

Small Employers' Views on the Evolving Healthcare Landscape

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INTRODUCTION

For decades, the United States has relied on an employer-sponsored health insurance system as the primary means of providing healthcare benefits. Indeed, according to the Kaiser Family Foundation's 2021 Employer Health Benefits Survey, employers are the principal source for providing health insurance, covering approximately 155 million individuals.¹ However, as the traditional employer-employee relationship continues to evolve, so too does the historical link between employment and how workers receive benefits.

Small businesses represent a key piece of the coverage puzzle, with an estimated 32.5 million in the United States employing approximately 61.2 million people according to the Small Business Administration Office of Advocacy.² At the same time, the current employer-sponsored health insurance system is especially challenging for small employers, both in terms of rising costs and benefits administration. According to asset management company Mercer's 2021 National Survey of Employer-Sponsored Health Plans, average costs for employer-sponsored health insurance rose 6.3 percent in 2021 to reach \$14,542 per employee.³ Rising health insurance costs are a significant challenge for small employers interested in offering healthcare benefits to their employees.

As the traditional employer-employee relationship continues to evolve, so too does the historical link between employment and how workers receive benefits.

As small employers consider opportunities to provide healthcare coverage to their workers, there are new options that have become available. These include new forms of health reimbursement arrangements (HRAs) such as Qualified Small Employer Health Reimbursement Arrangements (QSEHRA) and Individual Coverage Health Reimbursement Arrangements (ICHRA), the fix for the “family glitch,” and opportunities for education and enrollment within the current Marketplace.

With the generous support of the Robert Wood Johnson Foundation, the Public Private Strategies Institute (PPSI) partnered with Morning Consult to conduct a poll of 500 small business leaders and engaged in a series of interviews with small business owners and organizations, direct market participants, and third party stakeholders to analyze the evolving link between benefits and employment and small employers' views of the healthcare market and these new options. Specifically, this report focuses on better understanding the evolving link between employment and benefits, the factors that go into SMEs' consideration of healthcare benefits cost and quality, and their knowledge and views of benefits options. For a complete explanation of our methodology and a list of interviewees, see the methodology section.

¹ “2021 Employer Health Benefits Survey,” Kaiser Family Foundation, November 10, 2022.

² “2021 Small Business Profile,” U.S. Small Business Administration Office of Advocacy.

³ “Employer-sponsored health insurance cost rose sharply in 2021, outlook for 2022 is uncertain,” Mercer, December 13, 2021.

Overall, we found cost to be the primary barrier for small businesses when deciding whether to offer health coverage to their employees. Additionally, enrollment in new benefits options has been low to date due to these options being relatively new and small business owners being unaware of them.

Our research indicates that a targeted outreach program to educate small business owners about coverage options would elevate small business owners' awareness of these options. Additionally, our research surfaced potential policy options that could be considered to increase uptake of new forms of HRAS, including tax credits for employers.

CONTEXT

Healthcare costs have been on the rise for decades in the United States. As a share of gross domestic product (GDP), healthcare expenditures have grown from 12.1 percent in 1990 to 19.7 percent in 2020 according to the Center for Medicare & Medicaid Services' National Health Expenditures Accounts data.⁴ An increasing share of GDP being allocated to the healthcare sector carries an opportunity cost both in terms of consumer expenditures and private and public investment.

Yet, despite this rise in share of GDP, the U.S. has not witnessed better healthcare outcomes compared to other wealthy nations. A recent Commonwealth Fund study of healthcare outcomes among high-income countries found the U.S. ranks last in

mortality measures in all but one category and has exceptionally poor performance in terms of maternal mortality and avoidable mortality.⁵

Rising health insurance costs have real impacts on small employers, with a November 2021 Small Business for America's Future national survey finding 41 percent of respondents saying they would have to delay growth opportunities, 37 percent having to increase prices of goods and services, and 30 percent being less competitive in hiring.⁶

On the worker side of the equation, despite primarily relying on an employer-sponsored system to deliver benefits and a record low unemployment rate emerging from the Covid-19 pandemic, the United States has consistently ranked among the worst in terms of population covered with health insurance among OECD countries.⁷ This coverage gap is particularly pronounced among minority communities, with the uninsured rate totaling 20 percent and 11.4 percent for Hispanic and Black populations, respectively, as of 2019 according to Kaiser Family Foundation data.⁸

KEY FINDINGS

The small and medium group market for employer-sponsored health coverage has several advantages and disadvantages. The primary advantage of employer-sponsored coverage identified in both our poll and interviews was as a tool to attract and retain talent, particularly in the current tight labor market.

⁴ ["NHE Summary, including share of GDP, CY 1960-2020 \(ZIP\),"](#) Centers for Medicare & Medicaid Services.

⁵ ["Mirror, Mirror 2021: Reflecting Poorly,"](#) Commonwealth Fund, August 4, 2021.

⁶ ["Survey: Small Business Owners Want Action to Bring Down Rising Healthcare and Prescription Drug Costs,"](#) Small Business for America's Future, November 8, 2021.

⁷ ["Population coverage for health care,"](#) OECD.

⁸ ["Health Coverage by Race and Ethnicity, 2010-2019,"](#) Kaiser Family Foundation, July 16, 2021.

Several disadvantages of employer-sponsored coverage were cited in our stakeholder interviews:

- Primarily the requirement of full-time traditional employment in order to receive benefits.
- Small employers with limited resources having to compete with large employers for talent in terms of benefit offerings, and cost often being prohibitive. For example, a Bay Area small business owner we interviewed told us she has to compete with benefits offerings of major technology companies in the area and is unable to due to limited resources, especially as business declined during the pandemic.

The small and medium group market for employer-sponsored health coverage has several advantages and disadvantages.

Two-in-five (40 percent) small business leaders from our poll said they do not offer health insurance benefits (Figure 1). Below is a further breakdown of this finding:

- Small business leaders with 2-10 employees were less likely than businesses with 11-50 employees to offer full-time benefits.
- Businesses with under \$1 million in revenue were less likely to offer health insurance benefits than businesses with over \$1 million in revenue (57 percent to 88 percent). It is worth noting that 99 percent of nonemployer firms had less than \$1 million in sales as of 2018 and 71 percent of small businesses with employees had sales under \$1 million as of 2019.^{9 10}
- Businesses where the highest employee salary was less than \$100,000 were less likely to offer healthcare coverage than businesses where the highest employee salary was greater than \$100,000 (70 percent to 94 percent).

