indusclient.php?id=F09&year=a. Wendell Potter, a former health insurance executive also comments on health insurance lobbyists here: www.opensecrets.org/lobby/indusclient.php?id=F09&year=a

³⁰ Lobbyists Rise to Power, CBS investigative report, www.cbsnews.com/news/health-care-lobbyists-rise-to-power/

which is actually not a tax on small businesses but a tax on health-insurance companies.³¹ In Minnesota, during the 2014 state legislative session creating Minnesota's health-insurance exchange, the NFIB (and the Minnesota Chamber of Commerce) testified alongside lobbyists from the healthcare industry. Meanwhile the NFIB and the Minnesota Chamber of Commerce offer no solutions to provide affordable health insurance for small businesses owners or their employees.

Healthcare reform and alternatives to the status quo

The status quo is not working. Small businesses are collectively the largest employer and largest contributor to the economy in the United States. Yet, small business owners cannot secure affordable, meaningful healthcare benefits for their employees or themselves. Attaining affordable health care will help small businesses thrive and reducing costs will move spending into other areas of our diverse economy.

The Patient Protection and Affordable Care Act or "Obamacare"...A start

On March 23, 2010, the [Patient Protection and Affordable Care Act](#) (a.k.a. PPACA, ACA or Obamacare) became law, providing some much needed changes in the health insurance industry.

The ACA offered reform that would or could, overtime, help small businesses access affordable health care. However, it did not address costs in significant ways. Unlike other countries, profits are limitless and overhead costs up to 30 times more expensive. (See section, "A look at other models," page 16.)

The ACA offered (a positive note):

- Tax credits for healthcare benefits that began in 2010. (Business can apply retroactively.)
- Cost savings that could be realized by effectively making small businesses part of one large pool, creating competition for new customers, and increased efficiencies, including eliminating much of the administration work footed by small businesses. (There is some evidence that costs have decreased. Minnesota has some of the lowest rates in the nation but high deductibles remain a concern.)
- The elimination of premium hikes due to pre-existing conditions, age and gender.
- The elimination life-time maximums and "escape clauses," i.e., not covering cancer treatments, which led to bankruptcy or worse.
- Eventual economic improvements through cost controls or savings that would lower healthcare costs and move dollars into other parts of our economy. (Although, the ACA falls short on containing costs especially when compared to other countries.)

MNsure: Minnesota's ACA health insurance exchange

Under the ACA, states chose to participate in the federal health insurance exchange or create their own exchanges. These exchanges are marketplaces where small employers, employees and individuals can

³¹ NFIB argues that the tax on the health-insurance industry will trickle down to small business and is therefore a "hidden tax on small business." NFIB website, "The Small Business Health Insurance Tax," www.nfib.com/article/the-small-business-health-insurance-tax-51231/

obtain private insurance and, if eligible, government subsidies. Exchanges can be accessed online, over the phone and in person. Minnesota was one of the 14 states to create its own exchange and dubbed it "MNSure."

Small Business Minnesota's takes a stand on MNSure

As proposed legislation leading up to the creation of MNSure worked its way through committees, SBM championed changes to ensure the needs of small business would be recognized. Some of these concerns are outlined in SBM's [op-ed published in the Star Tribune](#), "Create the Health Insurance Exchange the Right Way."³²

In the op-ed, SBM concludes:

It's time to level the playing field. Lower-priced, better-quality health insurance is common in large businesses. Meanwhile, even though small businesses are collectively Minnesota's largest employer, access to affordable health insurance is disproportionately expensive or even cost-prohibitive. [Small businesses] do not have big business's bargaining power ... Small-business owners rarely have the expertise, time or resources to sift through hundreds of plans. In addition, since most have annual salary around \$40,000, they cannot afford lobbyists.

SBM also provided public testimony at legislative hearings, met one-on-one with the House and Senate chief authors and mailed its position to all Minnesota state legislators. Later, SBM met with the MNSure board chair and executive director to recommend changes to some of its internal operations.

MNSure and small businesses: Then and now

As already discussed, due to the ACA, small businesses are no longer seeing rate hikes based on their or their employees' gender, age or pre-existing conditions. Plans are also better quality, no longer riddled with small-print menaces that included lifetime maximums, excluding coverage for major medical events and more. Below we will discuss MNSure at implementation and changes that are still needed.

