

# The Economic Impact of Healthcare Reform on New York's Small Businesses

## Executive Summary

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## *Introduction*

Small businesses shoulder the weight of the nation's broken healthcare system. For many small firms, health insurance is unaffordable. For those that do offer insurance, escalations in health insurance premiums have resulted in profit loss, unemployment and diminished wages.<sup>1</sup> Entrepreneurs with ideas for new businesses find themselves locked in jobs that provide health insurance, knowing that the exorbitant cost of premiums might put health insurance out of the reach of a fledgling company they want to launch.

Congress is seriously considering healthcare reform legislation for the first time in nearly 20 years. New York just completed a comprehensive analysis of the impact of various healthcare reforms on cost and coverage rates in the state. In the midst of this debate, small businesses and the self-employed are focused on practical solutions.

Against this backdrop, Small Business Majority commissioned noted Massachusetts Institute of Technology economist Jonathan Gruber to apply his healthcare economics microsimulation model to New York State's small business sector.\* Using his model, Dr. Gruber analyzed the impact of the current healthcare system on small business health insurance costs, jobs, wages, profits and job lock over the next ten years and compared it with the impact of four healthcare reform scenarios. The scenarios chosen for comparison include two variations of a Shared Responsibility model similar to the plans being considered by Congress, a Single-Payer plan similar to that recently analyzed by the Urban Institute for New York's Partnership for Coverage initiative, and what we call the Market Reform plan, which models the policy prescriptions recently recommended by the Manhattan Institute.†

This study represents the first application of the Gruber Microsimulation Model (GMSIM) to a broad range of New York small business benchmarks under healthcare reform. It shows that all well designed and implemented reform models along the lines of those modeled in this study will improve the climate for small business owners and their employees over time. It also demonstrates the strengths and deficiencies of the various proposals.

## *Healthcare reform scenarios analyzed*

The study analyzes four healthcare reform scenarios. It assumes that implementation commences in 2009, and contrasts each reform scenario with a continuation of the status quo.

Two of the options analyzed are based on a financing system of Shared Responsibility among employers, employees and government. In these scenarios, access to coverage is guaranteed, public programs are expanded to include everyone below the federal poverty line (FPL), premium assistance is provided to families earning up to 400% of FPL, coverage of all children is mandated and employees who are offered insurance through their employers are automatically enrolled. These plans provide a sliding scale of tax credits to employers who offer insurance, and a sliding scale of payments required from employers who do not, which is intended to defray the cost to government of insuring the uninsured. The difference in these plans is in the way the sliding scale operates. In the first plan, Shared Responsibility (Employees), the credits and payments are based on a firm's number of employees, with the smallest businesses exempt from payments. In the second plan, Shared Responsibility (Payroll), credits and payments are based on the size of the firm's payroll.

This study also considers a Single-Payer system, in which the government provides health insurance to everyone—employed and unemployed—and employers and employees together contribute a 10% payroll tax.

Finally, the study considers a Market Reform scenario, modeled after the Manhattan Institute's Rx NY plan<sup>2</sup>, which includes a package of tax credits, a pooling of New York's highest-risk individuals and an easing of the state's health insurance regulation.

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\* Small businesses for purposes of this study are businesses with fewer than 100 employees.

† The Market Reform and Single-Payer models that were used by Gruber in this study were analyzed by Dr. Sherry Glied in her recent assessment of the impact of healthcare reform on the New York economy. See Glied, Sherry, Tilipman and Carrasquillo, Olveen, "Analysis of Five Health Insurance Options for New York State," January 2009. Dr. Glied advised this study on how those plans should be analyzed using the Gruber Microsimulation Model.

## Dimensions of analysis

For each of the scenarios, the effects on five benchmarks of small business success are examined: (1) health insurance costs, (2) wages, (3) profits, (4) jobs and (5) job lock (the concept that workers stay in jobs longer than they would like because they cannot replicate the benefits these jobs provide). These represent the key analytical benchmarks for testing the impact of these reform scenarios on small businesses in New York.

Costs and profits are critical benchmarks for small business owners, whose primary concern is their bottom line. These businesses are concerned about how a new tax scheme and insurance regulatory system may impact that, but want to find a way to limit the ever-rising cost of health insurance.

Wages and job loss provide perspective on how reform will affect small business employees. The current system takes a toll on jobs and pay. Because the cost of healthcare coverage is rising faster than productivity, efficiency and inflation, an employee's hard work cannot be rewarded. The increased revenue derived from his or her efforts is used to meet rising premium costs.

Job lock is a critical issue in terms of economic growth. It is important both for potential entrepreneurs and small business employers and for policymakers tasked with defining the specifics of reform to ensure economic success.

## Findings

The study finds that, in comparison to doing nothing, healthcare reform would strengthen the performance of New York State's small businesses (Table 1).

