

BUSINESS/JOB

**PHOTOCOPY
PRESERVATION**

BUSINESSES / JOBS

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PRESERVATION

The Health Security Plan

SMALL BUSINESS

Small business is the nation's engine of economic growth. Yet this growth is threatened by a health care system that is stacked against small business. Their health care coverage costs more and offers less. Insurers often attract small businesses by offering low premiums, but then raise them dramatically -- as much as 50% in a single year. As a result, small businesses can face premiums that vary in price by as much as 350% for similar benefits. Administrative costs eat up as much as 40 cents of every dollar small businesses spend on health insurance premiums, eight times as much as large companies.

Despite these problems, most small businesses want to provide health care coverage to their employees -- and most do. Today 62% of American businesses with less than 100 employees provide insurance. But these businesses that provide insurance are paying for the ones that don't. On any Main Street, the health care bills for the dry cleaner who insures her employees keep going up because the owner of the car wash down the street does not cover his employees and they end up in the emergency room when they are injured or fall ill.

The Health Security plan will end this unfair "cost-shifting," lowering costs for most small businesses but ensuring that no one gets a free ride. The plan will give small businesses a better deal by eliminating hassles and paperwork, giving low wage employers substantial discounts, and reforming today's complex and inefficient workers compensation system. Small businesses will be able to get the security of rock solid coverage for their employees and their families, and the vast majority will see lowered costs.

Controls Costs

- The Health Security plan will put small businesses and consumers in the driver's seat -- creating large purchasing pools that enable small businesses to get the same deal from the insurance companies that large companies get today. Health plans will be forced to compete for business, bringing down prices and improving the quality of care.
- Administrative costs will be drastically reduced because the regional health alliance will assume the administrative burden for the small business -- administering benefits, enrolling employees, negotiating and renewing coverage, and bargaining for reasonable coverage.

Helps Small Businesses Grow

- The Health Security plan will help those firms that are creating the most jobs and growing the fastest. The 62% of small businesses that provide insurance today are the fastest growing small businesses in America. New, more affordable coverage will help them expand even more, leading to more jobs and higher wages. **The Wall Street Journal wrote: "For many small businesses, saddled with escalating health care costs, President Clinton's health care package comes as an unexpected windfall."**
- Experience shows that the Health Security plan will create a better climate for small businesses to grow and prosper. Since Hawaii asked all employers to provide insurance for their employees in 1974, the unemployment rate has dropped to one of the lowest in the nation (2.8% in 1991), and small business creation rates have remained high (the number of employers grew almost 200% from 1970 to 1991).
- When all small business employees are guaranteed a comprehensive package of health benefits, employers will be able to retain a stable, high-quality workforce.

Provides Discounted Coverage for Low-Wage Small Businesses

- Small businesses of less than 50 employees with an average wage of less than \$24,000 will receive **discounts of 30% to 80%**, depending on their average wage. These premiums **replace** what businesses pay today.
- Contributions for health coverage will amount to only about 15 cents an hour for the employer whose average worker makes minimum wage. Added to the minimum wage, that is still below the minimum wage during most of the 1980s, when adjusted for inflation. And that buys a comprehensive package of benefits.
- Small businesses that currently provide health benefits will likely pay substantially less under reform, due to falling administrative costs and lower premium rates.
- Small businesses who today are only able to provide bare bones insurance will be able to provide a comprehensive package of benefits to their employees and their own families at a reasonable price.

Gives 100 Percent Tax Deduction to the Self-Employed

- The self-employed and independent contractors will be able to deduct 100% of the cost of the comprehensive benefits package from their taxes, just as all other businesses do today. The self-employed are currently allowed to deduct 25% of health care costs.

Reforms Workers Compensation

- Under the plan, injured workers will obtain treatment through their health plans, just as they would for other injuries or illnesses. This will stop duplication, help workers get back to work quickly, and reduce costs for small businesses.
- Workers' compensation insurers will continue to provide coverage and reimburse the worker's health plan according to a fee schedule.
- A Presidential Commission will be established to study the issues involved in full financial integration and make detailed recommendations, advisable to the President by July 1, 1995.

Ends Insurance Industry Abuses of Small Businesses

- The Health Security plan makes it illegal for health plans to raise premiums if an employee gets sick. In today's system, small businesses often see their premiums skyrocket when just one of their employees or someone in their family gets sick.
- Under the Health Security plan, health plans will charge small businesses the same premium as big businesses in the same region (based on family composition) for the uniform, comprehensive package of benefits. Low-wage small businesses will receive a discount.
- Insurance companies will have to accept all who apply for coverage. This will end "occupational redlining," the practice where insurers refuse to cover certain industries, such as hospitals, grocery stores, and barber shops.

October 8, 1993

The Health Security Plan

LARGE EMPLOYERS

In the last eight years, per worker health care costs for American businesses have almost doubled. But most American corporations consider health coverage a benefit of employment, and they have continued to provide coverage for their workers and families, despite ever-rising costs.

*In a system where some companies provide coverage and some don't, where many remain uninsured and government programs often underpay, employers that provide coverage wind up paying more than they should. They cover not only their own employees, but also their employees' spouses who work for companies that don't provide coverage. In addition, employers pay for the uninsured, who show up in emergency rooms but have no coverage. These shifts cost up to **\$25 billion dollars** each year.*

High health care costs are eroding competitiveness in the global marketplace, and siphoning dollars away from new capital investments. Some companies have had success paying their workers' health care costs directly -- in effect becoming their own insurance agencies. But other companies, particularly those with older workers or many retirees, find that health care costs eat up as much as one fifth of their payroll. General Motors spent more last year on health benefits than it did on steel.

An Active Local Role

- **Businesses will have a strong voice in the health plans set up to serve their workers. Companies, Taft-Hartley plans, or rural cooperatives with more than 5,000 employees will be able to operate their own alliance, allowing them to enhance the many cost control innovations offered by self insured plans today.**
- **Businesses which form a corporate alliance will have to meet federal standards for health alliances, including providing comprehensive benefits, offering a choice of plans, and maintaining quality standards.**
- **Employers will be represented on the boards of all regional health alliances.**

Real, Enforceable Cost Control

- *Market Forces*
The Health Security plan will aggressively control costs by bringing market forces to bear in the health care system. Corporate alliances will continue using the innovative cost control strategies they've found successful, and regional alliances will build on those same strategies of pooling purchasing power and bargaining for better rates.
- *Administrative Savings*
The Health Security plan will streamline the burdensome and costly regulation that eats up at least 15 cents of every health care dollar. By replacing today's thousands of insurance policies with a comprehensive benefits package and standard claim forms, more money will go to benefits and less to underwriters and marketers.
- *Budget Security*
As a fail-safe measure to ensure that public and private health care spending is slowed, the plan includes an enforceable budget. This will help to ensure that growth in health care costs will be brought in line with spending in the rest of the economy by the end of the decade.

Fair, Equitable Financing

- *Employer Responsibility*
Under the Health Security plan, all employers will be required to contribute to workers' coverage. Employers who cover 100 percent of employee health costs may continue to do so; all employers will pay 80 percent of an average price plan.
- *Capped at a Percentage of Payroll*
Under Health Security, employers in a health alliance will pay no more than 7.9 percent of their payroll for health care. Many employers today spend more than 10 percent of their payroll for health insurance.
- *Shared Responsibility for Family Coverage*
Because many families have two workers, all employers will contribute for their own workers benefits and share responsibility for family coverage. This will relieve the burden on those companies that offer excellent health benefits and bear all the cost of a family's benefits today.

- *An End to the Cost-Shift*
By guaranteeing comprehensive benefits to every American and requiring all employers to contribute to coverage, the burden of "cost shifting" will be lifted from the businesses who cover their employees today.
- *Preserves the Tax Deductibility of Health Insurance*
Under reform, premium payments will continue to be fully tax deductible for employers and will not be included in employee's taxable income. Employers will be free for ten years to continue to offer whatever benefits they offer today and to exclude these payments from taxable income for employees.

Relief for the Costs of Retiree Health Care

- The Health Security plan will allow our businesses, and particularly the nation's largest manufacturers, to better compete in global markets. Subsidizing the employer share of early retiree premiums will relieve many of our nation's largest employers of the significant financial burden of covering health care costs for retired workers.

Workers Compensation Reform

- Under the Health Security plan, injured workers will obtain treatment through their health plan just as they would for other injuries or illnesses. Workers compensation insurers will reimburse health plans according to a fee schedule. Health plans will be required to demonstrate their ability to provide care for work-related injuries and appoint a case manager to assure that injuries are properly treated.
- The Health Security plan calls for appointing a Presidential Commission to study the issues involved in full integration of the workers' compensation and auto insurance systems.

October 8, 1993

The Health Security Plan

JOBS

Comprehensive health care reform is a necessary element in a comprehensive economic growth strategy to increase long-term economic growth, reduce the deficit, and create jobs. Today, the rising cost of health care is a hidden tax on employers -- hurting businesses, depressing wages, limiting job creation and threatening our competitiveness. The bottom line is this: most businesses already provide health care to their workers, and health care reform will lower their health care costs -- allowing them to create jobs and increase wages.

While no one may be able to provide a precise estimate of the overall job impact, there is no question that for small and large businesses, costs will be controlled and money will be freed-up for job creation. The Wall Street Journal said that "for many small businesses, saddled with escalating health care costs, President Clinton's health care package comes as an unexpected windfall." Studies show that the fastest growing small businesses are the ones that provide health insurance. In addition, jobs will be created in the health care industry, particularly for nurses and home health workers.

A Comprehensive Economic Growth and Jobs Plan

- The Health Security plan is one element in a comprehensive economic growth strategy to lower the deficit, lower interest rates, and create jobs. The plan will lower costs for businesses that provide health care, spurring them to hire future workers and increase wages.
- The Council of Economic Advisers has estimated that the net job impact would be within the range of less than half a percentage point of employment.
- The current system is hurting job creation, because rising health care costs have served as a hidden tax on employers leading to less job creation and fewer wage increases. No one can dispute that we would have better job growth in our country if we kept health care costs at levels similar to those of our international competitors.

Current Job Studies Seriously Flawed

- Many of the current studies that analyze the job impact of the Health Security plan are based on false or misleading information. They do not consider the discounts provided to low-wage small businesses or the positive effects that lowering health care costs will have on businesses that currently provide insurance.
- These studies have been generated by dubious research institutions and funded by groups that have long opposed even the slightest changes to the health care system.

Minimum Wage Comparison

- Because it will limit the amount that any small employer that currently does not cover its employees will have to pay, the Health Security plan will roughly resemble a modest increase in the minimum wage for those firms.
 - Recent studies by economists at Harvard and Princeton show that increases in the minimum wage do not hurt job growth, and can make it easier to hire people.

Lower Costs for Small Businesses That Provide Coverage

- Sixty-two percent of small businesses provide health care to their workers -- paying high administrative costs and bearing tremendous risk if even a single employee or family member gets sick. These small businesses pay as much as 35% more than big businesses.
- The Health Security plan will lower health care costs for these small businesses, giving firms additional capital to hire more workers and pay their existing workers higher wages. Because the fastest growing small businesses are ones that offer health insurance, the plan will help those firms that are creating the most jobs and growing the fastest.
- **The Wall Street Journal wrote: "For many small businesses, saddled with escalating health care costs, President Clinton's health care package comes as an unexpected windfall."**
- Since Hawaii asked all employers to provide insurance for their employees in 1974, the unemployment rate has dropped to one of the lowest in the nation (2.8% in 1991). Meanwhile, small business creation rates have remained high (the number of employers grew almost 200% from 1970 to 1991).

Benefits for Manufacturers

- The Health Security plan will dramatically lower health costs for American manufacturers, the employers that pay the highest wages and have been forced to lay off workers in recent years. The plan will help manufacturers compete and create new jobs.
- Controlling the growth of health care costs will lead directly to more exports and increased jobs. It will help end the advantages of our competitors, like the fact that health care costs add about \$1100 to every American car -- and only about half that to cars built in Japan.

Health Care Industry Job Creation

- Increased demand for health care services, guaranteed comprehensive benefits and new long-term care options will create jobs for health care providers. Joshua Weiner, a health economist at the Brookings Institution, predicts that the Health Security plan will create 750,000 home health care jobs.

Declining Job Lock and Medicaid Lock

- People who are locked into jobs they want to leave but can't for fear of losing their health benefits will be freed to switch jobs or start a small business, meaning more jobs and greater productivity.
- Tens of thousands of people on welfare will no longer have the fear of losing their health benefits to keep them from taking a job.

October 8, 1993

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The Health Security Act

Benefits for Business



“The Health Security Act preserves our employer-based, privately-financed system of health care. It will control the costs that are hurting American businesses’ ability to compete. And it will help small business owners provide affordable insurance for themselves, their employees, and their families.”

– *President Bill Clinton*

THE WHITE HOUSE

WASHINGTON

September 13, 1993

MEMORANDUM FOR DISTRIBUTION

FROM: GLENN HUTCHINS (456-6406)

SUBJECT: BUSINESS MATERIALS

Attached you will find materials for business, including:

1. Brief description of the plan for businesses.
2. How the plan helps small businesses.
3. How the plan helps large businesses.
4. Q&A for small businesses.
5. Q&A for large businesses.

Please review these and give me your comments as soon as you can. We would like to be in a position to begin distributing these materials on Tuesday.

We are working to deliver other materials, e.g. suggested speeches, job creation materials, scenarios and the like. If you have any suggestions, please let me know. I am especially interested if you know of any important questions which are not in the Q&As.

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THE AMERICAN HEALTH SECURITY ACT

A BRIEF DESCRIPTION FOR BUSINESS

1. Puts the health care system on sound business footing and gets costs under control.

The plan brings growth in health care costs in line with inflation by 1997 by increasing competition in health care, increasing consumer awareness of the cost and quality of their health care, reducing administrative costs and imposing budget discipline.

- The regional health alliance will organize the buying power of consumers and employers, stimulating market forces so that health plans and providers will compete on the basis of quality, service and price.
- Consumers pay less for low-cost plans and more for high-cost plans, creating incentives for cost-conscious choice. A standard universal package of health benefits and reliable information about the price and performance of health plans will give the consumers the information necessary to make these choices.
- Health plans receive fixed premiums based on the risk characteristics of their patients. Working under a budget, they have incentives to spend resources effectively.
- The administrative burden of both employers and providers will be significantly reduced. This is accomplished through (1) a standard benefits package, (2) standard forms for insurance reimbursement, claims submission and clinical records, (3) economies of scale for businesses pooled in the regional alliances, (4) integration of workmen's compensation and automobile insurance systems into the health care system and (5) malpractice reform.
- If savings attained through effective competition and reductions in administrative costs don't achieve the spending goals, the global health care

budget provides a backstop. This brings to health care spending the kind of budget discipline which is commonplace in business.

- Like the private sector, major government programs, including Medicare and Medicaid, operate under a budget restraining the growth of federal and state spending for health care.

2. Offers consumer choice and security.

Consumers will have the opportunity to exercise choice about providers, plans and treatments. They will be guaranteed a comprehensive benefits package which meets the full range of health needs, including primary, preventive and specialized care. Each regional and corporate alliance must offer consumers a choice of plans which must include a fee-for-service plan, i.e., consumers will continue to have the right to choose their own doctor. Consumers out-of-pocket costs for health services are limited to ensure financial protection and standardized to ensure simplicity in choosing among health plans. Health coverage continues without interruption if people lose or change jobs, move from one area to another, become ill or confront a family crisis.

3. Finances the system responsibly.

Payments for health coverage will be divided into two shares: contributions by individuals and families, and contributions by employers. There will be subsidies available for small firms, low-wage firms and for individuals. This works as follows:

- All employers contribute to the purchase of health coverage for all of their employees, paying 80 percent of the weighted average premium. The required contribution (for employers in regional alliances) is capped at 7.9 percent of payroll. Firms with less than 50 employees are capped at a lower level -- 3.5 to 7.9 percent -- based on the average wage of their firm. For example, if the individual premium was \$1,800 and the family was \$4,200, the maximum cost per employee before subsidies would average about \$2,240 per year. Approximately \$1,440 (80 percent of 1,800) for a single worker and approximately \$2,240 for a worker with a family (80 percent of \$4,200 divided by 1.5 which is the average number of workers in a family).

- Families and individuals pay 20 percent of the weighted average premium for an average cost health plan chosen through an alliance. An individual or family who chooses a less expensive plan pays less, and someone who chooses a more expensive plan pays more. Low-income families participating in regional alliances with income below 150 percent of the poverty line receive subsidies based on family income and the average premium in their alliance.

4. Preserves the tax deductibility of health insurance and treats self-employed people fairly.

Premium payments will continue to be tax deductible for employers and will not be included in employees taxable incomes.

- Currently, the self-employed can only deduct 25 percent of the cost of their health insurance. This increases to 100 percent.
- Employers are free (1) to pay as much as they want for the basic package, (2) to pay for benefits not in the package today but available in the future, (3) to continue for 10 years to offer whatever benefits they are offering today, and (4) to pay more than their 80 percent share. All of these expenditures will be tax deductible.

5. Emphasizes quality.

The plan improves the quality of health care by creating standards and guidelines for practitioners, reorienting quality assurance to measuring outcomes rather than the regulatory process, increasing the national commitment to medical research, and promoting primary medical care. Businesses all across the country have discovered the necessity and virtue of quality improvements over the last decade. This feature of the plan brings to the health care system the discipline and learning associated with these private sector quality initiatives. The result will be a health care system held accountable for quality improvement.

6. Lifts the burden of early retirees from all companies.

Retired people not yet eligible for Medicare (between the ages of 55 and 65) who have worked for at least 10 years will be subsidized for the employer's share of their

premium. If employers are obligated (or choose) to pay retiree health benefits, the companies will pay only the 20 percent family share. This will relieve all of the nation's companies, including many of our most important manufacturing companies, of the burden of early retiree health care costs and allow them to have globally competitive cost structures. It will also allow all early retirees, who find their health care costs to be prohibitively expensive, to enjoy high quality health care at affordable prices.

**DRAFT - NOT FOR DISTRIBUTION - WITH COMMENTS AND QUESTIONS,
PLEASE CONTACT GLENN HUTCHINS (456-6406)**

THE AMERICAN HEALTH SECURITY ACT
SOLVES THE PROBLEMS OF LARGE BUSINESSES

1. Reduces the costs of insurance for employers.

- The cost of insurance for businesses' health costs have risen at an annual rate of almost 15 percent. Some estimate that if costs to provide health coverage continue to climb at current rates, employers will pay as much as \$20,000 per employee by the end of the decade. Under reform, these costs will be brought under control by increasing competition in health care, increasing consumer awareness of the cost and quality of their health care, reducing administrative cost and improving budget discipline.
- Today, employers that insure their employees bear a large "cost shift" (amounting to \$25B) from the uninsured. Under reform, that burden is lifted from them.
- Today, many employers pay the entire insurance bill for a family, while the employees of a worker's spouse pays nothing at all. Under reform, the costs of families are spread over all firms.
- Today, many employers are paying over 10 percent of payroll for health insurance. Under reform, all employers in the regional health alliances will pay no more than 7.9 percent of payroll.
- Today, many employers face double-digit premium increases year after year -- often because of the rating practices of insurers. Under reform, all employers will benefit from equal rates regardless of the size or age of their work force; employer obligations will be linked to the average premium in the health alliance. The growth rate of that average will be kept down by competition among plans and an enforceable budget. As the rate of cost growth slows, the business sector as a whole will gain savings.

2. Increases jobs by improving workers' health, security and mobility.

Businesses will enjoy numerous benefits from having an insured work force in the form of reduced costs of absenteeism, turnover, training and errors. Additionally, the plan makes health insurance "portable" by having insurance available to all businesses by preventing plans from excluding individuals with pre-existing conditions, and by insuring employees against potential catastrophe. This increases the mobility of workers, the flexibility of employers, and contributes to increases in employment nationally.

3. Gives businesses market clout as purchasers of health care.

Today, many businesses face disadvantages as purchasers of health insurance and health care. By joining the regional alliances, businesses will benefit enormously from the economies of scale, purchasing power, administrative simplification and sophistication of the alliances.

4. Gives businesses access to high quality health care.

Given the cost of health care for businesses today, many can afford to offer only bare-bones insurance, if any, to their employees. In the future, all businesses and their employees will have access to medical care equivalent in quality to the best plans that are available today.

5. Reduces the administrative burden on businesses.

Today, businesses face a blizzard of paperwork which severely taxes their administrative resources. Under reform, a single streamlined system will reduce the burden of paperwork on business. Unlike the current system, there will be (1) a single, comprehensive benefit package, (2) standard forms for reimbursement and claims submission, (3) integration of worker's compensation and automobile insurance into the new health system and (4) malpractice reform.

6. Subsidizes many businesses.

Premium costs for all businesses in the regional alliances will be limited to a maximum of 7.9 percent of payroll. Additionally, low wage workers of these firms in the regional alliances will also be subsidized for the employee

contribution. These subsidies are not available today and represent a tremendous benefit to business.

7. Subsidizes the high cost of early retirees and makes U.S. manufacturing companies cost-competitive.

Today, many businesses, including the country's largest manufacturing companies, are at a substantial competitive disadvantage in global markets because of the high cost of their retirees' health care. Under reform, employees who retire early will be subsidized for the employers share of their health care premium. This will relieve many of the nation's most important manufacturing businesses of this burden and allow them to have globally competitive cost structures. It will also allow all early retirees between the ages of 55 and 65, who find their health care costs to be prohibitively expensive, to enjoy high quality health care at affordable prices.

8. Preserves the tax deductibility of health insurance.

Premium payments will continue to be tax-deductible for employers and will not be included in employee's taxable income. Employers are free (1) to pay as much as they want for the basic package, (2) to pay for benefits not in the package today but available in the future, (3) to continue for 10 years to offer whatever benefits they are offering today, and (4) to pay for more than their 80 percent per share. All of these expenditures will be tax deductible.

9. Preserves a local health care system.

This plan does not create a new national bureaucracy which would reduce local control over individuals' health care. Rather, the system promotes localized health care through the corporate and regional alliance whose employers and employees will have first-hand knowledge of how their premium contributions are spent and will have an opportunity to have a meaningful voice in the design and operation of their health care system.

10. Provides an economic foundation for businesses to prosper in the future.

Today, health care costs are growing largely out of control. Left unchecked, rising health care costs will consume (1) 120 percent of the projected increase in wages, (2) 60 percent of the growth in the federal budget, and (3) almost

two-thirds of the increase in GDP for the rest of the decade. Health care costs will grow from 14 percent of GDP today to 19 percent without even an expansion of coverage. This will significantly increase the burden of health care on business and will increasingly make the U.S. economy uncompetitive internationally. By getting health care costs under control, this reform will reduce future deficits, freeing resources to be invested in our economy in ways that will promote economic growth and job creation.

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PLEASE CONTACT GLENN HUTCHINS (456-6406)

THE AMERICAN HEALTH SECURITY ACT
SOLVES THE PROBLEMS OF SMALL BUSINESSES

1. Reduces the costs of insurance for employers.

- The cost of insurance for businesses' health costs have risen at an annual rate of almost 15 percent. Some estimate that if costs to provide health coverage continue to climb at current rates, employers will pay as much as \$20,000 per employee by the end of the decade. Under reform, these costs will be brought under control by increasing competition in health care, increasing consumer awareness of the cost and quality of their health care, reducing administrative cost and improving budget discipline.
- Today, employers that insure their employees bear a large "cost shift" (amounting to \$25B) from the uninsured. Under reform, that burden is lifted from them.
- Today, many employers pay the entire insurance bill for a family, while the employees of a worker's spouse pays nothing at all. Under reform, the costs of families are spread over all firms.
- Today, many employers are paying over 10 percent of payroll for health insurance. Under reform, all employers in the health alliances will pay no more than 7.9 percent of payroll. Businesses with fewer than 50 employees will pay at most between 3.5 percent and 7.9 percent of payroll.
- Today, many employers face double-digit premium increases year after year -- often because of the rating practices of insurers. Under reform, all employers will benefit from equal rates regardless of the size or age of their work force; employer obligations will be linked to the average premium in the health alliance. The growth rate of that average will be kept down by competition among plans and an enforceable budget. As the rate of cost growth slows, the business sector as a whole will gain savings.

2. Makes health care affordable to employers.

- According to National Small Business United, the average wage for small business not offering health insurance in 1988 was \$7,400. Those employers will face a maximum premium of \$259.00 or less than a dollar a day.
- The benefits to small business of having affordable insurance are significant. First, many small businesses comprise simply an individual or a family and are now facing enormous personal health care costs. These families will enjoy significant reductions in the cost of their health insurance and be able to afford health insurance for their employees for less than they are paying for their own insurance today. For example, a family policy today costs approximately \$5,000 to \$7,000. A firm with an average wage of \$20,000 (i.e., high for a firm not offering insurance) would be capped at 5.5 percent or \$1,100 per employee. It could insure five to seven families for what the one family that owns the business is paying for itself today.

3. Increases jobs by improving workers' health, security and mobility.

Small businesses will enjoy numerous benefits from having an insured work force in the form of reduced costs of absenteeism, turnover, training and errors. Additionally, the plan makes health insurance "portable" by having insurance available to all businesses by preventing plans from excluding individuals with pre-existing conditions, and by insuring employees against potential catastrophe. This increases the mobility of workers, the flexibility of employers, and contributes to increases in employment nationally.

4. Gives small business market clout as a purchaser of health care.

Today, individual small businesses face enormous disadvantages as purchasers of health insurance and health care. By participating in the regional alliances, small businesses will benefit enormously from the economies of scale, purchasing power, administrative simplification and sophistication of the alliances.

5. Give small business access to high quality health care.

Given the cost of health care for small businesses today, many can afford to offer only bare-bones insurance, if any, to their employees. In the future, small business owners and their employees will have access to medical care equivalent in quality to what is available today and will be available in the future to employees of large corporations.

6. Reduces the administrative burden on small business.

Today, small businesses face a blizzard of paperwork which severely taxes their limited administrative resources. Under reform, a single streamlined system will reduce the burden of paperwork on small businesses. Unlike the current system, there will be (1) a single, comprehensive benefit package, (2) standard forms for reimbursement and claims submission, (3) integration of worker's compensation and automobile insurance into the new health system and (4) malpractice reform.

7. Subsidizes small business.

All small businesses will be required to pay a maximum of 7.9 percent of payroll. The truly small businesses (with less than 50 employees) could be required to pay even less (3.5 percent to 7.5 percent) depending on their average payroll. Additionally, low wage workers of these small businesses will also be subsidized for the employee contribution. These subsidies are not available today and represent a tremendous benefit to small business.

8. Allows the self-employed to deduct the full cost of their health insurance.

Today, the many small business people who are self-employed can deduct only 25 percent of the cost of their insurance from taxable income while companies can deduct 100 percent. In the future, self-employed people will be treated fairly and will be able to deduct the full cost of their health insurance from their taxable income.

9. Preserves a local health care system.

This plan does not create a new national bureaucracy which would reduce local control over individuals' health care. Rather, the system promotes localized health care through the regional alliance whose employers and employees will

have first-hand knowledge of how their premium contributions are spent and will have an opportunity to have a meaningful voice in the design and operation of their health care system.

10. Provides an economic foundation for small business to prosper in the future.

Today, health care costs are growing largely out of control. Left unchecked, rising health care costs will consume (1) 120 percent of the projected increase in wages, (2) 60 percent of the growth in the federal budget, and (3) almost two-thirds of the increase in GDP for the rest of the decade. Health care costs will grow from 14 percent of GDP today to 19 percent without even an expansion of coverage. This will significantly increase the burden of health care on business and will increasingly make the U.S. economy uncompetitive internationally. By getting health care costs under control, this reform will reduce future deficits, freeing resources to be invested in our economy in ways that will promote economic growth and job creation.

SMALL EMPLOYERS AND HEALTH CARE:

Questions and Answers

- Q. I have heard that health reform will drive thousands of small companies like mine out of business. How will you protect me?**
- A. The Clinton plan is designed to protect small businesses and help them make the transition to a system that guarantees their families and employees the health security they deserve. Businesses will pay no more than 7.9 percent of their payroll for health care and truly small businesses (those with less than 50 employees) will pay at most between 3.5 and 7.9 percent. Businesses that provide insurance today will enjoy significant cost decreases. Businesses without insurance today will enjoy affordable health insurance for the first time ever, costing as little as a dollar per day for low-wage employees.**
- Q. I am a small business owner who now buys insurance for my family and my employees. What will your reform do for me?**
- A. Health care reform will lower costs for most small businesses that now provide insurance to their employees. Each year your premiums go up by 50 percent more than premiums paid by large employers. Our plan will control costs, cut administrative waste and paperwork that drive your premiums up, and make insuring your employees easier and more affordable. Small employers and others will join a health alliance to have more bargaining power in dealing with health plans. In addition, you and your family will gain the security of knowing that you will never lose your insurance coverage.**
- Q. I own a small business and can't afford to give my employees health insurance. What will your plan do to me?**
- A. Small business owners already risk enough; they shouldn't have to go without health insurance coverage, risking their families' health security. Most small businesses today provide their employees with health coverage. Most of the rest would like to provide that benefit but find it**

impossible in a health insurance system that works against their interest. The Clinton plan will help small businesses provide insurance to employees at affordable prices through these steps: controlling costs and making insurance more affordable, regulating insurance companies and prohibiting discriminatory pricing against small firms, helping small business cover their employees. Also, many small business owners face prohibitive costs for their own family's health insurance today. In the future, many truly small business owners will be able to provide health insurance for themselves and their employees for less than the cost of the employer's family package today.

Q. I'm afraid that you will not really control my costs. How tough is your plan?

A. You're right to worry about rising health costs. Small business premiums have increased between 25 and 50 percent each year. That's why a tough approach to controlling health costs is a cornerstone of the Clinton plan. Under health reform, a national budget will control the rising costs of health care and dramatically cut the paperwork that drives up insurance costs for small businesses today.

Q. Will the federal government micro-manage the new health care system?

A. No, this plan does not create a new national bureaucracy which would reduce local control over individuals' health care. Just the opposite is true. The plan promotes localized health care through regional alliances whose participants (i.e. the employers and employees) will have first-hand knowledge of how their premium contributions are spent and will have an opportunity to have a meaningful voice in the design and operation of their health care system.

Q. I employ lots of part-time workers. Will I be required to pay for all of their health care?

A. No. Businesses will be required only to pay a pro-rated share (based on a 30 hour week) of the employer portion of the health care premium for part-time workers. Businesses will be required to pay nothing for the health care of part-time workers who are full-time students and who are under the age of 22.

- Q. I hire independent contractors to perform many services for me. Will I be required to pay all the costs of their health care?
- A. No. Truly independent contractors are considered self-employed and will be responsible for all the costs of their own health care, i.e., both the employer and the employee portion. There will be rules, however, to prevent companies from converting employees into independent contractors.
- Q. Doesn't this plan eliminate the tax benefits which I have today?
- A. No. Health care premium payments will continue to be tax deductible for employers and will not be included in your employee's taxable income.
- Q. I provide a generous health care plan today. Won't this plan require me to provide my employees with less good care?
- A. No. As long as you offer your employees a choice among plans which offer the nationally guaranteed benefit package, you will be able to provide your employees with whatever additional health care benefits you would like. As long as that plan was in force at the beginning of this year, your premium costs will continue to be tax deductible for 10 years.
- Q. This plan sounds complicated. Isn't it really going to drive up my administrative costs?
- A. No. Health care is admittedly a complicated subject. But you should understand that the existing health care system is vastly more complex than our plan. We have emphasized and, we believe, achieved significant administrative simplification in this plan.
- Q. Won't I continue to be at a disadvantage to large companies in the purchase and administration of my health care?
- A. No. By pooling with other employers in the regional alliance, you will enjoy the economies of scale in the purchase and administration of health care that only the largest employers have today. You will also be able to provide your employees with a health plan equivalent to what the biggest corporations offer today. You will also enjoy the benefit of subsidies for both you and your employers which will not be available to the corporate alliances.

Q. I am self-employed. Will I still not have the same tax advantages as big companies?

A. No. Today, the self-employed can deduct only 25 percent of the cost of their health care premium from their taxes while other employers can deduct 100 percent. In the future, self-employed people will be treated fairly and be able to deduct 100 percent.

Q. I've heard that the numbers on which you are basing this plan are shaky. Can we be confident that you have analyzed this plan rigorously?

A. Yes. We have paid a great deal of attention to producing reliable projections on which there is consensus inside the government and which have been reviewed by independent outsiders. Four government agencies (HCFA, AHCPH, OMB and Treasury) have conducted their own independent calculations and these have been checked by the Urban Institute and by a group of independent actuaries from top firms across the country. We believe that we have produced and analyzed these numbers with a level of diligence at least equivalent to (and, we are convinced, better than) that used in private sector decision-making.

LARGE EMPLOYERS AND HEALTH CARE:

Questions and Answers

- Q. My company already offers health insurance that provides low cost, affordable care. Will it be able to continue and will I be able to remain outside of the health alliance?
- A. The plan allows companies with more than 5,000 employees to act as their own health alliances. Over time, as the regional alliance prove their ability to reduce costs and provide high quality health care, the larger companies will have the opportunity to join the regional alliances.
- Q. I'm afraid that the new system will not really control costs. How can I know this approach will control costs?
- A. In the last five years, health care costs for employers have risen almost 15 percent every year. That's why a tough approach to controlling costs is a cornerstone of the Clinton plan. Providing universal coverage and a comprehensive benefit package will cut uncompensated care costs. Stimulating competition, increasing consumer awareness of the cost and quality of their health care, streamlining administration, and folding in workers' compensation and auto insurance health coverage will dramatically reduce costs nationwide. In addition, the whole system -- including Medicare and Medicaid -- will operate under a budget as a backstop to contain costs. This will bring to health care the kind of budget discipline which is commonplace in business.
- Q. How will this plan end cost-shifting that drives up health costs?
- A. Today, large businesses pay for the many weaknesses in the health care system. They pay higher premiums to cover the cost of treating patients who do not have insurance and for public health care programs, such as Medicaid. Major employers also purchase insurance for their workers' spouses, who often work at companies that don't provide health benefits. That creates a system that isn't fair. The Clinton plan for health reform will relieve large business of these burdens.

