



Addressing the Health Insurance Affordability Crisis for Small Businesses

**Negative Outlook and Potentially
Dire Prognosis**

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Key Findings

- The rapidly rising cost of health insurance is crippling U.S. small businesses, making them less competitive.
- The small-group insurance market faces an inevitable collapse, which would reduce the availability of health insurance for tens of millions of Americans.
- Congress must increase healthcare coverage options for small businesses, promote competition, and cut unnecessary red tape.

Background

Small businesses are the foundation of the U.S. economy, employing nearly half (46%) of the private sector workforce and responsible for 44% of our gross domestic product (GDP).¹ Unfortunately, in recent years, the small business half of the U.S. economy has been significantly impacted by inflation and major challenges in attracting qualified applicants for open positions. Operating a business in these conditions is particularly difficult for small business owners. Most small business owners compete for talent by offering competitive wages and attractive benefits. Employer-provided health insurance coverage is the largest source of health coverage in the U.S., covering over 160 million people.² It is the most popular but costly benefit offered by about 30% of small employers. However, the unsustainable pace at which health insurance premiums have increased adds to many business owners' inflation pressures.

The relationship between small businesses and health insurance has been a longstanding challenge for small business owners. For nearly 40 years, NFIB members have consistently identified the rising cost of health insurance as their number one business concern.³ Over those 40 years, Congress has enacted legislation aimed at reducing costs and improving access to affordable health insurance. Unfortunately, these efforts have largely failed and sometimes made matters worse.

The most recent failed legislative attempt to lower health care costs was through the Affordable Care Act (ACA). The ACA, which Congress enacted in 2010, has contributed to higher costs, increased regulatory burdens, and decreased competition. Legislators promised the law would "hold insurance companies accountable, lower health care costs, guarantee more health care choices, and enhance the quality of health care for all Americans." Unfortunately, the ACA did not accomplish these goals.

The ACA introduced regulations that limited coverage options for small businesses and have contributed to unsustainably high costs. First, it imposed essential health benefit requirements mandating small business plans to cover ten essential health benefits, eliminating more personalized, affordable plans previously offered. Additionally, it prohibited insurers from setting premiums based on individual health risks, taking away a business's ability to negotiate premiums based on their specific risk profile, a tool regularly used by large companies to manage costs. These and other mandates have contributed to skyrocketing costs and fewer choices.

"High health care costs for small businesses like mine have cost us employees, made it hard to find employees, reduced our net profit considerably, and put strains on our work families!"

Rick Cole, *Martinsburg Service*
Martinsburg, WV

¹ Small Business Administration, Office of Advocacy, Frequently Asked Questions About Small Business, 2024. <https://advocacy.sba.gov/2024/07/23/frequently-asked-questions-about-small-business-2024/>.

² <https://www.kff.org/health-policy/101-employer-sponsored-health-insurance/?entry=table-of-contents-why-is-employersponsored-health-insurance-so-dominant>.

³ Holly Wade & Madeleine Oldstone, Small Business Problems and Priorities, 2024 NFIB Research Center, 2024 <https://strgnfibcom.blob.core.windows.net/nfib-com/2024-Small-Business-Problems-Priorities.pdf>.