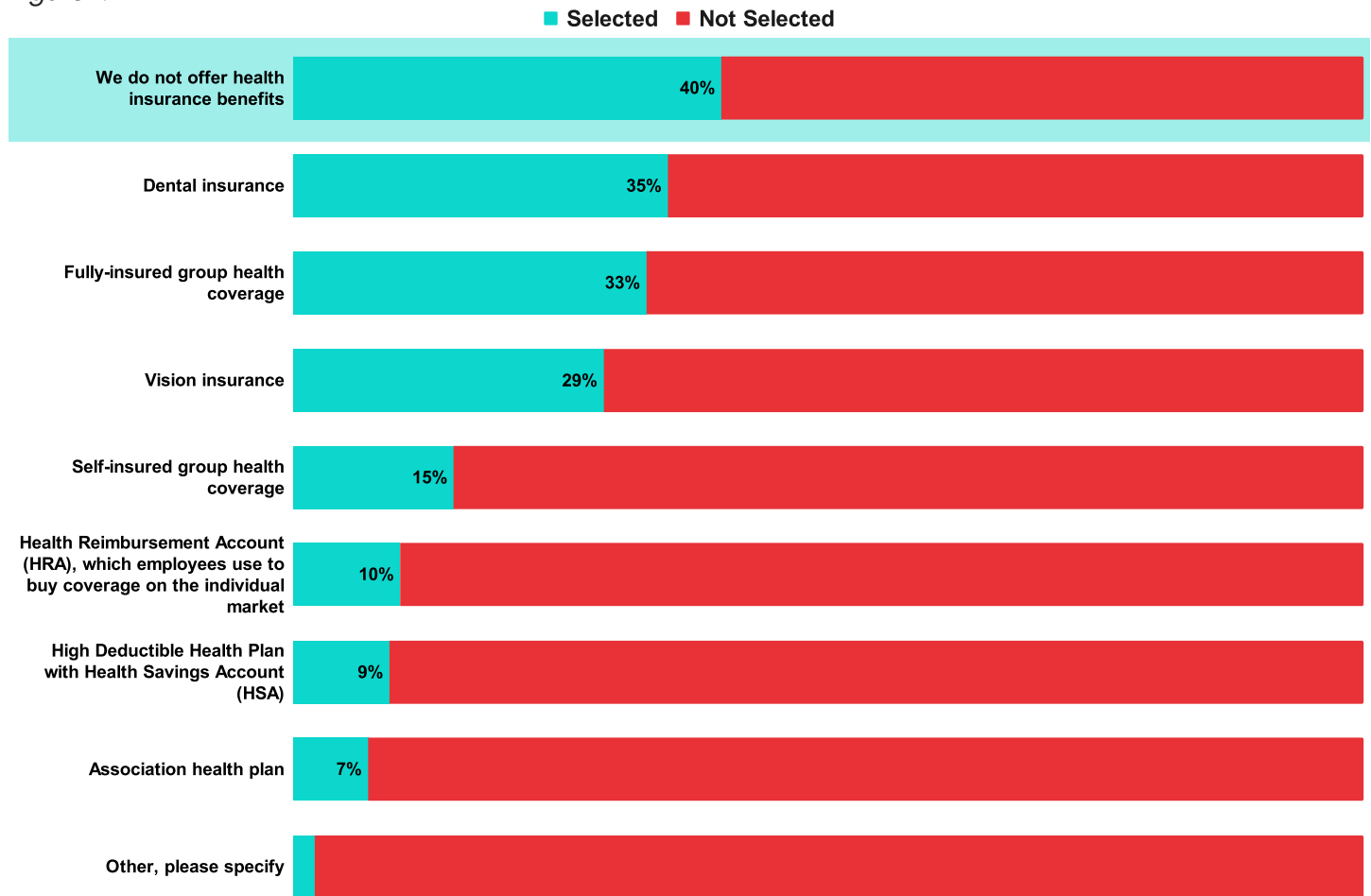
⁹ “[Nonemployers Statistics](#),” U.S. Census Bureau.

¹⁰ “[Annual Business Survey](#),” U.S. Census Bureau.

Two-in-five (40%) small business leaders indicated that they do not offer health insurance benefits.

Which of the following health insurance benefits does your business, or the business where you work, offer to full-time employees? Please select all that apply.

Figure 1:



As the formal link between employers and employees continues to change, the historical employer-sponsored arrangement by which employees receive benefits will undoubtedly evolve with it. Anticipated changes among those we interviewed included:

- Small employers tapering benefit offerings.
- A rise in 1099 arrangements and a corresponding decline in employer-sponsored benefits.

- A rise in telehealth benefits.
- More need for innovation and flexibility as employers grapple with benefits across state lines and remote work becomes more prevalent.

Healthcare costs have consistently been the most important issue for small business owners throughout PPSI's polling. As shown in Figure 2, small business leaders' top four most important healthcare issues for policymakers to address were cost-related.