Rates

Many small businesses seeing rate decreases and better quality: Since enrollment in MNSure began, many small businesses report significant cost savings in their healthcare benefits. (As noted previously, small businesses pay an average of 18 percent more for health insurance than large businesses.) Others have moved from catastrophic insurance plans that only covered major illnesses or accidents, to plans that are more user-friendly and offer preventative and ongoing care. Some report seeing better quality insurance plans and others report seeing better choice and lower deductibles.

³² Create the Health Insurance Exchange the Right Way, Star Tribune, March 2013, www.startribune.com/opinion/commentaries/196616081.html

Small business owners are no longer seeing rate hikes due to their and their employees' gender, age and/or pre-existing conditions. Before MNsure, a birth date or a major medical event of one employee could significantly increase health insurance premiums.

Some small businesses are seeing rate increases. Without examining their former compared to their current plans, it's difficult to determine the reasons some businesses are seeing rate increases. Former, less expensive plans may have had high deductibles. They also may have had poor quality plans, such as those with lifetime payout limits or that excluded coverage for certain illnesses, emergency services, and/or preventative care. Small businesses with low-risk employees (young, healthy, free of pre-existing conditions) more than likely saw rates increase as they are placed into a higher risk pool.

Some small businesses ask employees to self enroll: Some businesses, large and small, are finding it most cost-effective to provide money to their employees to purchase insurance on their own through MNsure or the federal exchange. Some of the cost savings come from government subsidies. This creates a challenge when trying to track business or employee enrollment. However, self-enrollment is a viable option for businesses.

2015 changes needed regarding rates:

Rates should not vary by geographic location: Current law allows higher premiums for small businesses located in greater Minnesota vs. the metropolitan area. This favors big businesses that are most likely to locate in a metro area and discriminates against the many small businesses located throughout all of Minnesota.

Group rates must be fostered: We believe small businesses are still not achieving true group rates through MNsure. Theoretically, MNsure should act as a "large group" negotiator for small businesses. The more small businesses obtain health insurance through MNsure, the larger the group, which should lower costs, for most, as risk is mitigated across many employees in the same manner it is for big business. (See the "active purchaser" section below.)

Active purchaser (or "smart purchaser")

Active purchaser, sometimes called "smart purchaser," was a heavily debated feature of MNsure. Active purchaser allows the MNsure staff under the auspice of the citizen oversight board, to set criteria for the quality and quantity of plans in the exchange. This is similar to what happens every day in the free market. For example, store owners chose which products they will put on their shelves. They can choose any range of quality but quantity is limited. Store shelves can only hold a limited number of products.

Market flooding: Unlike buying tangible goods, health plans are "ideas on paper." They do not take up shelf space and are relatively easy and inexpensive to create since they have no ongoing material and manufacturing costs. Therefore, it is fairly easy to flood the market with insurance policies to "hedge bets." The more plans an insurer has on the exchange, the greater the chance a consumer will choose one of their plans.

2013 final bill: While the final legislation included smart purchaser, its implementation was indefinitely delayed.

2015 change needed

Implement active purchaser: Currently, there are around 100 plans in MNsure with dozens of options for each creating, quite literally, tens-of-thousands of decision points.³³ This makes consumer choice more random than informed. When there is little or no cost to produce a product and consumer choice becomes random, the free market benefit is diminished. From the SBM Star Tribune op-ed:

...Active purchasers can foster competition between insurers that want access to new customers and billions in sales while protecting the interests of small businesses by ensuring plans offer the best coverage for the best price. The model also can ensure ongoing quality improvement and innovation, as opposed to plans that simply meet static or minimal criteria.

However, highly paid lobbyists are influencing legislators to allow all plans that meet minimal, static criteria into our exchange. Not only does this threaten competition, quality and continual improvement, it allows the exchange to be flooded. Market flooding is a gimmick to create so many choices that consumers' selections become somewhat random. This lessens the need to compete on quality, price or other values.

This flooding is a burden on small businesses with limited resources and expertise. Active purchaser will ensure MNsure has only the best plans at the best rates. MNsure had promised to relieve small businesses of administration but then added time-exhaustive complexity.

