

Small-business health insurance market facing ‘death spiral’

“The cost of health insurance has exploded,” said one employer. “This is another reason younger families can’t live in Massachusetts.”

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After Governor Mitt Romney signed the state's landmark health care bill in 2006, more residents have had health insurance. But fewer receive it from small business employers. RYAN, DAVID L GLOBE STAFF

Neil Abramson offers health insurance to the 26 employees at his Leominster consignment stores, ECI Stores, but many of them don't take it, choosing

instead to get insured by a spouse's plan or through the state-subsidized Health Connector. "It's just too expensive," Abramson said.

With costs rising each year, his company's family plan costs \$2,100 a month, of which the company pays half. Deductibles have also increased. Abramson employs mostly women in positions ranging from management to cashiers. Abramson said the health insurance he can offer as a small business isn't as good as a big company's, putting him at a competitive disadvantage when recruiting new workers. He has had workers leave to take other retail jobs or even to become teachers' assistants or entry-level health care workers because schools and hospitals offer better benefits.

Since Massachusetts implemented health care reform in 2006, followed by the national Affordable Care Act in 2010, access to insurance has become nearly universal. But where people are getting their coverage has changed, and fewer people are insured by small employers. That trend reflects a growing competitive concern for businesses that are the economic backbone of the state — one that also threatens to increase costs for taxpayers.

According to the state [Division of Insurance](#), the number of people covered by Massachusetts small group insurance plans (covering two to 50 employees) dropped from more than 800,000 in 2006 to 517,000 in 2014, the year the Affordable Care Act was fully implemented, to 335,000 in 2022. In 2021 alone, according to the [Center for Health Information and Analysis](#), the number of people insured in the small group market dropped by 4.3 percent, compared to a 1.3 percent decrease in the number of people with employer-sponsored insurance overall.

The reason, employers say, is costs keep going up, and the plans small businesses can offer are worse than those offered by larger employers. [According to CHIA](#), in 2021, 72 percent of people covered by small business plans had deductibles above \$1,400 for individuals, compared to 43 percent of all Massachusetts residents with commercial insurance. Plans offered by small businesses have slightly lower premiums on average, but those plans also cover a smaller percentage of medical expenses, and employees have to pay a higher percentage of their premiums, especially for [family](#) plans, according to CHIA. And premiums are rising fast — the average small group plan raised premiums by 5.3 percent a year from 2019 through 2021, compared to 3.2 percent for large businesses.

Mark Cohen, co-owner of recycling company OPRSystems in Wilmington, which has 18 employees, said every year he offers a plan without a deductible and one with a deductible, and the company pays 56 percent of premiums. This year, the total cost of the no-deductible health plan is \$40,000.

“The cost of health insurance has exploded,” Cohen said. “This is another reason younger families can’t live in Massachusetts.”

There are several reasons small businesses have a hard time providing affordable health insurance. Massachusetts in 2006 merged its individual and small-business markets. This was a policy decision intended to make coverage more affordable for individuals, and it worked: small businesses now subsidize individual coverage. An advisory council formed in 2020 to look at the merged market [estimated, in a January 2022 report](#), that splitting the markets would reduce premiums for small businesses by 2 to 4 percent.

To help small businesses in that merger, Massachusetts instituted “rating factors” requiring insurers to set rates for businesses, taking into account factors like industry and group size. So an accounting firm with a wellness plan that joins a group purchasing cooperative would have lower rates per person than a 10-person commercial fishing business, based on the estimated health risks of the group being insured. But the Affordable Care Act established [more limited](#) ratings factors that gradually eliminated the small business benefits.

Under state law, insurance products are designed differently based on company size. Larger companies’ prices are based on their employees’ health care spending, so implementing wellness programs or incentivizing lower-cost care reduces premiums. For smaller companies, rates are set based on demographics and on the costs of everyone in the merged market, and they cannot negotiate prices.

Many large companies self-insure in arrangements governed by federal law. These companies can ignore state coverage mandates, like required coverage for autism treatment or children’s hearing aids, which saves money.

Jon Hurst, president of the Retailers Association of Massachusetts, worries about “a complete collapse” in small business insurance coverage. “We need to figure out what’s happening and find solutions for small businesses to keep them competitive,” Hurst said.

The lack of good, affordable health insurance options puts small businesses at a disadvantage compared to their competitors, both larger and out-of-state

companies. And there are other public policy implications. Employers with fewer than 50 workers are not obligated to offer health insurance, so some could simply drop it.

If insurance is not offered or is expensive, more employees will move from employer-based to government-based health insurance, increasing costs for taxpayers. This trend is likely to increase if lawmakers launch a proposed pilot program letting anyone earning up to 500 percent of the federal poverty level (\$150,000 for a family of four) obtain state-subsidized care through the Health Connector.

Businesses worry that if younger employees — those most likely to be eligible for and interested in the Health Connector's cheaper, limited-network plans — leave, business-sponsored plans will be left with older workers, raising costs further.

There is also a growing move by small businesses to join professional employment organizations, which let small companies join a self-insured pool. That means fewer companies are required to comply with state mandates.

“The concern here is a death spiral,” said Josh Archambault, a senior fellow on health care policy at the Pioneer Institute, who sat on the merged market advisory council. “Everyone who can leave leaves, and the only people left are by far the sickest for small employers.”

There is no magic bullet. Then-governor Charlie Baker proposed making it easier for small businesses to form cooperatives where insurance premiums would be based on their claims experience. The Retailers Association of Massachusetts is backing a bill that would give small businesses rebates based on some of the state's former rating factors. The merged market advisory council's report raised numerous policy options without endorsing them. One is to create a state-based reinsurance program, which would pay once costs from the merged market exceed a certain amount. Another would be to eliminate the merged market and separate individuals from small businesses.

Insurance products with limited networks or incentives for price shopping could lower costs, but employees tend to dislike limited networks, and price shopping is difficult without more transparency. Having insurers give smaller companies more information about what is driving their health care spending could help companies target solutions to drive down spending.

Underlying these concerns is the need to [lower the cost of health care](#), which would benefit all segments of the market.

David Auerbach, senior director for research at the Massachusetts Health Policy Commission, called the lack of small business coverage a “canary in a coal mine indicator of a problem” that health care is too expensive. “It’s getting worse and worse,” he said.

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