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Small Business Initiatives for Health Coverage and Disease Prevention

Executive Summary

Small businesses create a majority of new jobs in the country and make significant contributions to the nation's economic viability. With more than 26 million small businesses currently operating in the United States, this sector increasingly contributes to the gross national product, personal income and total employment figures. Rising health care costs affect a small business' ability to offer health insurance and survive in a competitive market. For that reason, and because of the importance of small businesses to the economy, many states have taken action to help such entities with the affordability of health insurance.

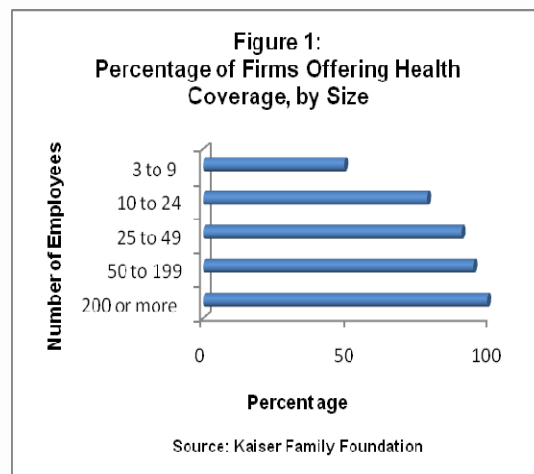
With more than 42 million individuals working for small businesses, states have an opportunity to affect the health of a large segment of the population by assisting small businesses with obtaining coverage and preventing costly chronic conditions. Governors have launched initiatives that assist small businesses with purchasing health insurance through subsidies, tax incentives and partnerships. In other initiatives, governors have spearheaded negotiations with insurance carriers to offer lower coverage rates in return for employees' living healthier lifestyles.

Background

With more than 26 million small businesses, the United States is home to many small-scale entrepreneurs. Over 90 percent of all businesses in the United States have 100 employees or less, and about 42 million employees work in these organizations. In the past decade, small businesses have played a crucial role in the nation's economy, creating 60 percent to 80 percent of new jobs. The creation of such jobs contributes to increasing the gross national product, personal income and total employment.¹

Most small business owners recognize that offering health care coverage to employees improves recruitment and retention. For their part, employees rank health care coverage as the most valued employment benefit. Cost is the most commonly cited reason for small business owners' not providing health care coverage.²

Covering a family of four can cost a small business more than \$12,000 a year.³ While this premium price is roughly the same as for a larger employer, small businesses are less likely to offer health coverage than larger organizations (see Figure 1).³ About half of businesses with fewer than 10 workers offer health insurance, whereas roughly three-fourths of organizations with



10 to 24 employees do so. The number of companies offering health care coverage grows to 90 percent among businesses with 25 to 49 employees and to 99 percent for those with more than 200 employees.³

Another challenge for small businesses seeking to address health is that most of the efforts aimed at prevention of chronic disease have been designed and tested in large business settings. Because chronic diseases are a large driver of health care costs (accounting for over 75 percent of the nation's overall health care spending⁴), there is a real need for strategies that address wellness in settings with fewer employees and resources. With a small pool of employees, small businesses are less able to participate in wellness and chronic disease prevention programs, even though such interventions can lower the cost of coverage over time. To help ensure the payoff, states have worked with insurance carriers to enact policies that make it easier for small businesses to realize the benefits of prevention and employee wellness. Health insurance carriers such as UnitedHealthcare, Aetna and Kaiser Permanente have launched initiatives to promote wellness in small businesses.⁵⁻⁸ Such initiatives include cash awards, lower co-pays for employees who adopt healthy behaviors and discounts on fitness center memberships.

Governors have launched a variety of initiatives to help small businesses obtain affordable coverage. States have taken two main approaches:

- 1. Helping small businesses mitigate the cost of coverage** by offering tax breaks for companies that provide a health care benefit package; assisting small businesses with purchasing health care by covering a portion of premium costs; and establishing partnerships with private insurers to enable small businesses to obtain more affordable coverage.
- 2. Integrating prevention and wellness promotion with health coverage** to provide lower premiums or co-pays to employees who adopt healthy behaviors and proactively manage their conditions; and financially reward small businesses for implementing worksite wellness programs or offering wellness benefits as part of their insurance package.

State Initiatives to Assist Small Businesses with the Cost of Coverage

As stated previously, small businesses are less likely than larger ones to offer health care coverage to their employees. If insurance is offered, coverage typically is more expensive than what employees of larger employers pay. Given the value that employees place on health insurance, not offering it can lead to increased turnover and less growth for small businesses. Many states have launched initiatives that make purchasing health care coverage more affordable for them. Such initiatives typically entail:

- Tax incentives that lower the overall cost of purchasing coverage;
- Small business programs that offer subsidies and other benefits to assist with the purchase of coverage; and
- Partnerships that enable small businesses to obtain lower rates of coverage.