High deductibles

2015-2017 change needed

High deductibles remain a serious problem: "High deductibles may be okay for people who are generally healthy and have the resources to pay their cost sharing when they need to," Kaiser Family Foundation CEO Drew Altman wrote in a [Wall Street Journal commentary](#).³⁴ "But big deductibles can also be a real barrier to needed care for people with moderate or lower incomes who are sick." A [Kaiser study](#) found that most people (this includes small business owners) cannot afford high deductibles and are still left at risk of bankruptcy should a significant medical event arise.³⁵

³³ The equation, frequently used in probability and statistics courses, in this case is: 100 plans x 12 choices in each x 11 x 10 x 9 x 8 x 7 x 6 x 5 x 4 x 3 x 2

³⁴ "High deductibles climbing out of reach," Drew Altman, CEO Kaiser Family Foundation, <http://blogs.wsj.com/washwire/2015/03/11/health-care-deductibles-climbing-out-of-reach/>

³⁵ "Getting skinned by health insurers," Wendell Potter, former health insurance executive, commentary for the Center for Public Integrity, www.publicintegrity.org/2015/03/16/16905/consumers-getting-skinned-health-insurers?utm_source=email&utm_campaign=watchdog&utm_medium=publici-email&goal=0_ffd1d0160d-edf79e55f6-100029441&mc_cid=edf79e55f6&mc_eid=c33d8fabfd

Costs

2015-2017 change needed

Address costs: It may be several years before the cost-benefits of MNsure are realized through negotiating plans and rates. However, the ACA, and by default MNsure, do not address many of the reasons for costly healthcare in the United States, such as, high administrative overhead, skyrocketing profit margins and the vast price variations for the same care or procedures. Virtually all peer countries have addressed these concerns and have been able to cap the cost of health insurance/health care while still employing free-market principles and profitable private medical care. (See the "Other Models" section.)

MNsure oversight board

The original MNsure legislation called for an oversight board consisting of those in the insurance industry. SBM believed that while representatives from the insurance industry could serve in an advisory capacity via committee or consultation, it was a conflict of interest to put those from the industry in charge of overseeing the exchange from which they would profit. Further, there was no seat at the table for small business representation.

2013 final bill: In the end, the bill was changed to include conflict of interest language, a non-industry oversight board with small business representation and an advisory role for the insurance industry.

2015 change needed

Appoint a qualified small business owner to the board: To date (April 2015), the small-business seat has not been filled by a small business owner, even though many qualified small business owners applied.

Marketing costs

The cost of placing insurance plans into the MNsure system was also debated in the original legislation. Those lobbying on behalf of the insurance industry proposed having customers cover this cost through a fee. SBM took the opposite stand. As business owners, we understood that MNsure was providing direct access to new customers (it is, after all, a "marketplace") at a nominal cost. We argued that the highly profitable insurance industry could cover its own cost of doing business if they chose to participate in the exchange. (Minnesota requires health insurance providers to maintain a nonprofit status. However, nonprofit insurance companies are often [more profitable than their for-profit counterparts](#).^{36 37})

2013 final bill: The final bill eliminated the taxpayer or customer fee. Additionally, it set limits on the amount of money that could be spent on marketing.

³⁶ Why nonprofit hospitals are so profitable, Commentary, Aug. 1, 2013. www.commentarymagazine.com/2013/08/01/why-non-profit-hospitals-are-so-profitable/

³⁷ Are Profits Making Health Insurance Unaffordable? Research Finds Nonprofit Health Plan Premiums Less Expensive Only Half The Time, Health Pocket, May 22, 2013. www.healthpocket.com/healthcare-research/infostat/are-profits-making-health-insurance-unaffordable#.UugL8PnnbIU

The 2014 IT rollout

Generally, we have found that once explained, the public understands the difference between a public policy and an IT rollout. Most agree that the IT rollout of both the ACA at the federal level and MNSure at the state level was far from desirable. It should be and has been questioned if the right people were placed in the right positions and if a focus on politics superseded a focus on a major IT project. The Minnesota Auditor found many faults with the MNSure rollout which were reported to the legislature in 2014. However, there is no doubt that the underlying tenants of health insurance/ healthcare reform are vital to small businesses.

Small Business Minnesota became a MNSure outreach partner, providing MNSure information and hosting MNSure forums for small business owners. We saw concerns up close. Beginning in December 2013, we meet and communicated concerns with the MNSure chair as well as the new MNSure CEO. Many of our concerns were taken seriously and addressed. Several months later, the program vastly improved, although some concerns still linger.