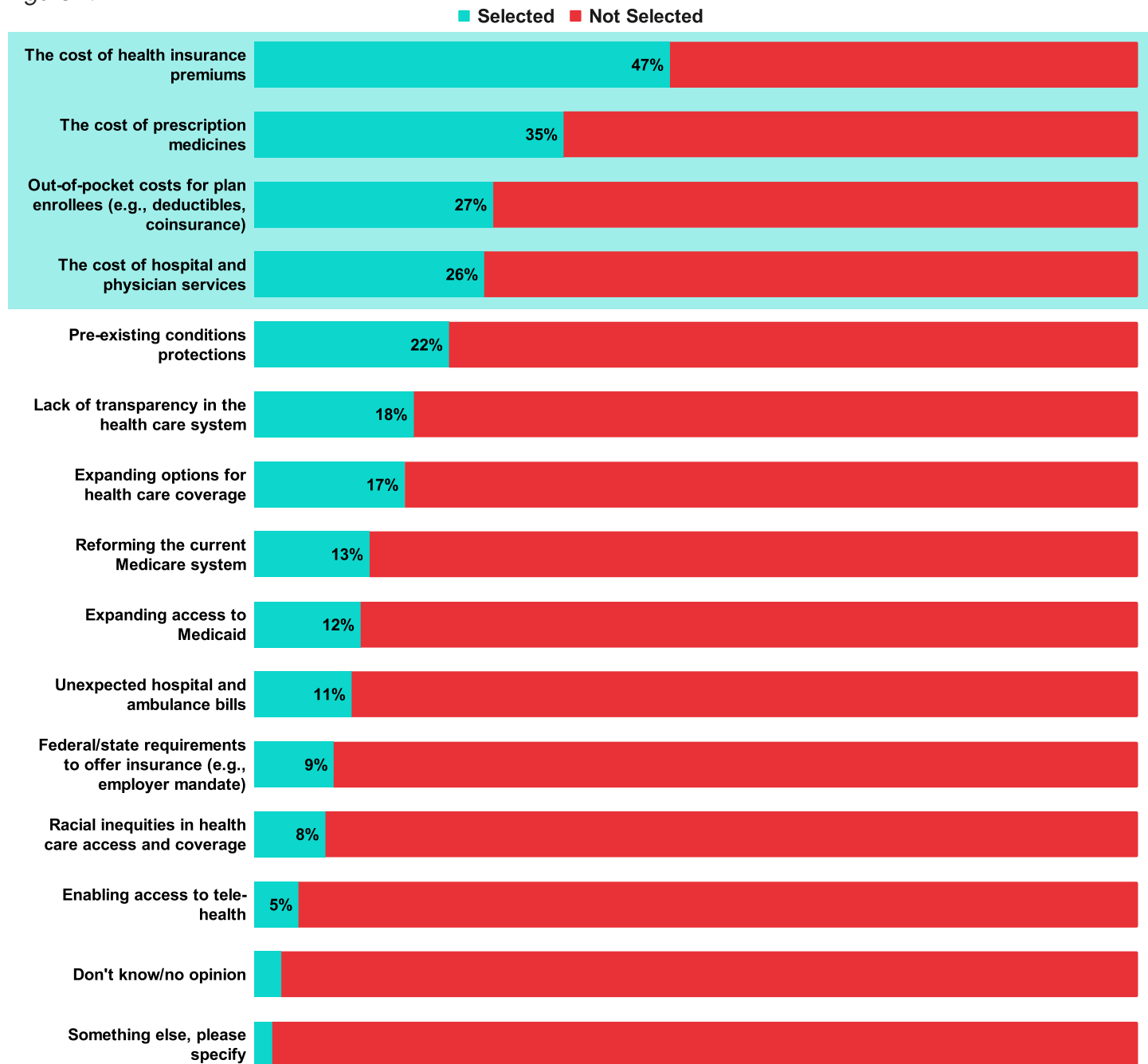
Additionally, Small Business for America's Future national survey of 1,032 small business owners in November 2021 found 73 percent

of respondents said lowering the cost of healthcare and prescription drugs was most important to their business.¹¹

Small business leaders' top four most important health care issues for policymakers to address are cost-related.

As someone working at a small business, which of the following health care issues do you think are most important for policymakers to address? You may select up to three.

Figure 2:



¹¹“[Survey: Small Business Owners Want Action to Bring Down Rising Healthcare and Prescription Drug Costs](#),” Small Business for America's Future.

Nearly all of our stakeholder interviews cited cost as the number one factor in a small business owner's decision whether to offer healthcare benefits. Below are some of the key points on cost from our interviews:

- The National Association of Women Business Owners (NAWBO) stated that of the 75 percent of its members that employ 25 people or less, the majority find coverage on the individual marketplace because it is cheaper than the small group marketplace.
- A small business owner we interviewed said that despite wanting to offer benefits, it was not possible emerging from the COVID-19 pandemic and in fact was cheaper for employees to get covered on the individual exchange, given the increased federal subsidies available.
- As one small business group importantly pointed out in an interview, the issue of cost disproportionately impacts minority small business owners, who are less likely to have employees on payroll, have a harder time accessing capital, and face more difficulty in growing their business and thus their revenue stream to cover the cost of health insurance.

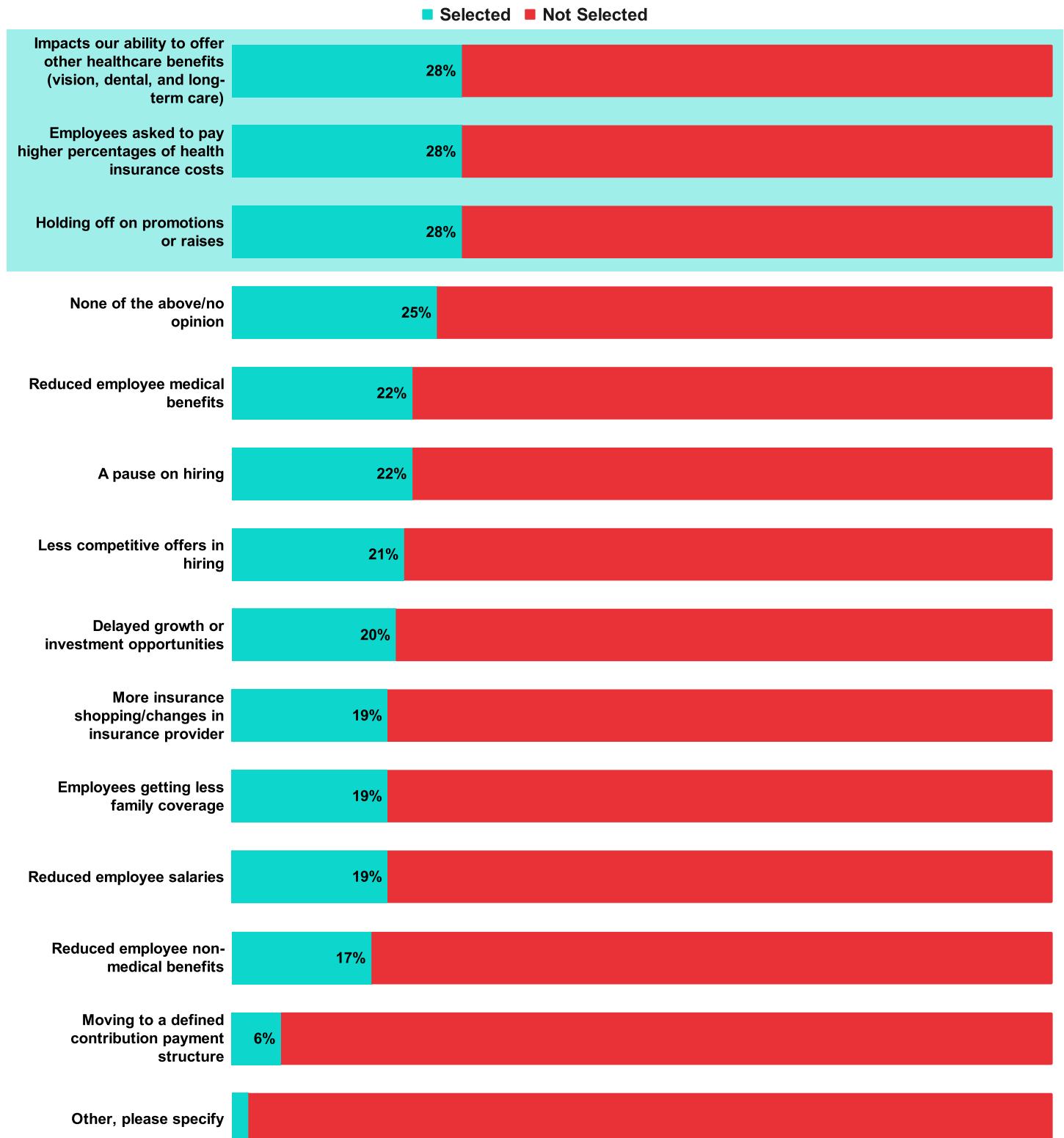
Small business leaders' top four most important healthcare issues for policymakers to address were cost-related.