- Q. Will the federal government micro-manage the new health care system?**
- A.** No, this plan does not create a new national bureaucracy which would reduce local control over individuals' health care. Just the opposite is true. The plan promotes localized health care through regional alliances whose participants (i.e., the employers and employees) will have first-hand knowledge of how their premium contributions are spent and will have an opportunity to have a meaningful voice in the design and operation of their health care system. Large businesses (with more than 5,000 employees) will be able to continue operating as their own health alliances. They will also have the option of joining the regional alliance if it is cost-effective and convenient for them.
- Q. My company operates in a number of different states. Today, I provide health benefits for my employees through one system. Under reform, will I have to change the way my employees get coverage?**
- A.** No. Large employers will be free to operate as their own health alliances. Small groups of employees in distant locations, however, will have the opportunity to receive health care through the local regional alliances if that is more convenient and cost-effective.
- Q. I employ lots of part-time workers. Will I be required to pay for all of their health care?**
- A.** No. Businesses will be required only to pay a pro-rated share (based on a 30 hour week) of the employer portion of the health care premium for part-time workers. Businesses will be required to pay nothing for the health care of part-time workers who are full-time students and who are under the age of 22.
- Q. My company hires independent contractors to perform many services for us. Will I be required to pay all the costs of their health care?**
- A.** No. Truly independent contractors are considered self-employed and will be responsible for all the costs of their own health care, i.e., both the employer and the employee portion. There will be rules, however, to prevent companies from converting employees into independent contractors.

- Q.** My company is a large manufacturer experiencing very difficult international competition. Won't this plan add to my costs and make us even less competitive?
- A.** Absolutely not. Just the opposite is true in many ways. This plan is designed to get costs under control by increasing competition among health providers, increasing consumer incentives to reduce costs, reducing administrative costs, and improving budget discipline on both private and public health care spending. Without this disciplined approach to cost control, your health care costs will continue to spiral out of control and deeply worsen your competitive position. Further, this plan lifts the burden of early retirees from your kind of company and, as a result, contributes significantly to your global cost competitiveness. Quite simply, important features of this plan are designed to help you control your costs and to be more competitive globally.
- Q.** Doesn't this plan eliminate the tax benefits which I have today?
- A.** No. Health care premium payments will continue to be tax deductible for employers and will not be included in your employee's taxable income. If you offer a plan more generous than the nationally guaranteed benefit plan, you will still be able to deduct the cost of your premium for 10 years.
- Q.** I provide a generous health care plan today. Won't this plan require me to provide my employees with less good care?
- A.** No. As long as you offer your employees a choice among plans which offer the nationally guaranteed benefits package, you will be able to provide your employees with whatever additional health care benefits you would like. As long as that plan was in force at the beginning of this year, your premium costs will continue to be tax deductible for 10 years.
- Q.** This plan sounds complicated. Isn't it really going to drive up my administrative costs?
- A.** No. Health care is admittedly a complicated subject. But you should understand that the existing health care system is vastly more complex than our plan. We have emphasized and, we believe, achieved significant administrative simplification in this plan. Don't forget, you can also choose to join the regional alliance and, as a result, shift

a fair amount of your remaining administrative responsibilities to the regional alliance which will enjoy significant economies of scale.

Q. I've heard that the numbers on which you are basing this plan are shaky. Can we be confident that you have analyzed this plan rigorously?

A. Yes. We have paid a great deal of attention to producing reliable projections on which there is consensus inside the government and which have been reviewed by independent outsiders. Four government agencies (HCFA, AHCPR, OMB and Treasury) have conducted their own independent calculations and these have been checked by the Urban Institute and by a group of independent actuaries from top firms across the country. We believe that we have produced and analyzed these numbers with a level of diligence at least equivalent to (and, we are convinced, better than) that used in private sector decision-making.

Health Reform and Small Business

A Look at Problems in Today's System and
Solutions Under the President's Health Reform

Small Business and Health Care Reform: Overview

It takes courage and ingenuity to start and succeed as a small business. It means taking a risk with your future and betting that you succeed. As many as 1 out of 12 small businesses fail within the first year. It is not right that many small business owners also face the risk that their families and employees won't have health care when they need it. It is not right that those who provide coverage risk that within a year that coverage may be taken away or priced out of reach.

Small businesses fuel job creation and strengthen our economy. Responsible for 90% of job growth in 1990, small businesses has become the nation's engine of economic growth. Yet this growth is endangered by a health care system which threatens every American business, especially small businesses. Small business owners can face financial devastation if a family member or just one employee falls ill. And employers who try to provide health care to their employees find a health care system stacked against small businesses.

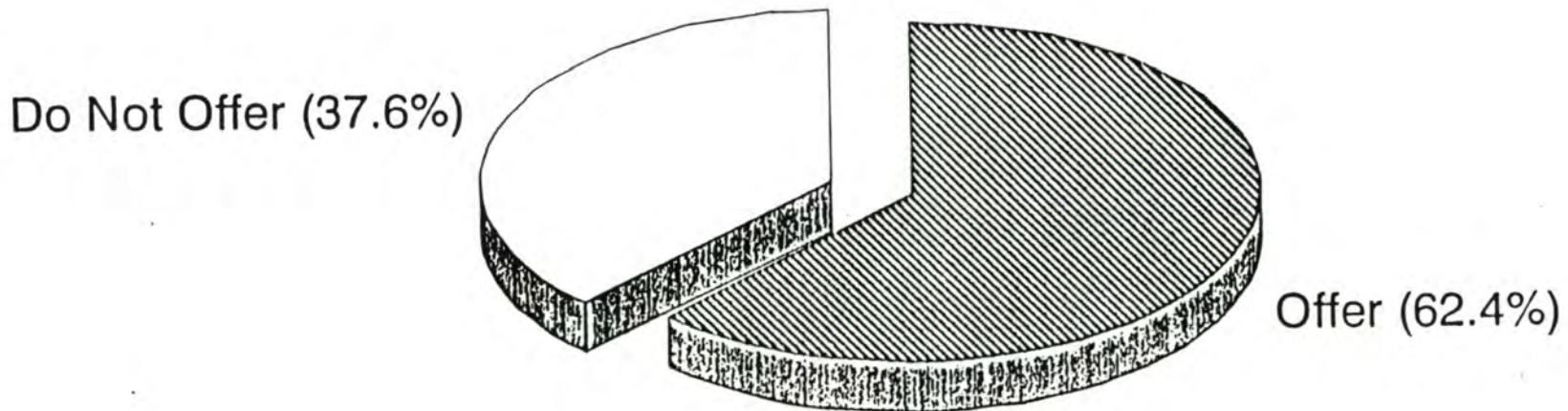
Nonetheless, a majority of American small businesses manage to provide coverage. Today 62% of American businesses with less than 100 employees provide health care coverage to their employees. And 51% of those with fewer than 25 employees provide health care. But providing these benefits isn't easy.

The Clinton Administration believes that most small business want to cover their employees -- and most do. Our health care plan will work for small business, taking away the hassle and ensuring security of affordable, predictable health care coverage. And for those businesses who don't provide health insurance coverage, our reform will protect them while they make the transition. The plan provides financial assistance and a phase-in period so they may provide health security to their employees and families.

In today's Mom and Pop stores, the Mom or the Pop serves as the de facto benefits department. They fill out the paperwork. They make the phone calls. They negotiate rates and enroll their employees. They dutifully pay their premiums every month. But all too often, within a year, their insurer will raise rates and price them out of the market -- many times for no reason. Or the insurer will refuses to renew coverage. Then the small business owner is back to the drawing board -- spending more time and more money to find another insurer -- and the cycle starts again.

The following document examines the major problems faced by small businesses in today's health market and shows how health reform and the formation of health alliances will address most, if not all, of the major problems facing small businesses.

The Majority of Small Businesses Offer Health Insurance to Their Employees



For Firms with Less than 100 Employees

The Small Business Obstacle Course

- Time and Money
- Price Discrimination
- Insurance Abuses
 - Redlining
 - Underwriting
- High Administrative Costs
- A Volatile Insurance Market
 - Price Gouging
 - Difficulty Securing Renewal

THE SMALL BUSINESS OBSTACLE COURSE

Problem: *Small business owners must go through an obstacle course of insurance abuses and higher costs to provide health care coverage for their employees.*

Small business owners who spend the time and money to cover employees frequently must deal with an insurance market which changes its rules at every stage of the game, a volatile market, unpredictable cost increases, higher administrative costs, and premiums rising at a faster rate than health care costs for larger employers.

Lacking a benefits department like larger firms most small business owners must perform all the functions of such a department by themselves. Negotiating health coverage in today's health care system is a process often fraught with frustration and obstacles.

Many small business owners, after setting aside the time to negotiate coverage for their employers, encounter obstacles like "occupational redlining" a practice where insurers will simply refuse to cover entire industries perceived to be high risk; or medical underwriting, basing premiums on perceived risk and medical history; or experience rating, where insurers jack up costs if just one employee falls ill or gets injured. Many insurers engage in "price baiting and gouging" offering "discount" rates for the first year of coverage only to charge much higher prices in the next year when pre-existing condition exclusions expire. And many small firms with sick workers find that an insurance company will refuse to renew their policy in the second year.

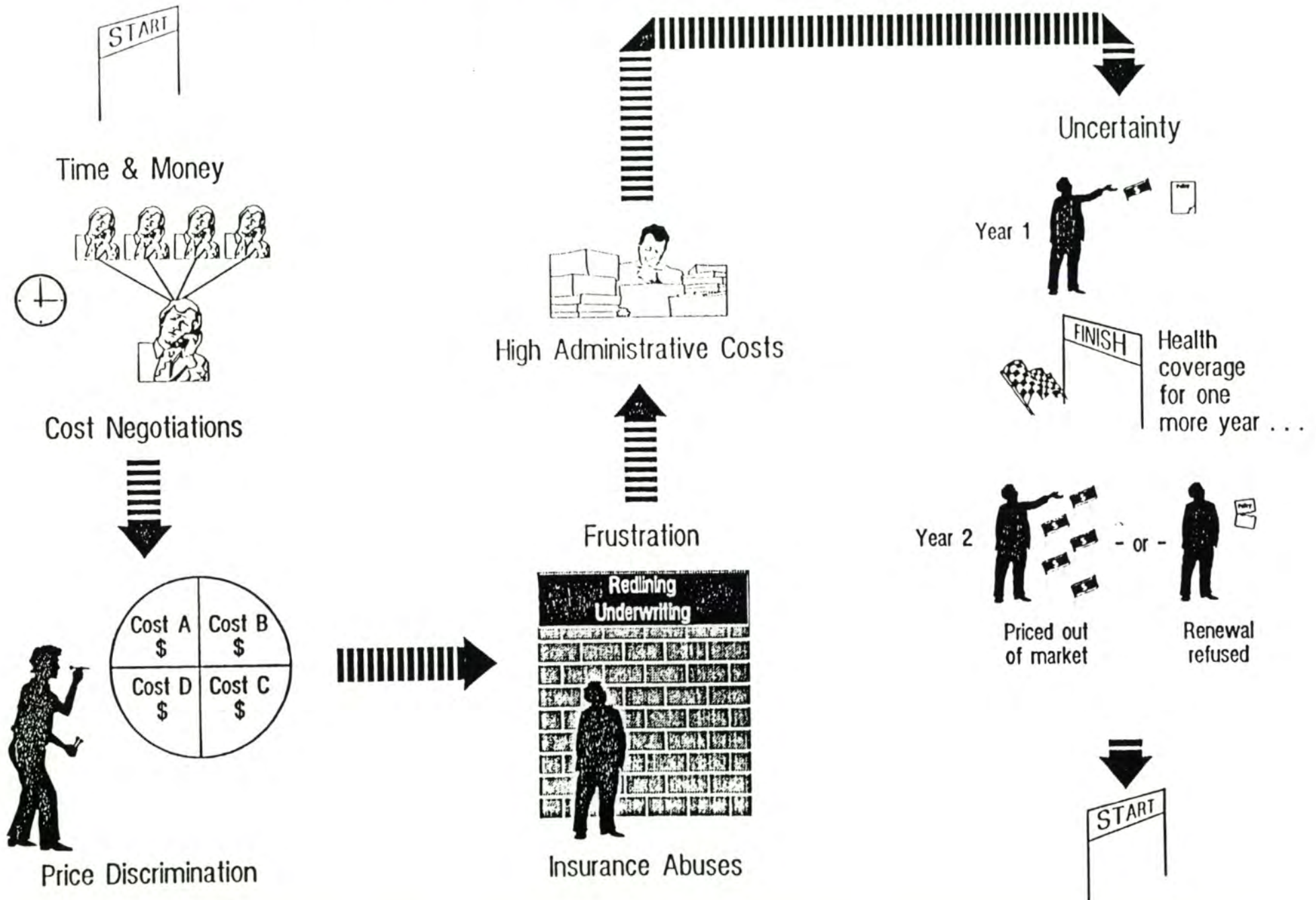
Not surprisingly the hassle and discrimination in today's system make many small owners worry about being able to continue to provide this coverage. The reform plan addresses nearly all of the problems which cause the small business owner so much hassle and time in obtaining insurance.

The Plan: *Health reform outlaws insurance practices like underwriting and redlining. The health alliance helps small businesses cut through the hassle.*

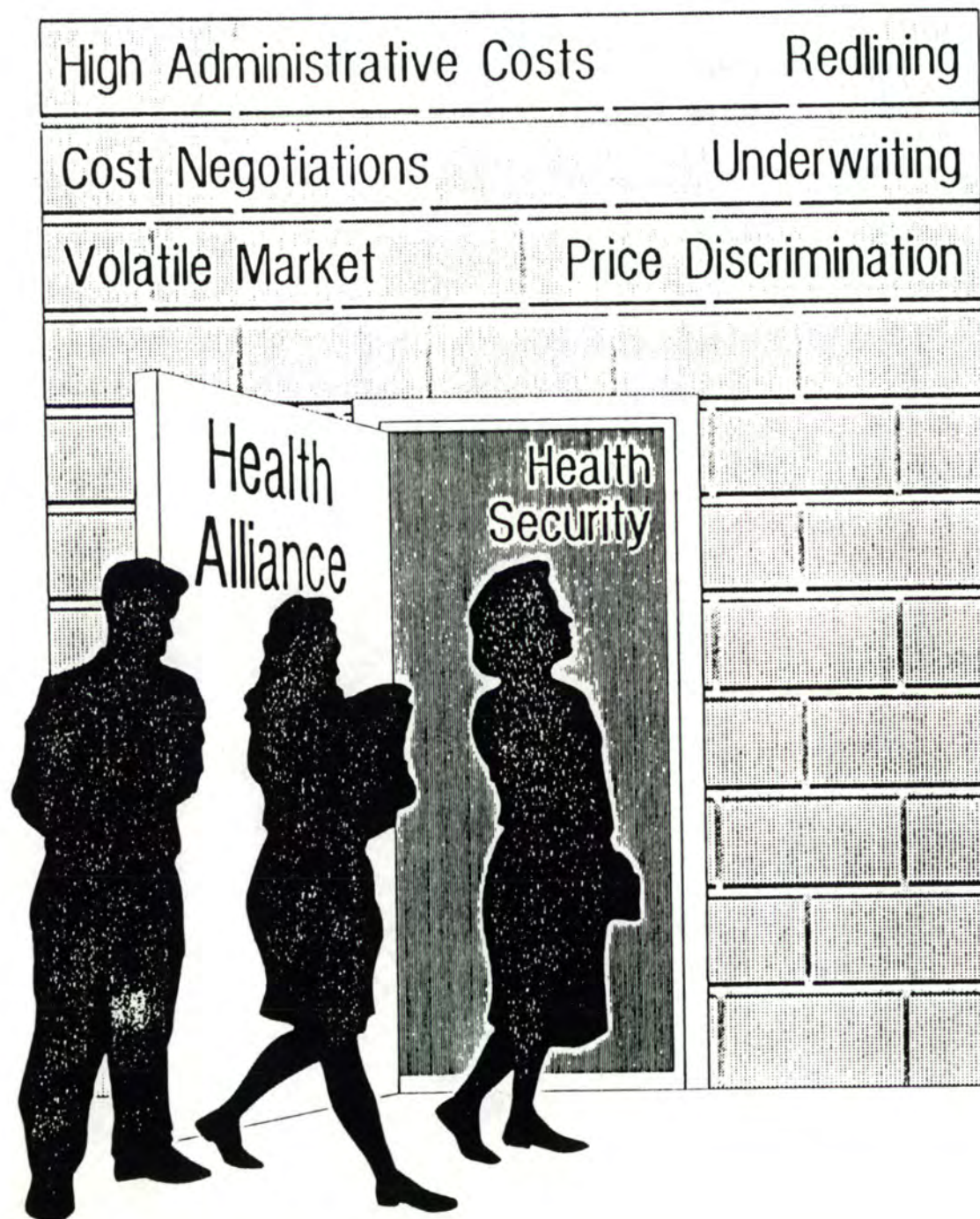
We will take the burden off the small business with health alliances which will deal with the insurance companies and bargain for competitive prices. The alliance will take over the paperwork and the negotiations; provide information on plans and increase ease of enrollment. Higher administrative costs will be reduced and the hassle of the current system is eliminated.

The Clinton reform plan outlaws insurance abuses such as redlining, underwriting and experience ratings. Costs of premiums are controlled and the insurance market is stabilized. Under our reform, everyone living in the same area pays a similar price for a similar plan. And they have the security knowing those costs will be predictable and increase at a lower rate.

Small Business Owners Face an Obstacle Course in Obtaining Health Insurance



The New System



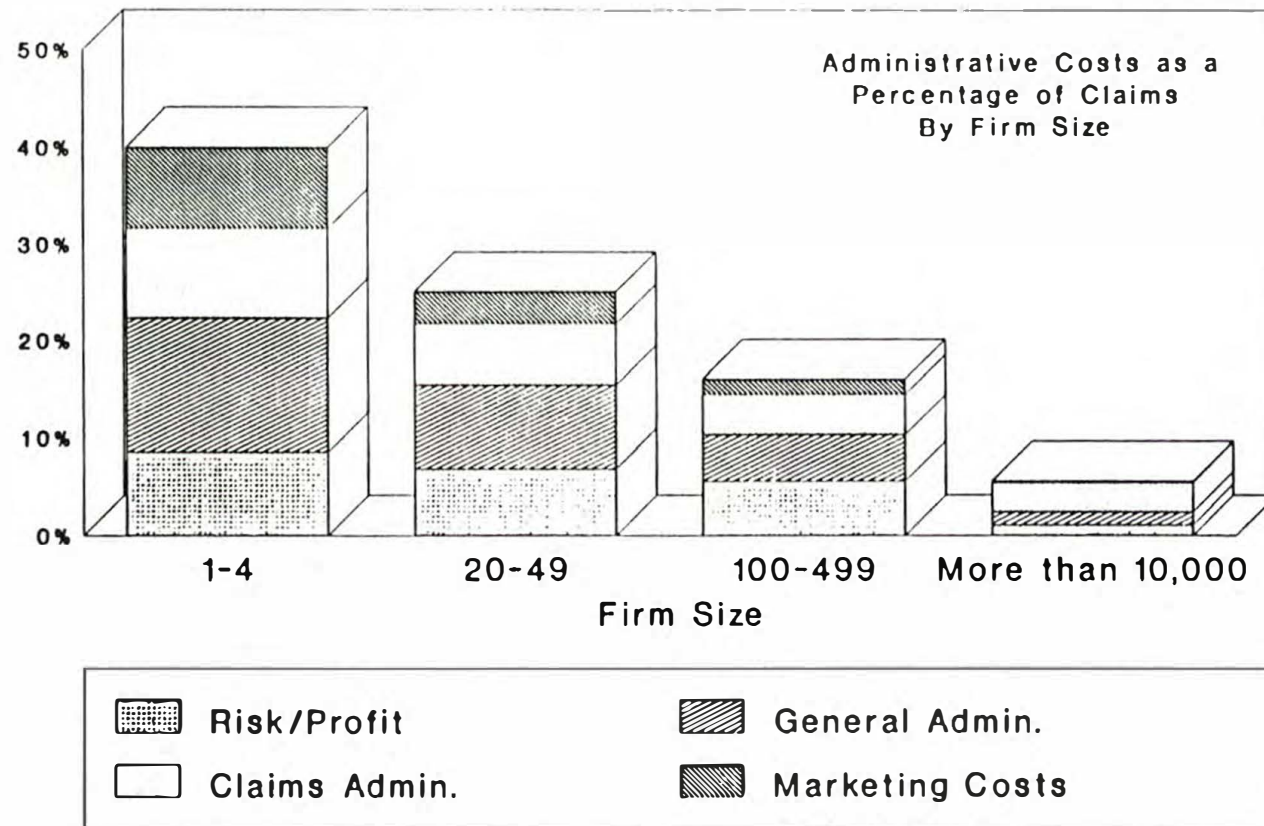
Insurance Industry Abuses

- Medical Underwriting
- Experience Rating
- Price Baiting and Price Gouging
- Refusal to Renew Policy
- Occupational Redlining

Higher Administrative Costs

- Higher Overhead
- No Benefits Department
- Faster Increases in Costs

Small Businesses Face Higher Administrative Costs



Source: Hay/Huggins, Inc.

OCCUPATIONAL REDLINING

TYPES OF INDUSTRIES OFTEN EXCLUDED FROM HEALTH INSURANCE PLANS

Amusement Parks	Insurance Agencies
Asbestos-Related Industries	Interior Decorators
Auto Dealers	Janitorial Services
Aviation	Junk and Scrap Metal
Barbers and Beauty Shops	Law Firms
Bars and Taverns	Limousine Services
Car Washes	Liquor Stores
Commercial Fishing	Logging and Lumber Mills
Construction	Meat/Fish Packers
Convenience Stores	Mining Operations
Domestic Help	Moving Operations
Entertainment/Athletic Groups	Oil Field Operations
Exterminators	Parking Lots
Federally Funded Organizations	Physicians Practices
Florists	Restaurants
Foundries	Roofing Companies
Grocery Stores	Security Guard Firms
Health Clubs and Spas	State Funded Organizations
Hospitals and Nursing Homes	Taxicabs
Hotels and Motels	Trucking Firms (Long-Haul)

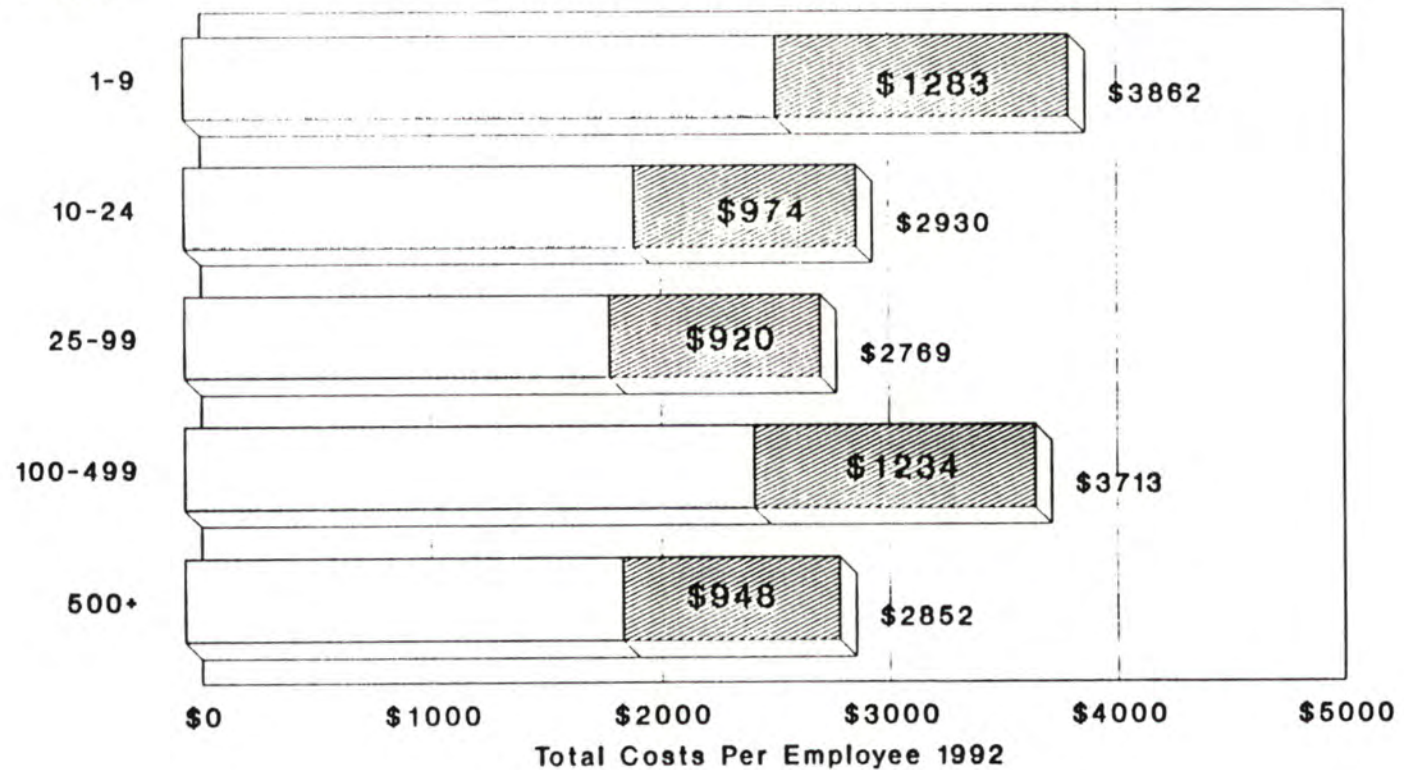
Sources:

List of "ineligible industries" and industries requiring "special consideration" from selected insurance plans analyzed by the Alpha Center.

American Hospital Association, Promoting Health Insurance in the Workplace and Local Initiatives to Increase Private Coverage (Chicago: 1988), as cited in: United States General Accounting Office, Health Insurance: Cost Increases Lead to Coverage Limitations and Cost-Shifting. (GAO/HRD 90-68)

Employers Would Save \$1,015 Per Employee Per Year If Costs Were Controlled -- Small Businesses Save Most

Employees in Firm



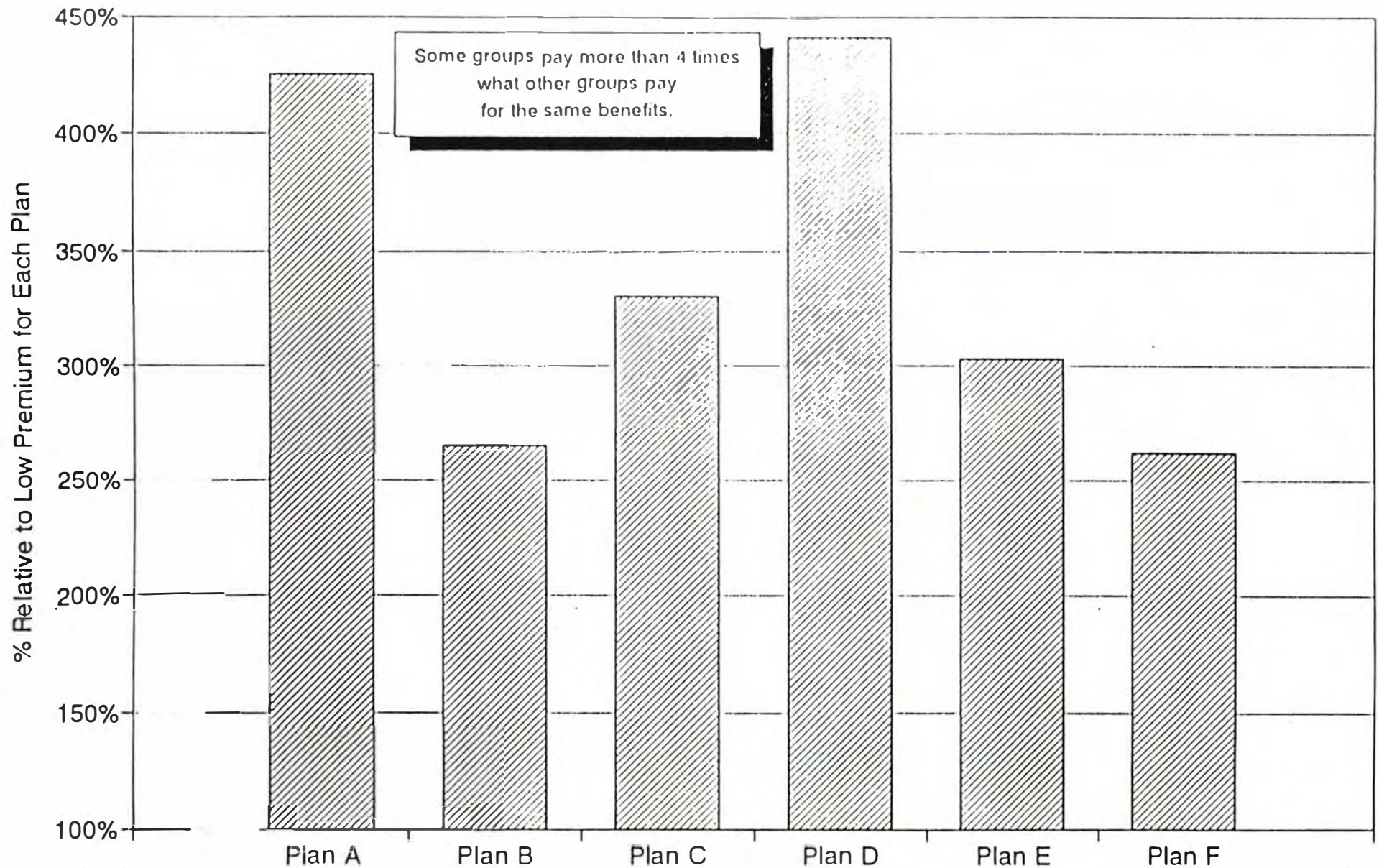
Excess Costs

Source: Lewin-ICF

A Volatile Market

- Cost Variations
- Unpredictable Cost Increases
- Durational Rating
- Churning

Small Groups (2-25) Face Large Variations in Health Insurance Premiums



Source: Blue Cross/Blue Shield Association, Survey of Six Sample BC/BS Plans, January 1992.

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SUMMARY

TODAY	REFORM
High Administrative Costs: Higher administrative costs account for as much as 40% of the policy costs compared to about 5% for large companies. [CBO, 5/92]	Cuts Administrative Costs: The health alliance assumes the administrative functions and costs which kill small business owners.
The Obstacle Course: Small business owners who cover their employees must spend a lot of time and effort dealing with an insurance market which changes its rules at each stage of the game.	Eliminates Hassle: The health alliance negotiates rates, provides information on plans, increases ease of enrollment and absorbs the manpower drain.
Dramatically Increasing Costs: Premiums for small employers rise at a faster rate than for other employers -- as much as 50% in any given year. [NAM]	Aggressively Controls Costs: Health reform will aggressively control cost increases which hit small businesses disproportionately hard.
Difficulty Obtaining Renewal: After a first year of reasonable rates, small businesses often face higher costs and difficulty obtaining renewal.	Guarantees Renewal: Guarantees renewal and stabilizes premiums.
Small Risk Pool: Fewer employees mean a smaller pool to share the risk. Insurance companies frequently charge more for these policies and one illness can cause plan cost to increase dramatically.	Spreads Risk Evenly: Consolidates small businesses in large purchasing pools to give them the same bargaining power as large companies.
Insurance Industry Abuses: Insurance companies redline large sectors of the small business market. Underwriting and experience rating leads to discriminatory prices for small business policies.	Outlaws Unfair Insurance Practices: Prohibits redlining, experience rating and underwriting. Requires that plans charge all firms in a given area a similar price for the same health plan.

Insurance Problems Facing the Small Group Employee Market

- **Large Volatile Variation in Premiums**
 - Underwriting
 - High Risk
- **Workers in Small Firms Finance a Higher Proportion of Total Premiums**
- **Insurance is More Expensive Relative to Large Firms**
 - High Administrative Costs
 - Premiums Include Costs of Uninsured
 - Provider Payments Substantially Above Costs
- **Growth in Insurance Premiums is Higher in the Small Group Market**
 - Less Likely to Have Established Cost Containment Programs

Average insured worker's health spending without health reform				
	1994	Health Bill as % of Compensation	2000	Health Bill as % of Compensation
Average compensation per worker:	\$36,299		\$50,334	
Average insured worker's health bill	\$7,423	20.45%	\$12,386	24.61%
Health insurance	\$4,132	11.38%	\$6,895	13.70%
Employer's share of premium	\$3,163	8.71%	\$5,278	10.49%
Individual's share of premium	\$969	2.67%	\$1,617	3.21%
Medicare payroll tax	\$926	2.55%	\$1,546	3.07%
Workers' comp/disability/Industrial Inplant	\$246	0.88%	\$411	0.82%
Out-of-pocket	\$782	2.15%	\$1,305	2.59%
Other spending at health facilities	\$113	0.31%	\$188	0.37%
Federal taxes, fees, & other payments	\$654	1.80%	\$1,092	2.17%
Federal employees' health premiums	\$53	0.15%	\$88	0.18%
Federal contributions to Medicare HI	\$11	0.03%	\$19	0.04%
Medicare (general revenue)	\$169	0.47%	\$283	0.56%
Medicaid	\$246	0.68%	\$411	0.82%
Other federal health programs	\$174	0.48%	\$290	0.58%
State & local taxes, fees, & other payments	\$569	1.57%	\$950	1.89%
State/local employees' health premiums	\$149	0.41%	\$248	0.49%
State/local contributions to Medicare HI	\$24	0.06%	\$39	0.08%
Medicaid	\$186	0.51%	\$310	0.62%
Hospital subsidies	\$81	0.22%	\$135	0.27%
Other programs	\$130	0.36%	\$218	0.43%

Source: Office of Health Policy, ASPH, 1995 analysis using Health Care Financing Administration; Urban Institute; and
and Department of Commerce, Bureau of Economic Analysis data.