A look at other models

Most industrialized countries view access to affordable health care as a fundamental right much like having access to police protection and a fire department. "In fact, the U.S. stands almost entirely alone among developed nations that lack universal health care."³⁸ For reasons already outlined, affordable health care is vital to small businesses, the country's largest private-sector employer.

**Most industrialized countries
view access to affordable health care
as a fundamental right**

Every other industrialized country in the world has managed its health care costs and most of these countries, like the United States, deliver health care entirely through privately held health care and health insurance companies and providers. However, the most successful programs standardize and control administration and overhead costs and they pay providers based on evidence-based criteria.

[This brief overview of 8 comparable countries](#), quickly demonstrates that the United States pays the most for healthcare for some of poorest results.³⁹ It also indicates that every country, except ours, has found solutions. Small Business Minnesota is not recommending one solution over another. However, we do expect legislators to deploy expertise to solve the affordable healthcare crisis that negatively impacts small businesses. Below are a few comparisons:

³⁸ "Map of countries that provide universal health care. America's still not on it," The Atlantic, June 28, 2012. www.theatlantic.com/international/archive/2012/06/heres-a-map-of-the-countries-that-provide-universal-health-care-americas-still-not-on-it/259153/

³⁹ "Healthcare around the world," <https://singlepayerwestchester.wordpress.com/health-care-around-the-world/>

Canada: Infant mortality rate: 36th lowest. Life expectancy ranking: 14th highest.

United States: Infant mortality rate: 46th lowest worldwide. Life expectancy ranking: 45th highest.

The Canadian system provides public coverage through private delivery. A Princeton University health economist, [Uwe E. Reinhardt](#),⁴⁰ notes that single-payer systems are "[social insurance](#)" systems, not "socialized medicine."⁴¹ [Canadian doctors practice in the private sector](#) and hospitals are overseen by private boards or regional health authorities which are not part of government.⁴²

[In the Canadian healthcare system](#), citizens are not charged co-payments or user fees, and about 91 percent of hospital expenses and 99 percent of total physician services are financed by the public sector.⁴³

Canada: Low overhead, better results. As researched and reported by many, the single-payer system in Canada operates with 1 percent overhead compared to 31 percent overhead in the United States.⁴⁴ Canadian authors, doctors and citizens point out that Canada's lower healthcare costs frees tax dollars to be used in other areas of the economy, such as lowering higher education costs. Canada's health outcomes outperform those of the United States.

**Canada operates with 1 percent overhead compared to 31 percent overhead in the United States...
Canada's lower healthcare costs frees tax dollars to be used in other areas of the economy, such as lowering higher education costs.**

Canadians are not fleeing to the United States for care. The myth that Canadians are fleeing to the United States for medical treatment has been debunked by many sources. Most notably, the Canadian National Population Health Surveys found that 0.5 percent of Canadians receive medical care in the United States and of these, less than 0.1 percent went to the United States to expressly get medical care. The remaining cases were almost always related to proximity to services being closer to the U.S. and formal partnerships with nearby U.S. doctors and hospitals, as reported in the Detroit Free Press and others.⁴⁵

Many myths about the Canadian healthcare system, often propagated by highly-paid health industry lobbyists, are [debunked in this article](#) "Phantoms in the Snow: Canadians' Use of Health Care Services in

⁴⁰ Uwe E. Reinhardt bio, www.princeton.edu/~reinhard

⁴¹ "What is socialized medicine," by Uwe E. Reinhardt, New York Times, http://economix.blogs.nytimes.com/2009/05/08/what-is-socialized-medicine-a-taxonomy-of-health-care-systems/?_r=0

⁴² Parliament of Canada research papers, www.parl.gc.ca/About/Library/VirtualLibrary/ResearchPublications-e.asp

⁴³ Ibid. Also noted in "The Deteriorating Administrative Efficiency of the US Health Care System," Physicians for a National Health Program, www.pnhp.org/publications/the-deteriorating-administrative-efficiency-of-the-us-health-care-system

⁴⁴ Ibid. Also see footnote references 31 and 35.