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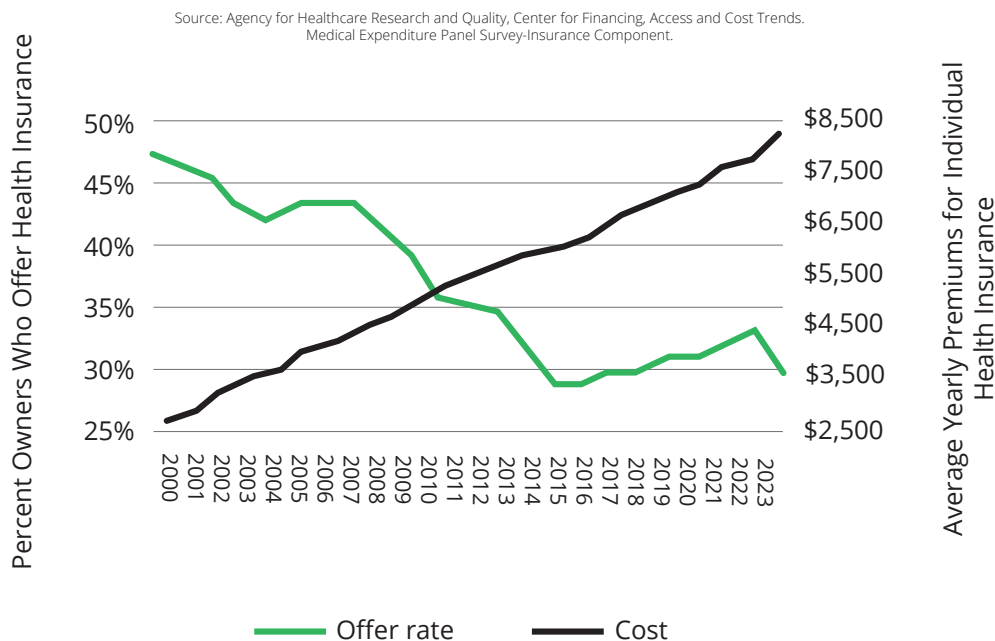
The small group market, where most small businesses purchase coverage⁴, is in a death spiral. The number of participants has declined sharply, down 7.4% from 2022 to 2023. The market ended the year in 2023 with 8.5 million participants, compared to nearly 15 million in 2014.⁵ In addition, issuer participation has declined from an average of 13 in 2015 to only five in 2020 and continues to fall.⁶ The average cost of an individual health insurance plan has increased by 120% for firms with less than 50 employees, and average family premiums have increased by 129% in the last 20 years.⁷

As a result, small firms' offer rates have declined from nearly 50% in 2000 to just 30% in 2023.⁸ Further, 98% of small businesses report they are concerned about whether they'll be able to afford health insurance in the

next five years due to the pace of rising premiums and shrinking coverage choices.⁹

One must look no further than the Connecticut small business insurance market, which has been in a death spiral as insurers like Aetna and Cigna announce their exit from the small group market.¹⁰ The situation in Connecticut is dire and has left participants with virtually no options. State legislators are concerned about the erosion of options, leaving thousands of small businesses and their employees without affordable coverage. Small firms in Windham County, CT have experienced a more than 100% increase in average premiums over the last ten years, yet legislators have failed to promote viable alternatives.¹¹

Health Insurance Offer Rates and Average Yearly Premiums for Businesses with Less Than 50 Employees, 2000 - 2023



⁴ (77%) of small business owners offering health insurance reported a Fully Insured group health plan, in which a private insurer manages risk and provider networks. <https://strgnfibcom.blob.core.windows.net/nfibcom/Health-insurance-survey-NFIB.pdf>.

⁵ 2015-2023 NAIC Supplemental Health Care Exhibit Report <https://www.markfarrah.com/mfa-briefs/an-analysis-of-profitability-for-the-individual-and-small-group-health-insurance-markets-in-2023/>.

⁶ Concentration in Small Group Health Insurance Markets Increased from 2011 through 2020 from an average of 13 issuers in 2013 to only 5 in 2020. See page 15 www.gao.gov/assets/gao-23-105672.pdf.

⁷ Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey, Insurance Component (MEPS-IC), 2003 - 2023.

⁸ Ibid.

⁹ Health insurance survey - 2023 - Update.ai (strgnfibcom.blob.core.windows.net).

¹⁰ <https://www.hartfordbusiness.com/article/cigna-oscar-the-latest-insurers-to-withdraw-from-cts-fully-insured-small-group-market>.

¹¹ Instructions for Form 8941, Credit for Small Employer Health Insurance Premiums, pages 10-30, Internal Revenue Service. 2014-2023.

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Despite these challenges, small businesses continue to see value in offering health benefits and want increased options to promote a healthy workforce and continue to compete in the economy. Sixty-three percent of all employers believe that providing health insurance to recruit and retain employees is very important. However, almost all (94%) of small employers find it challenging, to some degree, to manage the cost of providing employer-sponsored health insurance.¹²

The financial burden of health insurance on small businesses is significant and growing, creating an uneven playing field between small and large companies. The median health insurance payroll burden for small firms with less than \$600,000 in annual revenues is nearly 12%, compared to just 7% for firms with revenues over \$2.4 million.¹³ To contend with rising premiums, nearly half (49%) of small employers are absorbing some of these cost increases through lower profits.¹⁴ Furthermore, 46% of small employers report raising prices to absorb higher insurance costs, further reducing their market competitiveness.¹⁵

“Our company health insurance cost will increase 10.5% next year. We want to provide good raises for our employees but will need to minimize those raises because of the increase in health care premiums. We need to raise prices to absorb these increases but do not want to be priced out of the market. We continue to see our customers leave California for more affordable living in other states and fewer government regulations than there are in California. We’re paying more but getting less.”