Current Spending on Private Health Insurance Premiums by State.
As a Percent of Taxable Earnings

	Taxable Earnings	Premiums	Percent
ALABAMA	38,998,615,395	3,751,897,975	9.62%
ALASKA	7,471,145,760	542,968,282	7.27%
ARIZONA	40,891,512,528	3,674,537,304	8.99%
ARKANSAS	22,072,511,494	2,369,779,864	10.74%
CALIFORNIA	376,824,975,470	31,877,334,190	8.46%
COLORADO	42,952,222,017	4,135,548,261	9.63%
CONNECTICUT	47,909,041,475	4,355,805,242	9.09%
DELAWARE	8,849,078,867	773,909,213	8.75%
DC	7,552,877,819	445,947,314	5.90%
FLORIDA	138,666,533,016	10,936,916,977	7.89%
GEORGIA	69,107,458,029	6,723,213,419	9.73%
HAWAII	14,976,797,447	1,346,035,317	8.99%
IDAHO	9,025,688,646	1,028,354,152	10.47%
ILLINOIS	143,985,945,827	13,640,116,472	9.47%
INDIANA	61,043,580,896	6,713,556,189	11.00%
IOWA	30,016,622,605	3,056,074,535	10.18%
KANSAS	28,715,089,385	2,789,136,209	9.71%
KENTUCKY	34,784,608,184	3,266,394,864	9.39%
LOUISIANA	39,529,575,525	3,484,793,997	8.82%
MAINE	12,889,997,383	1,321,989,294	10.26%
MARYLAND	68,211,468,897	5,210,965,688	7.64%
MASSACHUSETTS	77,961,860,617	6,503,215,432	8.34%
MICHIGAN	109,409,081,232	11,912,093,402	10.89%
MINNESOTA	51,705,415,820	5,314,122,517	10.28%
MISSISSIPPI	20,557,808,856	2,125,883,724	10.34%
MISSOURI	60,244,888,374	6,222,536,523	10.33%
MONTANA	7,830,490,164	890,991,169	11.38%
NEBRASKA	17,478,845,803	1,796,956,659	10.28%
NEVADA	15,537,209,212	1,714,663,640	11.04%
NEW HAMPSHIRE	16,013,650,661	1,667,520,843	10.41%
NEW JERSEY	110,015,651,967	9,024,593,868	8.93%
NEW MEXICO	14,950,233,670	1,464,499,881	9.80%
NEW YORK	217,920,564,116	19,235,098,662	8.83%
NORTH CAROLINA	72,154,332,101	6,571,365,130	9.11%
NORTH DAKOTA	6,052,341,293	618,523,636	10.22%
OHIO	124,378,294,987	13,280,058,130	10.68%
OKLAHOMA	32,097,793,109	2,890,309,363	9.00%
OREGON	32,773,518,112	3,490,744,060	10.65%
PENNSYLVANIA	132,224,234,494	15,138,836,639	11.45%
RHODE ISLAND	12,056,487,582	1,263,223,740	10.48%
SOUTH CAROLINA	37,791,500,551	3,703,870,746	9.80%
SOUTH DAKOTA	6,456,992,930	705,755,456	10.93%
TENNESSEE	47,647,609,848	4,872,056,097	10.23%
TEXAS	186,606,311,095	15,700,711,823	8.41%
UTAH	16,607,270,729	1,809,372,751	10.90%
VERMONT	6,477,098,200	645,079,504	9.96%
VIRGINIA	83,193,483,170	6,488,962,015	7.80%
WASHINGTON	63,863,931,291	6,009,963,683	9.41%
WEST VIRGINIA	15,348,775,523	1,602,410,413	10.44%
WISCONSIN	58,699,280,587	6,469,131,821	11.02%
WYOMING	5,005,270,744	493,327,885	9.86%
TOTAL	2,204,335,574,606	271,872,153,970	9.36%

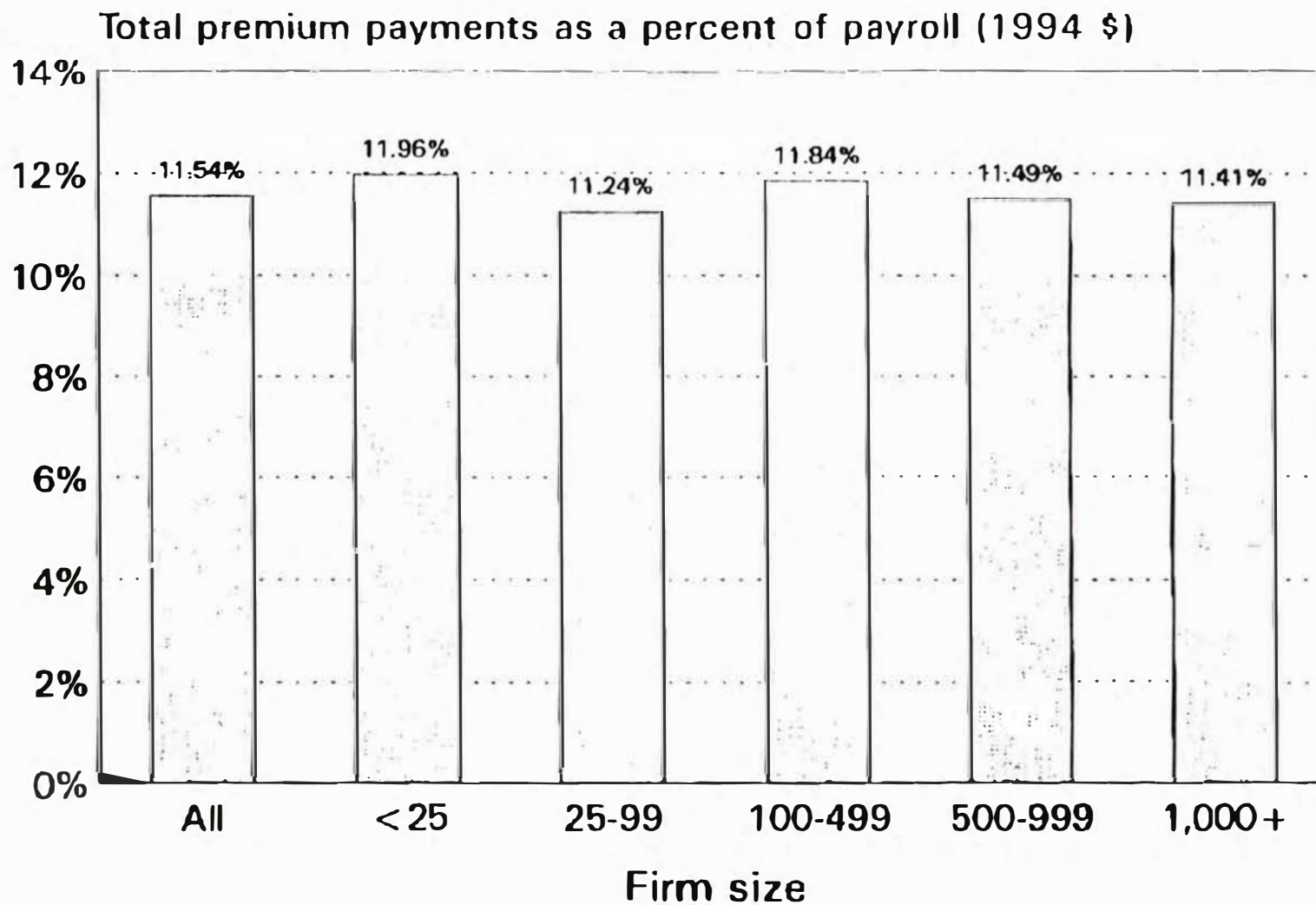
Source: Social Security Wage Base

**Total Premium Payments as Percent of Payroll
Without Health Reform**

Firm Size	1994	1995	1996	1997	1998	1999	2000
All	11.54%	12.06%	12.53%	12.96%	13.42%	13.88%	14.36%
< 25	11.96%	12.50%	12.98%	13.43%	13.90%	14.39%	14.89%
25-99	11.24%	11.75%	12.20%	12.62%	13.07%	13.52%	13.99%
100-499	11.84%	12.38%	12.85%	13.29%	13.77%	14.24%	14.74%
500-999	11.49%	12.01%	12.47%	12.90%	13.36%	13.82%	14.30%
1000+	11.41%	11.93%	12.39%	12.81%	13.27%	13.72%	14.20%

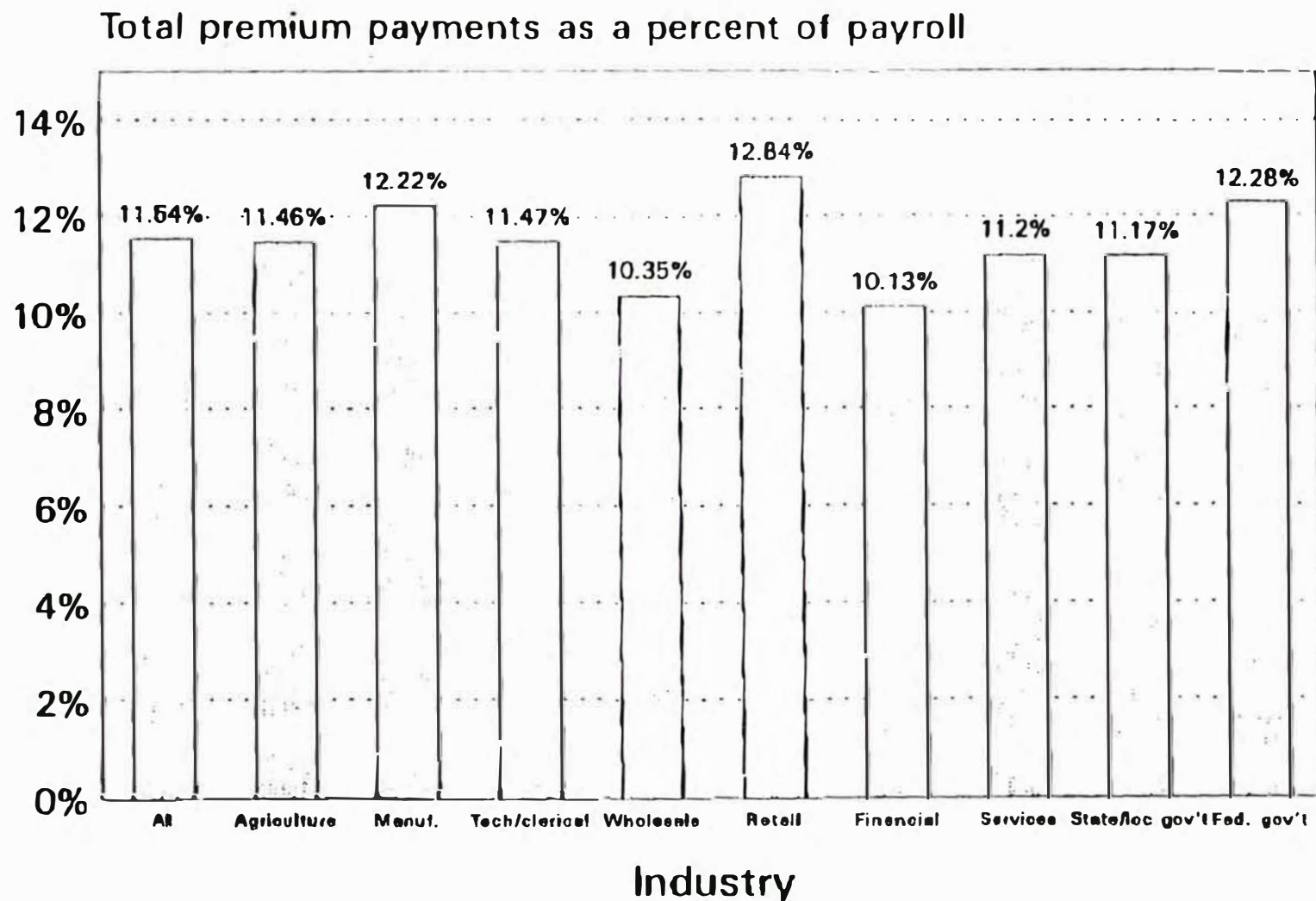
Source: HHS analysis using Urban Institute analyses of March 1992 Current Population Survey.

Total premium payments as a percent of payroll vary by firm size and are highest for firms with less than 25 employees.



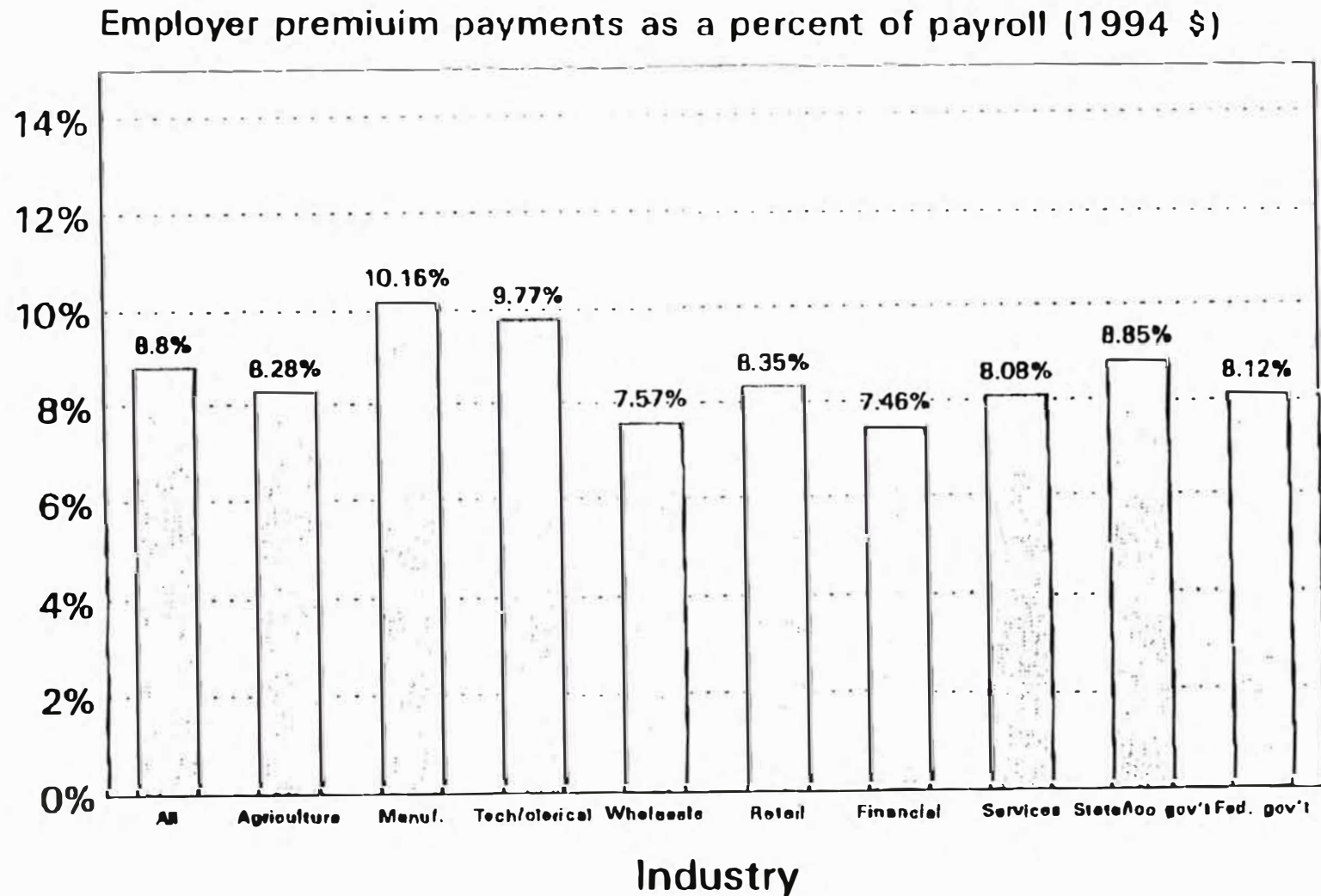
Source: Urban Institute analyses of the March 1992 Current Population Survey.

Total premium payments as a percent of payroll vary by industry and are highest for retail.



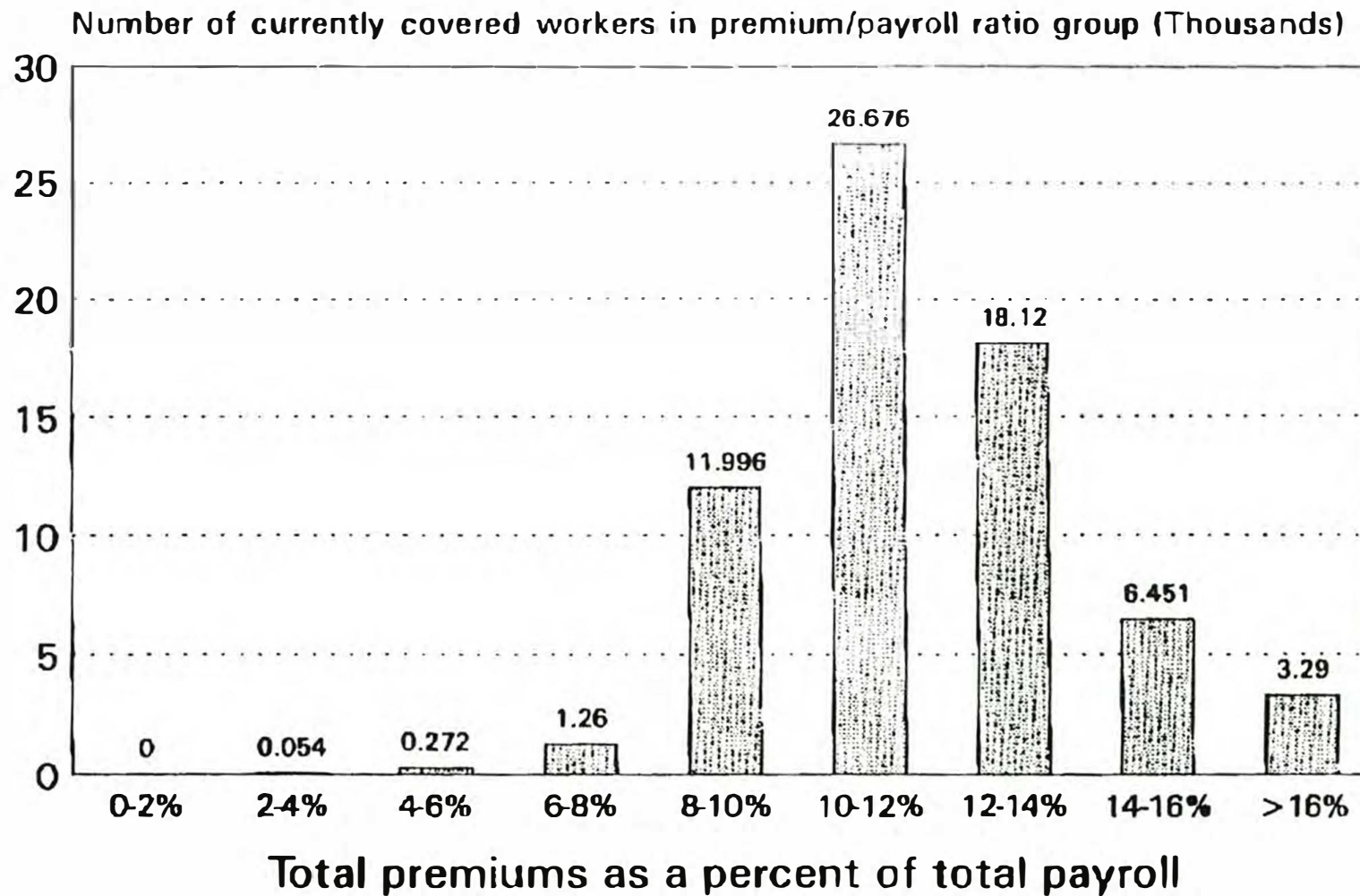
Source: Urban Institute analyses of March 1992 Current Population Survey.

Employer premium payments as a percent of payroll vary by industry and are highest for manufacturing.



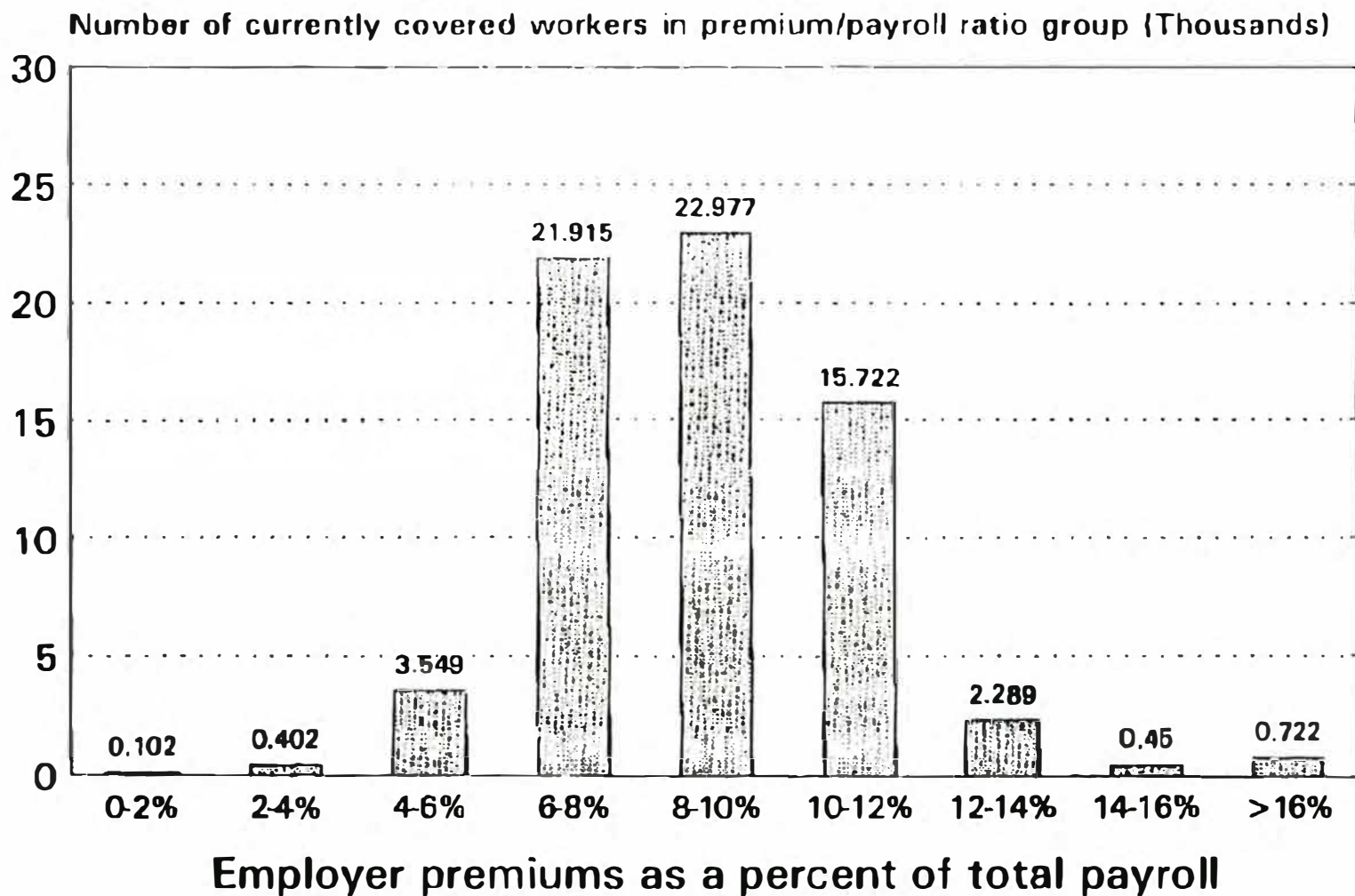
Source: Urban Institute analyses of March 1992 Current Population Survey.

Health Insurance Premiums Relative to Payrolls: The Distribution Under the Current System



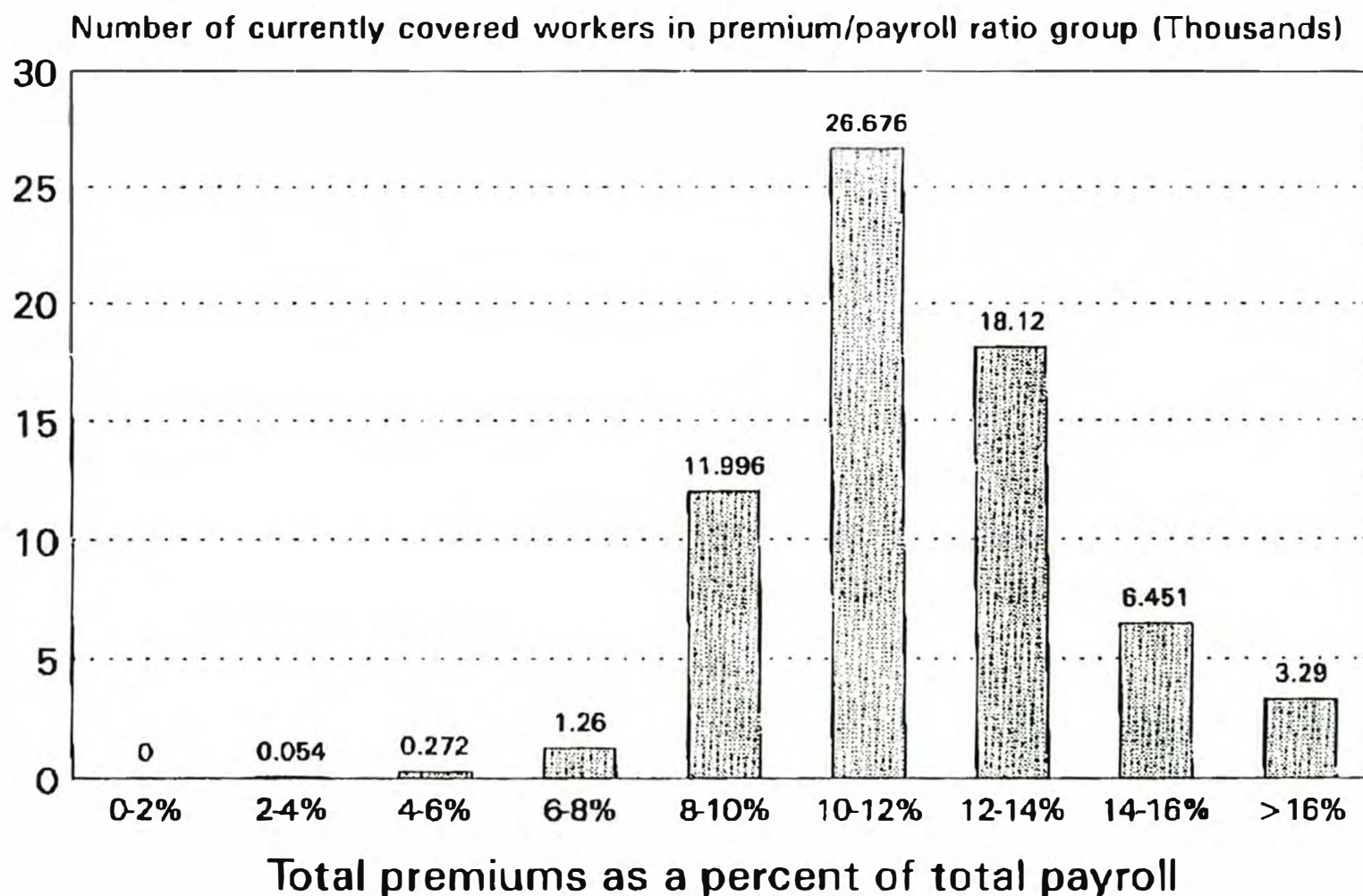
Source: Urban Institute's TRIM2 model, based on the March 1991 Current Population Survey.

Health Insurance Premiums Relative to Payrolls: The Distribution Under the Current System



Source: Urban Institute's TRIM2 model, based on the March 1991 Current Population Survey.

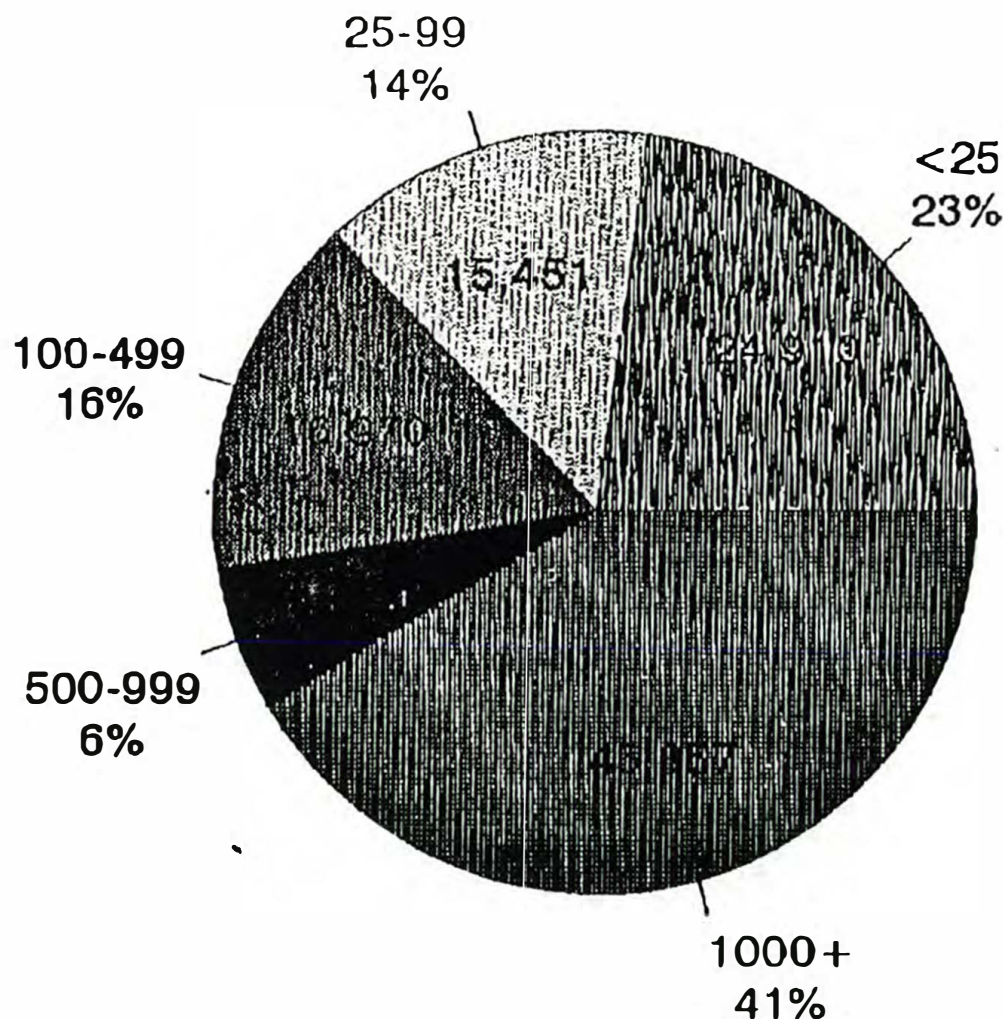
Health Insurance Premiums Relative to Payrolls: The Distribution Under the Current System



Source: Urban Institute's TRIM2 model, based on the March 1991 Current Population Survey.

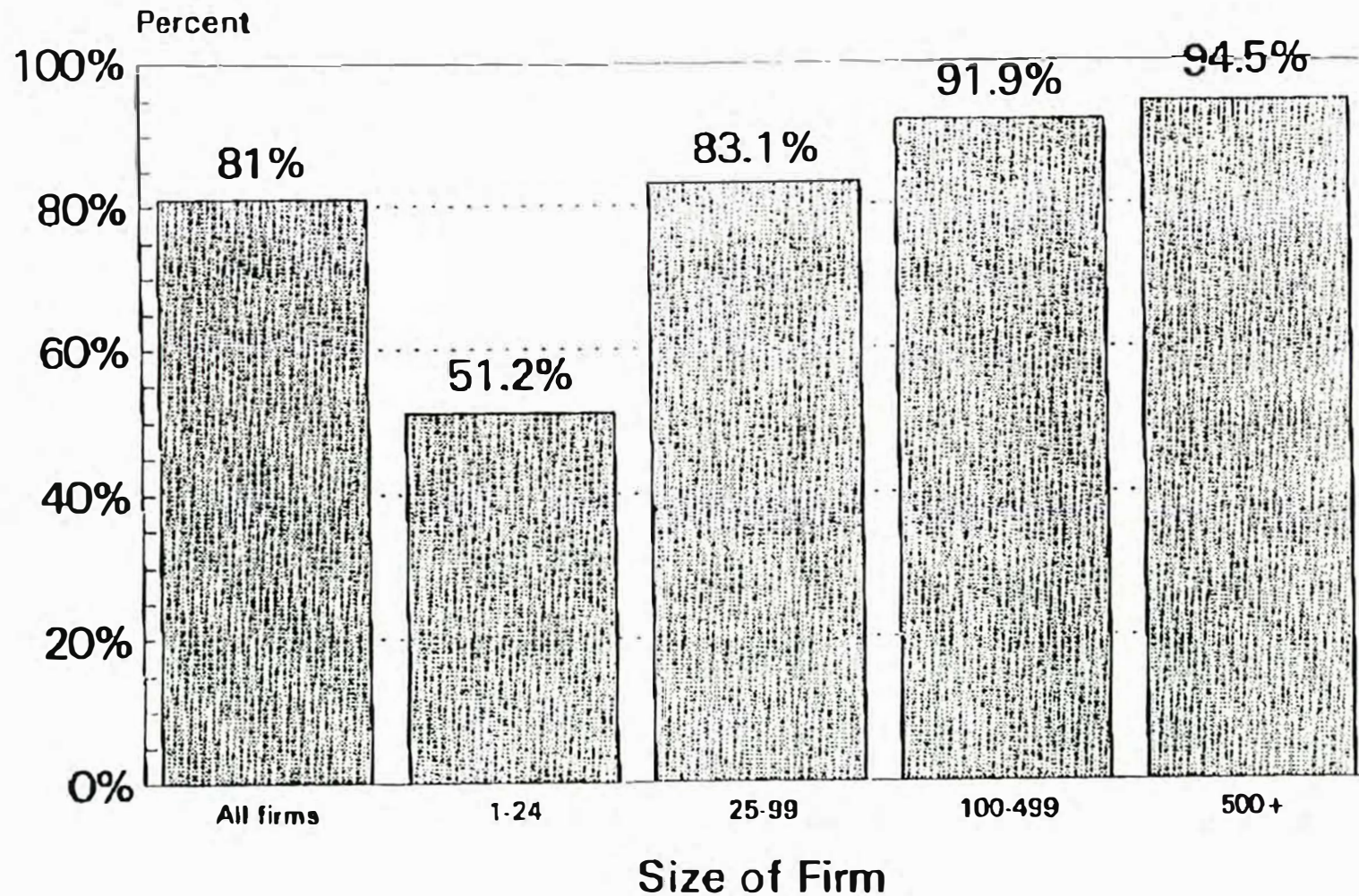
Workers: How many work for small firms?