Rising health coverage costs negatively impact growth for small businesses and the broader economy. Twenty-eight percent of small business leaders said that rising health insurance costs could impact their ability to offer health care benefits, employees being asked to pay a higher percentage of health insurance costs, and having to hold off on promotions or raises (Figure 3).

28% of small business leaders say that rising health insurance costs could impact their ability to offer health care benefits, employees being asked to pay higher percentage of health insurance costs and having to hold off on promotions or raises.

Which of the following, if any, are impacts that rising health insurance costs could have on businesses like yours? Please select all that apply.

Figure 3:



As previously noted, several new options have become available in recent years for small business owners to offer healthcare benefits to their employees. The Biden Administration's proposed rule to fix the so-called family glitch would allow family members of an employee to receive Affordable Care Act (ACA) subsidies if employer-offered family coverage costs more than 9.61 percent of household income.¹² There are also benefits options for small employers to consider under the Small Business Health Options Program (SHOP) and Health Insurance Marketplace created as part of ACA.

New forms of HRAs, including ICHRAs and QSEHRAs, allow employers to offer employees a monthly allowance for healthcare costs. Employees are then able to choose and pay for individual coverage and other qualified medical expenses, and employers reimburse employees up to their allowance.

There is little to no data on uptake because these options are relatively new, and there is evidence small business owners are unaware of these offerings. Indeed, an April 2020 study (just months after ICHRA launched) from the Urban Institute analyzed

healthcare markets in seven states and found insurance brokers had seen little to no uptake in these options. "Brokers across all our study states reported that few to no employers have taken up the new ICHRAs," the report stated.¹³

Several new options have become available in recent years for small business owners to offer healthcare benefits to their employees.

Our polling and interviews found similar results:

- As shown in Figures 4 and 5, only 7 percent of small business leaders indicated that they offer their employees ICHRAs or QSEHRAs.
- More than 70 percent of small business leaders were not at all or only somewhat familiar with ICHRA and QSEHRA.

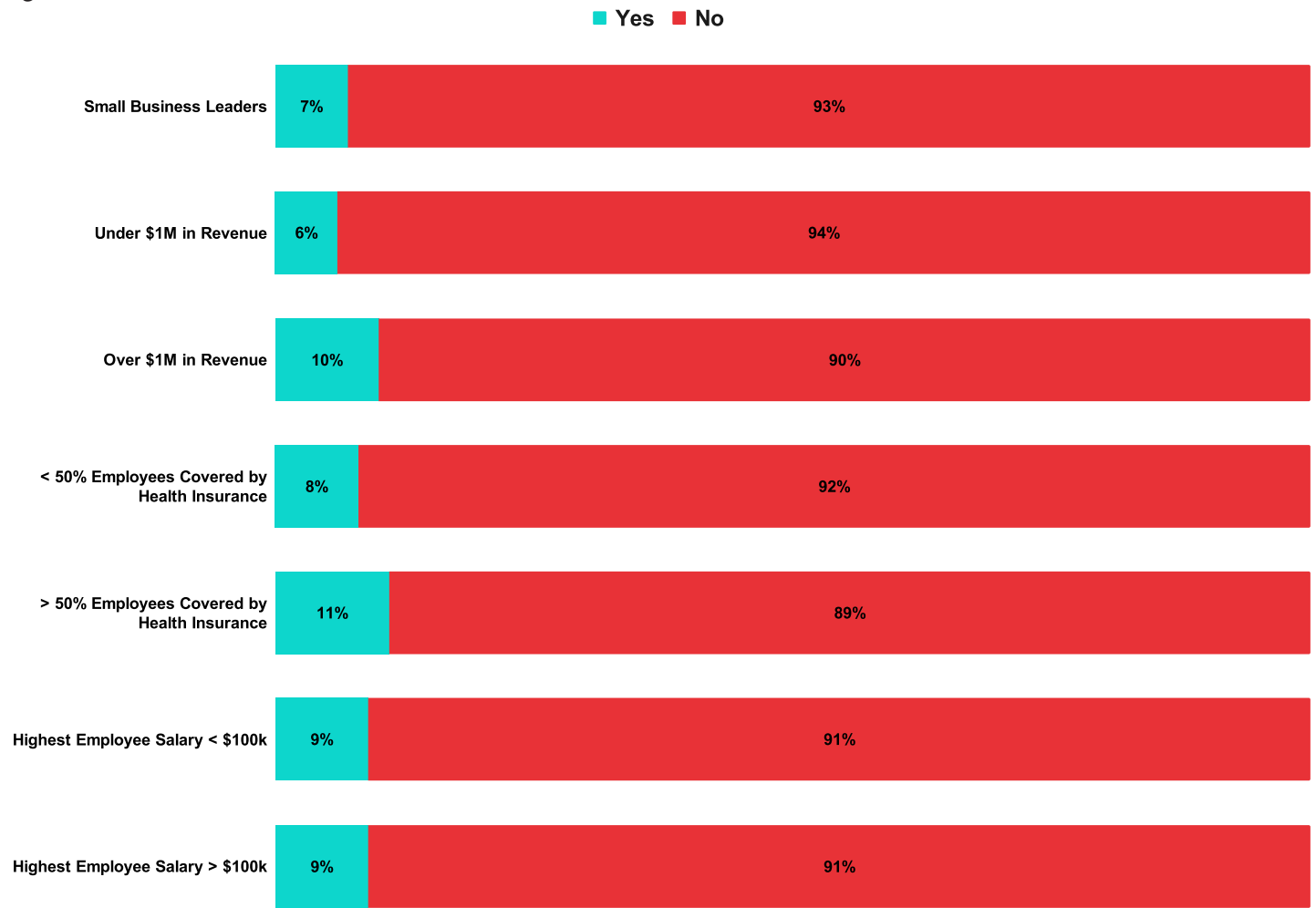
¹² Timothy Jost, "[A Fix for the Family Glitch](#)," Commonwealth Fund, April 12, 2022.

¹³ Sabrina Corlette, Erik Wengle, Ian Hill, and Olivia Hoppe, "[Perspective from Brokers: The Individual Market Stabilizes While Short-Term and Other Alternative Products Pose Risks](#)," The Urban Institute, April 2020.