⁴⁵ "Five myths about Canadian health care," AARP, March 2012. www.aarp.org/politics-society/government-elections/info-03-2012/myths-canada-health-care.html

Also, "Phantoms in the Snow: Canadians' Use of Health Care Services in the United States," Health Affairs, May 2002, <http://content.healthaffairs.org/content/21/3/19.full.html>

the United States," written by a Canadian physician,⁴⁶ and [this article](#), "Debunking Canadian health care myths," by a Canadian citizen now living in the United States.⁴⁷ Also see, "[A Canadian doctor diagnosis U.S. healthcare.](#)"⁴⁸

Germany: Infant mortality rate: 15th lowest worldwide. Life expectancy rank: 33rd highest.

United States: Infant mortality rate: 46th lowest worldwide. Life expectancy ranking: 45th highest.

Germany has universal health care, but not single payer. Salaried workers earning less than 50,000 EUR are automatically entered into the required insurance through employee-employer contributions (about 89% of the population). Those making above the threshold, can opt for private insurance. Municipalities pay for those who are not covered through employment. Anyone can subsidize coverage with private policies. All patients have copayments and fees.

Uwe Reinhardt describes Germany's system as "regulated competition." This system is decentralized; payment is made directly by the patient and/or their private insurance company. Germany spends about 10 percent of its GDP on healthcare. They have addressed costs through the following measures:

- Doctors, nurses, other health professionals, health insurance providers and hospital owners form a committee and set reimbursement rates for all.
- Providers are paid by number of patients, not number of procedures.
- Disease-management programs are widely used for patients with common chronic conditions, i.e., heart disease, diabetes. The programs use evidence-based guidelines.
- Drug prices are regulated.
- Patients have greater freedom to choose among various health insurance funds, doctors and which hospitals. As a result, the insurance funds, doctors, and hospitals must compete for patients.

Germany has not taken some common cost-controls measures, i.e., single payer, shared databases.

Massachusetts: The Massachusetts healthcare law is similar to the ACA law. About 98 percent Massachusetts residents have health insurance according to the Massachusetts Department of Healthcare Finance and Policy.

Loopholes in the system have caused costs overruns. For example, some citizens choose to be insured only a few months a year, typically when in need of a specific medical procedure. On average, these part-time enrollees pay \$1,200–\$1,600 in premiums to receive more than \$10,000 in healthcare services.

⁴⁶ Ibid

⁴⁷ "Debunking Canadian health care myths," by Rhonda Hackett, Denver Post, July 2009, www.denverpost.com/opinion/ci_12523427

⁴⁸ "A Canadian Doctor diagnoses U.S. healthcare," by Dr. Michael M. Rachlis, L.A. Times, Aug. 3, 2009. <http://articles.latimes.com/2009/aug/03/opinion/oe-rachlis3>

Because of a larger than anticipated effect on the state budget the legislature passed a bill in July 2012 to cap health care spending across-the-board, with the possibility of fines on healthcare organizations that do not volunteer to shore up their healthcare costs.

Other notes

Costs of uninsured/underinsured

Under the ACA, [those without insurance dropped from 20 percent to about 13 percent](#).⁴⁹ Meanwhile, other peer countries have achieved 98.4 percent coverage according to the Institute of Medicine.

Uninsured costs remain high. First, the highest cost: the loss of one's life, whether business owner, employee or any citizen, this is a tragic situation in the United States. As discussed earlier, the uninsured often forgo preventative care or put off medical treatment due to out of pocket costs or fear of out of bankruptcy; too often this leads to an even more expensive major medical event or even death.

Additionally, the uninsured use fewer services and are frequently billed many more times than what is charged to an insured person.

The costs of the uninsured are largely paid for by three sources: increased insurance premiums, increased taxes (paid by individuals and small business owners) and to a smaller degree, charities.

International travel for medical care

According to a study conducted by Deloitte Consulting, in 2013 about 6 million U.S. citizens sought health care outside the United States.⁵⁰ Procedures in peer countries are often much less expensive than treatment in the United States. Conversely, a 2008 McKinsey and Co. study found that only about 60,000 to 85,000 people traveled to the United States for medical care in 2008.⁵¹

⁴⁹ "Uninsured rate drops under Obamacare," USA Today (and many other reports), March 2015, www.usatoday.com/story/news/nation/2015/03/16/uninsured-rates-drop-sharply-under-obamacare/24852325/

⁵⁰ Americans look abroad to save on health care: Medical tourism could jump tenfold in next decade," The San Francisco Chronicle, August 3, 2008

⁵¹ Fred Hansen, A revolution in health care, Institute of Public Affairs review article (January 2008).