Distribution of workers by firm size



Source: The Urban Institute (1993), based on the March 1992 CPS and TRIM2.
Numbers are in thousands.

Percentage of Firms Offering Health Insurance By Firm Size



Source: Dept. of Labor, based on Small Business Admin calculations of May 1988 CPS Survey Data

SMALL BUSINESS AND HEALTH REFORM

TABLE OF CONTENTS

- I. POLITICAL OVERVIEW**
- II. PROBLEMS SMALL BUSINESSES FACE IN TODAY'S SYSTEM**
 - Summary
 - Charts and Graphs
- III. COMPONENTS OF THE PLAN WHICH SUPPORT SMALL BUSINESSES**
 - Summary
 - Table "Today vs. Reform"
 - Questions and Answers
- IV. ECONOMIC IMPACT**
 - Overview of Economic Impact Including Job Impact Data of Required Contribution
 - Financing Under Reform Plan
 - One Small Firms Health Care Costs: A Hypothetical Case
- V. MESSAGE**
 - Summary of Existing Polling/Focus Group Data
- VI. CONGRESSIONAL PERSPECTIVE**
 - Summary
- VII. SMALL BUSINESS INTEREST GROUPS**
 - Summary of Positions and Status Update

VIII. STATE PERSPECTIVE

- Overview
- Kentucky
- Florida
- Washington
- Oregon
- Checklist of State Laws in the Small Group Market

IX. SAMPLE STUMP SPEECH/TALKING POINTS

X. APPENDIX

- Tab A: Labor Department Report, "Hawaii: Employment and Wage Data from Business Payrolls, 1970-1992"
- Tab B: Labor Department Memo by Richard Hinz on Job Loss and Health Care Reform
- Tab C: Summary of the Economic Plan
- Tab D: "Health Care Costs and the Economy," Alliance for Health Care Reform
- Tab E: "Sparing the Knife," U.S. News and World Report
- Tab F: "Health Reform Prognosis: Pain in Early Stages," L.A. Times
- Tab G: "Small Businesses Prepare to Battle Clinton Plan in Congress," Bureau of National Affairs
- Tab H: "Small Business and the National Health Care Reform Debate," Health Affairs, Spring 1992.
- Tab I: "Small Business Health Insurance: Only the Healthy Need Apply," Health Affairs, Spring 1992.
- Tab J: "Rockefeller Says Clinton Plan May Include Small Business Assistance," Bureau of National Affairs
- Tab K: Summary of NFIB Survey, May, 1991
- Tab L: Text of President Bill Clinton's Speech to the NFIB
- Tab M: Text of Governor Lawton Chiles Speech to the NFIB

SMALL BUSINESS AND HEALTH REFORM

A POLITICAL OVERVIEW

The issue of what health reform will "do to small business" represents a particularly challenging communications problem both with Congress and with the public at large. Because of its political potency, the employer mandate will almost invariably be the most difficult and important issue under health care reform. In fact, it would not be extreme to say that winning on the small business issue would secure passage of the plan and losing on it would jeopardize the plan or at least the mandate.

Many key Congressmen are extremely wary of a small business mandate. While the public consistency supports the concept of a required employer contribution, it also is very vulnerable to arguments that an overly burdensome requirement will threaten jobs and economic growth. Consequently, anything that is effectively portrayed as threatening that growth will be greeted with suspicion. In addition, the sheer numbers of small businesses make them a potent political force. Well over 40 million Americans are either self employed or work in businesses with less than 25 employees.

State experience has demonstrated what a thorny issue the mandate presents. It has consistently proven to be the key component of health care reform which motivates the business community to oppose reform. In addition, other less sympathetic opponents of reform frequently join coalitions with small business to strengthen their opposition.

It is widely believed that the ability of small business interest groups to portray the California plan as "killing small business" made a major contribution toward the demise of the plan. In Florida, a state where 95% of the businesses have less than 25 employees, an employer requirement was not even attempted, and the NFIB state chapter ended up as a key supporter of the plan. Even advocates of the Hawaii system, the only state to have enacted a mandate, acknowledge that their plan was passed in a different political climate and that the passage of the bill was largely a result of a few concerned and dedicated legislators who worked in relative obscurity. Moreover, in 1974, when President Nixon was advocating an employer mandate, the Hawaii plan was viewed as the conservative alternative to a "single payer" or "national health care system."

In Congress, many moderate to conservative Democrats (and almost all Republicans) have not been supportive of employer mandates primarily because of the objections and concerns of small businesses. Even members as liberal as Senator Claiborne Pell have steered around discussion of a mandate because of the political volatility of the issue.

Exempting smaller firms from mandates has been used in many instances to overcome small business opposition. When the family and medical leave act was finally passed, it

exempted businesses with less than 50 employees -- about 95% of businesses. (Even with this exemption, the slippery slope opposition by small business associations made it impossible for the Democratically-controlled Congress to override President Bush's veto of this legislation.)

As far back as 1938, when the Fair Labor Standards Act -- the law which established the federal minimum wage -- was enacted, Congress exempted many "small" businesses (defined as payroll below a certain level). Title VII of the Civil Rights Act does not cover any business with less than 15 workers. Furthermore, plant closing legislation exempted those with less than 100. Clearly, this type of exemption is not a feasible option for health care reform, as it would fail to address the crux of the problem of the working uninsured and would likely require significantly higher public revenue.

There have been laws enacted that require compliance from all businesses. Examples include Social Security, Medicare, OSHA regulations, workers' compensation insurance, and minimum wage. A price has been paid though. The small business community has become increasingly bitter and mistrusting towards the Federal government and the Democrats in particular. Many small business owners, and even their employees, view these things as "social engineering by the employer mandate."

Finally, the perceived state of the economy will play a critical role in the debate. In addition to small business owners themselves, the public will be skeptical of a plan if opponents are able to successfully portray it as causing business failure, job loss, or in any significant way "threatening" the economy. This is the ace in the hole of the small business special interests. If they can portray the plan as hurting the economy they will win the public relations battle. As you know, they have already been quite active on that front with the release of the NFIB survey estimating 18 million jobs "at risk."

However, even in the face of these significant challenges, there are encouraging indications that a mandate can pass Congress. Because the President has been talking about a mandate for the past year and a half, most Democrats in Congress now accept that some form of employer requirement will be necessary. The debate has now shifted more towards what the level of the burden requirement will be on business. The key will be selling the members on the message that it will not be overly burdensome, integrating high priority small business into the package (such as 100% self-employed tax deduction), obtaining credible support from small business owners and people they trust, and focusing the debate on health care coverage, not jobs. The bottom line for small business owners is financial impact. In order to give Congress sufficient cover, it will be necessary to provide relatively specific financial impact data. For that reason, this memo includes an entire section on the financial impact to small firms based on figures provided by Ken Thorpe.

The memo also outlines the problems small business face under today's system, components of the plan which address small business concerns, the economic impact of reform (including costs broken down by firm size and an example of one very small firm's cost today and under reform), a comprehensive political analysis of state reforms, a Congressional perspective, a summary of existent polling data and messages which work for the small business community, and an assessment of where small business interest groups are on the plan.

PROBLEMS IN TODAY'S SYSTEM

Small businesses owners face a more complicated, unfair, and costly health insurance system than do most large employers. A lack of bargaining power resulting from small size, narrow profit margins, and perceived high risk makes them particularly vulnerable to insurance abuses. Practices such as underwriting, occupational redlining, pre-existing condition exclusions, durational rating have so corrupted the incentives in the health insurance industry that buying insurance in the small group market is like riding a roller coaster. These skewed incentives have created a volatile market characterized by erratic premiums and large cost increases. And, as if that weren't enough, insurance companies charge more to write and administer small group policies.

- **THE HASSLE:** Small business owners must spend a lot of time and money on covering employees. Lacking a benefits department like larger firms most small business owners must perform all the functions of such a department by themselves. And in doing so they frequently must deal with an insurance market which changes its rules at every stage of the game, a volatile market, unpredictable cost increases, higher administrative costs, and premiums rising at a faster rate than health care costs for larger employers.
- **HIGHER ADMINISTRATIVE COSTS:** Small businesses insurance policies are costlier to write. They are more expensive than policies for larger groups due to higher administrative costs -- fueled by higher overhead costs. Because small businesses don't have a benefits department to administer health benefits, it must spare a worker or the owner to spend all their time negotiating a health plan. All of this costs small businesses more money. ¹
- **FASTER COST INCREASES:** Rising costs are an even larger problem for small firms than for larger employers. The costs of health care are rising even faster for small businesses than for other employers. Small businesses which provide coverage to their employees face higher premiums, increasing at a faster rate than those of large firms -- as much as 50% in any given year. ²

¹ Small employers pay substantially higher administrative costs than large companies. Administrative costs consumed 40 cents of every dollar paid in total health premiums for businesses with less than five employees. Administrative costs for large companies often are as low as 5 percent. [CBO, 10/92]

² A survey by the National Association of Manufacturers reported that premiums for small employers rise at a higher rate than for other employers -- as high as 50% in recent years. [National Association of Manufacturers, 11/92]

- **INEQUITABLE TAX POLICY FOR SELF EMPLOYED:** Prior to July 1992, a self employed individual was only allowed to deduct as a business expense up to 25% of the cost of health care coverage. The deduction was temporary and sought to reduce the disparity between the tax treatment of the self-employed and other businesses -- who are allowed to deduct the full cost of coverage, has been extended several times but was allowed to expire last July.
- **HIGH WORKERS COMPENSATION COSTS:** Workers comp is becoming more and more of a burden to small business owners. The following story illustrates the frustration many face. *California machine shop owner Carl Anderson had not had a claim filed against his company for two years. His workers comp company sent him a letter to acknowledge his clean record. Then they promptly raised his rates. Carl has one full-time employee and one part-time employee and would hire another person but workers' comp costs prevent him from doing so.*

Today's high health care costs are surpassed only by skyrocketing workers' compensation costs. Increasing at an even faster rate than the rest of the health care system, worker's compensation medical costs grew more than one and a half times as fast as medical costs between 1980 and 1985.³ Between 1982 and 1992 the average workers' compensation medical claim rose from \$2,584 to \$8,900 -- an annual increase of 14% compared to 8% for the medical CPI and 4% for the overall CPI.⁴

Workers' compensation insurance has lagged behind in adopting cost and quality control techniques which have been effective in other areas of the health care system. Instead, workers' compensation has concentrated on limiting employee choice of doctor and medical fees schedules as means of controlling costs.

Fraud is a problem too. Health care providers in Minnesota were found to charge workers' compensation patients up to two times more than other patients for the same services.

Many states have begun looking at ways to improve the workers' compensation system. One study done by the Florida Department of Insurance showed that providing more efficient care [managed care and indemnity insurance] reduced total workers' compensation claim costs by 38.5%.⁵

³ Medical Costs and Workers' Compensation, Boden and Fleischman, Workers Compensation Research Institute

⁴ Workers' comp laws are state laws and are compulsory in nearly all employees in all states except New Jersey, South Carolina, and Texas, however in New Jersey the laws onuse for failing for provide are such that the law is elective in theory only.

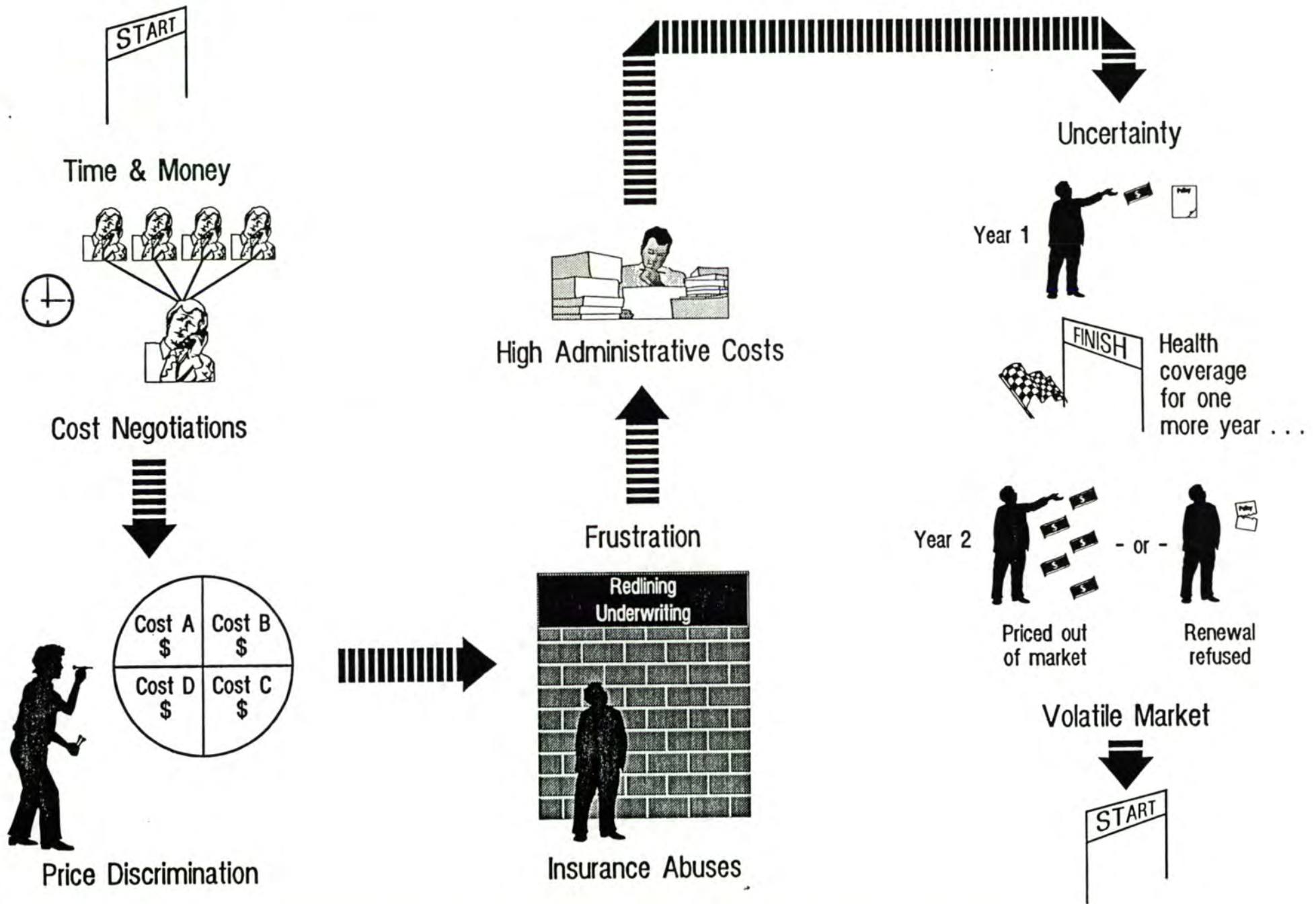
⁵ Florida Managed Care Pilot Program: Second Interim Report

- **INSURANCE ABUSES:** Small businesses, more often than other groups, are victims of the insurance practices in today's market which have so distorted the concept of what "insuring" means. Many small business owners encounter obstacles like "occupational redlining" a practice where insurers will simply refuse to cover entire industries perceived to be high risk; medical underwriting, basing premiums on perceived risk and medical history; or experience rating, where insurers jack up costs if just one employee falls ill or gets injured. Many insurers engage in "price baiting and gouging" offering "discount" rates for the first year of coverage only to charge much higher prices in the next year when pre-existing condition exclusions expire. And small firms with sick workers frequently face an insurer who will refuse to renew their policy. (Please see the graphic section on problems in today's system which offers a graphic depiction of the obstacle course of insurance abuses and higher costs small business owners who provide coverage must overcome.)
- **A VOLATILE MARKET:** The volatility of the small business insurance market causes rates to differ widely between similar plans and premiums increase with little warning or reason. Today's pre-existing condition exclusions allow insurers to offer small businesses lower rates in the first year of coverage. When pre-existing condition exclusions expire insurers will raise premiums dramatically -- pricing many employers out of the market.

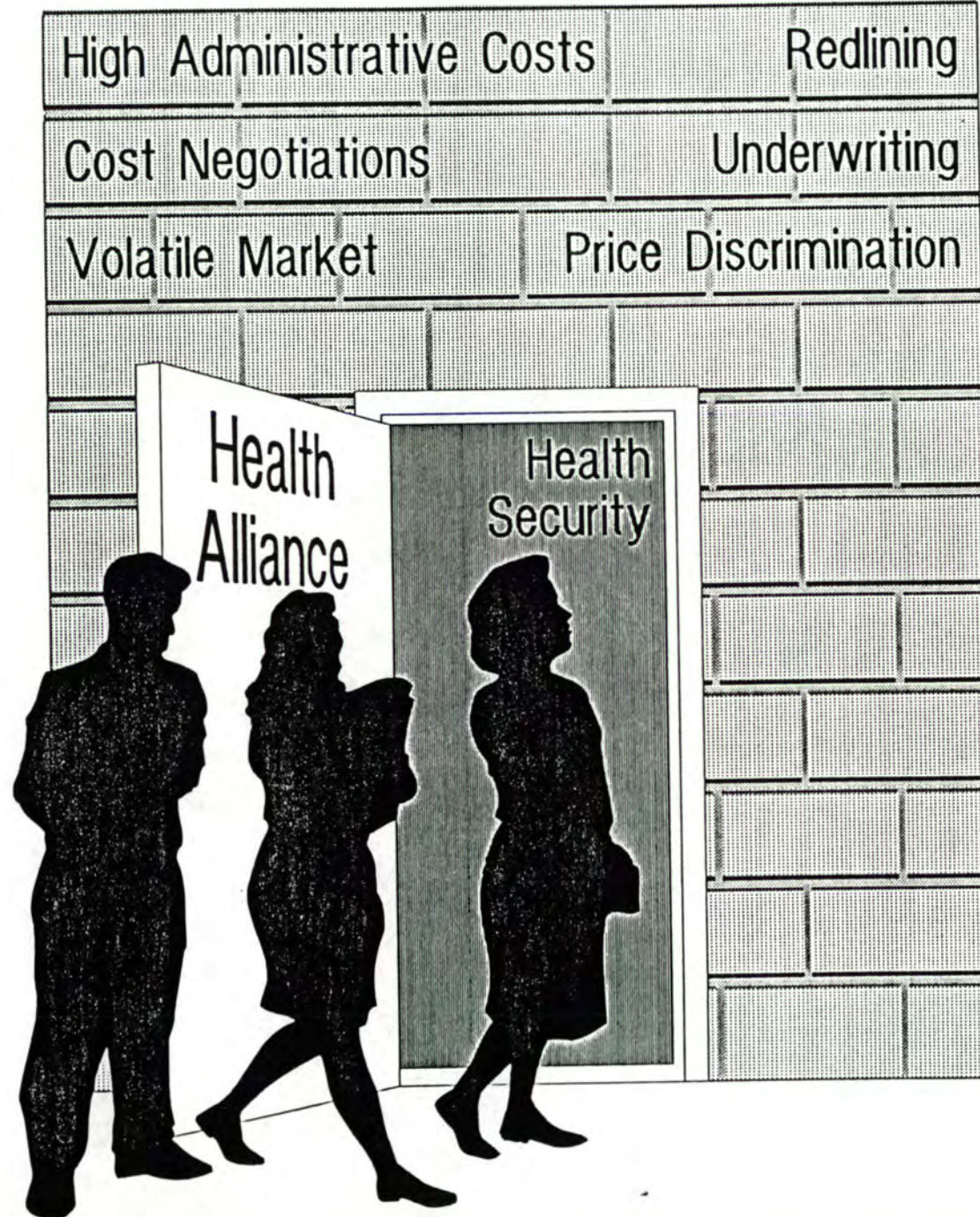
This process, known as **durational rating** causes churning within the small business market as small businesses, seeking lower costs, regularly change carriers. It is responsible, in part, for the large variations in prices for small business policies. Employers, especially those with narrow profit margins, find it hard to plan a business or a health plan on such unpredictable premium variations.⁶

⁶ Small businesses face large variations in the costs of similar plans. Nearly identical benefits packages can range in price by as much as 350%. [Blue Cross/Blue Shield, Survey of Six Sample BC/BS Plans, January 1992]

Small Business Owners Face an Obstacle Course in Obtaining Health Insurance



The New System

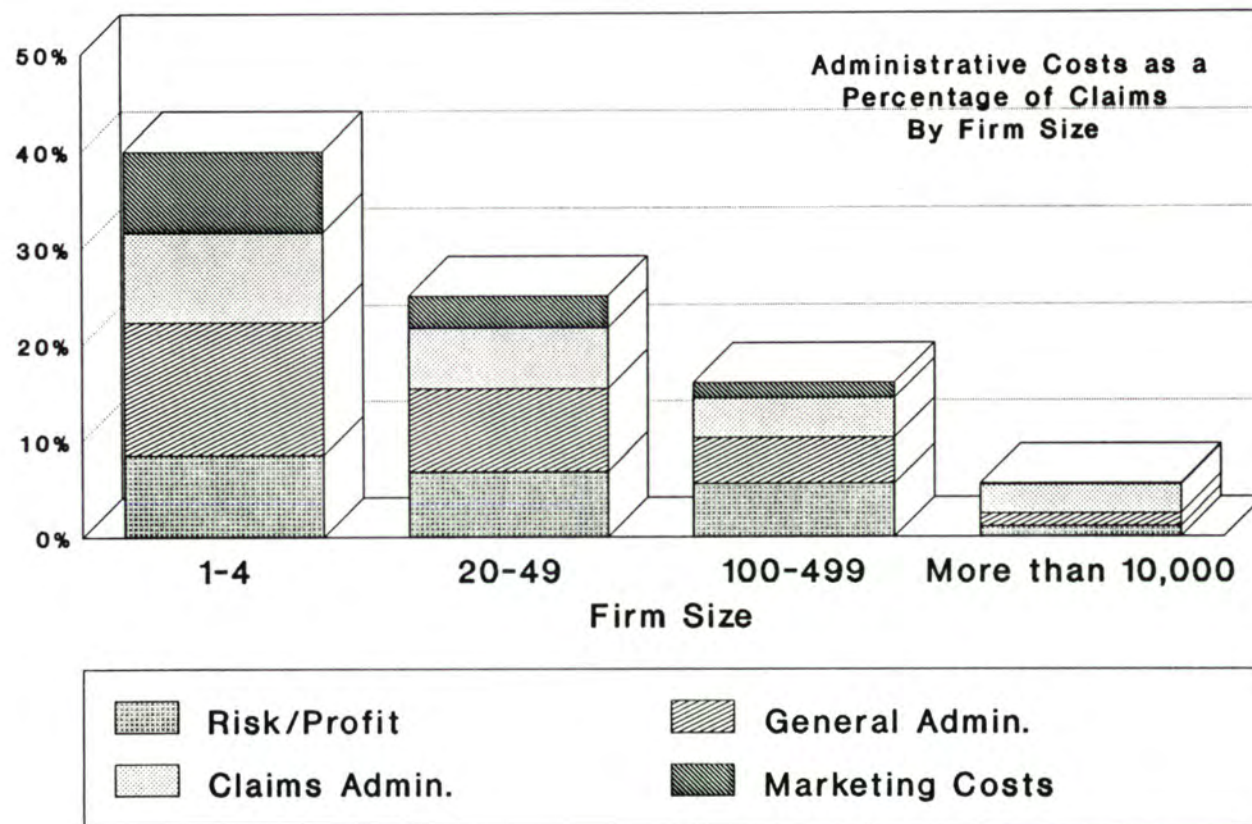


OCCUPATIONAL REDLINING

Types of Industries Excluded From Health Insurance

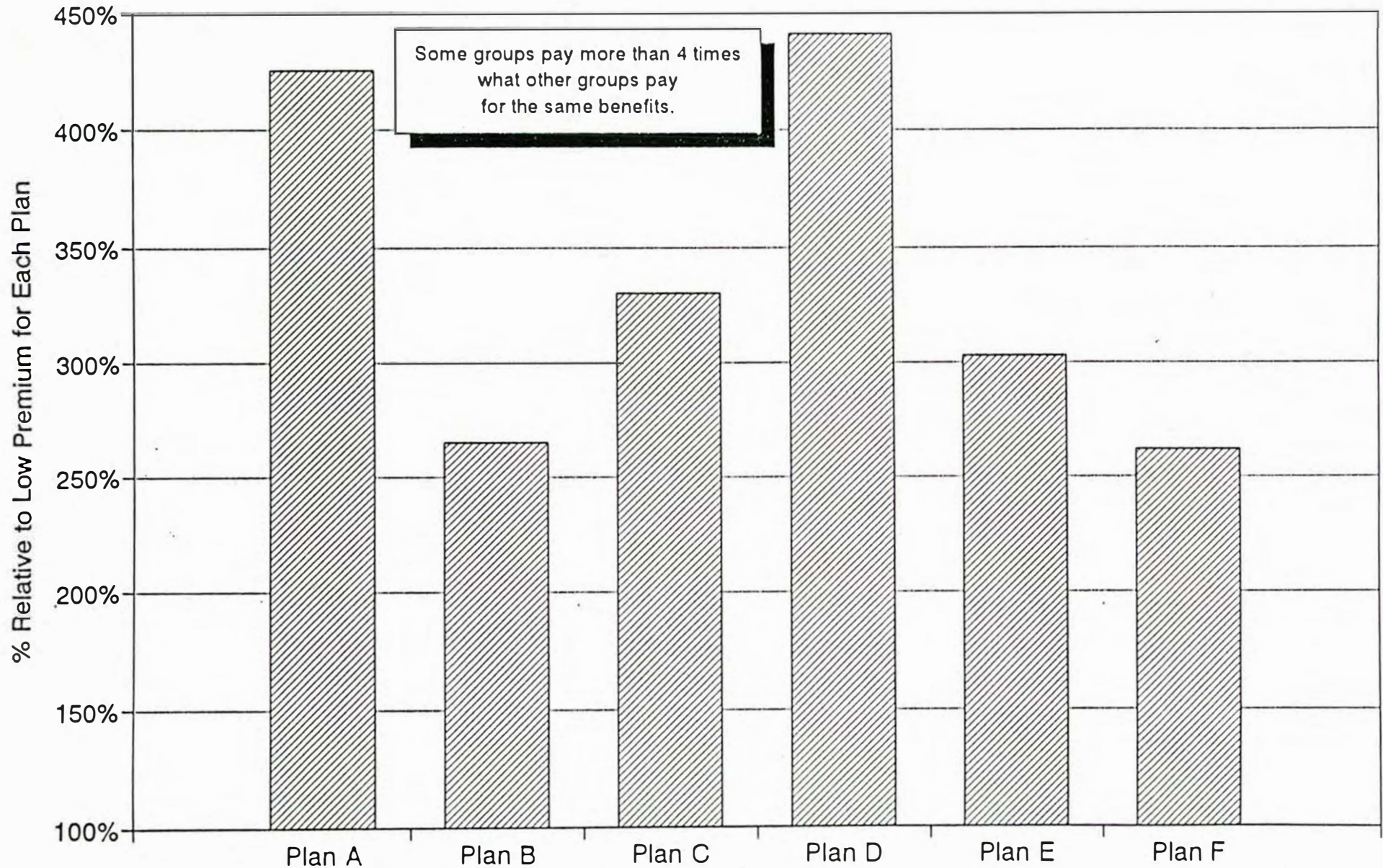
Amusement Parks	Insurance Agencies
Asbestos Related Industries	Interior Decorators
Auto Dealers	Janitorial Services
Aviation	Junk and Scrap Metal
Barbers and Beauty Shops	Law Firms
Bars and Taverns	Limousine Services
Car Washes	Liquor Stores
Commercial Fishing	Logging and Lumber Mills
Construction	Meat/Fish Packers
Convenience Stores	Mining Operations
Domestic Help	Moving Operations
Entertainment/Athletic Groups	Oil Field Operations
Exterminators	Parking Lots
Federally Funded Organizations	Physicians Practices
Florists	Restaurants
Foundries	Roofing Companies
Grocery Stores	Security Guard Firms
Health Clubs and Spas	State Funded Organizations
Hospitals and Nursing Homes	Taxicabs
Hotels and Motels	Trucking Firms

Small Businesses Face Higher Administrative Costs



Source: Hay/Huggins, Inc.

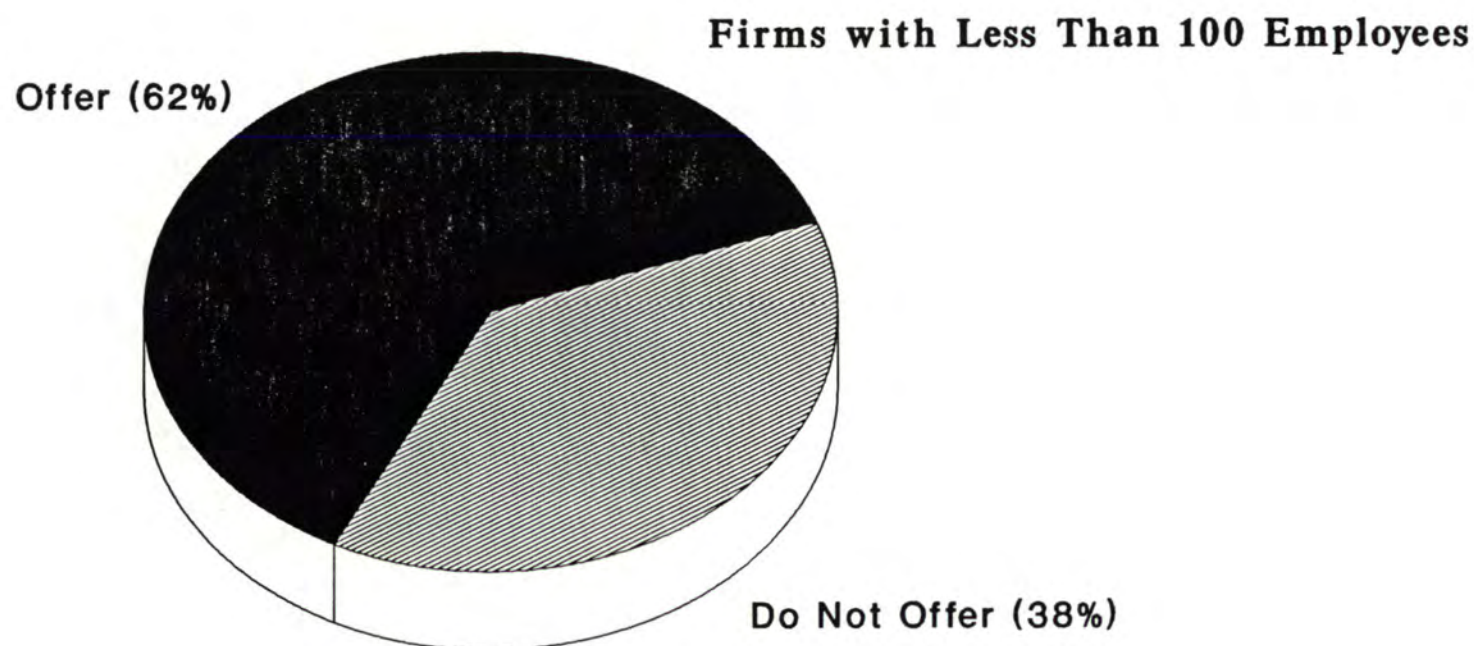
Small Groups (2-25) Face Large Variations in Health Insurance Premiums



Source: Blue Cross/Blue Shield Association, Survey of Six Sample BC/BS Plans, January 1992.

SMBUS.WQI

A Majority of Small Businesses With Less Than 100 Employees Offer Health Care Coverage



Source: Department of Labor; SBA Calculation of CPS Data

HOW THE CLINTON HEALTH CARE REFORM WORKS FOR SMALL BUSINESS

Because the problems faced by small businesses are acute examples of our health care system gone awry, and because so many of the working uninsured are employees of small businesses, entire reform efforts have focused exclusively on remedying the problems in the small group market. During 1990 and 1991, 23 states enacted laws to reform underwriting and rating practices in the small group market. Twenty two more considered such reforms in 1992. Michigan and Illinois were the only two states which had sessions in 1992 and did not consider such reforms. Many of these reforms have been characterized as "incremental" because they have not focused on universal coverage.

The plan addresses most of the problems in the small group market and does one other thing previous reforms have not. The creation of health alliance distinguishes the Administration's plan from other "straight" mandates. Unlike other mandates, the health alliance not the employer will administer the benefits, mitigate the administrative overhead costs, negotiate and renew coverage and ensure reasonable costs. This is a key distinction between the Administration's plan and other "mandates." We are asking employers to contribute to a health care system -- not to be the system. The plan also addresses most of the problems in today's small group market, remedies tax inequities faced by small business, reforms workers compensation insurance, and reduces administrative costs.

- **100% TAX DEDUCTION FOR SELF EMPLOYED:** The plan provides for a permanent full 100% tax deduction for cost of the comprehensive benefits package for the self-employed. This is a big issue for small business interest groups and a popular measure among small business advocates on the Hill. The fact that the deduction is permanent is a selling point. Previously the deduction was granted but temporary. Budget reconciliation provides for a retroactive extension of the 25% deduction from July 1992 through December 1993, because the previous 25% deduction expired in July.
- **WORKERS COMPENSATION:** The plan addresses the skyrocketing cost of workers compensation insurance by reforming the medical component of the workers' compensation system making it more efficient and reducing costs by covering work related injuries through health plans in the same manner as non-work related injuries -- eliminating duplication and improving quality for workers who receive services. (See attached detailed summary of Workers' Comp Policy)
- **SMALLER CONTRIBUTIONS AND SUBSIDIES:** The plan caps the contributions for small business at a lower level than the contribution for big business. The proposal ensures that the cost to small business to provide health benefits does not exceed its ability to pay. Small businesses will receive subsidies according to their need. Essentially, the level of the cap will determine the level of the subsidy for small and low-wage businesses.

- **COST CONTROL:** Health reform will aggressively control costs through market based competition backed up by an enforceable budget. It will dramatically reduce administrative costs, by streamlining functions, which are the main source of small businesses higher costs. Under our system, a small employer will send one check to obtain health care coverage. There will be no more denial of coverage or refusal to renew or higher premiums based on perceived high risk.

The Clinton plan will bring uniformity and continuity to the small group insurance market and stop the wild fluctuation of premiums in the small group market. Community ratings will ensure that everyone living in the same area pays a similar price for a similar plan.