Regardless of business revenue or the number of employees covered by health insurance, most small business leaders do not offer their employees ICHRA or QSEHRA.

Does your business offer an ICHRA or QSEHRA to any of your employees?

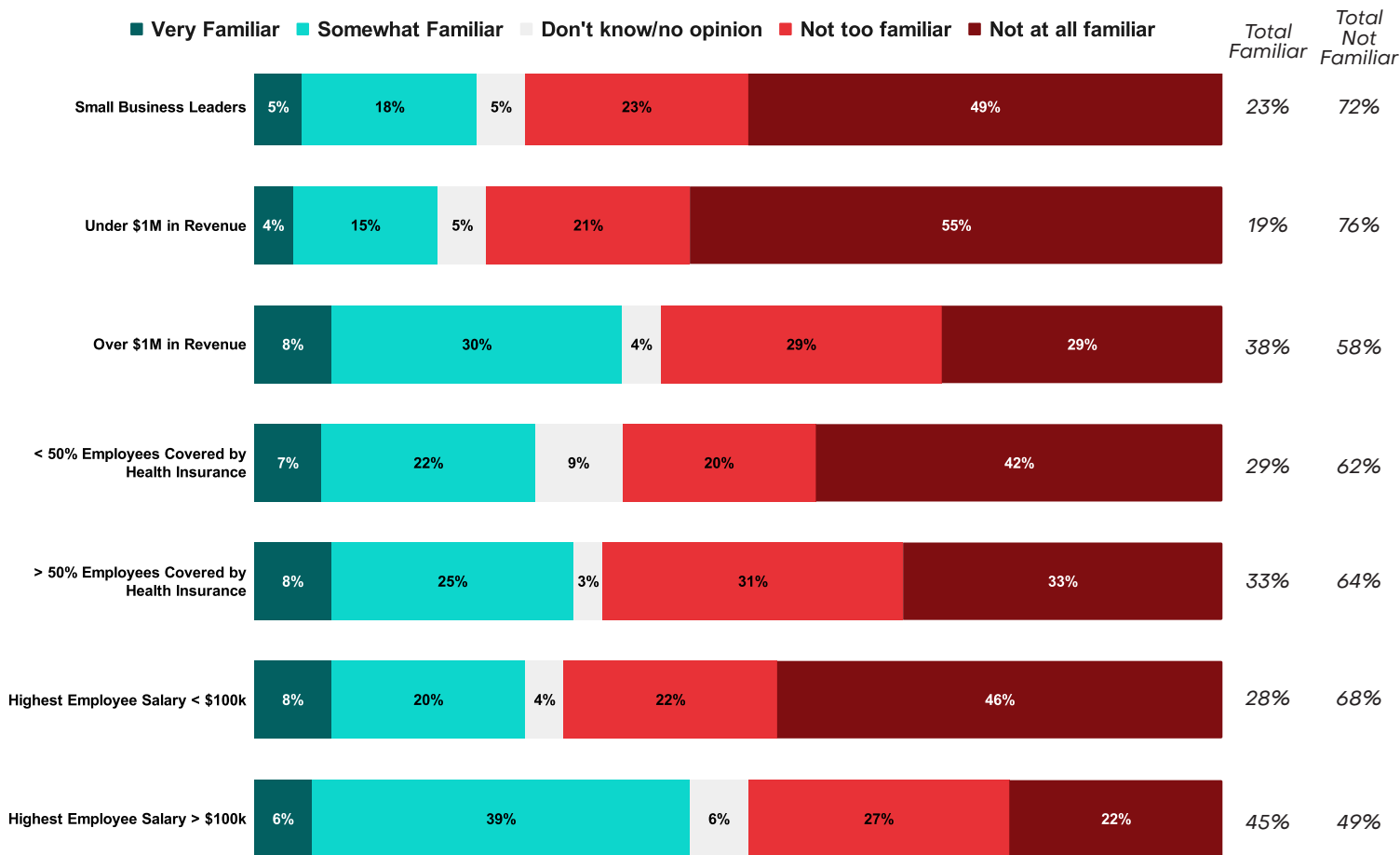
Figure 4:



More than 70% of small business leaders are not at all or only somewhat familiar with ICHRA and QSEHRA, especially among those where the highest employee's salary is less than \$100,000.

Prior to this survey, how familiar were you personally with ICHRAs and QSEHRAs?

Figure 5:



Our results suggest that these new benefits have the potential to serve as an option for small business owners exploring opportunities to offer benefits. However, due to their relatively recent creation and small business owners having limited time and resources to research and understand their options, most are unaware of these products. Throughout our interviews, industry stakeholders, government staff, small business groups, and small business owners alike told us entrepreneurs simply do not have the time to research and understand their options and would need to be educated from a trusted about their coverage options.

CHOICE POINTS GOING FORWARD

Several choices have become available in recent years for small business owners when considering benefits options for themselves and their employees. These include the current marketplace, the fix for the “family glitch,” and new forms of HRAs.

Under the marketplace created by the ACA, individuals without SME-sponsored coverage may be able to access enhanced subsidies to enroll in health insurance. It is worth noting the American Rescue Plan and Inflation Reduction Act provided enhanced premium subsidies for health insurance through 2025. Additionally, the Small Business Health Options Program (SHOP) was created as part of the ACA and is generally available to small employers with under 50 full-time equivalent employees in participating states. Participants may qualify

for the Small Business Health Care Tax Credit for up to two years, which could be worth up to 50 percent of the costs employers pay for employees’ premium.