Ren Anderson Koffler, *Apparatus Repair*
San Leandro, CA

The inability of small employers to provide affordable health insurance and compete with their larger counterparts will have severe consequences for the broader economy, federal spending, and the overall health of the small business economy. If not dealt with, the current crisis will lead to increased employee turnover and difficulty attracting talent. The broader economic impact includes reduced innovation, job creation, and economic dynamism.

Solutions

To provide relief for small businesses, Congress should enact the following legislative recommendations:

Protect Employer-Sponsored Insurance

Policymakers should reject proposals that seek to limit or eliminate the employer tax exclusion, which would effectively raise taxes on businesses and employees. Changes to the exclusion would burden employers and their employees, effectively amounting to a new and unappreciated tax hike.

Support Small Businesses with Targeted Health Insurance Tax Credits

Introducing flexible and targeted tax credits would alleviate cost pressures for small businesses, enabling them to offer affordable health benefits that strengthen workforce stability. Congress should establish or expand flexible, long-term tax incentives to help small businesses access affordable health care benefits, including the self-employed. These incentives should be simple, accessible, and applicable to various health coverage options. By empowering small businesses to manage rising costs, Congress can bolster entrepreneurship and enhance economic dynamism, ensuring long-term growth for small firms and the broader economy. These credits would also reduce reliance on government-subsidized alternatives, easing the federal debt burden over time and helping employees retain access to private health coverage, which is often more cost-effective and offers a greater choice of providers.

¹² Wade and Oldstone, 2023 Small Business Health Insurance Survey, NFIB Research Center. <https://strgnfibcom.blob.core.windows.net/nfibcom/Health-insurance-survey-NFIB.pdf>.

¹³ The Burden of Health Insurance Premiums on Small Business <https://www.jpnmorganchase.com/institute/all-topics/business-growth-and-entrepreneurship/small-business-health-insurance-burdens>.

¹⁴ Wade and Oldstone, 2023 Small Business Health Insurance Survey, NFIB Research Center.

¹⁵ Ibid.

¹⁶ SHOP Marketplaces are not available in most states and insurer participation never took place as expected. As a proportion of the overall small-group market, SHOP exchanges in most states had little enrollment—that is, typically less than 1 percent of the overall small-group market ... GAO Enrollment Report, November 2022. www.gao.gov/assets/gao-23-105672.pdf.

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Expand Individual Coverage Health Reimbursement Arrangements (ICHRAs)

ICHRAs allow employees to choose individual health plans that best meet their needs, providing flexibility and potentially lowering costs through more tailored coverage. They also reduce administrative burdens on employers. Congress should codify and expand individual health reimbursement arrangements, simplify their administration, and allow self-employed business owners to access tax-favored individual coverage HRAs.¹⁷

Employer Pooling Arrangements

Association Health Plans (AHPs) are one option for small businesses to offer more affordable insurance to employees.¹⁸ AHPs allow small businesses to pool resources and leverage purchasing power like larger groups. Congress should enact the CHOICE Arrangement Act, to protect and expand small businesses' ability to participate in AHPs. Congress should also improve existing regulations to allow industry-based and non-industry-based small businesses, including self-employed individuals, to establish an AHP.

Expand Access to Health Savings Accounts (HSAs)

HSAs provide significant tax advantages and flexibility in managing health care expenses, making them a valuable tool for employees and the self-employed. Expanding HSAs could lead to increased savings and more efficient use of health care dollars, helping to lower overall health care costs. Currently, only 10% of Americans have access to these accounts. Congress must empower small businesses and their employees with greater choice and control over their health care decisions by increasing eligibility beyond certain high-deductible health plans (HDHPs), increasing contribution limits, and allowing HSAs to be used for innovative arrangements such as direct primary care, which promise greater focus on preventative care and better health outcomes.

Protect Small Businesses' Access to Stop-Loss Insurance

Self-insurance can offer employers more flexibility in designing coverage, leading to more affordable coverage. Stop-loss insurance enables self-insured employers to mitigate risks, protecting employers and employees from catastrophic losses. An increasing number of group health plan sponsors are utilizing level-funded arrangements. Thirty-eight percent of small

firms reported offering health benefits through a level-funded plan in 2022.¹⁹ Level-funded plans provide small employers with potential cost savings, predictability, and customization. Congress must protect and expand small businesses' access to stop-loss insurance.