- **EMPLOYERS SEAT ON HEALTH ALLIANCE:** The plan guarantees that business owners will have decisions making power in the cost and quality of their health care plan. The Clinton plan ensures that the boards of the health alliance includes a business owner representative to ensure sensitivity and responsiveness to needs of employers in terms of costs, administrative simplification and quality.
- **HEALTH ALLIANCE:** No longer will small business owners have to perform all the functions of a large benefits department by themselves. Health alliances assume the administrative workload. The alliance will deal with the insurance companies and bargain for competitive prices. The alliance will take over the paperwork and the negotiations, provide information on plans, and increase ease of enrollment. Thus, higher administrative costs will be reduced.
- **LARGE PURCHASING POOLS:** The plan allows small business to combine their purchasing power to negotiate with insurance companies for high quality care at affordable prices. This gives them the bargaining power of large corporations and encourages better services at lower prices. Insurance reform will end the practice of charging higher rates to small businesses than they charge Exxon or General Electric.
- **INSURANCE REFORM:**

Guaranteed Issue: As a condition of doing business, insurance companies must provide coverage to any group that applies. This reform eliminates the "occupational redlining" which exclude entire industries -- from beauticians to oil field workers -- from obtaining coverage. (See attached "List of Industries Often Excluded from Health Insurance Plans")

Limits on Pre-Existing Condition Exclusions (PECS): Insurers must cover the same health conditions for everyone in the group, regardless of past health.

INSURANCE REFORM (Cont.)

Rating Reform: This includes prohibitions on medical underwriting, experience rating, or industry type, which is also often used as a rating factor. Limiting rate variation, establishing rating bands, and community ratings, are varying degrees and types of reforms which move rates closer to a median of cost and stabilize and lower rates in the small group market.

Portability: A person moving between plan, as a result of change in employment for instance, does not have to fulfill a new waiting period before being covered for preexisting conditions.

Guaranteed Renewal: Once a company is covered a carrier must renew its coverage except for cause (such as nonpayment of premiums, fraud, or misuse.)

SMALL BUSINESS, HEALTH CARE COSTS, AND THE CLINTON REFORM PLAN*

Small businesses face higher costs and more unstable insurance premiums. The Clinton plan will reduce these burdensome costs.

TODAY	THE CLINTON REFORM PROPOSAL
High Administrative Costs: Higher administrative costs kill small businesses. These costs account for as much as 40% of the policy costs compared to about 5% for large companies.	Cuts Administrative Costs: Administrative costs will be dramatically reduced by the formation of health alliances which will streamline and simplify administrative functions.
Faster Rising Costs: Premiums for small employers rise at a faster rate than for other employers -- as much as 50% in any given year. [NAM]	Aggressively Controls Costs: Health reform will aggressively control costs through market based competition backed up by an enforceable budget.
Inequitable Self-Employed Tax Policy: Today, unlike big businesses, small, self-employed businesses cannot deduct 100 percent of their health care expenses. This has the practical effect of further increasing the cost of insurance that is already priced higher than that available to larger firms.	Increases Deduction to 100% for Self-Employed: The Administration proposal will ensure that the self-employed are treated equally under our nation's tax policy, allowing them to deduct the full value of their health insurance coverage.
Workers' Compensation Costs: In today's system, high health care costs are surpassed only by the skyrocketing costs of workers' compensation insurance. Between 1980 and 1985, workers' compensation medical cost grew more than one and a half times as fast as medical costs and now accounts for \$24 billion a year in health care expenditures.	Reform Workers' Compensation: The Administration's proposal reforms the health component of workers' compensation insurance, making it more efficient and reducing costs by covering work related injuries through health plans in the same manner as non-work related injuries -- eliminating duplication and improving quality for workers who receive services.
Small Employers Have No Control: Small businesses and their employees have little or no ability to determine the level of premiums they pay or the information they receive about the services the plans provide.	Assures Employers a Place on Alliance: Business owners will sit on alliances to ensure sensitivity and responsiveness to needs of employers in terms of costs, administrative simplification and quality.
Volatile Costs: Small businesses face large variations in the costs of similar plans. Nearly identical benefits packages can range in price by as much as 350%. [Blue Cross/Blue Shield, Survey of Six Sample Plans, January 1992]	Stabilize Costs: The Administration proposal will stop the wild fluctuation of premiums in the small group market through community ratings and insurance reform. We will outlaw discriminatory pricing and ensure smaller predictable cost with aggressive cost controls.

All answers are based on assumptions of policies which have yet to be finalized or released.

SMALL BUSINESS, INSURANCE ABUSES, AND THE CLINTON REFORM PLAN *

Many insurers discriminate against small businesses, often charging more for similar policies or refusing to provide coverage at all. Abuses within the insurance industry hit small businesses particularly hard.

TODAY	THE CLINTON REFORM PROPOSAL
Hassle Factor: Small business owners who cover their employees spend inordinate amounts of time trying to figure out a maze of insurance policies, forms, and requirements. What's worse is that the rules of the game are changed all the time; unfortunately, they are changed by the seller and not the buyer.	Eliminates Hassle: The employer no longer has to worry about the headaches of selecting insurance for his/her employees. The employer/employee-run health alliance negotiates rates, provides information on plans, increases ease of enrollment and absorbs the manpower drain. Then, the employee, not the employer, chooses the plan. Regardless of the choice, however, the employer pays the same fixed amount.
Small Risk Pool: Fewer employees mean a smaller pool to share the risk. Insurers frequently charge more for these policies.	Spreads Risk Evenly: The proposal consolidates small businesses in purchasing pools to give them the same bargaining power as large firms.
Underwriting and Experience Rating: Medical underwriting is the practice of basing premiums on perceived risk and medical history. Experience rating is when insurers jack up costs after an employee falls ill or gets injured.	Prevents insurers from raising rates or dropping coverage after illness strikes: The Administration's proposal will reform practices such as underwriting and experience rating. Under the Clinton plan, you can drop your insurance plan, but they can't drop you.
Price Baiting and Gouging: Many insurers engage in "price baiting and gouging" offering "discount" rates for the first year of coverage only to charge much higher prices in the next year when pre-existing condition exclusions expire.	Outlaws Price Baiting and Gouging: The plan will end the days when insurers can raise and lower premiums at their whim. We will bring predictability and fairness to the cost of insuring families and workers.
Occupational Redlining: Some insurers simply refuse to cover entire industries perceived to be high risk.	Covers Everyone: Under the Clinton plan, there is an end to occupational redlining.
Refusal to Renew Policy: After a first year of reasonable rates, small businesses often face higher costs and difficulty obtaining renewal.	Guarantees Renewal: The Clinton plan guarantees insurance renewal and stabilizes premiums.

* All reform scenarios are based on assumptions of policies which have yet to be finalized or released.

SMALL BUSINESS AND HEALTH REFORM: Questions and Answers *

The following questions and answers address many of the most common concerns of small business owners.

COST-CONTAINMENT

- Q.** How is this reform plan going to keep the costs of health care down for small business owners?
- A.** The Administration's proposal controls costs by bringing **the force of the market place** to bear upon the health care system. Health alliances will band families, businesses, and individuals together to bargain for lower costs and better quality of services. Costs will be kept low by market forces and guaranteed by a **fail safe budget enforcement mechanism** should health expenditures rise too fast.

Administrative costs, which account for most of the higher costs paid by small businesses, will be reduced by the creation of health alliances, which will assume administrative functions, and simplification of the system -- standardization of forms and benefits packages.

Business representatives will serve on the board of the health alliances and will be involved in cost negotiations with health plans.

Insurance abuses, including underwriting and experience rating which lead to higher costs for small business -- will be ended, guaranteeing predictable, lower costs.

In addition, increasing the deduction for self-employed to 100% and reforming the medical component of workers' compensation will significantly reduce costs for many small business owners.

- Q.** How can I afford to provide the health benefits package to my employees and still remain profitable?
- A.** The Administration's proposal ensures that the cost to small business to provide health benefits does not exceed its ability to pay. We will cap the amount small businesses have to pay for premiums, keep premiums low for small, low-wage businesses and provide subsidies in accordance with need.

SELF-EMPLOYED -- 100% DEDUCTION

- Q.** Will health reform address the inequity in the tax law that forces the self-employed small business owner to pay higher taxes for their health benefits?
- A.** Yes. Health reform will expand and make permanent a 100% tax deduction for the cost of health benefits bought by self-employed workers and their families.

* All answers are based on assumptions of policies which have yet to be finalized or released.

• WORKERS' COMPENSATION

- Q. I already face astronomical workers' compensation costs. How can I be expected to pick up health insurance as well?
- A. The cost of workers' compensation insurance is killing many small businesses. In fact, today's high health care costs are surpassed only by skyrocketing workers' compensation costs. Between 1982 and 1992 the average workers' compensation medical claim that included time lost from work rose from \$2,584 to \$8,900.

That's why our reform plan will reform the medical component of the workers' compensation system making it more efficient and reducing costs by covering work related injuries through health plans in the same manner as non-work related injuries -- eliminating duplication and improving quality for workers who receive services.

PART-TIME EMPLOYEES

- Q. Will we have to cover everyone, or for example, will part-time employees be exempt?
- A. Employers will pay an hourly pro-rated amount for part-time workers. So an employer would pay the same amount for two part-time workers, each of whom work 15 hours a week, as he would for one full time worker who works 30 hours.

THE EMPLOYER MANDATE

- Q. What do we as small business owners possibly stand to gain by being forced to provide coverage to our employees?
- A. As small business owners and as individuals you gain the security of knowing that no member of your family will go without needed medical care because of lack of health insurance. You gain the ability to compete with larger businesses for top employees. And you gain the security that you and your business will never be bankrupted by a serious illness or injury.

Just as everyone stands to gain, everyone has to contribute something. Small businesses that provide coverage should not have to compete against other businesses that don't cover their employees. Under today's high cost system, 62% of small businesses with less than 100 employees and 51% of those with less than 25 employees make the sacrifices necessary to cover their employees. They end up picking up the tab for the uncompensated care.

PRICE DISCRIMINATION IN THE SMALL GROUP MARKET

- Q. One of my employees developed a serious illness. Because of this employee's illness, my insurance costs went through the roof. I can't afford to provide health insurance and stay in business.
- A. Under our plan insurance companies will no longer be allowed to charge discriminatory rates to small businesses who have sick workers. Everyone in working and living in the same area will pay a similar amount for their health coverage -- a concept known as community rating. Other practices such as cherry picking (covering only the young and the healthy) and pre-existing condition exclusions (where an illness or an entire person is excluded from coverage) will be outlawed. We will require all insurers to play by the same rules in order to participate in the reformed health insurance market.

REFORM GIVES SMALL BUSINESS THE CLOUT OF BIG BUSINESS

- Q. Why should we as small business owners support any government sponsored plan when in the past the government has favored big businesses?
- A. This plan has been written with the specific concerns of small businesses in mind. The President and I are committed to putting forth a health reform plan that works for small business. We know that small business generated 90% of all job growth in 1990. No Governor from Arkansas, a state in which over 90% of the businesses have fewer than 20 employees, gets elected five times without being sensitive to the concerns of small business.
- Q. Won't this reform simply increase the economic gap between large and small businesses?
- A. Health reform will help small businesses bridge the economic gap by allowing small businesses to band together to obtain the bargaining power of large corporations. Small businesses will combine their purchasing power to negotiate with insurance companies for high quality care at affordable prices. Insurance reform will end the practice of charging higher rates to small businesses than they charge Exxon or General Electric.

JOB LOSS AND BUSINESS FAILURE

- Q. I'm scared that this plan will drive me out of business. How can you assure me that health reform will not produce massive job loss and business failure among small businesses?
- A. Some special interests are trying to scare small employers into thinking that this plan will kill small business. The truth is everyone will benefit from cost containment, insurance reform and universal coverage. The U.S. Chamber of Commerce would not have endorsed the concept of a required employer contribution if such a requirement would hurt small business.

Although a full 95% of businesses in Hawaii have less than 100 employees, the states employer requirement has not had an adverse impact on the state's economy. The number of businesses in Hawaii has increased steadily from about 17,000 in 1974, the year the mandate was enacted, to nearly 27,000 in 1991 -- a 59% increase.

PAPERWORK AND ADMINISTRATIVE BURDEN

Q. Will my work-load increase as a result of this reform (i.e. more paperwork etc.)?

A. No, the Administration's plan will decrease the work-load. Today, lacking a benefits department like larger firms, most small business owners must perform all the functions of such a department by themselves. Negotiating health coverage in today's health care system is a process often fraught with frustration and obstacles.

We will take the burden off the small business with health alliances which will deal with the insurance companies and bargain for competitive prices. The alliance will take over the paperwork and the negotiations; provide information on plans and increase ease of enrollment. Higher administrative costs will be reduced and the hassle of the current system will be eliminated.

ECONOMIC IMPACT

Leading economists refute the notion that health care reform will cause significant economic pain -- even in the short term. A senior Labor economist criticizes NFIB's study in particular citing its failure to incorporate "key analytical processes" and called the study "essentially meaningless." "Many economists say they are skeptical of the federation's [NFIB] projections," says an L.A. Times article. Uwe Reinhardt estimates at most 100,000 small business jobs lost. John Sheils of Lewin VHI says the number is no higher than 60,000. In a U.S. News and World Report article entitled "Sparing the Knife, Clinton's Health Care Plan Won't Rip Into America's Weak Job Growth," David Brailer, professor at the University of Pennsylvania says "Reforming the health care system is not going to have a major impact on employment."

Clearly, critics of the plan will cite high figures to make their case. However these figures (such as the NFIB study) are misleading, largely because they estimate "jobs at risk" -- defined as any new employer contribution that results in reduced worker wages as opposed to actual lost jobs. They are easily refuted based on other published studies. The lower range of estimates use a relatively small employer contribution (such as a catastrophic plan) to calculate its numbers. The lower estimates are very small especially in the context of the labor market, where hundreds of thousands of job losses and gains occur each month.

Several other previously published estimates of job loss associated with a mandate have been produced. They range from a low of 50,000 per year to well over 1 million. The following studies illustrate the range:

- John Sheils, Vice President of Lewin-ICF, estimated that under The Health America Act, a pay-or-play plan which included a payroll tax of about 8 percent, loss of employment would be between 23,000 and 63,000 jobs. Dr. Kenneth Thorpe, Dr. Karen Davis, and the Congressional Budget Office had consistent estimates.¹
- The Employee Benefit Research Institute (EBRI) estimated that, between 200,000 and 1.2 million workers could become unemployed as a result of a mandate that employers provide health benefits. These estimates assume that wages and other benefits do not change as health benefits are added.² EBRI estimated that, under a play-or pay plan with a 9% percent payroll tax, between 130,000 and 965,000 jobs could be lost, if wages and other components of total compensation do not adjust.
- The recent NFIB study prepared by CONSAD Research found the Jackson Hole Group proposal, which has an employer contribution of 50% to 100% of premiums as well as @8% of payroll, would result in the loss of 899,530 jobs and 18.2 million (almost a quarter of total) "jobs at risk." [In news reports, NFIB spokespeople took

¹ Testimony to the United States Senate Committee on Finance, June 9, 1992.

² William S. Custer, Director of Research, EBRI. Testimony to Senate Committee on Finance, June 9, 1992

pains to point out that this proposal resembles what the Administration is working on.] The study also found that the Garamendi plan, which is funded by a 7.65% payroll tax and a 1.4% wage tax on workers, would result in 6.6 million jobs at risk. HealthAmerica, Senator Mitchell's "pay or play" legislation, would result in 12.1 million workers in jobs-at-risk. The Jackson Hole proposal does not include subsidies for small businesses while HealthAmerica does. Researchers defined "at risk" as an increase in compensation costs of at least 6% because of health care spending. The study looked only at those firms with less than 500 workers.

The Heritage Foundation proposal, which would replace the current tax exclusion on employer-provided health insurance with a tax credit to all taxpayers who would be required to purchase health insurance either privately or through their employer and Congressman Cooper's proposal, neither of which includes a mandate, would result in a "negligible number of jobs at risk."³

- An earlier CONSAD study prepared in April 1992 for The Partnership on Health Care and Employment found that under a federal pay or play health insurance plan, about 9.1 million jobs would be "at risk."⁴
- A study presented by Richard A. Armev in April 1992 for the Joint Economic Committee found that under a pay or play mandate with a 7% tax, 712,742 workers would lose their jobs in the first year of implementation, with 43% of this job loss falling on workers in businesses with under 20 employees. The four states of California, Texas, New York, and Florida would account for 42% of these job losses. A 9% payroll tax would result in the loss of 807,516 jobs.⁵
- Karen Davis, Professor of Economics and Chairman of the Department of Health Policy at Johns Hopkins, predicted that under The Minimum Health Benefits For All Workers Act of 1987, there would be a loss of about 100,000 to 120,000 jobs from mandating insurance coverage on employers (adding about .1 percentage points to the unemployment rate).⁶

It is difficult to estimate what the effects of our health care plan will be without final financing or subsidy decisions. However it is probable that any requirement, because of the way these studies are conducted, will result in a some job loss estimate. For this reason, it is important to keep the debate focused on health care coverage and costs of today's system. We will be hard pressed to win an all out war centered around job loss estimates.

³ "Employment Impact Of Proposed Health Care Reform on Small Businesses." Prepared by CONSAD Research Corporation for The NFIB Foundation, May 6, 1993.

⁴ "Jobs-At-Risk and Their Demographic Characteristics Associated With Mandated Employer Health Insurance." Prepared by CONSAD Research Corporation for The Partnership on Health Care and Employment, April 1992.

⁵ "Run From Coverage: Job Destruction from a Play or Play Health Care Mandate." Richard Armev, Testimony for the Joint Economic Committee (1992), April 9, 1992.

⁶ Testimony before the United States Senate Committee on Labor and Human Resources, 100th Congress, November 4, 1987

Additional costs -- whether they arise from an employer requirement or a continued failure to bring the system under control are, in the long run, paid for by the worker. Economists, (and more importantly CBO) believe that the cost of the mandate are fully borne by workers. John Sheils said in the L.A. Times article "The only thing Karl Marx managed to get right is that in the end the worker pays all the bills."

For the past 26 years, the worker has in fact been paying the bill and the bill has been high. Health care costs per worker have increased 451% since 1965 -- 65 times the rate of real wages and salaries. And health spending is eating up business profits. Health spending now consumes 97.5% of business after tax profits. In 1986, health care spending actually exceeded (113%) corporate after tax profits.⁷

The impact of reform will be markedly different for those who do currently provide health care insurance than for those who do not. Approximately 62% of businesses with less than 100 employees provide health care coverage. And 51% of those with less than 25 employees provide insurance. All of these employers contribute to the cost of coverage in some way. Most small businesses who provide insurance provide roughly the same package of benefits that large employers offer. The next section will look at what small businesses pay today and will pay under reform under two financing scenario under consideration.

Note: There is considerable skepticism among members of Congress especially those who come from Southern states on the percentage of small firms provide coverage to their employees. As is clear from the above referenced numbers the smaller the firm is the less likely it is to provide and contribute towards coverage. The widely cited two-thirds figure is slightly off base. Only if one uses firms under 100 workers does one approach the two thirds figure. Many view "small businesses" to be less than 25 workers instead of less than 100. Only 51% of businesses with less than 25 workers provide coverage to employees. And the smaller the firm is the less likely it is to provide.

⁷ Source: HCFA, Office of the Actuary

FINANCING SECTION

The following charts were prepared using distribution tables provided by Ken Thorpe and prepared by the Urban Institute using the 12.2% premium cap.* Because many financing decisions have not been made, these numbers are subject to change and are for your eyes only. Although the numbers can't be used yet, we thought they would be useful background for your meeting with the Congressional small business committee members.

What does seem clear from the data, however, is that those employers and employees who currently pay for health care coverage will pay less on average than they do under the current system -- which is very good news.

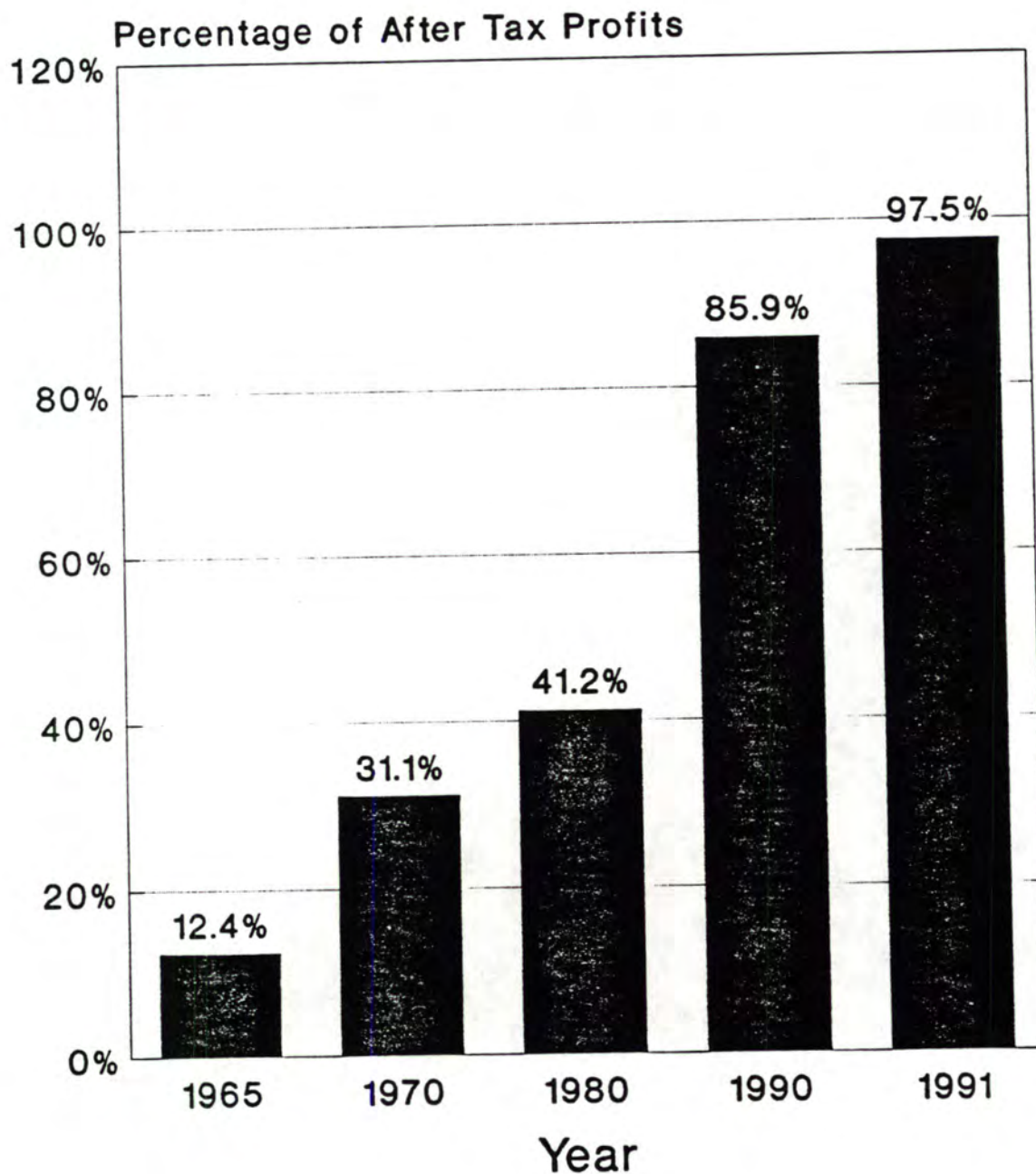
The graphs look at only at small businesses -- those with less than 25 workers or those with between 25-99 workers.

They show averages -- average worker contribution, average employer contribution -- today and under reform. As is the case with averages, they are not necessarily representative of what the "average American," pays or will pay, (because the very high costs plans and the very low cost plans are averaged in together).

Workers who do not currently receive health care coverage from their employer will pay, on average less, than those who do currently pay for coverage. We believe that this is due to the fact that today's uninsured are made up of more low-income or part-time workers. Also, smaller businesses (those with less than 25 workers) pay somewhat less on average under the reform plan because they are more likely to be eligible for subsidies.

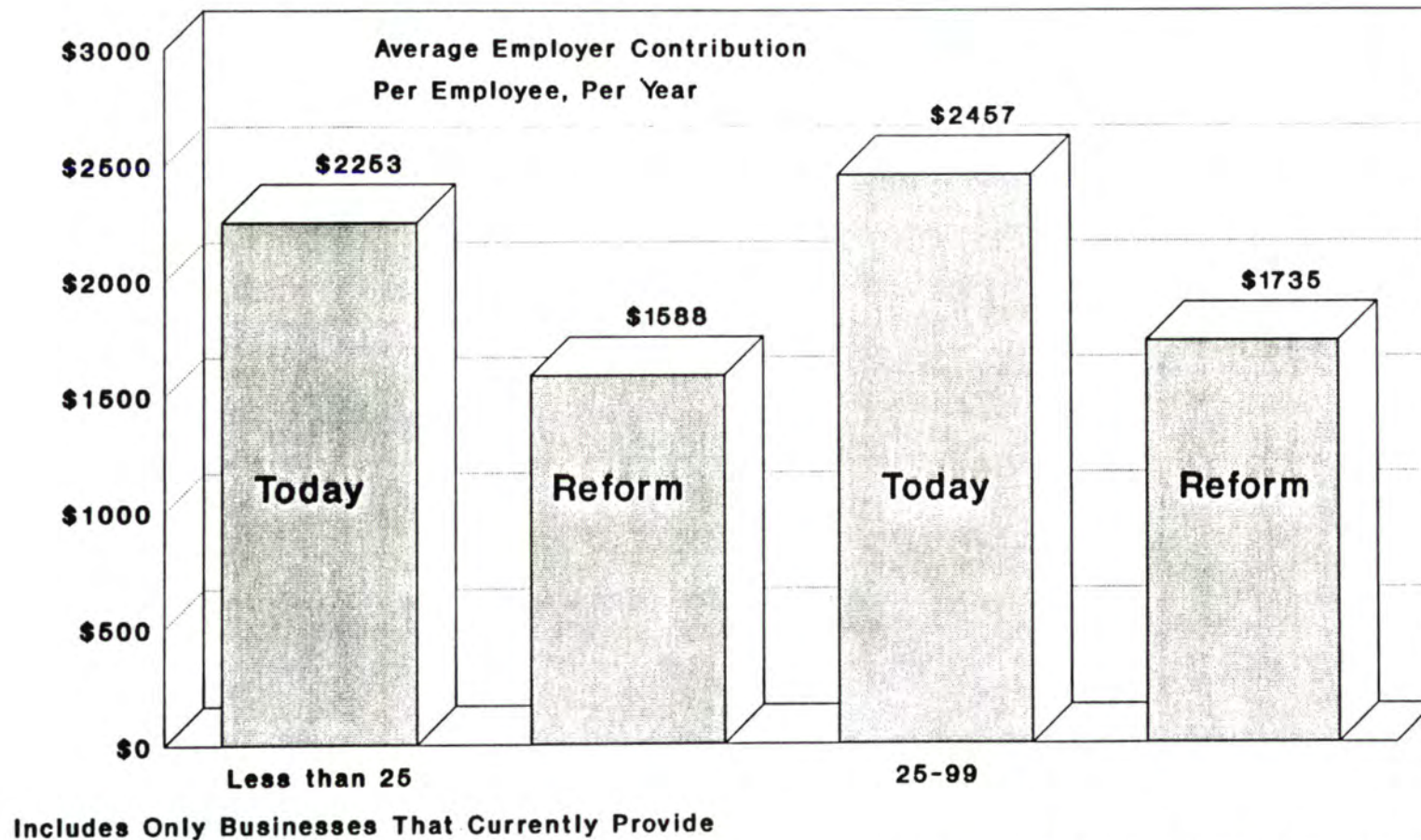
* As you know, there are other financing scenario's under consideration. HCFA, Treasury, and the Agency for Health Care Policy Research are also preparing runs using the same data. Their numbers may differ from those used to prepare this data.

Health Spending Is Eating Up Business Profits



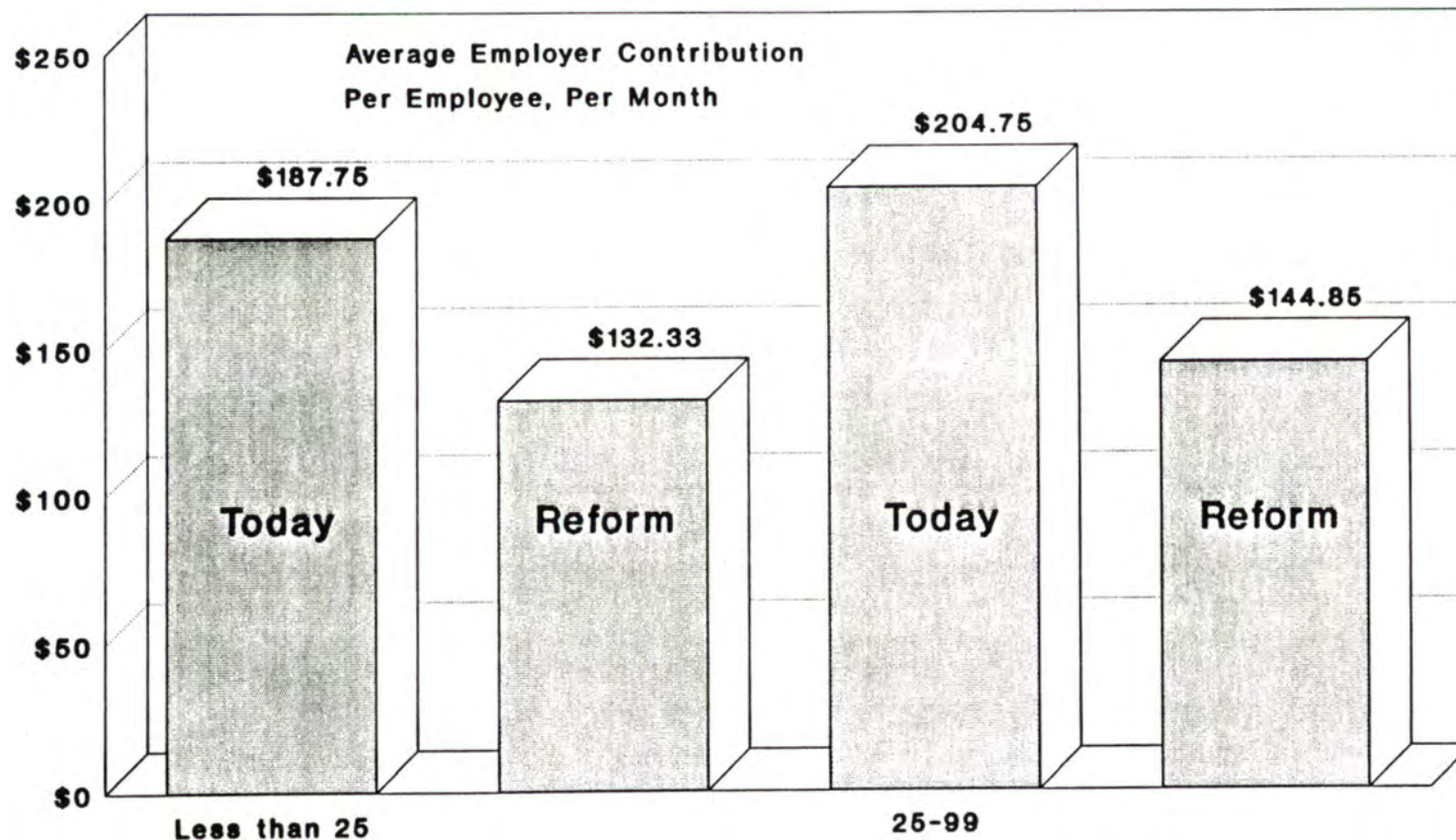
Source: HCFA, Office of the Actuary

Small Employers Who Currently Provide Coverage Have Lower Yearly Premiums Under the Health Care Reform Plan



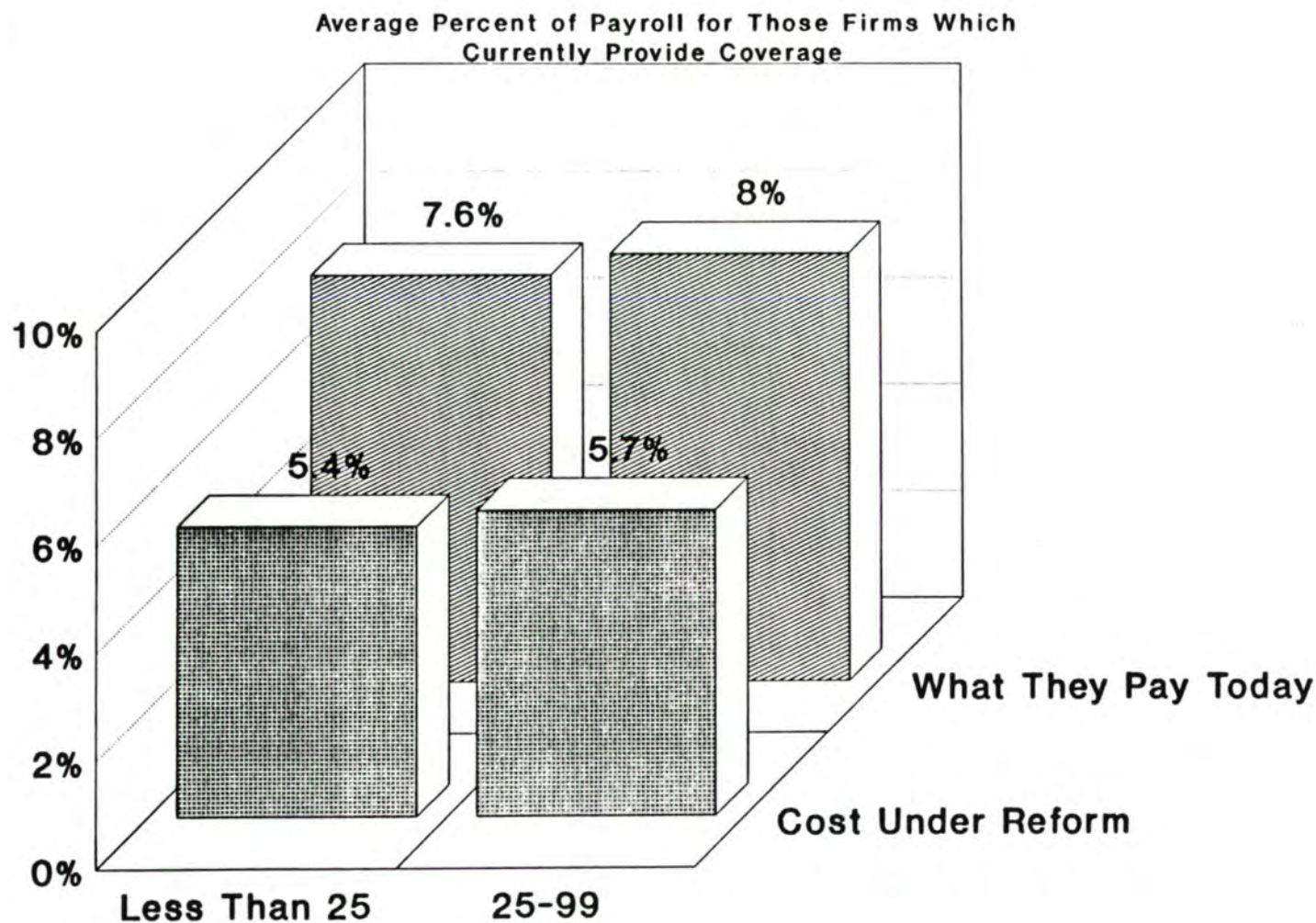
Source; HHS: Urban Institute TRIM2 Model