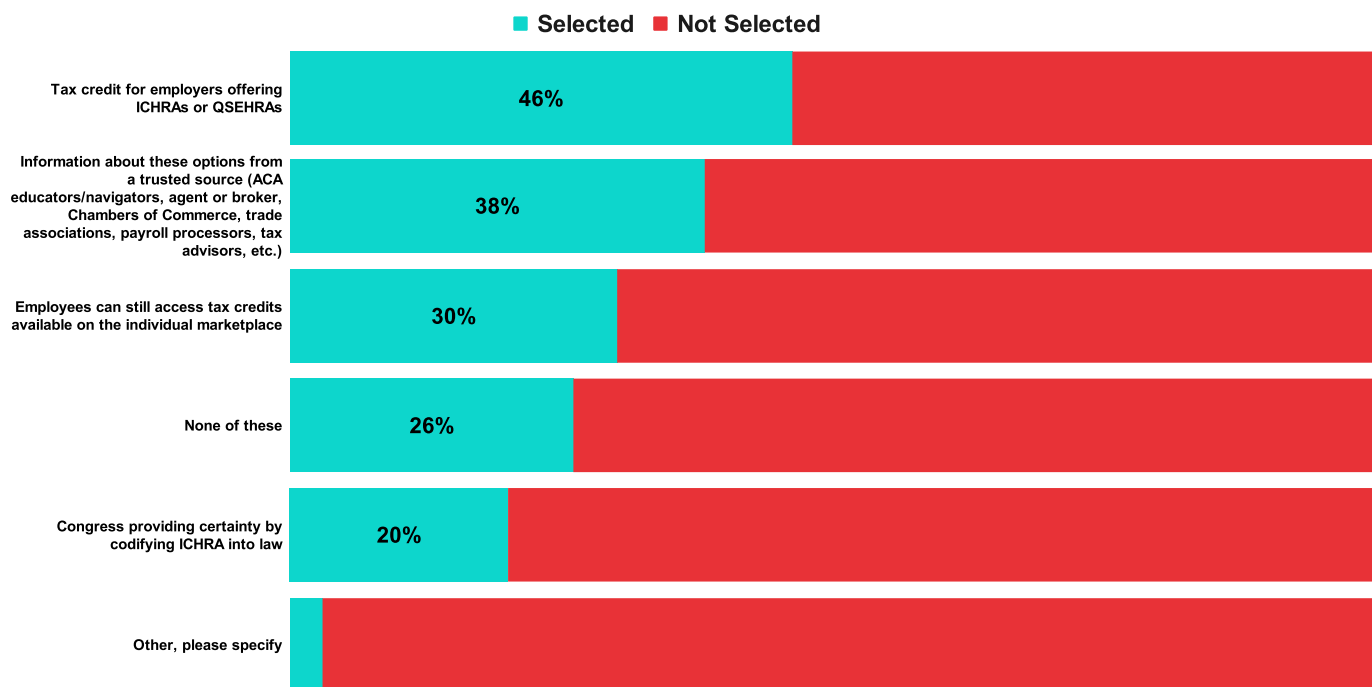
In April 2022, the Internal Revenue Service proposed a rule change meant to provide a fix for the “family glitch.” Under the ACA, premium tax credits for health insurance are available to individuals who do not have access to minimum essential coverage such as employer coverage that is “affordable” (currently 9.61 percent of household income). However, the law currently only considers affordable coverage for the individual – not families. As a result, family members of workers can be deemed ineligible to receive premium tax credits when family coverage is deemed unaffordable. If finalized, the proposed rule would permit family members of an employee to access ACA premium subsidies if employer-offered family coverage is considered unaffordable.

And, as previously mentioned, new HRA options have become available in recent years. While QSEHRAs became available in 2017 and is available only to businesses under 50 employees, ICHRAs took effect in 2020 and offers more flexibility than QSEHRAs in some areas.

Small business leaders indicate tax credits for employers offering these options (46%), information about these options from a trusted source (38%), and allowing employees to access tax credits on the individual marketplace (30%) would be most helpful to facilitating their offerings of these options.

In your opinion, which of the following would be helpful to facilitate your enrollment in an ICHRA or QSEHRA? Select all that apply.

Figure 6:



Our results suggest a lack of awareness has inhibited small business owners from considering these new forms of HRAs.

- As previously mentioned, only 7 percent of the small business leaders we polled offered ICHRA or QSEHRA to their employees and more than 70 percent of small business leaders were not at all or only somewhat familiar with ICHRA and QSEHRA (Figures 4 and 5).
- 38 percent of small business leaders indicated information about these options from a trusted source would be most helpful (Figure 6).

- Nearly all of the stakeholders interviewed identified an education gap when asked what could be done to increase small business owners' awareness and understanding of these plans. In particular, two small business groups said that targeted outreach campaigns to specific populations similar to those taken up when the ACA was passed would raise small business owners' awareness of these options.

Our results suggest a lack of awareness has inhibited small business owners from considering new forms of HRAs.

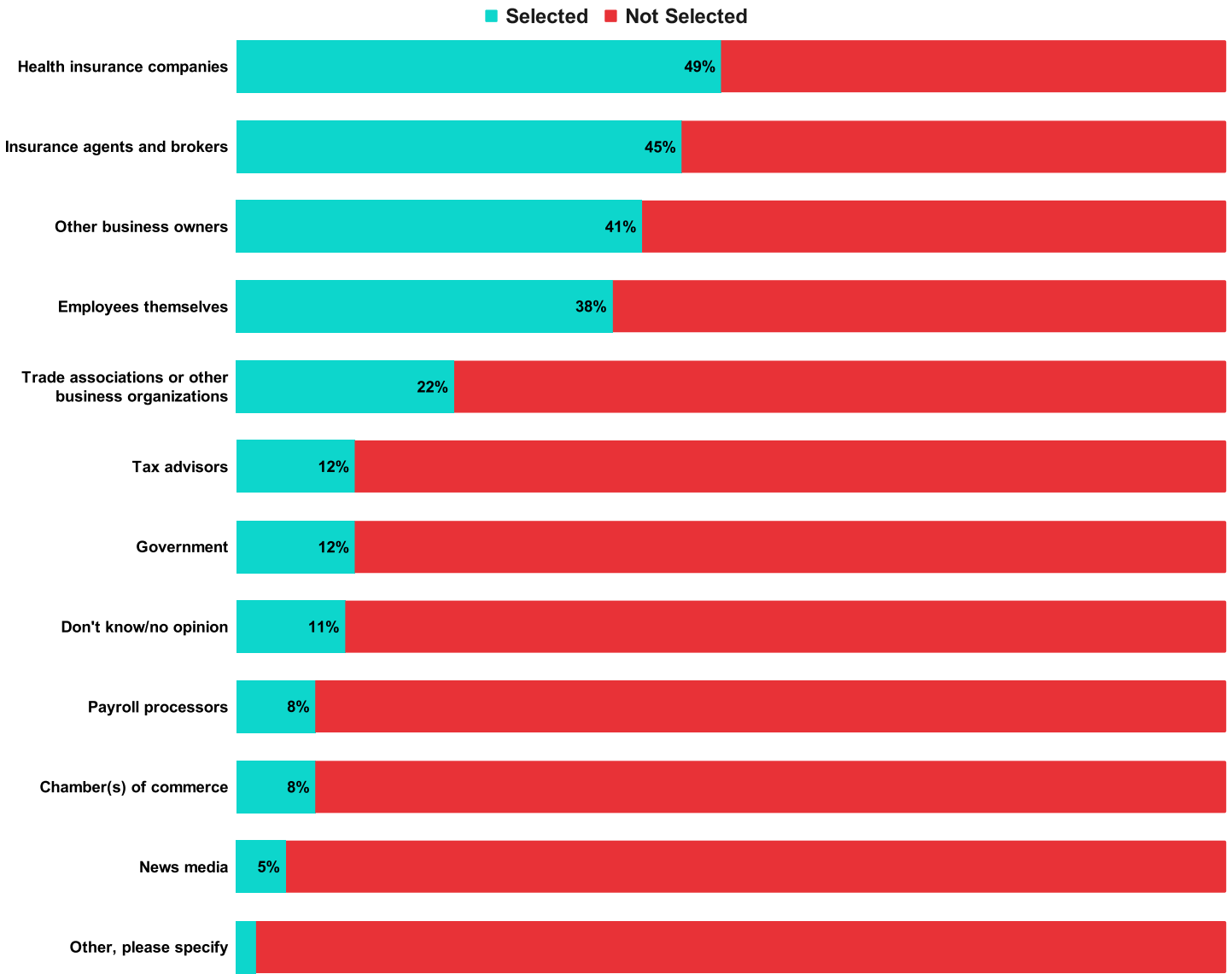
It is essential that education for small business owners comes from trusted sources. Entrepreneurs have limited time to research and understand their options and, as a result, will turn to sources they have confidence in.