Expand Affordable Coverage Options

Maximizing coverage options such as essential health plans or short-term limited duration insurance (STLDI) can provide significant benefits for small business owners by increasing offerings and flexibility, addressing gaps in coverage, and promoting much-needed personalization. Essential health plans can also serve as a bridge to more comprehensive coverage and boost economic resilience by reducing costs for small business owners, particularly the self-employed.

Eliminate One-Size-Fits-All Mandates That Drive Up Premium Costs and Limit Competition

Small business owners can benefit from more flexibility and control over their health care offerings. By tailoring health insurance requirements better to fit small businesses' unique needs and capacities, Congress can make it easier for them to provide quality health benefits and sustainable costs. Congress should allow additional flexibility in choosing essential health benefits tailored to employees' needs, eliminate onerous community rating rules that prevent price signals, eliminate medical loss ratios that incentivize industry consolidation, streamline reporting requirements, and enhance reinsurance programs. These changes would encourage more competitive insurance and health care markets, increasing affordable choices for small employers.

Promote Price Transparency and Price Certainty

When health care providers and insurers disclose the costs of their services and treatments, small businesses can make more informed decisions about which plans and providers to choose. Congress should strengthen the price transparency requirements for hospitals, Pharmacy Benefit Managers (PBMs), and insurers.

Discourage Hospital Consolidation

Small business owners would benefit from moving the commercial market toward site-neutral payment policies, which studies find would reduce health expenditures and result in lower premiums and cost-sharing.²⁰ Congress should discourage off-campus

¹⁷ Most small firms—over 81 percent of 33 million—in the U.S. are self-employed firms and health insurance premiums are an increasing share of operating expenses for non-employer businesses. ICHRAs can help moderate premium increases and incentivize entrepreneurship. <https://www.jpmorganchase.com/institute/all-topics/business-growth-and-entrepreneurship/small-business-health-insurance-burdens#section1>.

¹⁸ Seventy-nine percent of small employers also reported interest in pooling resources with other businesses to purchase health insurance as a large group. [strgn-fibcom.blob.core.windows.net/nfibcom/Health-insurance-survey-NFIB.pdf](https://www.fibcom.blob.core.windows.net/nfibcom/Health-insurance-survey-NFIB.pdf)

¹⁹ 2022 Employer Benefits Survey, Kaser Family Foundation, October 22, 2022, <https://www.kff.org/report-section/ehbs-2022-summary-of-findings/>.

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hospital outpatient departments (HOPDs) from billing add-on hospital fees. This would lower out-of-pocket costs and disincentivize consolidation in the hospital market. Further, doctors' offices owned by a health care system should be required to use a separate and unique National Provider Identifier (NPI) number and bill correctly so payors can differentiate between services delivered in a hospital and non-hospital setting and apply the appropriate reimbursement rates.

By empowering small business owners and their employees with greater choice and control over their healthcare coverage decisions, we can enhance the vitality of small businesses and communities nationwide, which are the foundation of the U.S. economy.

Reduce Prescription Drug Prices Through Innovation

Prescription drug costs continue to represent an increasing share of small employers' total health care costs. Congress should promote affordability through robust generic and biosimilar competition, crack down on manufacturer patent abuse, and streamline the drug approval process to encourage innovation.

"We are a small business, and when we looked at our options for obtaining health insurance for our family of three, we were quoted \$1,400.00 per month with \$2,500 deductible. We had to do without health insurance for 7 years because we could not possibly afford it and keep food on the table."

Roger Kelley, *Fans Automotive LLC*
Kempner, TX

Conclusion

The rising cost of health insurance continues to strain small businesses, disproportionately burdening them with unsustainable premiums and red tape, particularly compared to their larger counterparts. Without targeted policy reforms, the few coverage options available, such as those sold in the small group market, will continue to decline. Millions may lose access to affordable employer-sponsored health coverage, which most Americans prefer over other options.

Without Congressional action, the current trajectory of health insurance costs could lead to reduced job growth and increased reliance on public assistance programs.

²⁰ Moving to Site-Neutrality in Commercial Insurance. Committee for a Responsible Federal Budget, 2018, <https://www.crfb.org/papers/moving-site-neutrality-commercial-insurance>.