Small Employers Who Currently Provide Coverage Have Lower Monthly Payments Under the Health Care Reform Plan



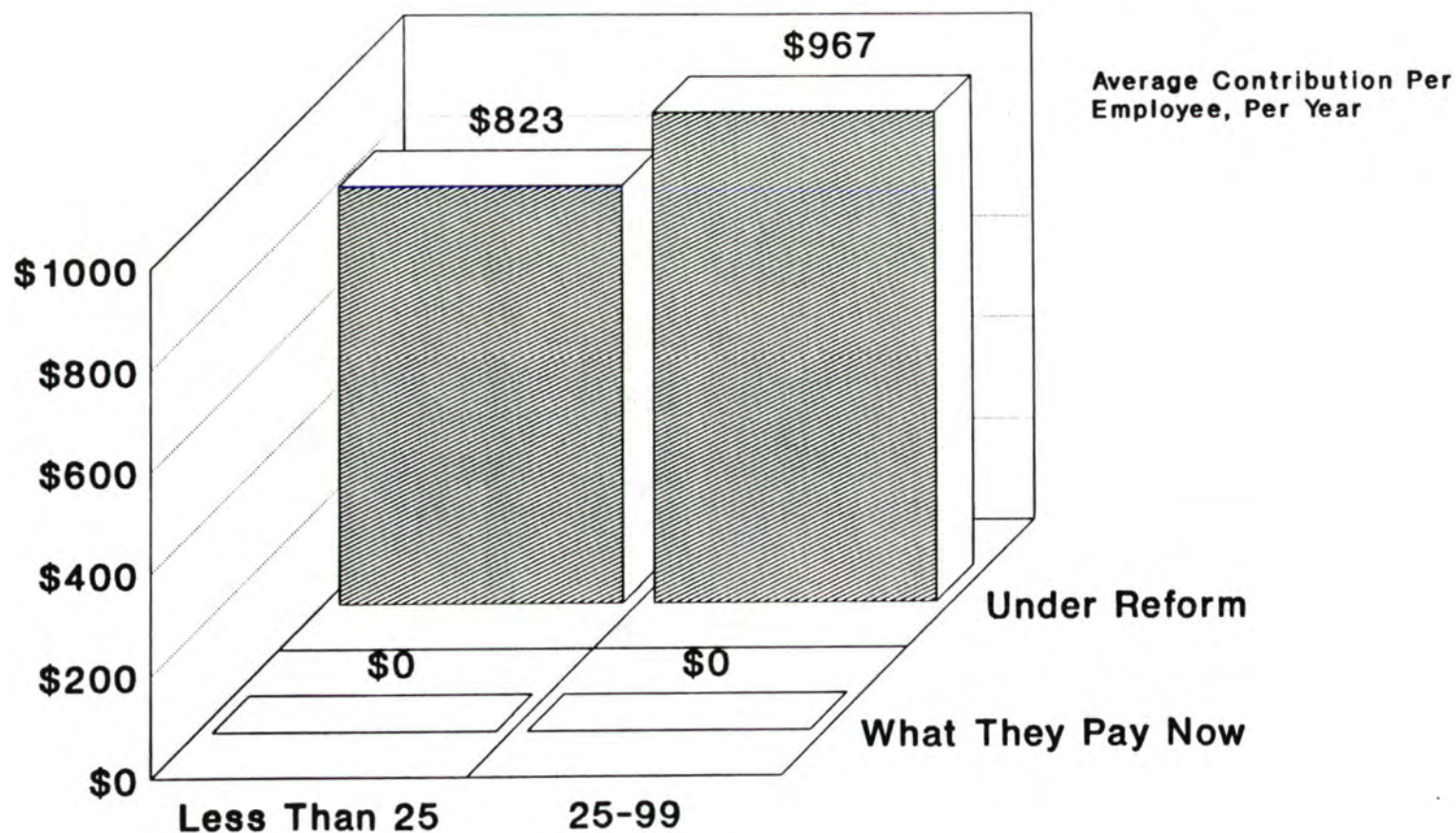
Source; HHS: Urban Institute TRIM2 Model

Small Employers Pay A Smaller Percentage of Payroll for Employee Coverage



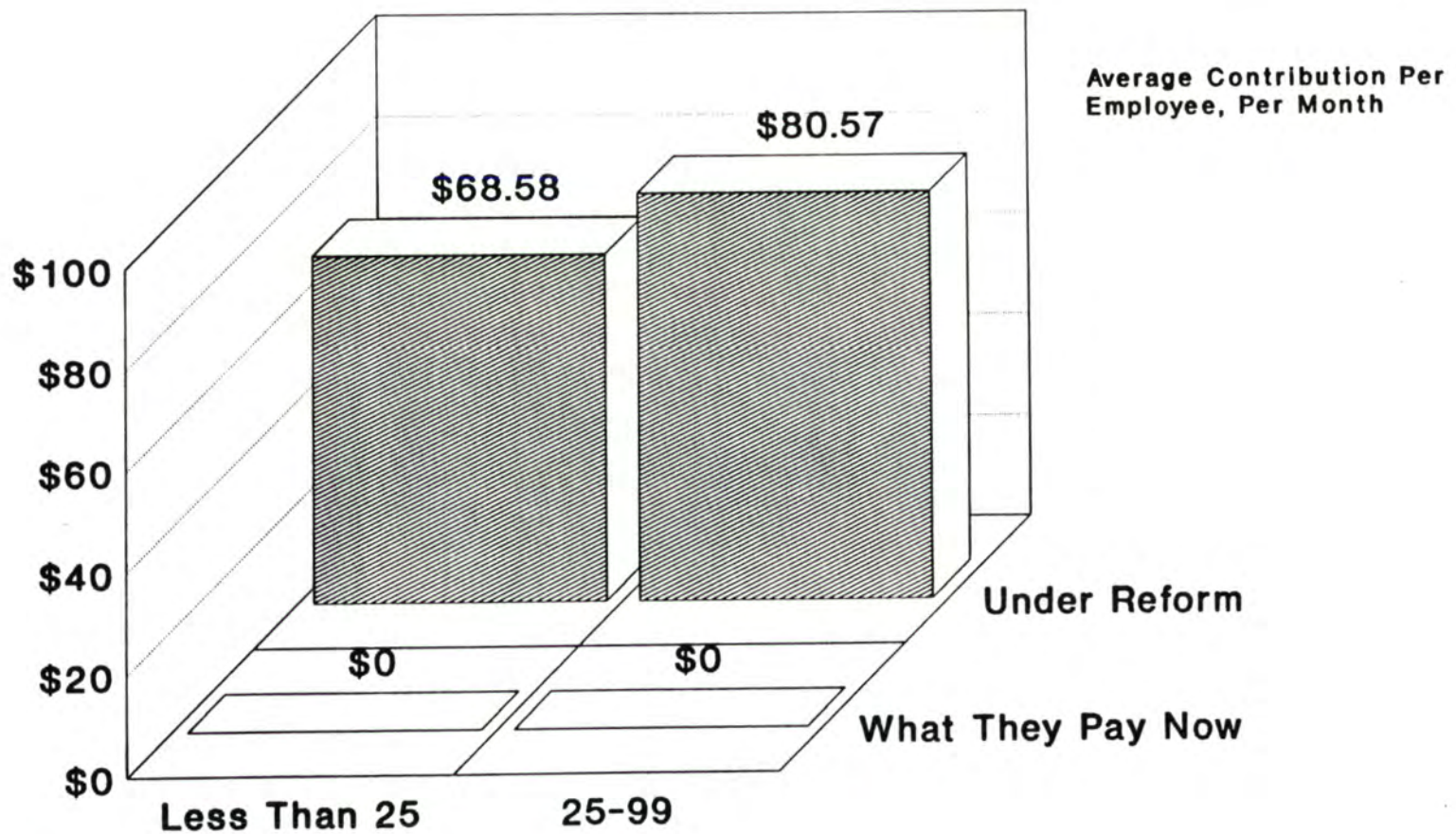
Source: HHS; Urban Institute TRIM2 Model

Today's Uninsured Small Businesses Will Pay a Modest Amount Per Employee Under Health Care Reform



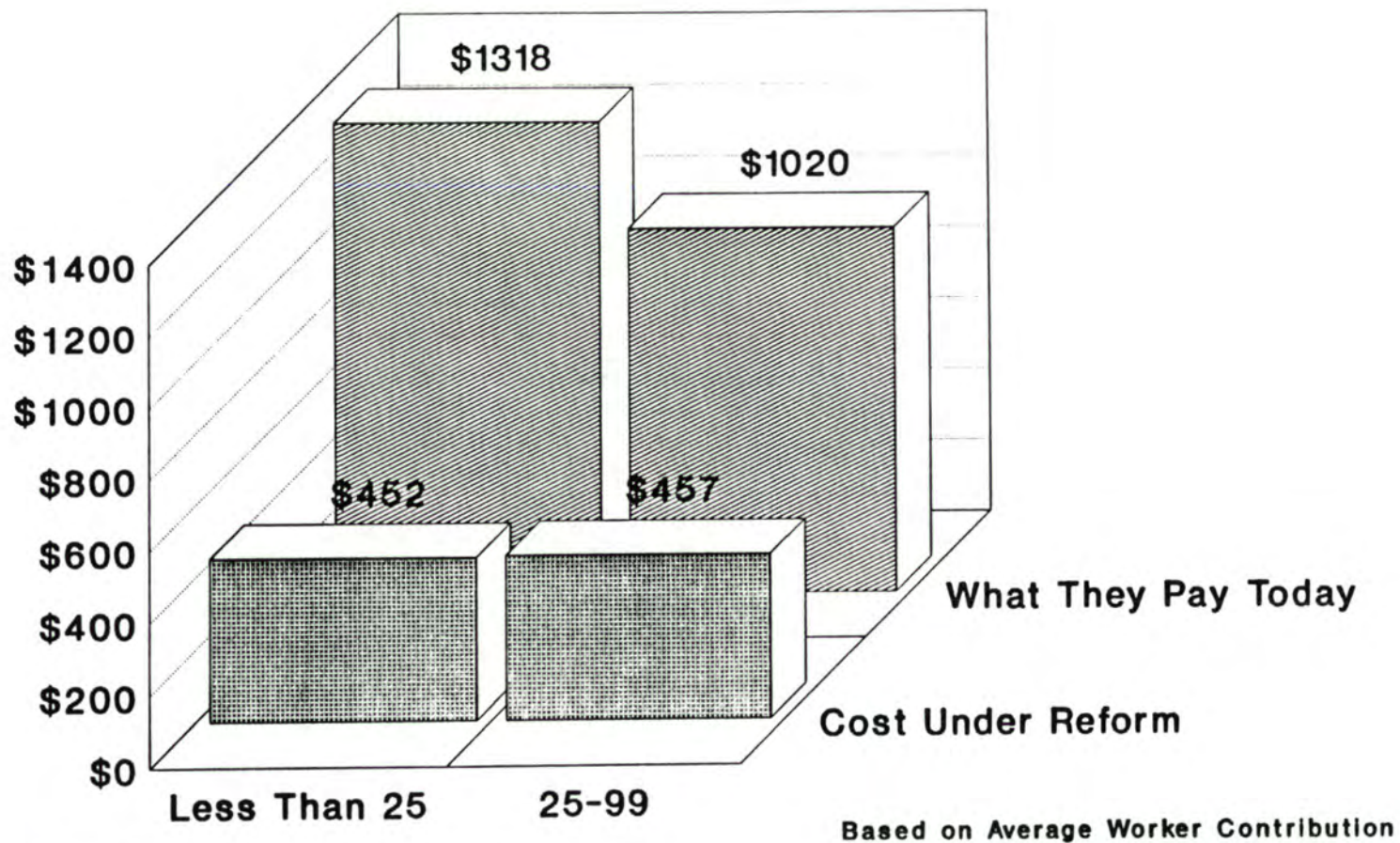
Source: HHS; Urban Institute TRIM2 Model

Today's Uninsured Small Businesses Will Pay a Small Monthly Amount Per Employee Under Health Care Reform



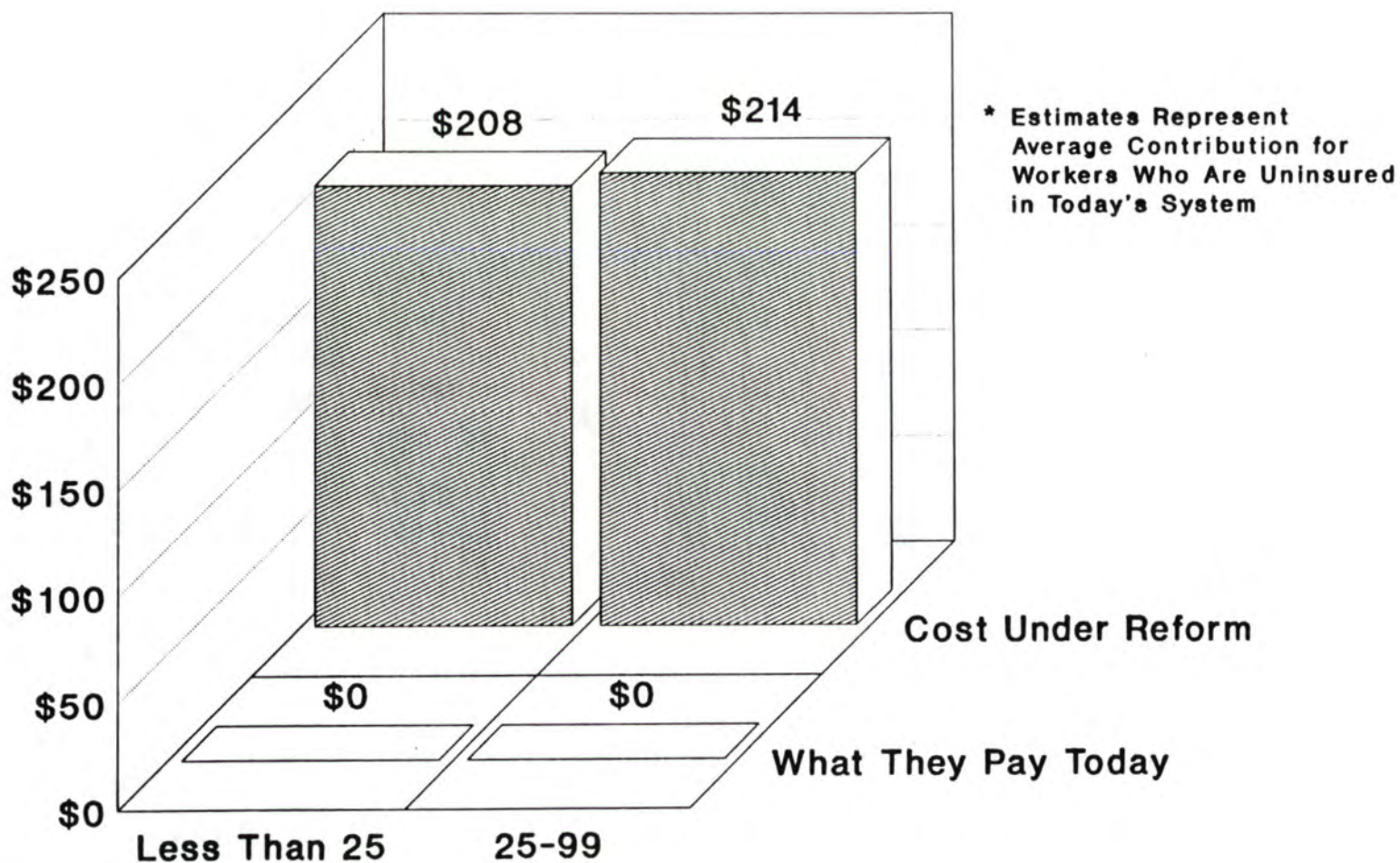
Source: HHS; Urban Institute TRIM2 Model

Employees of Small Businesses Which Currently Provide Coverage Will Pay Less Under Reform



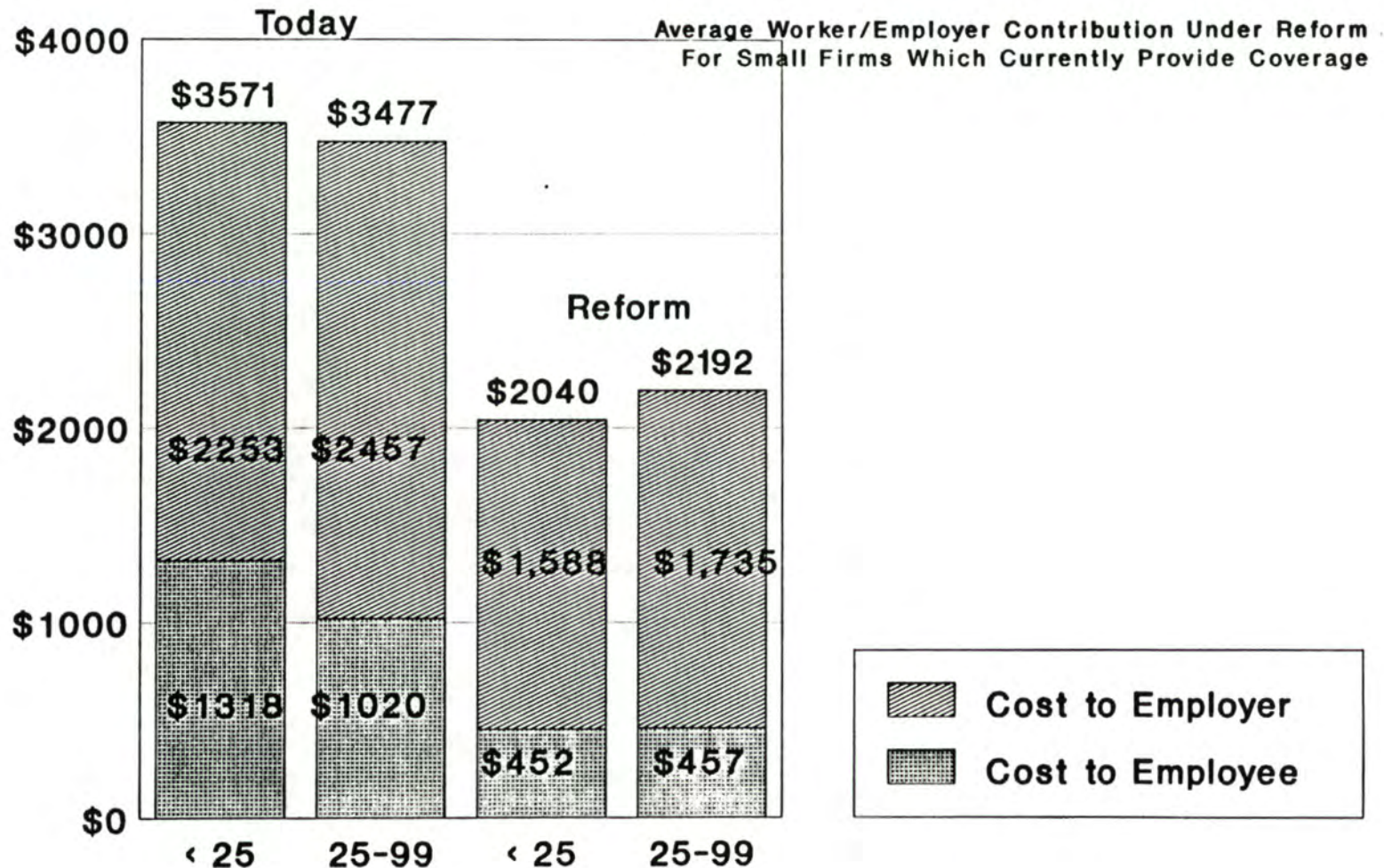
Source: HHS; Urban Institute TRIM2 Model

Uninsured Workers Have Relatively Small Cost Increases Under Reform *



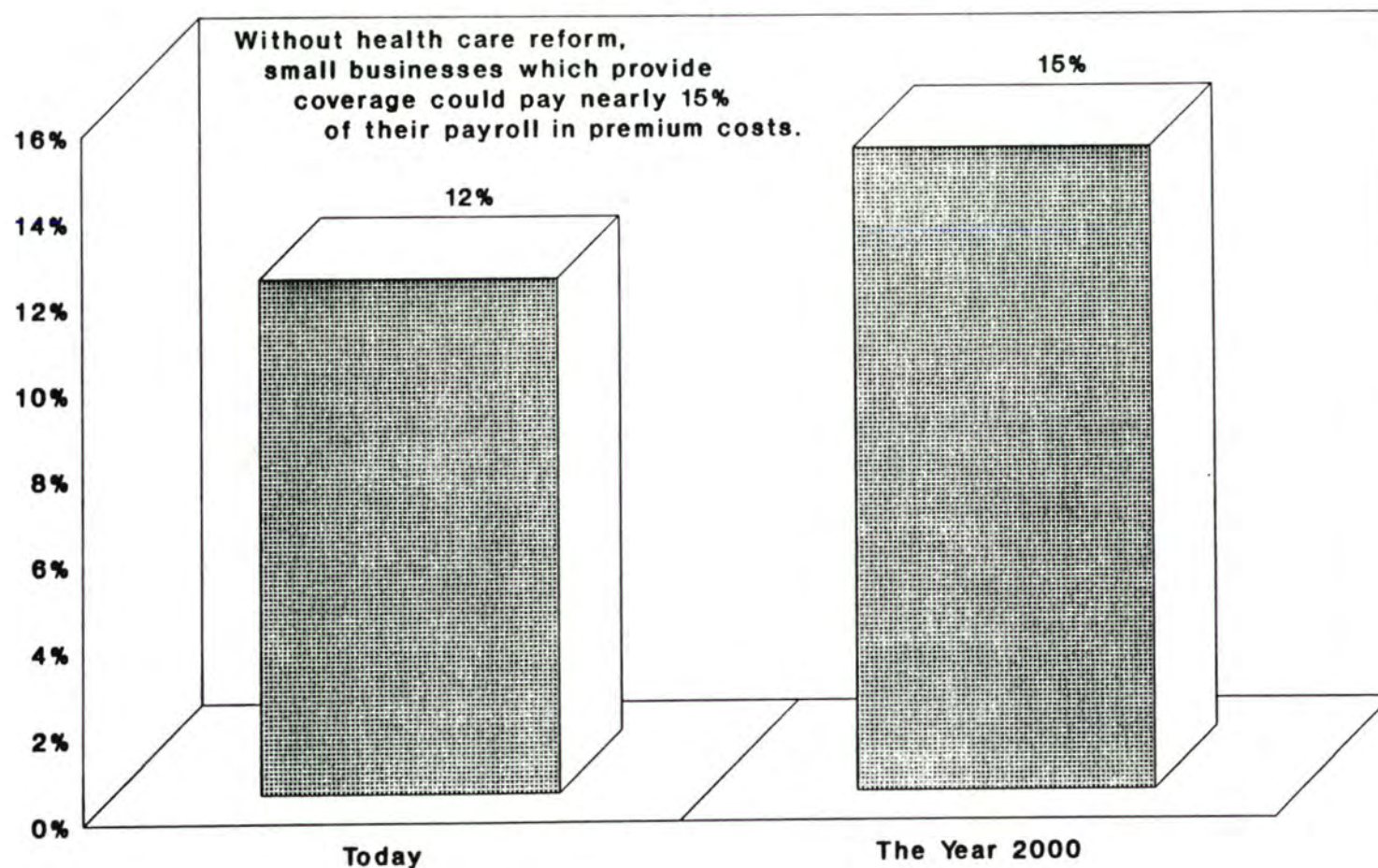
Source: HHS; Urban Institute TRIM2 Model

Under Health Care Reform: Everyone Contributes, Everyone Pays Less



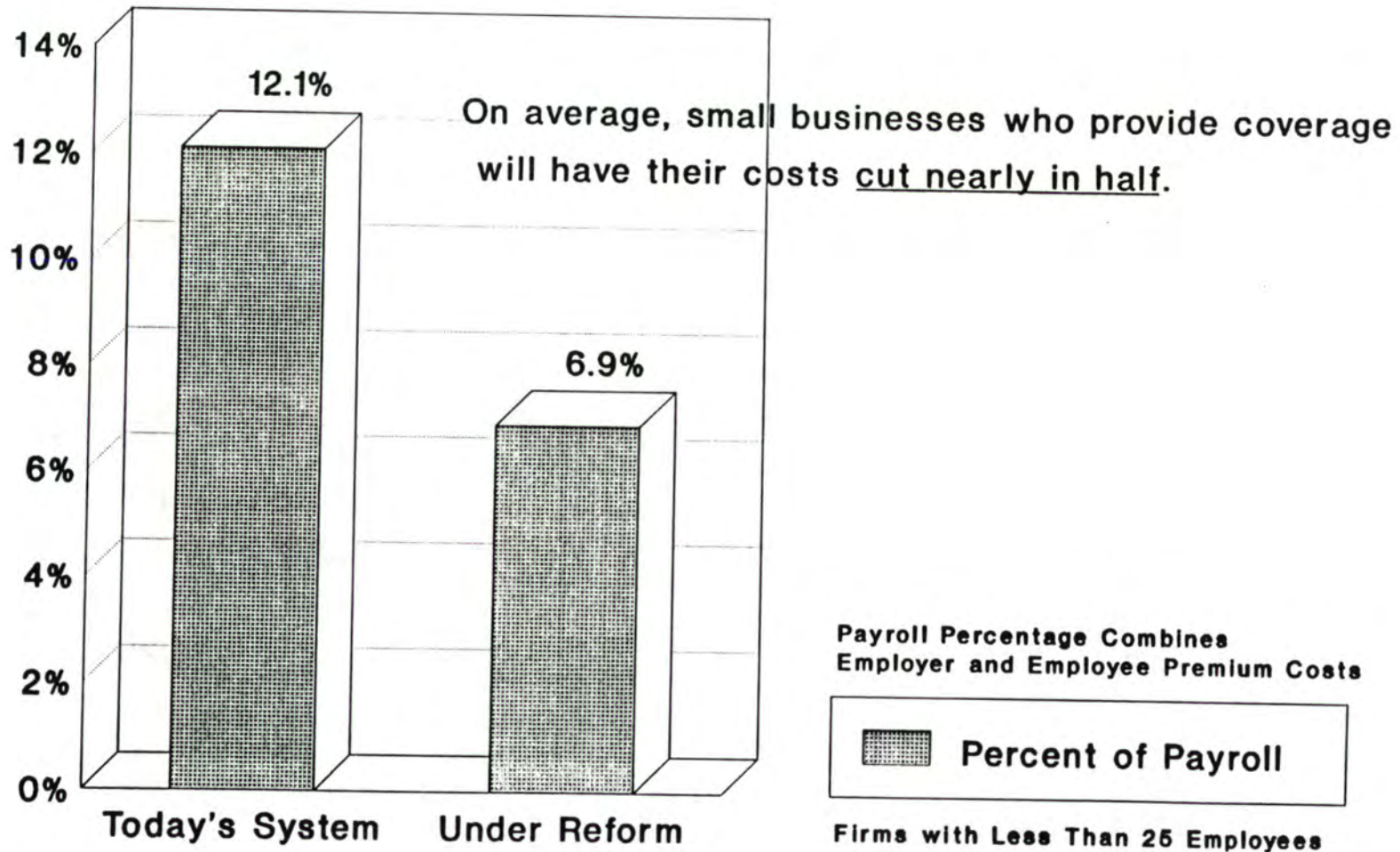
Source: HHS: Urban Institute TRIM2 Model

Health Care Costs For Small Business in the Year 2000



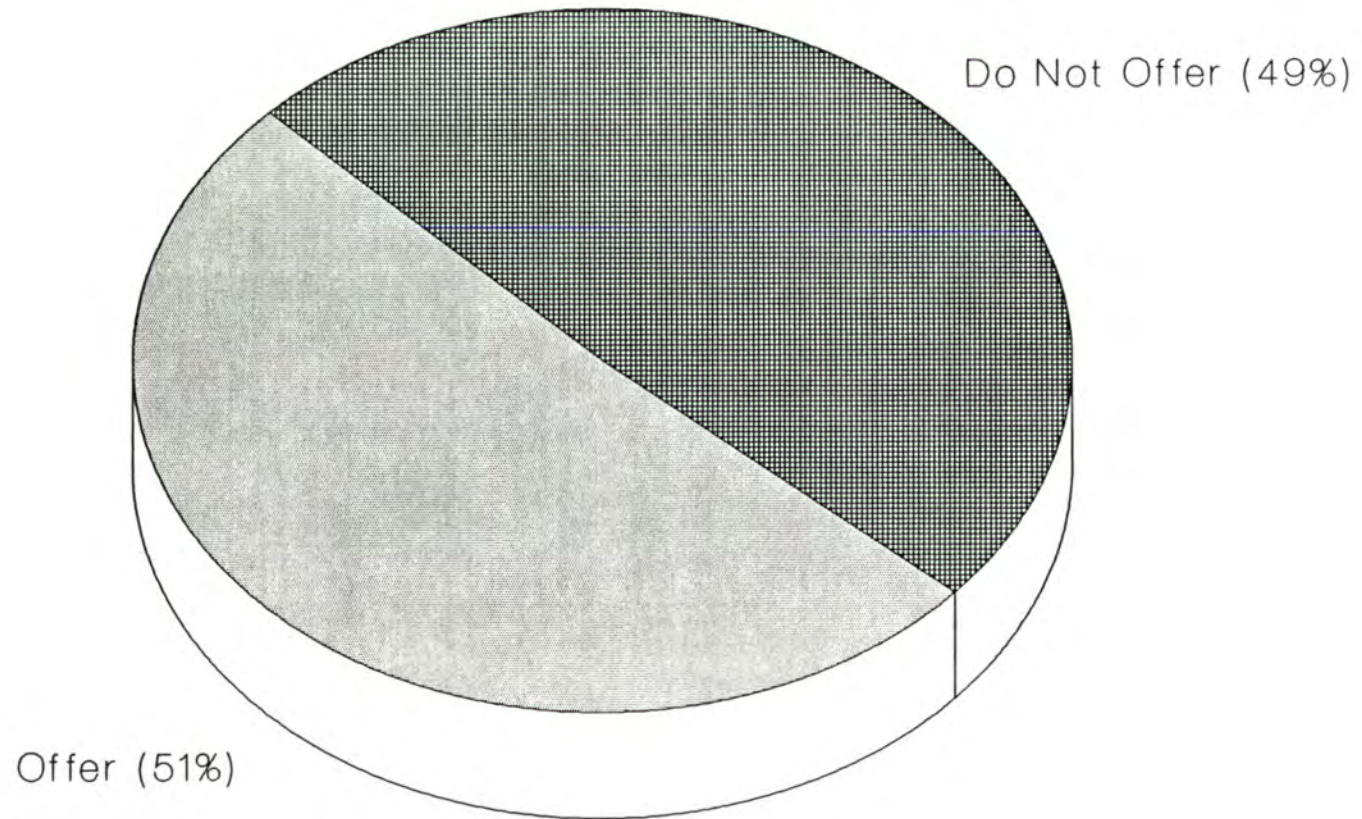
Source: HHS Analysis of Urban Institute

The Administration's Health Care Reform Plan Cuts Costs For Small Business



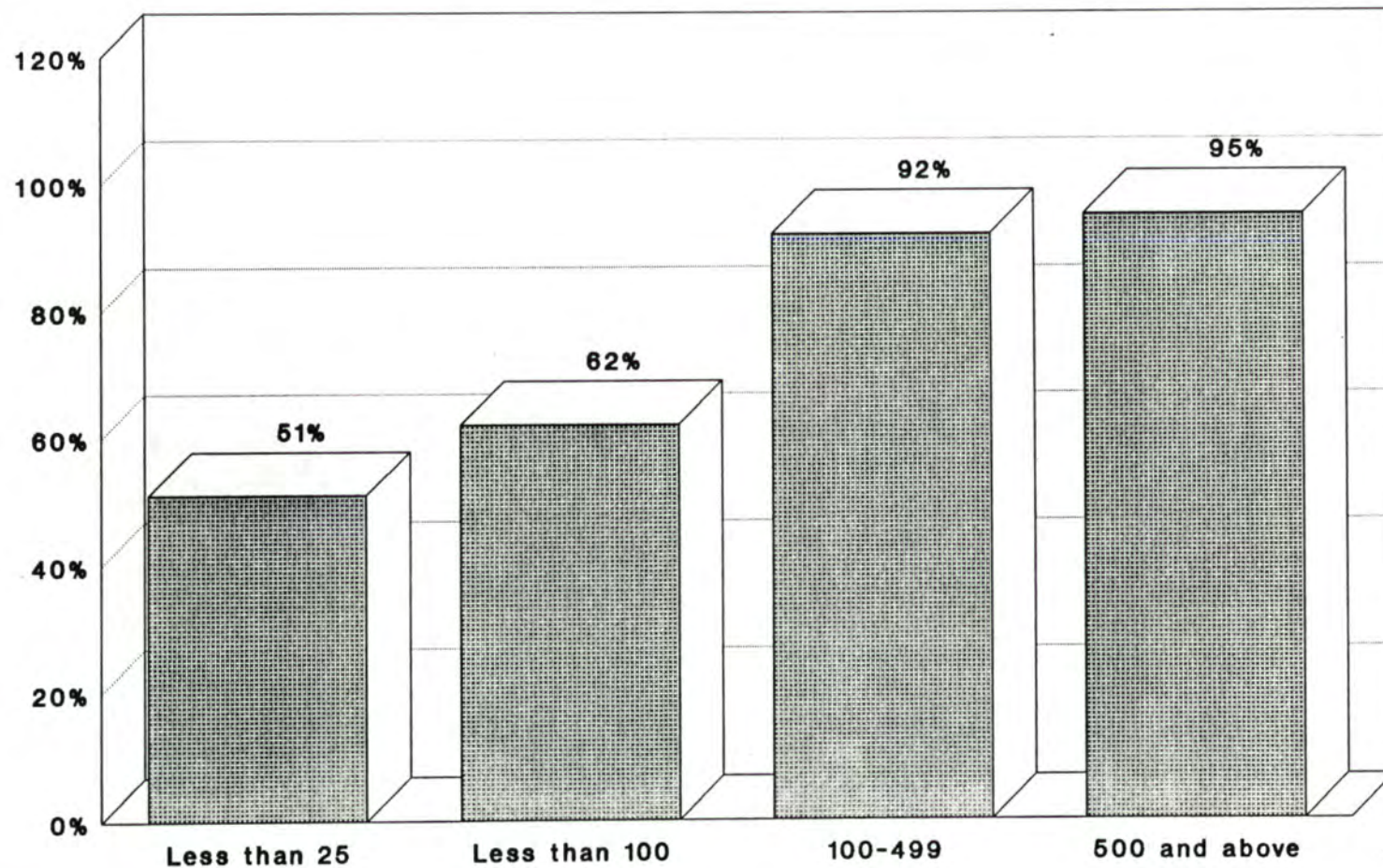
Source: Urban Institute TRIM2 Model

Businesses With Less than 25 Employees Are Less Likely to Offer Coverage



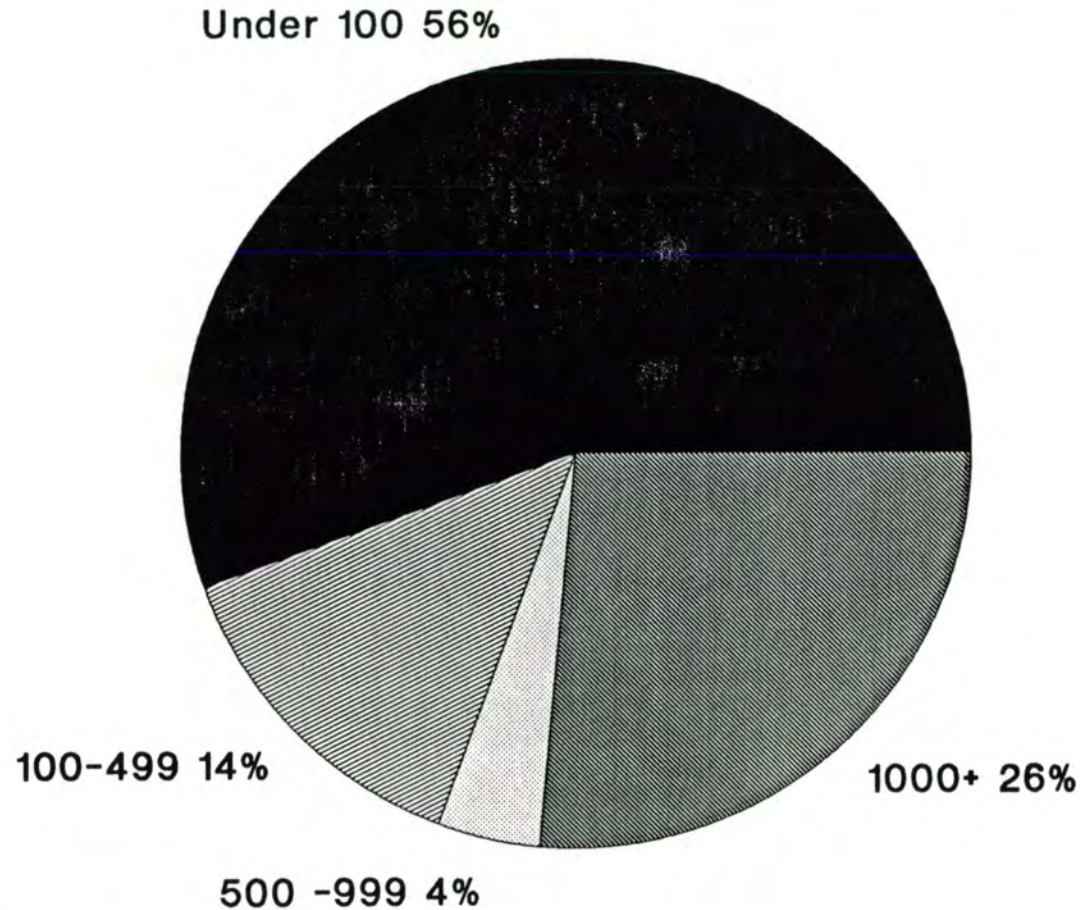
Source: Department of Labor; SBA Calculations of CPS

