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Enterprise City

[A small biz insurance broker's view of health reform](#)

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As President Obama's health care reform push reaches high gear—and legislators from both parties balk over the potential costs—small business owners are watching intently. That's because a large percentage of uninsured are on their payrolls, and small businesses are wary of added expense if a new law requires expanded coverage.

But Brian Melanson, Chicago-based vice-president of small business insurance brokerage Digital Insurance (the company is headquartered in Atlanta), says most of the proposals are mindful of the potential burden on small businesses. But even if your healthiest employees decide to forgo coverage, the government wants them covered. That's because the health insurance system needs more healthy people in order to balance out the coverage pool and make the system financially viable.

Crain's contributor Steve Hendershot asked Mr. Melanson to assess the impact of health insurance reform on small businesses:

Crain's: Why are small businesses such critical players in the health care debate? Is it inevitable that they'll get hit with substantial added costs as a result of whatever health care reform package ultimately passes?

Brian Melanson: Small businesses are probably the largest focus of the discussions in Washington, and a lot of the proposals are well meaning towards small business. Only about 40% of small businesses provide health insurance today, and that represents a significant fall-off over the last ten years. As the coverage pool continues to dwindle, you get more of an adverse selection universe where the high utilizers of health care comprise more of the pool. So the goal here is to try to pull these small business employees back into the coverage universe.

For the last several years, small businesses owners have been confronted with a dilemma: keeping the business open and not providing health care vs. providing insurance to the detriment of the business. It's 'Do I draw down my budget to pay for benefits or use that money for reinvestment or other purposes?' And I think these proposals are mindful, in general, of small businesses have had to overcome in the last decade with regard to premium increases.

Crain's: But expanding coverage doesn't seem like a good short-term strategy for reducing costs. So the expanded pool might be good for insurers, but how will small businesses get by while the system adjusts?

Brian Melanson: People are using the Massachusetts health reform as an example, and they did an extremely good job there driving up the accessibility of insurance. (Massachusetts has the lowest percentage of uninsured in the country, 2.6%, after passing a 2006 health care reform law.)

The problem with the Massachusetts model thus far is that it hasn't done a good job of controlling costs.

But I think that's logical. I think it's a two-step process, despite what's being said publicly. I think the agenda is to drive up accessibility so everyone who wants to be covered can be covered, and then once you get a larger risk pool established, then the next step for government and carriers is to find ways to control costs.

A lot of people think a national health care bill is going to tackle both right away, but I think that would be difficult. The way short-term costs will be contained is on the premium side. There are certain subsidies that government could provide both to employers and individuals to help make coverage more affordable.