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Health care costs burden small business

By Scot Lehigh | February 5, 2010

PUT YOURSELF in Eric Michelson's position for a moment. He is co-owner of Michelson's Shoes, which has one store in Lexington and another in Needham Center. The company insures 11 employees - and picks up 100 percent (!) of the premiums.

In 2008, an HMO family plan for those employees cost \$23,300 per family.

Michelson is also on the appropriations committee for Lexington. In 2008, the town's cost for a similar HMO family plan was \$17,500. Since Lexington was considering joining the state's Group Insurance Commission, which negotiates plans for state employees, the committee checked what a comparable plan from the GIC could cost. Answer: \$13,600.

All of which tells you something instructive about the burden small businesses toil under in Massachusetts.

"I don't believe that the cost to take care of a municipal employee is significantly less than the cost to take care of one of my employees," Michelson said. . "But we don't have the negotiating power or the buying power to get a better rate."

Not only are small business health-insurance costs higher, but the yearly increases are also much steeper.

Although overall health plan costs have increased by 7.5 percent annually since 2006, members of the Retailers Association of Massachusetts have seen average yearly increases of 15 percent, according to association president Jon Hurst.

That's a real problem for Massachusetts. Small companies can be big job generators - and this is a state hurting for jobs. While the national economy grew by an encouraging 5.7 percent in the last quarter, the Commonwealth's economy contracted slightly, the sixth consecutive quarter of shrinkage.

At the State House, there's a widespread recognition of the problem small businesses face.

"We are absolutely convinced that small businesses are having a tougher time in the health care market," said Gregory Bialecki, state Secretary of Housing and Economic Development. "All the evidence we look at is that they are paying higher premiums and that the rate of increase has been consistently higher than for larger businesses."

"The need for small business relief is clear and the time is urgent," agreed Representative Harriett Stanley, House chairman of the Joint Committee on Health Care Financing.

But there's considerably less agreement about what to do.

Hurst and the retailers want the state to give small employers the ability to pool their employees for health insurance purposes. Armed with the bargaining power that a larger number of health

care customers would impart, an umbrella group like the retailers association could then negotiate better rates with the insurance companies.

Other groups already enjoy similar leverage, notes Hurst.

“The state does it for tax-subsidized individuals through the Connector, the GIC does it for state employees and for cities and towns that opt in, and all big businesses can do it,” said Hurst. “But the law doesn’t allow it for the small employer - and consequently our rates are much higher.”

Others are skeptical of the so-called association plan approach. They note that insurers are already legally required to treat the small group market, which includes companies with 50 or fewer employees, as one large pool when it comes to setting rates. Given that, they are dubious that association buying will lead to significant overall savings for small companies. Instead, they worry that small businesses with younger, healthier employees will band together and get lower rates at the expense of companies with older, less healthy workers.

Well, replies Hurst, that concern can be addressed by simply requiring business associations to accept every company that wants to join. As for the current arrangement, he asks a telling question: If the rule that all small business employees must be treated as one large pool was truly working, given the size of that pool, shouldn’t small group rates be among the *lowest* in the state?

Other approaches include establishing a basic small business plan with statutorily capped provider rates or having the state’s Connector negotiate rates for small groups.

Each raises different concerns. But this much is clear: If Massachusetts wants a vibrant small business sector, this is an issue Beacon Hill can’t ignore any longer.

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