- **Reform drives dramatic reduction in the costs New York State small business owners pay for health insurance.** Healthcare costs are growing faster than the overall economy. Without reform, New York State small businesses will pay nearly a cumulative \$156 billion over the next ten years in health insurance costs for their workers. Under a Shared Responsibility plan, the study shows that New York State small businesses can save as much as \$50 billion—33%—cumulatively during that same period. It also estimates ten-year savings of nearly \$40 billion—25%—under a Market Reform plan. Under Single-Payer, small businesses would pay a tax that would be substantially greater than the cost of simply providing health insurance in the absence of reform.
- **Reform preserves wages for small business employees.** Without reform, small business employees in New York State will lose a cumulative \$54 billion in wages over the next ten years due to health insurance costs. Shared Responsibility, Single-Payer and Market Reform options would stem this negative impact on wages by at least 50%. A Single-Payer plan would have the greatest impact on wages, reducing potential losses by more than 90%.
- **Reform bolsters small business profits and competitiveness.** Rapidly rising health insurance costs also weaken the economic market. Without reform, New York State small businesses will continue to spend more and more on health insurance, 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 a cumulative \$2.4 billion in profits to high health insurance costs. Shared Responsibility health insurance reforms can reduce these losses by as much as 62%, saving a cumulative \$1.5 billion in small business profits and allowing small business owners to reinvest those dollars in the economy. A Market Reform plan would stem small business profit losses to \$1.3 billion over the next ten years—nearly 50% less than would be lost under the status quo. The analysis also shows, however, that New York small businesses would be more profitable under the status quo than under Single-Payer.
- **Reform stems job loss among small businesses.** Continuing health insurance cost growth is expected to reduce New York State small business jobs by as many as 10,000 in 2018. All four reform plans would produce a more positive outlook for the small business job sector in New York. The model finds that these reform plans would save 30-80% of jobs that would be lost as a result of health insurance costs in the absence of reform.
- **Reduction or elimination of “job lock.”** Today, many workers with health insurance are “locked” in their jobs because they worry they will not be able to find a job with comparable benefits. Job lock among New York State small businesses would be eliminated completely under a Single-Payer system, and reduced under Shared Responsibility and Market Reform scenarios.

Table 1: Estimated impacts of four healthcare reform options on small businesses in New York State

Key benchmarks of small business performance*	No reform	Shared Responsibility (Employees)	Shared Responsibility (Payroll)	Single-Payer	Market Reform
Cumulative health insurance costs (billions of dollars)*	\$155.6	\$105.0 33% less than no reform	\$105.4 32% less than no reform	\$168.9 8.5% more than no reform	\$116.7 25% less than no reform
Cumulative wages lost (billions of dollars)*	\$54.2	\$12.1 78% less than no reform	\$12.8 76% less than no reform	\$4.2 92% less than no reform	\$27.1 50% less than no reform
Jobs lost in 2018	10,000	2,000 80% less than no reform	2,000 80% less than no reform	5,000 50% less than no reform	7,000 30% less than no reform
Cumulative profits lost (billions of dollars)*	\$2.4	\$0.9 62% less than no reform	\$1.0 60% less than no reform	\$5.2 116% more than no reform	\$1.3 47% less than no reform
Job lock		Reduced	Reduced	Eliminated	Reduced

\* Cumulative numbers reflect a 10-year period, 2009-2018.

## Conclusion

New York's small businesses bear the brunt of a very expensive healthcare system. The analysis conducted by Dr. Gruber indicates that reform will benefit New York small businesses. While some reforms have greater benefit than others, they all have clear advantages in comparison to allowing current trends to continue. The worst scenario for these businesses is maintaining the status quo.

Shared Responsibility reforms outperform the status quo on every dimension of small business success analyzed here. As shown in Table 1, Shared Responsibility reforms will reduce health insurance costs borne by small businesses by a cumulative \$50.2 billion, or 32%, over ten years in comparison to allowing current trends to continue. Lower health insurance premium costs allow employers to pass on higher wages to their employees. Shared Responsibility reforms reduce the wages that would, under the status quo, be lost to health insurance premiums by \$41.4 billion, or 76%, cumulatively over ten years. These reforms also enable small business employers to eliminate fewer jobs (2,000 versus 10,000 jobs under current trends) in 2018 and save profits otherwise lost by at least 60% over ten years. Shared Responsibility reduces job lock by making health insurance more accessible and affordable.

Market Reform also outperforms the status quo, although not quite to the same extent as Shared Responsibility. Market Reform provides cost relief to small businesses by reducing health insurance costs by a cumulative \$38.9 billion, or 25%, over ten years in comparison to current trends. New York small business employers pass on these savings to their employees through higher wages; Market Reform saves \$27.1 billion in cumulative wages over ten years that would otherwise be lost to health insurance costs. Market Reform also translates to 3,000, or 30%, fewer New York small business jobs lost in 2018. It allows small businesses to keep \$1.1 billion in cumulative profits over ten years that would be lost to health insurance costs under the status quo. Job lock is reduced as Market Reform makes health insurance affordable, encouraging more businesses to offer it.

The impact of Single-Payer reform on New York small businesses is more complex. The 10% payroll tax increases health insurance costs for small businesses by a cumulative \$13.3 billion, or 8.5%, over ten years in comparison to allowing current trends to continue. These higher health insurance costs lead to reduced cumulative profits (\$5.2 billion versus \$2.4 billion under the status quo). Despite these disadvantages, Single-Payer reduces the amount of wages that would otherwise be lost to health insurance costs by a cumulative \$50 billion, or 92%, over ten years. It allows New York State small businesses to preserve 50% more jobs in 2018 compared to the status quo (5,000 versus 10,000 jobs lost). Importantly, Single-Payer is the only reform that ends job lock. Because health insurance is available to all individuals irrespective of employment status, small business employees are free to start another job or business without fear of going without insurance.

### **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: the skyrocketing cost of healthcare. We use nonpartisan scientific research to understand and represent the interests and needs of all small businesses, from sole proprietors to 100-person companies.

### **New York State Health Foundation**

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