Tax Incentives

States have used a variety of tax incentives such as deductions or credits to lower the cost of purchasing health care for small businesses and their employees. By lowering taxable income, tax deductions reduce the actual amount an individual or business owes. Tax credits offer a direct dollar-for-dollar reduction in tax liability. In either case, the amount the individual or business saves can be used towards purchasing health coverage.

Alabama enables businesses with fewer than 25 employees to deduct 150 percent of the amount they pay for employee health insurance premiums from state income taxes. Alabama also offers employees of small businesses the same personal state income tax deduction for coverage costs. To be eligible, employees must make \$50,000 or less in annual wages or report no more than \$75,000 in adjusted annual gross income.

Insure **Montana** provides tax credits of up to 50 percent of the premium to businesses that currently provide health insurance to their employees, but that may be in danger of dropping coverage because of high costs.⁹ Insure Montana also offers assistance to small businesses currently not offering insurance. These businesses can receive monthly assistance payments amounting to roughly \$100 per employee for both the employer's and the employee's portion of the health insurance premium.

Small Business Assistance Programs

States have also launched initiatives that assist small businesses by paying a portion of the health insurance premium to make insurance more affordable.

Oklahoma pays a portion of health plan premiums for eligible employees through its Insure Oklahoma/OEPIC Employer-Sponsored Insurance Program. Offered to businesses with 250 or fewer full-time employees, the program has more than 6,000 enrolled and uses competition among private insurance carriers to keep costs as low as possible. To participate, employees must meet income guidelines (200 percent of the federal poverty level) and must contribute up to 15 percent of premium costs.¹⁰ The business must offer a qualified health plan and contribute at least 25 percent of employee premiums.

Cover **Tennessee** (CoverTN) offers small businesses guaranteed, affordable basic health coverage.¹¹ The state, the employer and the employee each pay one-third of premium costs, which vary depending on the age, smoking status and weight of the employee. Plans in CoverTN focus on a basic benefit package and encourage regular doctor visits and preventive screenings. The plans do not have an out-of-pocket maximum. The insurance is portable, so members can continue with the same insurance plan even if their place of employment changes. To be eligible, small businesses must have 25 or fewer full-time employees and half of the workforce must make less than 250 percent of the federal poverty level.

Partnerships between the State and Insurance Companies

States have also launched initiatives that enable small businesses to join larger groups to help lower insurance costs. By joining a larger pool such as state employees, small businesses are able to spread their risk across the larger group, making coverage more affordable for them.

West Virginia's plan allows small businesses with 50 or fewer employees to tap into the purchasing power of the Public Employees Insurance Agency (PEIA) through a public/private partnership with insurance companies.¹² This program saves money through allowing private insurance carriers access to PEIA physician and provider reimbursement rates, with the insurance carriers assuming risk and taking smaller administrative fees but potentially gaining more members in small businesses. Premium costs in West Virginia's program are 20 percent to 25 percent lower than the usual market rate for small businesses. To qualify, small businesses must have been in operation for at least one year and must have been without a company sponsored insurance plan for a year. The business also must pay at least 50 percent of the cost of individual coverage and 75 percent of its employees must sign up. The benefits are the same as commercially available ones.

State Initiatives that Integrate Coverage and Prevention

The rise in chronic disease and the costs of covering such conditions have led many states and businesses to rethink health care. Traditionally, the nation's health care system has emphasized treatment of chronic diseases and has focused less on preventing those diseases, even though average per capita spending on individuals with one chronic condition is more than twice that for people without such conditions (with five chronic conditions, average per capita spending is nearly 15 times greater than for those without such conditions; see Figure 2).¹³ Nearly half of working age adults have at least one chronic condition.¹⁴ Further, more than 11 million working age adults with at least one chronic disease do not have health care coverage.¹⁵ Recognizing those realities, states are increasingly working with private insurers to emphasize healthy lifestyles and prevention of costly diseases, along with offering affordable coverage.

States are using a variety of methods to assist small businesses in integrating coverage and prevention, including:

- Rewarding employees who make lifestyle changes such as losing weight, stopping tobacco use and choosing a primary care doctor with lower co-pays or premiums;
- Rewarding businesses for implementing employee wellness strategies by offering added benefits or lower premiums; and
- Providing subsidies to businesses that choose plans with a wellness benefit.