- As shown in Figure 7, trusted sources identified by small business leaders in our polling included health insurance companies (49 percent), insurance agents and brokers (45 percent), other business owners (41 percent), employees themselves (38 percent), and trade associations (22 percent).
- Among the stakeholders we interviewed, insurance agents and brokers, ACA educators/navigators, Chambers of Commerce, trade associations, payroll processors, and tax advisors were identified as sources that small business owners would have confidence in.

For information on benefits, small business leaders say health insurance companies (49%), insurance agents and brokers (45%), other business owners (41%), employees themselves (38%), and trade associations (22%) are the most trusted sources.

Regardless of whether or not your business offers benefits, who are trusted sources of information on benefits to offer employees? Please select all that apply.

Figure 7:



Additionally, certain policy changes could enhance small employers' interest in offering these benefits to their employees. In terms of policy changes that would make small business owners more likely to consider utilizing these new coverage options, tax credits for small business owners who offer these new HRAs were identified both in our polling and among stakeholder interviewees.

- 46 percent of small business leaders said tax credits for employers offering these options would be most helpful to facilitating their offering of these options (Figure 6).
- Those we interviewed said that cost is still a prohibitive factor to offering health benefits for many business owners, and that tax credits would better incentivize small business enrollment.

The prohibition on employees accessing tax credits on the Marketplace if utilizing these new HRAs was also identified as a barrier in our stakeholder interviews. Several market participants told us they frequently hear from small businesses that want to offer some level of benefit to their employees, but that their employees are better off in the individual marketplace because of the ability to access tax credits, especially with the increased subsidies provided under the American Rescue Plan and extended in the Inflation Reduction Act. If finalized, the fix to the “family glitch” would also make accessing coverage on the Marketplace more affordable for the families of workers, including at small businesses.

CONCLUSION

As the traditional labor market and nature of work continue to evolve, the historical channel through which employees receive healthcare benefits is changing with it. Small businesses represent a key segment to increasing coverage. However, rising costs and the complexity of the healthcare system have acted as barriers to enrollment for them and their employees.

It is essential that education for small business owners comes from trusted sources.

Several options have become available in recent years for small business owners when considering benefits options for themselves and their employees. These include the current marketplace, the fix for the “family glitch,” and new forms of HRAs.

While these have only recently become available, our findings suggest a lack of awareness among small employers. Additionally, it is important to note that while some have embraced the potential benefits of these new options, others have pointed out their possible unintended consequences.^{14 15}

¹⁴ <https://www.hracouncil.org/>

¹⁵ “Federal Rule Creating New Health Coverage Option for Employers Could Destabilize the Individual Market,” The Commonwealth Fund, July 24, 2019.

METHODOLOGY

PPSI engaged in both quantitative and qualitative research to better understand the changing nature of employment and benefits and small employers' views of the healthcare market and new coverage options.

For the quantitative portion of the project, PPSI partnered with Morning Consult to conduct a poll of 500 small business leaders with 2-50 employees at their business on these topics. Small business leaders were defined as Vice President or more senior (owner, co-owner, president, CEO, managing director, vice president, senior vice president, partner, and principal) and were responsible for benefits decisions at the business. Of the sample, 30 percent of small business leaders identified as Democrat, 32 percent as independent, and 38 percent as Republican. 55 percent of respondents were male and 45 percent were female. 85 percent of small business leaders were working full-time, while 15 percent were part-time.

In terms of the qualitative component of the project, PPSI engaged in a series of stakeholder interviews, including small business owners and organizations, direct market participants, and third party stakeholders. A complete list of interviewees can be found below.

- Brian Blase, President, Paragon Health Institute
- Kris Haltmeyer, Vice President, Legislative and Regulatory Policy, Blue Cross Blue Shield Association
- Richard White, Managing Director, Health Policy, Blue Cross Blue Shield Association
- Tom Wildsmith, Managing Director, Legislative and Regulatory Policy, Blue Cross Blue Shield Association
- Stuart Hagen, Managing Director, Health Policy Analytics, Blue Cross Blue Shield Association
- Olivia Hoppe, Senior Policy Research Analyst, Blue Cross Blue Shield Association
- Dean Mohs, Director, Small Business Health Options Program (SHOP) Marketplaces, Centers for Medicare & Medicaid Services
- Brent Plemons, Director of Office of Special Pricing Initiatives, Centers for Medicare & Medicaid Services
- Lee Resnick, Consultant, Centers for Medicare & Medicaid Services
- George Kalogeropoulos, CEO, Health Sherpa
- Jack Hooper, Board Chair, HRA Council; Founder & CEO of Take Command Health
- Robin Paoli, Executive Director, HRA Council
- Jessica Hidalgo, Product Manager, Intuit QuickBooks
- Chris Hartmann, Vice President of Congressional Affairs, National Association of Health Underwriters
- Marcy Buckner, Senior Vice President of Government Affairs, National Association of Health Underwriters
- Elle Patout, Director of Public Relations, National Association of Women Business Owners
- Todd McCracken, President, National Small Business Association
- Annette Bechtold, Broker; SVP, Regulatory Affairs and Reform Initiatives, OneDigital
- Frank Knapp, President of The Knapp Agency; President & CEO of the South Carolina Small Business Chamber of Commerce
- Candace Combs, CEO, In-Symmetry Spa
- LeRoy Cavazos-Reyna, Vice President of Government and International Affairs, United States Hispanic Chamber of Commerce

