

Association health plans are a big solution to small business problem

By Kalena Bruce

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For small businesses, Obamacare has been a big problem. But help is on the way from a forthcoming Department of Labor rule that will expand association health plans.

Out of 75 issues, small business owners rank the cost of health insurance as the number one problem they face. According to a Kaiser Family Foundation study, between 2008-2015 the proportion of employers with fewer than 10 employees providing health insurance dropped by over one-third. And the proportion of employers with 10 to 24 employees dropped by a quarter.

Why have small businesses taken such a big hit? Because they lack the economies of scale enjoyed by big firms that can negotiate lower prices from insurers. They also don't have enough employees to mitigate health care risk. And their profit margins are generally lower than big businesses, meaning cost hikes are more difficult to absorb.

As a result, the only option available for many small businesses like mine is the individual marketplace, where costs rose by 35 percent in Missouri and 22 percent nationally last year. For my family of three, I now pay \$700 a month in premiums, not including the deductible and copays, for Spartan coverage. These cost increases eat a portion of my revenue that would otherwise be reinvested into my business.

This high cost of health insurance has stifled small business creation and expansion even in today's booming economy, with start-up rates continuing their long trend downward. Why would an employee take a risk to start his or her own firm in today's health care environment when it means leaving good health care coverage for the costs and unpredictability associated with small business ownership?

Even left-of-center commentators have admitted that high health care costs have dissuaded some companies from surpassing the 50-employee mark at which point they are required to purchase health insurance for employees under the employer mandate.

In the coming weeks, the Labor Department is expected to offer small businesses a lifeline from these high costs by expanding association health plans (AHPs). These health plans allow small businesses to band together to get the bulk health care prices and risk mitigation of their big business competitors.

AHPs have long been a promising health care avenue for small businesses in Missouri and across the country. But they've been heavily regulated by Obamacare, among other regulations. Earlier this year, the Missouri Chamber of Commerce created its own AHP after being frustrated by many years of rising costs. More than 150 small businesses representing 1,500 employees quickly joined. The Labor Department rule will make it easier for other associations to follow suit.

How? First, the rule would regulate AHPs at the federal level, which would allow them to avoid a patchwork of different state regulations and operate across state lines. This freedom, which is currently enjoyed by big businesses, would increase choice, as small businesses could pick among many more offerings than the current status quo where they are limited to just their state. This increase of health care supply would drive down costs in the same way that the increased air travel supply following deregulation in the early 1980s dramatically reduced air travel cost.

Second, the rule proposes relaxing the regulations under which AHPs can be formed. At the moment, AHPs can only be formed if they conform to a stringent set of classification criteria. For instance, an association currently cannot form a health plan if creating a health plan is its primary purpose. In addition, sole proprietorships, which make up the majority of small businesses in the country, often cannot access AHPs because they don't have employees. By allowing all small businesses, regardless of industry classification or size, to access AHPs will result in many more health insurance options, further increasing supply and reducing price.

Small businesses are the backbone of the American economy. The Labor Department's rule will end the health care status quo that currently hamstring them.

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