The Smaller the Business the Less Likely It Is To Offer Coverage



Source: Department of Labor; SBA

The Majority of Working Families Without Health Insurance Work in Small Firms



Source: The Urban Institute (1993)

A CASE SCENARIO

The Congressional Leadership and key staff members have suggested that briefings with members necessitate providing case examples of a dollar amount a small business could pay under reform. Also, some state's experiences point to the need for a very simple, specific dollar amount so small business understand exactly what will be required under reform. With these thoughts in mind, we asked OMB and HHS to prepare a simulation of what a small, low-wage business owner might pay under reform and then we invented Sarah Howard's print shop to go along with the numbers.

ONE SMALL FIRM'S HEALTH CARE COSTS: TODAY AND UNDER REFORM

Sarah Howard, runs a print shop and is herself a graphic designer in Cook County, Illinois. In today's health care system, she could pay \$11,976 per year/\$996 per month in health care premiums to cover her two full-time employees, two part time employees, herself and her family.¹ Under the Administration's reform plan, which cuts the high administrative costs such firms face as well as providing subsidies for small low-wage businesses, this same employer would pay less than half -- \$5,005 per year/\$426 per month.

Profile of Beneficiary	Salary	Cost Today	Under Reform	Cost Today: Per Month	Under Reform: Per Month
The Employer: Sarah, the owner, has two children. Her husband is a freelance journalist and has no other coverage.	\$25,000	\$4,546	\$1,675	\$378.83	\$139.58
Worker 1: George works in the front of the shop taking print orders. He is single.	\$18,000	\$1,713	\$1,206	\$142.75	\$100.50
Worker 2: Stacey, also a graphic artist, is married with three kids. Her husband does not work.	\$7,280	\$0	\$325.17	\$0	\$27
Worker 3: Sam is a typesetter and the shop's manager. He has two children.	\$22,000	\$4,004	\$1,474	\$333.66	\$122.83
Worker 4: Mildred is a part time elderly woman.	\$7,280	\$1,713	\$325.17	\$142.75	\$27
Total:	\$80,560	\$11,976	\$5,005.34	\$997.99	\$426.91

¹ Pre-reform estimates are based on AHCPR estimated premiums with a 35% load -- fairly standard for a very small firm today. Estimates were prepared by Len Nichols of OMB.

SMALL BUSINESS OWNERS: WHAT THEY THINK ABOUT HEALTH CARE REFORM

This section provides a summary of existing polling data -- most of which was done with varying goals in mind. While it is by no means an authoritative document on the views of small business, it is enlightening on several fronts. First, the discussion of the bottom line is unavoidable for this constituency. Most small business owners will evaluate the plan solely in terms its financial impact. If the requirements of the plan and the bottom line can not coexist, small business owners will not support it. And the idea of health security, especially the financial element, is very appealing, even to a small business owner philosophically opposed to mandates.

Most small business owners agree that everyone deserves at least some basic health care regardless of their income. However, the thought of a government sponsored plan that forces them to provide care for their employees is often seen as an unacceptable solution.

- Most of the respondents (63.5%) felt that all Americans should receive a minimum of health care regardless of their ability to pay. [NFIBF survey, 1989]
- However, by a margin of 60% to 35% owners of small businesses¹ oppose a requirement that "all large and medium-sized businesses provide health insurance to every employee." [NBR survey, March 1993]

Preliminary results of small business focus groups done for the Kaiser Family Foundation indicate that owners of small business must be appealed to in both their professional role and as individuals. This message is two pronged: (1) Cost and the Bottom Line: Health care reform will lower costs for those who currently provide and not present too big a burden for those who don't. (2) Security: small business owners and their families also need protection from the financial ruin a medical emergency could cause.

Small business owners closely associate their own well being with the state of their bottom line. Specifically, they need to be shown how costs will stay down. This is far and away their greatest concern. As businessmen and women, they see a potential economic disaster for their company. No businessman or woman can support a plan that they feel jeopardizes their business.

- "What is bad for my business is bad for me personally." [KAISER Focus Group report, March 1993]

¹ For the NBR survey small businesses include businesses with \$1 million to \$25 million in sales unless otherwise noted.

- Many small business owners said that the description of the program may conceal its cost, but they will wind up paying for it in the end. "It's coming back to us in federal taxes, sales taxes, and health taxes." [KAISER Focus Group report, March 1993]

For small business owners their business is their job and to argue that health reform will benefit them personally even if it drives them out of business is like trying to argue that **any** American can be benefitted by a policy which causes them to lose their job. In this sense the businessman and the individual are the same.

As individuals, small business owners have no trouble understanding that a plan providing everyone with insurance gives them and their families tremendous security. John Ball, Staff Director of the Small Business Committee, makes the point that small business owners are affected by pre-existing condition exclusions and insurance abuses as much as anyone. They are open to arguments that stress limits on these practices.

The Kaiser Focus Groups also conclude that appealing to small business owners as individuals offer the best chance to win over this group. "To win these voters we must appeal to them as individuals, many of whom have very poor insurance plans." [KAISER Focus Group report, March 1993]

In the past, abundant paperwork and a huge commitment of money and time had made providing coverage to employees a real burden. However, small business owners are concerned that reform will only be more of the same.

- Many small business owners expect health reform will mean lower quality and no relief from high costs. A 55% majority expect health care quality will decrease if the government makes a serious effort to lower costs.
- Only a narrow plurality (39%) expect costs to decrease as a result of such an effort. One-third (33%) expect costs will increase and a quarter (26%) expect costs to stay the same despite the cost cutting effort. [NBR survey, March 1993]

Rising administrative costs of health insurance a serious concern that is unique to small business owners.

- Half (50%) of owners of smaller business (\$1 million to \$25 million in sales) say they are worried about rising administrative costs. Thirty nine percent (39%) say administrative costs are rising faster than the cost of health care claims. Only 15% of officers of companies with over \$25 million in sales expressed the same view. [NBR survey, March 1993]

They are strongly opposed to intervention from what they believe is an inflexible and inefficient government that has little regard for them.

- Sixty-one percent (61%) say "the Clinton administration has paid too little attention to the concerns of private businesses" in meetings and discussions on health care reform. [NBR survey, March 1993]

Like most Americans, small business owners believe there is a national health care crisis, even though most are satisfied with their own health care coverage.

- Over 90% of the people who responded feel that health care is becoming prohibitively expensive. [NFIBF survey, 1989]
- Nearly all (97%) owners of small businesses believe health care costs are hurting the economy "a great deal" (62%) or "some" (35%). [NBR survey, March 1993]
- Still, 87% are "very satisfied" (51%) or "somewhat satisfied" (36%) with the health care services available to them. [NBR survey, March 1993]

They are fearful that the reforms will only further the economic gap between large and small businesses. But when each aspect of the reform (such as community ratings and health alliances) is explained, they become more comfortable with the new system.

Many agree that reform offers incentives from a business standpoint. In addition to being the humane thing to do, providing health coverage will allow small businesses to compete for the top employees who might otherwise work elsewhere. Many business owners view this as a very big plus.

- Eight out of ten (80%) small business owners believe their company should be completely (6%) or partially (74%) responsible for providing health care benefits to their employees. [NBR survey, March 1993]
- Sixty-four percent (64%) say businesses cannot attract first rate employees without providing health insurance. [NFIBF, 1989]

Small business owners strongly support the idea of better quality coverage that can be provided to everyone without underwriting, redlining and without loopholes. But they must be convinced that they will not be the people bearing the brunt of the cost.

- Price controls on doctors and hospitals were surprisingly attractive getting support from 71% of small business owners with only 22% opposed. [NBR survey, March 1993]

THE PUBLIC'S REACTION

Joe Good, of Greenberg's firm, tested the general public's reaction to the predicted attack by small business in focus groups. Groups were told "Health care reform will cost jobs, cause business failure, and kill small business." The reaction: people were not as troubled by the notion as would be expected. Many said "Providing health care coverage is something employers should already be doing." "They [small business] will figure out how to manage the extra costs." This is not to say there was no concern, there was. But when presented with the arguments that tax breaks and a phase-in would be provided to "protect" small businesses, people reacted strongly positive. They said "Yes. We should definitely do this." Small business owners who were present in focus groups were obviously more concerned.

Good noted however that the job loss/business failure argument was presented **after** the group had been told all the good things health care reform would bring. He still maintained that the reaction was mild.

Source: Information presented was taken from a poll by The National Federation of Independent Business Foundation (NFIBF), a Yankelovich survey of business leaders sponsored by the Nightly Business Report (NBR), and focus groups recently conducted for The Kaiser Family Foundation (KAISER). Focus group data on general public attitudes was provided by Joe Goode of Stan Greenberg's polling firm.⁴

MEMORANDUM

TO: Hillary Rodham Clinton
FR: Chris Jennings
RE: Congressional Perspectives on Small Business

July 27, 1993

Attached is an old memo regarding small business and the Congress which outlines our strategy for passing health care reform. Although we are currently revising this material and updating our strategy, this memo still provides useful background information.

Also, we are writing an analysis of where each Member stands on health care, especially as it relates to small business. The summary of those Members with jurisdiction over health care is being done in greater detail. We anticipate that this analysis will be completed in the next few days.

However, based on our conversations to date, it is clear that the number one or number two issue for every key swing vote in the Senate and the House is small business. Therefore, we need a policy and a message that will adequately address their concerns.

MEMORANDUM

TO: Clinton Campaign
FR: Chris Jennings, Senator Pryor's Office
RE: Transition from Campaigning to Legislating on Health
Care -- Focusing on the Small Business Issue and the Congress

Oct. 21, 1992

Many health care policy analysts tend to underestimate the power and influence of the small business lobby. It is frequently theorized that a Democratic Chief Executive can easily "roll" any opposition mounted by the small business community and its allies. The purpose of this memo is to point out the risks of making such assumptions and to outline a strategy for achieving either support or tacit approval from those in Congress concerned about the impact of health care reform on small business.

THE DANGER OF TAKING THE SMALL BUSINESS LOBBY FOR GRANTED

There is no Member of Congress who has any interest in alienating his/her small business constituents. Having said this, many Democrats won their election with very little support from this community. As a result, one can assume that a significant number of Democrats would be willing to stand up to an organized small business campaign against a Clinton health care reform proposal -- as long as their core constituency (labor, advocates, etc.) support the plan. However, this coalition of Democrats will not be sufficient to pass such an initiative through the Congress. Here's why:

1. Republican Opposition. First, for obvious long-term political reasons, the vast majority of Republicans will see it in their best interests to play the role of the loyal opposition. Their leadership can be expected to argue that such a role will put them in the best contrasting -- "I told you so" -- position for the 1994 and 1996 elections.
2. Substantial Democratic Wavering. Second, and by far most important, there are many moderate to conservative Democrats (particularly from the South) who will be very concerned about a health care reform proposal that is perceived as being insensitive to, and is adamantly opposed by, small business. Should this occur, these Members (from both Houses) will be particularly receptive to the predictable argument that, in the middle of a stagnant economy, it is the absolute wrong time to load up small businesses with required expenditures (i.e., the training payroll tax and mandated health care coverage).

In the Senate, there are at least 15, and as many as 25, Democrats who will be extremely sympathetic to opposing arguments made by small businesses. In the House, the much talked about turnover will ensure that the "people's body" will be much more conservative than it has been in years.

3. Congressional Reluctance to Cede Power. Third, the Congress, while wanting to assist the new President, will also likely find it difficult to cede power back to the Executive. It has been a long time since both Houses and the President have been controlled by the Democrats. Real (or perceived) inadequate consultation with Congress has the very real potential for ugly and politically embarrassing confrontations. One need only look at the early years of the Carter Administration to learn this painful lesson.
4. Fear of Taking on Small Business Will Force a Rerun of the Nightmare of the Section 89 Repeal. In 1989, even a watered down Section 89 provision, (a proposal which required small businesses, in order to qualify for their tax deduction, to prove that their health benefit plans were non-discriminatory), got squashed by the small business lobby in the House EVEN AFTER it had made it through a joint Senate-House tax bill conference. The ugly memory of this is still fresh in the minds of many Members and they will be extremely hesitant to support something that is viewed as much more intrusive on small business.
5. Opposition Will Form Coalitions with Small Business. Fifth, other interest groups who are opposed to a Clinton health care plan can be expected to join coalitions of small businesses. These coalitions -- made up of insurers, pharmaceutical companies, various health care providers, and other interested parties -- may find it in their best interest to hide behind the more sympathetic small business community to protect their interests. In order to be admitted to such pseudo small business coalitions, these health care interest groups will make a commitment to oppose employer mandates. As you know, one such coalition called HEAL -- the Health Equity Action League -- is already well established.
6. Overly High Expectations Hurt Possibility for Compromise. Members desiring to modify the legislation to address small business concerns and/or to redirect the cost containment mechanisms towards more market-based approaches may well find their efforts stalled or stopped by the more liberal wing of the party. At a time when Democrats control the Executive and Legislative branches, the advocates and the unions will argue that they have already made their sacrifice by not opposing any non-single-payer approach. This situation could be a prescription for gridlock because, in the absence of some movement towards them, the moderate to conservative wing of the party may well also dig in their heels.

The combination of the previously mentioned factors will make passing a comprehensive, complex and controversial bill one of the most difficult challenges a President has faced on the domestic front in years. Having said this, since health care has been such a central focus of the Clinton/Gore campaign and because a Clinton Administration will have the perceived advantage of having a Democratically-controlled Congress, this challenge MUST be met.

A health care reform legislative defeat would be devastating and could significantly damage the chances for a second term. (One cringes about how much the press would love to see the former Governor from Arkansas beaten by his own southern Democratic colleagues over the small business or any other issue.)

The obvious outstanding question is can small businesses be placated sufficiently to remove them as an immovable barrier to comprehensive health care reform? Although the challenge is great, a carefully implemented outreach strategy has potential to achieve this desirable outcome. There are several reasons why:

1. The Issue of Health Care Has Been Elevated. The Presidential and the Congressional campaign themes of "change" and "action rather than words" assures that most Members of Congress will feel extraordinary pressure to substantively address this and other major issues.
2. Nervousness About Being "Rolled." Most small business groups, like many other affected interest groups, will not feel like they are in the position to vehemently oppose any major health care reform legislation. As a result, they want to at least appear to be willing to negotiate, so as to assure that they have a chance to be "at the table" and influence the many important decisions that will directly affect them.
3. Possible Split in Small Business Community Could Provide Cover. There is very real potential for a split to take place within the small business community over the employer mandate and other health care issues. Some in the small business community might well decide to take the hard line "Republican" approach. Others will see it in their best interest (in terms of competing with these organizations and attracting new members) to take a noticeably contrasting position. Such a split could give conservative Democrats the cover they need to sign on to a reform package.
4. Addressing Current and Future Affordability Issues Could Sway Important Small Business Groups. The two most important health care issues for small business are: (1) current unaffordability and (2) fear of future liability. If small business can be convinced that the cost containment provisions and the Government-provided subsidies will protect them, some may well be willing to cross the mandate Rubicon.

HEALTH CARE REFORM STRATEGY: DEALING WITH CONGRESS & SMALL BUSINESS

The following outlines a strategy designed to invest small business interests and their congressional advocates into the development of a health care proposal. As requested, this memo intentionally does NOT discuss specific policy options. (WE CAN AND SHOULD DISCUSS THESE AT SOME TIME IN THE NEAR FUTURE.)

Rather, the strategy is structured in such a way to help ensure that small business advocates, and Congressional Members who want their legitimate concerns addressed, feel (and are) part of the legislative development process. Carefully implemented, this process has promising potential to turn some Members of Congress from influential opponents into supporters (tacit, or otherwise) of the final health reform product. What follows is an outline of a Congressional and small business outreach strategy:

1. Outreach to Congressional Leadership. Obviously, all leadership Members (i.e. Foley, Gephardt, Mitchell, Rostenkowski, Dingell, Bentsen, and Kennedy) should be frequently consulted. Because any necessary financing will have to emerge out of the Ways and Means and Finance Committees, Chairman Rostenkowski and Chairman Bentsen will play particularly influential roles. In short, while all roads lead to Athens, all health care reform bills will go through these Committees.

It is, therefore, extremely important to note that there are a significant number of Finance Dems who are particularly sensitive and responsive to small business concerns, including: Bentsen, Baucus, Boren, Pryor and Breaux. To put it bluntly, the bill will never leave the Committee without virtually everyone of these Members supporting it.

2. Seek Out All Possible Supporters Throughout the Congress. Every vote will count on a comprehensive health reform vote. Personal lobbying/outreach by key Administration officials to all Members -- on both sides of the aisle -- is absolutely essential. No one should feel ignored; everyone should be consulted. Pay attention to what Members of both parties are saying in these meetings. Note issues of concern to all Members, the likelihood that their concerns can be addressed, and the current degree of support for a Clinton-like proposal. Conduct follow-up visits and forward thank you notes from the President.
3. Target Key and Influential Swing Democratic Members. There are really 4 Democratic parties: (1) the liberal wing; (2) the moderate/liberal wing; (3) the moderate/conservative wing; and (4) the conservative wing. The important thing to remember is that the Administration will require almost all Democrats from three of these four categories, plus it may well need a few more from the fourth. Obviously, in any employer-mandated, global budget proposal, the new Administration's most difficult challenge will be addressing the small business concerns of the conservative element of the party.

Target influential members, particularly those who serve on key Committees, to get their feedback to the current plan and future and ongoing modifications to it. In the Senate, important members to focus on include: Senators Kennedy and Metzenbaum (the liberal designees); Senators Rockefeller, Daschle, Kerrey, Wofford, and Bingaman (moderate-liberal); Senators Pryor and Breaux (moderate-conservative); and Senator Boren, and possibly Senators Nunn, DeConcini and Heflin (conservative). In the House, Members should be targeted in the same way. Atul, you know these guys well, so I won't go into detail here. Obviously, Cooper, Andrews and Stenholm will be extremely influential with the more conservative Democrats.

4. Don't Neglect Congressional Staff. Staff remains extremely (and overly) influential, particularly in the complicated and controversial health care world. They can be a pain and/or a great resource, depending on how they perceive they are treated and respected. They should not be ignored. Along these lines, relatively frequent staff meetings and briefings are advisable. It also could prove fruitful to seek past or current staff, who have some credibility on the small business issue and who have close relationships to the Ways and Means and Finance Committees, to be utilized as an Administration liaison. REMEMBER: One of the keys to making Members comfortable with inevitably controversial legislation is making their staffs comfortable.
5. Small Business Outreach. Visible outreach to the small business community is essential. As soon as practical, call in the major small business representatives to begin to build and strengthen relationships and credibility with them. Although far from an exhaustive list, the most influential and/or most important small business groups to contact would probably be:
 - * The National Federation of Small Business.
Primary Health Contact: John Motley (202) 554-9000.
(600,000 Individual Business Owners).
 - * The National Small Business Legislative Council.
Primary Health Contact: John Satagaj (202) 639-8888.
(Coalition of 100 small business trade organizations, which represent at least 1.6 owners).
 - * The National Small Business United.
Primary Health Contact: Tom Cator (202) 887-5599
John Galles (202) 293-8830
(65,000 Small Business Owners).
 - * The National Restaurant Association.
Primary Health Contact: Elaine Graham (202) 331-5911
(Approximately 100,000 to 200,000 Small Restaurant Owners).
 - * The National Association of Private Enterprises.
Primary Health Contact: Jeff Trinca (202) 638-1950
(Approximately 70,000 firms with less than 10 employees).

- * **The National Association of Self-Employed.**
Primary Health Contact: Jim Morrison (301) 336-2300
(Represents tens of thousands of owners).
- * **The National Association on Minority Contractors.**
Primary Health Contact: James Harrell (202) 347-8259
(Represents thousands of Black, Hispanic, Asian-Pacific, and Native American construction contractors in over 45 states).

The first meeting with these and other small business oriented organizations should be done in a large group context with a key Clinton Administration appointee. During this discussion, it should be pointed out that Bill Clinton would have never been elected Governor 5 times if he had been unresponsive to his small businesses, which represent over 90 percent of his home state's business base. It should be reiterated that he does not plan to change his sensitivity to these folks now. A drop by visit by the new President would be wonderful, but if that is impossible, a round of thank you notes from him is advisable.

Because of past and current relationships between these organizations, I would strongly recommend that serious discussions about any proposal be conducted in separate meetings. If this does not occur, it is likely that an unconstructive "let's go with the lowest common denominator" mentality will emerge. (This, of course, is not an unusual dynamic for any group meeting, but it should be avoided at all costs.)

Besides one on one meetings with the primary health care contacts of these groups, requests for meetings with their respective board should soon follow. Another idea would be to speak to broad coalitions of small business on the occasion of Senator Pryor's and Senator Daschle's (generally) monthly small business breakfast meetings.

6. Instruct HHS, Labor, Treasury, the Bureau of Labor Statistics, the Small Business Administration and relevant others to Develop Useful Small Business Stats. To help make the case that health care reform IS in the best interest of small businesses, immediately after the election, request the outgoing Administration to initiate an intra-Departmental effort to illustrate how current health care cost trends are, and will continue, to kill small business. The response to this request should include a series of case examples of how Joe Smith businessman would benefit from a change in the current system. Many of these career staff will welcome the opportunity to prove themselves and their commitment to this issue. Use this package in any and all meetings with interested Members of Congress and small business representatives.

7. Likewise, Instruct OMB to Run Budget Impact Estimates on Various Small Business Subsidy Approaches. To begin to effectively evaluate policy options designed to ease the transition into any required small business requirement, the new Administration will need these numbers as quickly as possible.
8. Consider Establishing Small Business Health Reform Task Force. Soon after election, consider establishing an informal small business task force, which is charged with developing an employer-based plan that meets small business' minimum needs WITHIN THE FRAMEWORK of the Clinton Administration's goals of access, cost containment, and fiscal responsibility. Such an effort, regardless of its outcome, will help the new Administration's credibility with small business and, more importantly, with Members of Congress who are concerned about their interests. (WARNING: If a task force is viewed as an insincere scam, this idea could well backfire; in other words, if it isn't a serious outreach effort, DO NOT ATTEMPT THIS.)
9. Do Not Introduce Bill Before Some Outreach Has Occurred. If task force idea is rejected, make certain that at least some serious Administration discussions have taken place with key Members and representatives of small business.
10. No Matter How Good or Bad Discussions with Small Businesses Are, Keep Members and Staff Informed About Them. The most important issue to most Members and Staff is that you are doing everything possible to reach a compromise. If the Hill knows this, they will be much more likely to blame small business, and more sympathetic to the Administration, should "gridlock" occur.
11. Important to Push Agenda Quickly, but Don't Jam Down Throats. It is imperative to introduce a bill very early on and to have as much support (including small business support) as possible. While the new Administration should strongly encourage the small business folks to sign on, resist the pressure (that will inevitably come from the more liberal faction of the party) to give ultimatums if the small business community and their advocates decline to do so at the very front end.

It must be understood and accepted that it runs against the conservative nature of many of these people to quickly jump on board anything. In fact, when pushed too hard, many Members of Congress, particularly those from the South, resent it so much that they simply go in the opposite direction.

12. Accept, Appreciate, and Point Out that All Victories in this Complex Field are Major. The combination of all the previously mentioned private outreach efforts to the Congress and the public outreach to the small business community will assure that the moderate-conservative wing of the Democratic party should, at the very minimum, keep their concerns to themselves. Some can be expected to publicly praise the Clinton Administration's efforts to be responsive to small business. A few may even indicate their general support. In the beginning of a Clinton Administration, such an outcome should be considered -- and definitely would be -- a major victory.
13. If There is No Sign-Off, Leave Room For Compromise. If the small business community and/or a significant number of Democrats are not on board at the time of the introduction of the new Administration's health care bill, do not provide them everything you think you will need to give them to gain final passage. The trick here is to not make the introduced package too easy to criticize by the more conservative small business organizations, and too difficult for the more liberal groups and the conservative Dems to defend.
14. Dedicate a Significant Portion of EVERY Initial Speech to Issue of Need for Shared Sacrifice on All Issues, Including Health Care. Pent up demand and extraordinary expectations on every issue under the sun, including health care, will almost necessitate that the first several speeches Bill Clinton gives as President focuses on the need for all parties to sacrifice and compromise. This must occur to begin to create the necessary environment for discussion, mediation, and compromise agreements.

In the health care context, the new President should consider specifically mentioning how all interests will be called on to sacrifice. Such a speech would be designed to show how everyone will be asked to contribute to the solution: health care providers costs will be contained, insurers underwriting practices will be regulated and reformed, Federal bureaucracies will be downsized and made more efficient and, as we are cleaning up the insurance market and making it more affordable, small businesses will be required to cover their employees. (Of course, all such presentations will begin with a discussion of how bad the current situation is and conclude with a description of what the requested and shared sacrifice will produce in benefits to the nation.)

A "spoon-full of sugar" that would help gain necessary credibility with the small business folks and, perhaps, eventually assist the mandate "medicine" go down is to advocate a move to increasing the self-employed tax deduction from 25 percent (if it is even that, since the tax bill extending that modest percentage might not get signed into law) to 100 percent. This is extremely popular with the small business community, as well as practically every Member of the Congress.

15. Make Key Health Care Appointments/Nominations ASAP. Ask that the Congressional Committees with jurisdiction over appointments begin to hold hearings on nominations in early January. There is precedence for this -- the Bush Administration's nominations at the beginning of his term. It is imperative that these nomination decisions be made quickly, so that the transition process and the drafting of the Clinton health care plan can begin as soon as possible. Having said this, these appointments will be closely scrutinized and decisions should not be made without careful consideration. From the small business perspective, they would -- of course -- love to see nominations of people who they view as being knowledgeable and sensitive to their concerns.

If a high-level individual is selected who (unfairly or not) is viewed by the small business community to be unsympathetic to their issues, it is important that the nominated individual try to locate a compatible key assistant, who is a known and respected by small business, to help mollify a possibly disgruntled and influential lobby.

16. Prepare Likely Administration Witnesses for Congressional Hearings. Prepare key appointees for the repeated, monotonous, tedious hearings that will inevitably occur the moment after the Governor is elected President. Questions from both parties about impact on small business will come up time and time again. PREPARE WITNESSES to illustrate how committed the new President is to do everything possible to mitigate any negative effect on small businesses.

17. Work the Media. With new stats and a proposal in hand, work the sympathetic small business community to write positive spin Op Ed pieces in major papers. (Of course, do this with all interested parties who will say nice things about the Clinton health care reform plan.)

Consider holding a few "town-hall" meetings on health care, with one specifically focusing on the problems and concerns of small business. At this and other forums, Bill Clinton can stress how his Arkansas roots have made him understanding of, and sympathetic to, the special challenges and burdens faced by small businesspersons. The press will eat this up and small businesses across the nation will see how the new President truly cares about them. Other media outreach efforts should be undertaken as well.

18. Prepare for Legislative Roller Coaster Ride. Finally, there will be many ups and downs during the legislative process. After the Speaker and Majority Leader introduce the President's bill, the Administration -- to the extent that Congress wants to work its will on the measure -- should not concern itself with the inevitable major fights that will occur over every minor detail of the legislation.

If the new Administration attempts to referee these confrontations, it will be unwisely wasting its limited, goodwill capital on the extremely ugly legislative process and, in so doing, probably will alienate one or another key player who will be absolutely essential for final passage of the bill. During this process, therefore, the Administration should primarily serve on an as needed, as requested, advisory and technical consultant basis. Only when the bill gets to the mark-up stage should the Administration get substantially involved.

CONCLUSION

In conclusion, I cannot stress enough the importance of learning from the mistakes of the Carter Administration. In order to enact significant elements of the Clinton agenda, including health care reform, it is absolutely imperative that a close and productive working relationship with the Congress be developed and maintained.

There is no question that striking an acceptable health care reform deal with the moderate to conservative Democrats, which is perceived to be adequately responsive to small business concerns, will be an incredible challenge. Looking at both chambers, however, it appears likely that such a deal will be necessary in order to get the necessary votes for enactment. I hope this memo provides some assistance in meeting that goal. As always, if you have any questions or need for further information, give me a call at either (202) 224-4549 or (703) 323-9505.

States, Small Business and Health Care Reform

GENERAL OVERVIEW OF STATE REFORM ACTIVITIES

To avoid burdening small businesses with a mandate (and facing their powerful opposition) most states have not sought to expand coverage through an employer mandate. Instead policymakers have focused on ways to make insurance more available and attractive to small groups. Small group insurance reforms have been the main private-sector remedy for expanding coverage to the uninsured.

Four strategies have been used:

1. Regulating the small group market to alleviate some of the problems with insurance that disproportionately affect small groups.
2. Offering special stripped-down, low-cost policies for workers in small groups.
3. Pooling small groups to improve their leverage in the market.
4. Offering tax incentives or premium subsidies for companies who offer insurance.

Insurance reform has been the most widely adopted approach by states, ostensibly because it expands access to care without mandating employers or spending state funds.

First, states have regulated how insurers treat current enrollees. This has taken the form of rating bands to reduce the amount of variation in the premiums different groups paid. Two methods of restricting rates have proved popular. The National Association of Insurance Commissioners model sets the number of different classes that an insurer can create based on expected differences in claims experience and limits the amount of variation both within and across classes. An alternative to this is the Health Insurance Association of America model, which sets rate bands that limit the variation around the index rate for groups with similar characteristics. The extreme of rating restrictions is community rating, and a half dozen states have enacted this

approach, either in whole or in modified form.