ABOUT THE AUTHORS

Rhett Buttle, President, Public Private Strategies Institute



Rhett Buttle is an entrepreneur, advocate, and one of the most trusted leaders at the intersection of business and policy in Washington, DC. Most recently, Rhett served as National Business Advisor to President Joe Biden's 2020 campaign. He has worked for President Barack Obama, Secretary of State Hillary Clinton, and Governor Arnold Schwarzenegger. Rhett is the founder of Public Private Strategies (PPS) and President of the Public Private Strategies Institute (PPSI), which works to bring together the public and private sectors to build coalitions, activate campaigns, and create strategic partnerships to drive policy and market outcomes. In these roles, he advises leading policy makers, foundations, nonprofits, and corporations. In addition to PPS and PPSI, he has helped found the Small Business Roundtable, Small Business for America's Future, and the NextGen Chamber of Commerce. He is also a Senior Fellow at the Aspen Institute and a regular contributor to Forbes, where he writes on the intersection of business, policy, and politics. Rhett has also been featured in The New York Times, CNN, The Wall Street Journal, and several other business publications.

Elliott Long, Advisor for Policy and Engagement, Public Private Strategies



Elliott Long serves as Advisor for Policy and Engagement at Public Private Strategies. Before joining PPS, Elliott served as Senior Economic Policy Analyst at the Progressive Policy Institute, where he frequently wrote and spoke on startups, technology and innovation, and regulation. He has also served as Small Business Majority's Policy & Development Associate and interned for members of Congress and at the White House Office of Legislative Affairs. Elliott has been featured in The Hill, Morning Consult, Inside Sources, and the Harvard Kennedy School Review and holds an MPA from George Washington University and a BA in Political Science from Florida Gulf Coast University.

Emily Barson, Senior Advisor, Public Private Strategies

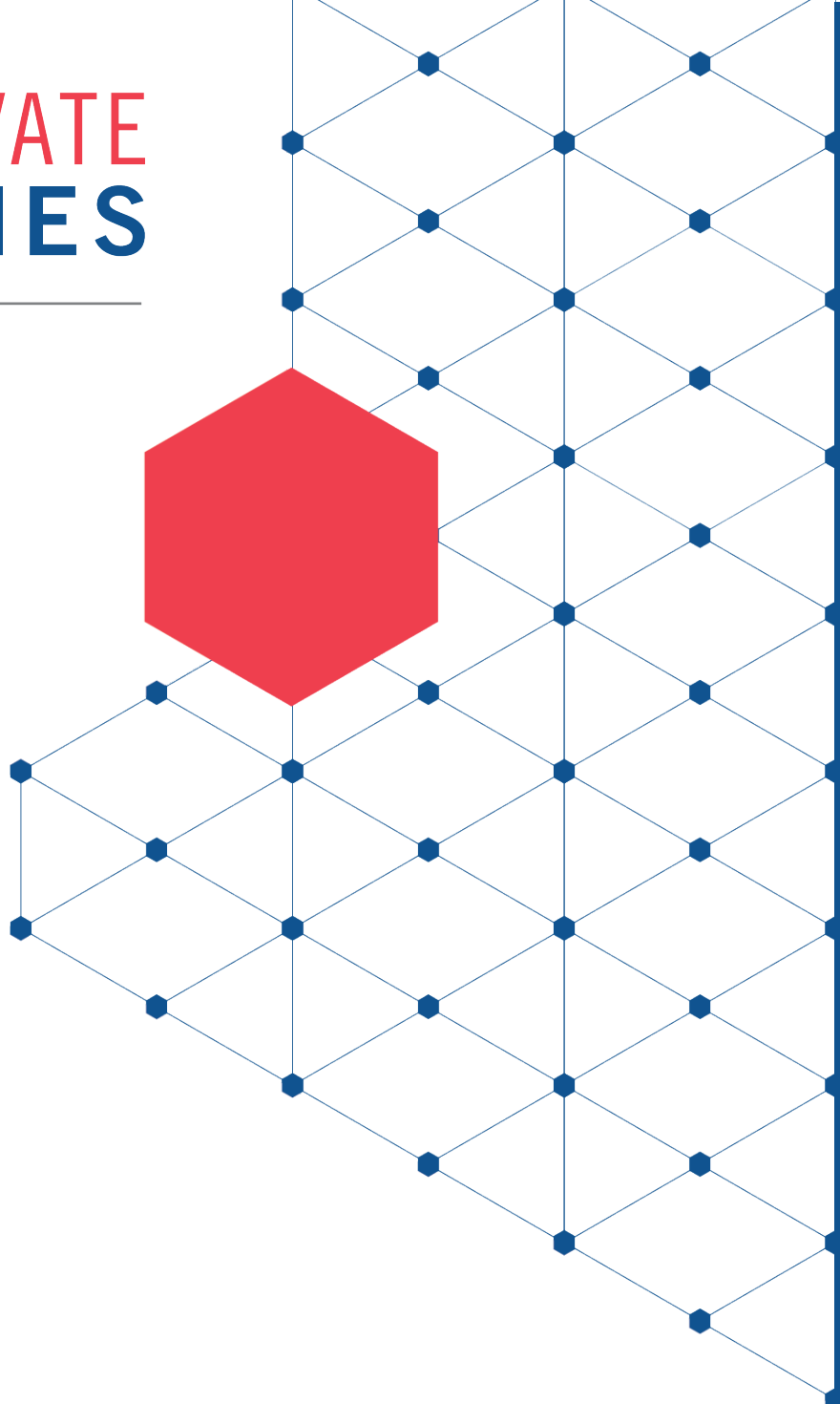


Emily serves as Senior Advisor at Public Private Strategies. She was the founding Executive Director of United States of Care, a non-profit organization working to ensure that everyone can access quality, affordable health care. Emily also served for eight years at the Department of Health and Human Services during the Obama Administration, most recently as Director of Intergovernmental and External Affairs (IEA). In that role, she led the Department's interactions with state, local, and tribal governments and external stakeholders, giving those groups a voice in decision-making and facilitating effective partnerships to further the Department's priorities. She also led HHS regional operations, worked with dozens of local coalitions across the country for ACA outreach and enrollment, and oversaw key intergovernmental functions. Following her time in the administration, Emily was a senior advisor to Get America Covered, a national campaign to help people get covered and stay covered in the Health Insurance Marketplace.

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The Public Private Strategies Institute (PPSI) is an independent research and education organization. PPSI engages in educational activities concerning the public and private sectors' roles in advancing societal change. PPSI explores best practices and trends through research, publications, and educational events. Additionally, it produces educational and informational content that will educate public and private sector actors about their capacity to be agents of social change and conducts research into the existing landscape of public and private social responsibility and the potential for the future.