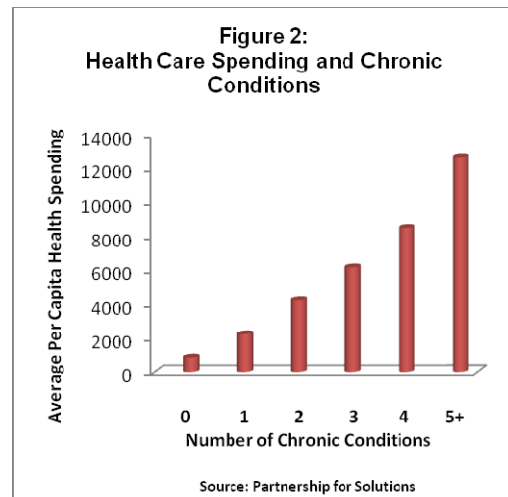
Rewarding Employees for Healthy Behaviors

With health care premiums continuing to increase, some states have implemented initiatives that offer employees lower rates in return for adopting healthier behaviors. Such initiatives seek to alter personal behaviors such as tobacco use and poor diet, which are at the root of the increase in health care costs.

In an effort to address the drivers of health insurance costs, **Rhode Island** Governor Don Carcieri's administration worked with insurance carriers to offer small businesses an affordable product that emphasizes healthier lifestyles. *Healthpact* Rhode Island offers lower-premium and lower-deductible health insurance through the small group market to businesses of 50 or fewer employees whose workers agree to abide by five preventive health behaviors:¹⁶

- Complete a health risk assessment;
- Select a primary care physician;
- Pledge to remain at a healthy weight or participate in weight management programs, if morbidly obese;
- Pledge to remain smoke free or participate in smoking-cessation programs; and
- Pledge to participate in disease management programs if applicable.

Members who opt for these plans participate in regular assessments. If they do not comply with the requirements, their deductibles are increased to non-discounted levels. *Healthpact* premiums are about 15 percent to 20 percent lower than comparable plans. Blue Cross Blue Shield of Rhode Island and UnitedHealthcare currently offer the *Healthpact* plan to businesses.



With large businesses already working with insurers to incorporate wellness in health plans, **New Hampshire** Governor John Lynch sought to achieve similar results for small businesses. New Hampshire's *HealthFirst* initiative requires carriers insuring over 1,000 covered lives to offer a wellness insurance package to small businesses.¹⁷ In addition to using cost effective and evidence-based care, such plans must create incentives for members to live healthier lifestyles and have regular contact with a primary care physician. Incentives must also be offered for members to manage chronic diseases and use effective, lower-cost care. The idea is to reduce premiums, not by increasing cost sharing, but through significant incentives for wellness, disease management, and cost-effective use of health care services. The wellness plan has a premium target of 10 percent of the monthly median wage in the state. The state estimates that employees who obtain coverage from *HealthFirst* will save 15 percent or more on premiums while maintaining coverage that ensures access to needed health care services.

Rewarding Businesses That Implement Changes

Recognizing the importance of changes in the workplace to complement benefit packages that promote wellness, some states have created initiatives that provide businesses the opportunity to purchase health insurance at lower cost if they take actions to promote employee health. Such actions can include offering health education classes or making changes in the workplace to promote health.

Iowa Governor Chet Culver's initiative enables carriers and employers to create health care coverage programs that provide incentives to enrollees to improve their health status. Enrollees are eligible for a reduction in health care costs through measureable programs and procedures. Iowa's plan also allows health insurance carriers to provide small businesses with premium credits or discounts based on employee participation in tobacco cessation and other established wellness or disease management programs.

Subsidies for Employers who Offer Wellness Benefits

By offering subsidies to small businesses that purchase insurance with wellness benefits, states hope to increase participation in such plans.

Recognizing the rise in chronic disease rates and the high cost of health care in the state, **Maryland** Governor Martin O'Malley launched an initiative that offers small businesses a subsidy of up to 50 percent of the cost of the premium for purchasing a health plan that contains a wellness benefit. The wellness benefit must include a voluntary health risk assessment and consultation session for all participating employees. Employees who complete the health risk assessment are eligible for reduced-fee gym memberships, lower co-pays and no-cost preventive care (which include screenings and lab tests). To qualify for the subsidies, the small business must meet certain low-wage requirements, have fewer than 10 employees, and establish of a payroll deduction plan that allows pre-tax premium contributions using a Section 125 plan.

Conclusion

Rising health care coverage costs and the impact of uncontrolled chronic disease negatively affect the productivity of small businesses, a crucial contributor to the American economy. As states, employers and insurance carriers assess the costs of coverage and chronic disease prevalence, many are now pushing for a health care system that promotes healthier lifestyles rather than solely focusing on disease treatment.

While challenges exist to addressing these issues in the small business setting, governors have implemented a variety of effective strategies. States that are looking to make health care more

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affordable and promote healthier lifestyles have several options from which to choose. From tax incentives and subsidies, to purchasing partnerships and incentives for wellness, the state efforts highlighted in this issue brief demonstrate that small businesses can continue to flourish and meet the challenge of rising health care costs.

Endnotes

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