Many states have also taken the stronger step of requiring insurers to sell policies to anyone seeking coverage, guaranteeing both issue and renewability.

One major limit to insurance and market reforms is that they apply, generally, to full-time workers and do not address the problems of income distribution. Since most of the uninsured working for small businesses earn less than 200% of poverty and more than half are either part-time or part-year workers, small group market reforms are not wholly adequate. In an attempt to fill in this gap, three access strategies have been merged with market reforms: making available "bare-bones" health plans, pooling small groups, and offering subsidies and/or tax incentives to those who purchase insurance. The first is the requirement that insurance carriers make available **low-cost basic benefit plans**, sometimes at a preset price. The second approach involves the establishment of **small group pools** to increase the buying leverage of individuals and small firms, offering them more choices and better prices. The last approach is providing **tax incentives and subsidies** to businesses and/or individuals buying insurance for the first time, or businesses or individuals in certain income brackets, to make health care coverage more affordable.

CHECKLIST OF STATE LAWS IN THE SMALL GROUP MARKET AS OF 7/16/93

CATEGORY OF REFORM	NUMBER OF STATES THAT HAVE PASSED LAWS
REGULATION OF SMALL GROUP MARKET	41
Guaranteed Renewability	32
Portability (no exclusion from coverage for individuals with pre-existing conditions)	29
Guaranteed Issue	25
NAIC Rating (limits variations within and between classes)	22
Alternate Rating (limited use of risk factors, but rates may vary with demographic factors)	6
Modified Community Rating	5 (Hawaii practices voluntary modified community rating)
Community Rating	5
GUARANTEED LOW-COST BENEFITS PACKAGE OR IN PROCESS OF DEVELOPING PACKAGE	33
HEALTH INSURANCE RISK POOLS	28
TAX INCENTIVES OR PREMIUM SUBSIDIES FOR THE PURCHASE OF HEALTH CARE	10
EMPLOYER MANDATE	3 (HI,WA,OR)

Small Business and Health Care Reform: The Kentucky Experience

Earlier this year, Governor Jones of Kentucky introduced comprehensive health reform legislation which included an employer mandate. Despite a generous subsidy program and provisions which would have greatly reduced workers' comp costs, the small business community vehemently opposed the legislation, and organized small business (Chamber of Commerce, NFIB) had the upper hand in defining the impact of health reform on small business. They used two main arguments: job loss, and businesses leaving the state. The Governor later proposed an individual mandate, with a 3.5% payroll tax and rebates to all companies who contributed to their workers' insurance. But by this point, according to the Governor, "the well was already poisoned" with the small business community, and due to small business opposition, this effort also failed.

I. The Initial Legislation-- An Employer Mandate

In the spring of 1993, Governor Brereton Jones introduced comprehensive health reform legislation that achieved universal coverage in part by requiring all employers to provide their workers coverage.

A. Employer Mandate/Basic Benefits Package

The mandated package of benefits was a "basic" package, basic hospital care, annual physicals, free preventive care. The package would be purchased through a "mega-pool" (like our health alliances) the bill would establish. The cost of the package was \$240/mo. for a family policy, \$116/mo. for an individual policy.

B. Small Business Subsidy

The bill included subsidies for small businesses **based on a complicated formula involving total payroll, gross income, and number of employees.** Depending on those factors, small businesses could be subsidized for between 20% and 80% of premium costs.

The funding for the subsidy pool was to come entirely from Medicaid savings, through restructuring the state Medicaid program, the savings from preventive care measures, and

It was a fairly generous subsidy program, for example: a small day care center in Louisville with a manager/owner, 2 supervisors paid \$8-10/hr, 5

minimum wage employees, and 2 part-time workers would have paid only \$200/mo. for their 10 workers.

In retrospect, Kentucky policymakers feel one of their biggest mistakes was adopting a complicated subsidy program and failing to make it understood by the small businesses it was designed to help.

"Small businesses felt like 'I might get subsidies, I might not. If I do get help, how much, exactly?..' They had no confidence this program would help them." - Franklin Jellsma, Kentucky Governors Office

C. Workers Compensation Reform

The Health Reform Legislation included reforms to workers' compensation insurance that would have resulted in cost decreases for small businesses. The provisions called for freezing current workers' comp rates in the state, reducing them by 2% the next year, and capping the growth rate for workers' comp going forward.

Meant as a pro-small business provision to sweeten the pot for reform, the workers' comp reforms ended up having very little resonance and almost no impact on how small businesses viewed the Governor's package.

As with the subsidy program, the problem was mainly one of communications: the workers' comp program was not well understood by the business community, and the advantages of this provision was subsumed by the disadvantages of the employer mandate. The Governor's office also learned that some small businesses, such as convenience stores, don't have high workers' comp costs and don't care that much about that issue.

II. Small Business Reaction

A. The Opponents

The major organized opponents of the employer mandate were the Kentucky Chamber of Commerce, the local Chambers, the local chapter of the NFIB, and the insurance industry. The Chambers in particular were well-organized, lobbied at a grassroots level with pamphlets and other literature against the plan. They produced job loss studies, and worked to undermine the credibility of state-driven study data. The insurance industry, threatened by the "mega-pools" offered financial help to the small business organizations opposed to the plan, funding most of their organized attacks.

Small business groups also organized successful letter-writing campaigns, which did sway legislators.

B. Their Message

Business Migration- Kentucky borders 7 other states, and several major metropolitan centers were near those borders. Many small business owners claimed they'd simply leave the state and set up shop across state lines, and that was used to fuel fears of the job loss: the main line of attack on the plan.

Job Loss- The Chambers and NFIB both produced their own studies on likely costs and job loss impact to counter the states' studies. They called the analysis produced by the Governors' office 'ludicrous'. They claimed that the state would lose 15,000 jobs (state population of 3.7 million) if the mandate went into effect.

"They claimed small business simply couldn't afford to do it-- that's why they hadn't done it before. They argued that small businesses would cut back, move, or fold if they were forced to provide coverage. They overreacted dramatically, but it became contagious." --Governor Brereton Jones of Kentucky

III. Concessions --The Second Proposal-- an individual mandate

In the wake of so much criticism the Governor withdrew his plan and introduced a plan based on an individual mandate. This plan include a 3.5% payroll tax, and included a refund for those businesses who do provide coverage through the workplace. At this point, according to the Governor, "the well had already been poisoned" and the small business community and the legislators they influence were decidedly against any plan the Governor sponsored. The Governor tried to call a special session, but he has met with little receptivity from the legislative leadership, largely because there has been no hue and cry from the public in support of this initiative. The Governor plans to hold a special session in the fall and is determined to pass legislation that guarantees universal coverage and controls costs, but again legislators say it is not likely.

IV. Lessons from Kentucky

Health care reform is complex, and a plan introduced and pushed forward without adequate attention to a public and **small business** education effort will immediately meet with difficulty, and will be vulnerable to being defined by the opposition.

The Kentucky experience also underscores Arnold Bennett's point about

avoiding the "our numbers are better than your numbers" arguments, which are never winnable and raise people's fears.

Lastly, Governor Jones now faces an uphill battle in part because once you allow negative perceptions of a health reform initiative to take hold--like health reform kills jobs--it is hard to come out from under that perception, even if you change the plan significantly.

Small Business and Health Care Reform: The Florida Experience

The 1992 Florida Health Care Act served as an expression of legislative intent to provide universal coverage to all Floridians by December 31, 1994. The act specified that this should be accomplished voluntarily. However, if universal coverage was not secured by the above date, more stringent measures (i.e. employer mandate) could be adopted. The 1993 Florida Health Care and Insurance Reform Act defined the blueprint through which universal coverage was to be established. Adhering to the prescriptions of the 1992 Act, yet cognizant of the fact that 95% of all Florida businesses employ less than 50 employees, the Health Care and Insurance Reform Act sought to extend access to care through small group market reform. Voluntary participation in purchasing cooperatives was the main feature of the Act. An array of groups, including the Blues and the Florida Medical Association, opposed the legislation on fiscal and philosophical grounds. However, with the help of an aggressive legislative and public campaign by the Governor, the Act passed by comfortable margins.

I. The Initial Legislation

In January 1992, Gov. Chiles proposed significant income and corporate tax increases to finance several investment initiatives. The tax increases were vigorously opposed by the state's two largest business lobbies: The Associated Industries of Florida and the NFIB. These groups were able to lobby effectively the Florida Senate, and they were successful in defeating the package. When taking on health care reform, Gov. Chiles was certainly sensitive to this experience, and this experience goes a long way in explaining his both his efforts to cultivate the support of the business community and his emphasis on voluntary measures without tax increases to ensure universal access.

Chiles opened the health care debate with a two-day summit in November 1992. Included were consumers, providers, insurance companies and business owners. The details of the plan relating to small business intentionally resembled the blueprint that emerged from the summit.

A. Community Health Purchasing Alliances (CHPA)

The main provision of the legislation creates one purchasing cooperative in each of eleven health planning districts. They are empowered to receive bids from local health plans and negotiate on behalf of participants (Governor Chiles originally wanted the CHPAs to actually purchase health plans for consumers, but as will be explained below, political considerations forced the

Governor to concede this point). The participation of consumers and providers -- including small businesses (1-25 employees) and state employees -- is **voluntary**

B. Guaranteed Issue/Community Rating

Carriers are required to offer and issue all benefit plans on the basis of guaranteed issue. They are also required to use a modified community rating, with age and tobacco being the only distinguishing factors.

C. Basic Benefits Package

Carriers are required to offer a basic benefits plan, that will be designed by the Health Care Administration. The plan must include coverage for physician visits, and inpatient and outpatient hospital services and emphasize primary and preventive care.

II. Small Business Reaction

A. Supporters

Whereas small and large business owners were the Governor's principal opponents during the earlier tax fight, they were his strongest allies during the health care debate. This was due to several reasons. First, the Governor immediately agreed to expand the definition of "small business" to include those employing less than or equal to 50 employees. Second, the business community sensed a window of opportunity. Governor Chiles had pledged that he would reform the health care system. Many employers feared that he would propose an employer mandate, about which he had publicly mused in the past. Third, from a policy perspective, the proposal was a win-win situation for business. Businesses were not required to contribute to the cost of employee premiums. However, for those who wanted to but could not afford to do so in the past, the prospect of purchasing cooperatives held out the hope of making available low-cost coverage to employees.

The AIF and NFIB again emerged as the primary representatives of the business community. They coordinated activities and immediately began organizing a letter writing campaign from constituents to vulnerable incumbents.

B. The Opponents

There were three principal opponents of the reform measure: The Florida Medical Association (FMA); small insurance carriers; and Blue Cross/Blue Shield of Florida. The FMA and small carriers argued that the

CHPAs would force all Floridians into HMOs, thereby limiting choice of physician, jeopardizing solo practitioners and bankrupting small carriers. To influence popular opinion, the FMA --which was particularly well-organized-- wrote editorials and coordinated radio and TV ads. An example of one such add is: "Scary thing is, some of the proposals will take away our right to choose the doctor or health care plan we prefer. I don't want some outsider deciding who will be taking care of me and my family when we're sick." The FMA also initiated a grassroots letter-writing campaign to pressure legislators.

The Blues did not conduct such an extensive public campaign. However, as a third party claims administrator for state employees, the Blues would be effected by proposals to include public employees in the CHPAs. They, therefore, focused their efforts on state employees, writing letters arguing that state employees would be forced into pools with Medicaid patients.

III. Concessions and Revised Legislation

A. Power of CHPA/Choice of Physician

The FMA campaign proved quite effective in the Senate. In an effort to mollify those legislators concerned about the issue of physician choice, in particular, Chiles was forced to concede one of the most controversial points of the proposal. As stated above, it was Chiles' hope that the CHPAs would actually purchase health plans on behalf of employees. Opponents argued that this would ultimately compromise individual choice of physician. The issue became one of the most contentious in the legislature and seriously threatened passage of the Act. Ultimately, Chiles agreed to let public and private employees choose their own plans through the CHPAs.

B. Inclusion of State Employees in CHPAs

To win over those legislators sympathetic to the concerns of state employees, it was agreed that previously negotiated collective bargaining agreements would be abided by and participation in the CHPAs would be contingent on the ability of plans to meet these agreements.

IV. The State's Communication Strategy

In addition to concessions, Gov. Chiles waged a much-publicized campaign for health care reform. The Governor's message focused on expanding access to care and controlling costs (Chiles frequently carried a set of \$0.75 hospital gloves that cost \$16). Town meetings and TV and radio ads were utilized. In addition, the Governor's office sponsored a letter-writing

campaign of its own to pressure legislators.

To respond to the allegations of opponents, a "war room" was established. This served as a rapid response unit and is credited with having considerable success.

V. Lessons From Florida

A. Involve Potential Opponents in the Process -- Gov. Chiles made the decision to involve the business community and gained instant credibility in making his claim that his proposal was good for the Florida economy.

B. Rapid Response -- The early success of the FMA in the Senate was widely credited to a failure on the part of reform proponents to respond to criticism. This problem was alleviated with the advent of the rapid response unit.

Small Business and Health Care Reform: The Washington Experience

Earlier this year, the Washington Legislature passed, and Governor Lowry signed into law a universal health care bill similar to the plan favored by the Clinton administration.

I. The Initial Legislation

A. Employer Mandate/Basic Benefits Package

By July 1, 1997, employers of less than 100 are required to provide coverage to employees. By July 1, 1997, employers will have to cover the dependents of these employees (There is a shorter phase-in for larger businesses). Employers are required to pay no less than 50% of the premium cost for employees and dependents and their share will be based on the lowest-priced plan in the region.

Insurance carriers must make available a minimum benefits package containing basic hospital care, annual physicals and free preventive care.

B. Limits on Premium Rate Increases

The Washington Health Services Commission must soon release the criterion for community rating on which premium rates will be based. Further, the Health Services Commission is empowered to set the maximum amount that can be charged for the minimum benefits package. Each year, the rate of premium growth will be reduced 2% until it matches the general rate of inflation.

C. Health Insurance Purchasing Cooperatives

Four geographical regions will be established and each will be administered by a purchasing cooperative. The cooperative will be allowed to collect premiums and negotiate on behalf of all individuals and employers wishing to participate. The cooperative is also charged with certifying health plans and must make guaranteed issue and renewability a criterion.

D. Financing

The Act levies taxes on providers (HMOs and hospitals) and surtaxes on liquor (10%) and beer (20%) producers. The gross income tax will also

increase from 0.75% to 1.5%.

II. Small Business Reaction

A. Supporters

One of the first priorities of Senator Phil Talmadge, the chief sponsor and architect of the legislation, was to enlist the support of the Washington Medical Association. To cultivate their trust, Talmadge pledged to revise the legislation in a way that ensured that all carriers had to offer three health plans, one of which being a fee-for-service option. Further, the WMA demanded that individuals and employees be allowed to purchase plans and not the purchasing cooperative. As a result, the WMA remained relatively quiet during the debate.

B. Opponents

There were two key opponents of the Act. The first was the Association of Washington Businesses, which lobbied on behalf of large and small businesses. The second was the Independent Small Business Association. These groups opposed Washington's employer mandate on fiscal grounds and framed their arguments around two points: (1) anticipated job loss (2) business flight across state lines.

The AWB and the ISBA coordinated their opposition activities and sought to influence legislators through both traditional lobbying and grassroots activities, the latter of which consisted of a letter-writing campaign that focused primarily on projected job loss figures. The groups also ran extensive TV and radio ads.

III. Concessions and Revised Legislation

Sue Crystal, Health Policy Assistant to the Governor, concedes that both the Governor and Assembly leaders misjudged the level of opposition from the business community. Within a month after the proposal was released by Sen. Talmadge in early 1993, alterations in the legislation were necessary to recapture the votes of Democratic legislators.

A. Big Business

For those concerned about the effect of the mandate on large businesses, it was agreed that those businesses employing more than 7,000 employees could operate their own certified health plans.

B. Small Business

Cultivating the support of small business was more contentious. In a major concession, proponents of reform agreed to let small businesses buy into the Basic Health Plan, a state-sponsored plan that offers limited benefits at a cost lower than the cost of most indemnity plans.

Another concession was in the area of business subsidies. Whereas the original proposal lacked any business assistance, the Health Services Commission was instructed to devise a plan for assisting small, low-profit, low-wage businesses. The Health Services Commission (HSC) has released the blueprint of its proposal for small business assistance. Before the phase-in date for small businesses, the HSC will accept applications for assistance from businesses who employ less than 25 people. The HSC will determine the appropriate level, but will operate under a budget with a set limit on total assistance.

IV. The Communications Strategy

Governor Lowry made the decision to not run a publicity campaign from the Governor's office. He was, however, very much involved in the process. The Governor's office coordinated activities with a consortium of supportive hospitals, business owners and nurses ran TV and radio ads and conducted a letter-writing campaign. Their message was three-fold. First, they emphasized the right to universal care. Second, they argued that the plan was good for Washington's business community. Finally, the consortium sold the plan as a way to prevent future tax hikes by reigning in the cost of health care.

The Governor's office also established a "hotline" that received calls and questions from concerned citizens about the effect of the legislation.

V. Lessons From Washington

A. The support and activities of outside professionals earns credibility in the private sector. This worked for the President during the campaign with his frequent reminders of the scores of economists who supported his economic plan.

B. Establish some sort of personal communications link between the public and private spheres (e.g. hotline).

C. The small business community cannot be courted with appeals to theoretical solutions. The original Washington proposal lacked small business assistance. Assembly leaders justified this by saying that costs would be reduced through a combination of market mechanisms and premium controls. The small business community and its patrons in the Assembly demanded,

and ultimately received, promises of tangible assistance.

Health Care Reform and Small Business: The Oregon Experience

Senate Bill 935, one of a series of bills to redesign Oregon's health care system, established a pay or play system. Although the state initiated a number of programs to meet the concerns of small business --including a slow phase-in process and tax credits-- opposition to the mandate has been increasing as the deadline for mandatory coverage approaches. Currently, the legislature, under pressure from a variety of businesses groups, is considering delaying implementation of the mandate for two to four years.

I. Initial Legislation

Under the original law, employers are required to provide health insurance for all employees --who work more than seventeen and one-half hours per week-- and their dependents by July 1995. Employers must provide a package that offers benefits similar to the state medicaid package. Employees are required to make a 25% co-payments up to a certain amount. After this level has been reached, all of the treatment will be 100% covered.

Also, SB 935 contained provisions designed to protect small business. Insurance Pool Governing Board was created to administer programs that would help encourage employers to voluntarily offer coverage of their employees. The Board established a special group insurance plan for small business with tax incentives.

This plan offers premiums that start at \$53.30, per person, per month. To qualify, a company must: 1) have fewer than 25 employees; and 2) have not provided health insurance in the past two years, 3) pay a minimum of \$40 of the employees premium.

As an incentive to use the plan, the state offered tax deduction of 18.75 per covered employee per month beginning in 1991. This amount was then reduced annually by \$6.25.

II. Small Business Reaction

1. Overview

The reaction of small businesses has been one of strong opposition. One state official termed it as "TERRIBLE, Capital T, Capital E . ." However, this was not always the case.

A. Small Business Opposition: Delay, then Action

At first, the reaction was one of deep concern without substantial opposition.

When the mandate bill was passed, business leaders knew that the law could only go in to effect if: 1) an ERISA wavier was granted; and 2) employers failed to add voluntarily 150,000 people to the insurance rolls. Since most believed that former President Bush would not grant a wavier, there was no great cause for alarm. Moreover, most felt that the plan would either be derailed before the five year deadline was reached or 150,000 people would be voluntarily added to the rolls.

However, after the wavier was granted, businesses quickly initiated a campaign to: 1) delay implementation of the plan; and 2) change the amount of the employer and employee share which is at 75%/25% respectively for large businesses. Government officials expressed surprise that other parts of the plan, such as the fact that employees who work 17.5 hours must be covered, have not been major issues. There seems to be a realization among business that this is the plan that will be enacted, the question is when.

B. The Opponents

In order to be more effective, large business groups reached out and allied themselves with small business organizations. The Associated Organization of Industry joined with the NFIB and the Chamber of Commerce to provide a unified front against the law. Interestingly, hospitals, understanding themselves to be major employers with business needs, played a key role in opposing the mandate.

The primary vehicle being used in the campaign is legislative lobbying. While business groups have coordinated letter-writing campaigns for their members, these organizations have not sponsored a wide-spread grassroots effort opposing the plan. The primary reason for this is the wide-spread popularity that the reform plan has from the general public. This support --created through a massive public outreach effort by the state-- has created a situation where opposition to the plan is seen as opposition to the public good.

Business groups have been at least partially successful in their efforts. HB 3684 would change the current mandate deadline from mid-1995 for all businesses to mid-1997 for businesses with more than 25 full-time employees and mid-1999 for business with 25 or fewer employees. The governor has agreed to this proposal because the bill also calls for a cigarette and a provider tax in order to help fund the Medicaid extension plan. Small businesses have convinced the legislature that, new taxes, in combination with an employer mandate, would devastate an already weak economy. The Senate has yet to vote on this bill, but it is expected to pass.

C. Their Message

The primary business concern is that the premium will drive companies, both large and small, out of business.

III. Concessions and Revised Legislation

In order to alleviate the fears of small businesses, the state passed a number of programs to protect small business and developed a message campaign designed to prove that health reform would be an asset to business.

A. Programs

1. Insurance Governing Board and Tax Incentives

Please recall that this was the original small business plan that offered health insurance at \$53.30, with the employee contribution set at 75% and tax incentives.

Reaction:

This program did not significantly help move the insurance program forward. From April 1989 to January 1993, only 5,130 employers and 18,843 individuals were covered by this plan. The possible reasons for this are: 1) the high deductible that the plan called contained; 2) the rate was capitulated. Moreover, many felt that the coverage offered was inadequate; this lead many to criticize the plan as being too costly to business and ineffective.

"It's a great theory, but it has not worked,"

Vicki Gates Director of Programs and Finance, Department of Human Services

2. Small Group Market Reform

Given the failure of the original plan to met the concerns of business, the Small Employer Health Plan, Senate Bill 1076 (1991), created a pooled benefits package available to employers of 3-25 people. The program went into effect in March, 1993.

The plan allows companies to buy comprehensive insurance at an average cost of \$100 per person, per month. Also, the plan offers a system of co-payments, as opposed to deductions that the original plan contained.

While laws specify that employers must share costs with employees, this plan does not specify an amount that the employer must cover. If the employers "play," they only have to offer insurance. If employers "pay," then the employer has to pay 75% on employees and 50% on their dependents of the \$100.

Reaction:

While it is still to early to evaluate the acceptance of this plan, small Businesses have more supportive of this concept. However, these is still a concern that even \$100, per month, per employee is still to much to pay.

3. Financial Studies

The state has promised to do continuous studies of the impact of health care

reform impact on small business, employment, and other economic indicators.

Reaction:

This helped convince business owners that the government was genuinely concerned about business needs.

4. Subsidy Pool

The Legislature is working out the details of a sliding-scale subsidy to help small employers and employees who fall below a certain income line.

Reaction:

Since the subsidy legislation has not been passed, most businesses are skeptical that the pool will help them. As a result, it has not had a significant positive effect on reform.

4. Workers Compensation Reform

In 1989, the state offered workers comp reform. Recently, the state has received money from the Robert Wood Johnson Foundation to explore "24 hour coverage." Under this plan, workers receive their employee benefits and health care coverage through the same system, thereby saving on administrative costs.

Reaction:

Businesses are interested in the workers comp reforms that have taken place; however, the fear of an employer mandate has overridden any perceived benefit to reforms.

IV. The State's Communications Strategy

The state developed two messages that were extremely helpful.

1. The demonstrated to small business how health care reform will help them. Oregon officials created charts showing that businesses who have insurance already pay for the uninsured through higher premiums caused by hospital cost-shifting. Oregon was able to show that the amount paid by cost shifting is more than the state medical program.

2. The state showed that real cost-containment reforms are going to be put in place, then this should help convince them reform is in their best interest. Even small business owners understand that insurance premiums come out of their pockets too. Also, the message of fiscal responsibility resonated well with business owners.

Reaction:

This message helped gain the support of many business who already pay for

coverage.

V. Lessons from Oregon

I. Demonstrate the Economic Benefits of Health Reform—
State officials indicated that the cost-shifting and cost-containment messages were the most useful techniques for gaining the support of business.

CHECKLIST OF STATE LAWS AS OF 7/16/93

State	AL	AK	AZ	AR	CA	CO
Guarantee Issue		*			*	
Guaranteed Renewability			*	*	*	*
Limits on Exclusions for Pre-Existing Conditions		*	*		*	
NAIC Rating		*		*		
Alternate Rating						
Modified Community Rating					*	
Community Rating						
Tax Incentives Or Premium Subsidies for Purchase of Care					*	
Health Risk Pools	*	*			*	*
Low-Cost Benefits Package or in Process of Developing		*	*	*		*
Employer Mandate						

State	CT	DE	FL	GA	HI	ID
Guaranteed Issue	*	*	*		*	*
Guaranteed Renewability	*	*	*		*	*
Limits on Exclusions for Pre-Existing Conditions	*	*	*		*	*
NAIC Rating		N	*			*
Alternate Rating	*			*		
Modified Community Rating					voluntary	
Community Rating						
Tax Incentives or Premium Subsidies for the Purchase of Care						
Health Risk Pools	*		*	*		
Low-Cost Benefits Package or in Process of Developing	*	*	*		*	*
Employer Mandate					*	

States	IL	IN	IA	KA	KY	LA
Guaranteed Issue			*	*		
Guaranteed Renewability			*	*		*
Limits on Exclusions for Pre-Existing Conditions			*	*		
NAIC Rating			*	*		*
Alternate Rating		*				
Modified Community Rating						
Community Rating						
Tax Incentives or Premium Subsidies for the Purchase of Care			*	*	*	
Health Risk Pools	*	*	*	*		*
Low-Cost Benefits Package	*		*	*	*	
Employer Mandate						

State	ME	MD	MA	MI	MN	MS
Guaranteed Issue	*		*		*	
Guaranteed Renewability	*		*		*	
Limits on Exclusions for Pre-Existing Conditions	*		*		*	
NAIC Rating						
Alternate Rating						
Modified Community Rating			*		*	
Community Rating	*					
Tax Incentives or Premium Subsidies for the Purchase of Health Care						*
Risk Pools	*				*	*
Low-Cost Benefits Package	*	*	*		*	*
Employer Mandate						

State	MO	MT	NE	NV	NH	NJ
Guaranteed Issue	*				*	*
Guaranteed Renewability	*	*	*		*	
Limits on Exclusions for Pre-Existing Conditions	*	*			*	
NAIC Rating	*	*	*			
Alternate Rating					*	
Modified Community Rating						
Community Rating						*
Tax Incentives or Premium Subsidies for the Purchase of Care		*				
Risk Pools	*	*	*			
Low-Cost Benefits Package	*	*	*	*		*
Employer Mandate						

State	NM	NY	NC	ND	OH	OK
Guaranteed Issue		*	*		*	
Guaranteed Renewability	*		*	*	*	*
Limits on Exclusions for Pre-Existing Conditions		*	*		*	*
NAIC Rating	*		*	*		*
Alterante Rating					*	
Modified Community Rating						
Community Rating		*				
Tax Incentives or Premium Subsidies for the Purchase of Care			*			*
Risk Pools	*			*		
Low-Cost Benefits Package	*		*	*		*
Employer Mandate						

State	OR	PA	RI	SC	SD	TN
Guaranteed Issue	*		*			*
Guaranteed Renewability	*		*	*	*	*
Limits on Exclusions for Pre-Existing Conditions	*		*	*		*
NAIC Rating			*	*	*	*
Alternate Rating						
Modified Community Rating	*					
Community Rating						
Tax Incentives or Premium Subsidies for the Purchase of Care	*					
Risk Pools	*			*		*
Low-Cost Benefits Package or in Process of Development	*		*			*
Employer Mandate	pay or play					

State	TX	UT	VT	VA	WA	WV	WI	WY
Guaranteed Issue			*		*		*	*
Guaranteed Renewability				*	*	*	*	*
Limits on Exclusions for Pre-Existing Conditions			*	*	*	*	*	*
NAIC Rating						*		*
Alternate Rating							*	
Modified Community Rating	*							
Community Rating			*		*			
Tax Incentives or Premium Subsidies for the Purchase of Care						*		
Risk Pools	*	*			*		*	*
Low-Cost Benefits Package or in Process of Development				*	*	*		
Employer Mandate					*			

DRAFT

SAMPLE STUMP SPEECH

It takes courage and ingenuity to start and succeed as a small business. It means taking a risk with your future and betting that you succeed. Many small businesses fail within the first year. It is not right that many small business owners also face the risk that they will be bankrupted if they or someone in their family should be seriously injured or fall ill. It is not right that those who provide coverage risk that within a year that coverage may be taken away or priced out of reach.

Small businesses fuel job creation and strengthen our economy. Responsible for 90% of job growth in 1990, small businesses has become the nation's engine of economic growth. Yet this growth is endangered by a health care system which threatens every American business, especially small businesses. Small business owners can face financial devastation if a family member or just one employee falls ill. And employers who try to provide health care to their employees find a health care system stacked against small businesses.

Nonetheless, a majority of American small businesses manage to provide coverage. Today 62% of American businesses with less than 100 employees provide health care coverage to their employees. And 51% of those with fewer than 25 employees provide health care. But providing these benefits isn't easy.

The Clinton Administration believes that most small business want to cover their employees -- and most do. Our health care plan will work for small business, taking away the hassle and ensuring security of affordable, predictable health care coverage. For those businesses who don't provide health insurance coverage, our reform will protect them while they make the transition. The plan provides financial assistance to protect these families financial livelihood and protect our nation's economic growth.

The Clinton plan will help small business owners with these specific steps:

- **Reform the insurance market**
- **Aggressively control the rising costs of health care.**
- **Require a smaller contribution from small and low-wage businesses**
- **Provide financial assistance**
- **Reform workers' compensation**
- **Decrease the work-load and eliminate high administrative costs**
- **Increase the tax deduction for health insurance premiums for self-employed workers to 100 percent.**

In many of today's Mom and Pop stores, the Mom or the Pop has to serve as the de facto benefits department. They fill out the paperwork. They make the phone calls. They negotiate rates and enroll their employees. They dutifully pay their premiums every month. But all too often, within a year, their insurer will raise rates and price them out of the market -- many times for no reason. Or the insurer will refuse to renew coverage. Then the small business owner is back to the drawing board -- spending more time and more money to find another insurer -- and the cycle starts again.

These problems emanate from the insurance market. What Mom and Pop are facing are practices known in the industry as "occupational redlining" a practice where insurers will simply refuse to cover entire industries perceived to be high risk; or medical underwriting, basing premiums on perceived risk and medical history; or experience rating, where insurers jack up costs if just one employee falls ill or gets injured. "Price baiting and gouging," also known as "durational rating" is offering "discount" rates for the first year of coverage only to charge much higher prices in the next year when pre-existing condition exclusions expire. And many small firms with sick workers find that an insurance company will refuse to renew their policy in the second year. Unfortunately these insurance abuses prey on the most vulnerable, those with the least bargaining power -- businesses which are small and have narrow profit margins and people with illnesses.

Our plan will end all this. We will help small businesses to combine their purchasing power to negotiate with insurance companies for high quality care at affordable prices, and bring the force of the market to bear on our health care system. We will reform the insurance market. As a condition of doing business, insurance companies must provide coverage to any group that applies. This reform eliminates the "occupational redlining" which exclude entire industries -- from beauticians to oil field workers -- from obtaining coverage. We will eliminate pre-existing condition exclusions. We will require that insurers must cover the same health conditions for everyone in the group, regardless of past health. We will end "price baiting and gouging" and end the days when insurers can raise and lower premiums at their whim. We will bring predictability and fairness to the cost of insuring families and workers. Everyone is covered under our plan -- no more occupational redlining or refusal to renew insurance.

We will eliminate higher administrative costs and take the burden off the small business with health alliances which will deal with the insurance companies and bargain for competitive prices. The alliance will take over the paperwork and the negotiations; provide information on plans and increase ease of enrollment.

The Clinton plan for health reform will protect small business from rapidly rising costs. Each year small business premiums go up faster than premiums paid by large employers -- sometimes as much as 50% in a just one year. For small businesses that provide comprehensive insurance benefits, the plan will reduce costs -- and help those who do not now provide benefits with financial assistance. It will bring small businesses together, giving them the buying power of large groups to bargain with insurance companies. Small businesses will be able to combine their purchasing power to negotiate with insurance companies for high-quality care at affordable prices.

Health reform will aggressively control costs through market based competition backed up by an enforceable budget. It will dramatically reduce administrative costs, by streamlining functions, which are the main source of small businesses higher costs. Under our system, a small employer will send one check to obtain health care coverage. There will be no more denial of coverage or refusal to renew or higher premiums based on perceived high risk. The Clinton plan will bring uniformity and stability to the small group insurance market and stop the wild fluctuation of premiums. Community ratings will ensure that everyone living in the same area pays a similar price for a similar plan.

Costs will be lower for small and low-wage businesses. The plan caps the contributions for certain small businesses at a lower level. And we ensure that the cost to small business to provide health benefits does not exceed ability to pay. Small businesses will receive financial help according to their need.

The cost of workers' compensation insurance is killing many small businesses. In fact, today's high health care costs are surpassed only by skyrocketing workers' compensation costs. Between 1982 and 1992 the average workers' compensation medical claim that included time lost from work rose from \$2,584 to \$8,900.

That's why our reform plan will reform the medical component of the workers' compensation system making it more efficient and reducing costs by covering work related injuries through health plans in the same manner as non-work related injuries -- eliminating duplication and improving quality for workers who receive services.

And the plan will include a **permanent** full 100% tax deduction for cost of the comprehensive benefits package for the self-employed -- a long overdue adjustment to tax policy.

Finally, business owners will be assured a place at the table. The plan guarantees that business owners will have decision making power in the cost and quality of their health care plan. The Clinton plan ensures that the boards of the health alliance includes a business owner representative to ensure sensitivity and responsiveness to needs of employers in terms of costs, administrative simplification and quality.

Make no mistake. The President and I are committed to putting forth a health reform plan that works for small business. This plan has been written with the specific concerns of small businesses in mind. And we will continue to work to make sure that the plan is responsive to the needs of our nation's small business owners and that everyone has health care coverage.