



ASSOCIATION HEALTH PLANS:  
**Affordable health  
insurance options for  
small businesses  
following COVID-19**

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# KEY FINDINGS

1



PROVIDING AFFORDABLE HEALTH CARE COVERAGE IS THE BIGGEST CONCERN FOR SMALL BUSINESS OWNERS.

2



HEALTH INSURANCE COSTS HAVE SKYROCKETED FOR SMALL BUSINESSES, RESULTING IN 31 PERCENT FEWER SMALL BUSINESSES OFFERING COVERAGE SINCE 2003.

3



EASING RESTRICTIONS ON ASSOCIATION HEALTH PLANS (AHPS) MAKES IT EASIER FOR SMALL BUSINESSES TO COME TOGETHER AND OFFER AFFORDABLE, HIGH-QUALITY INSURANCE.

4



AHPS CAN SAVE SMALL BUSINESS OWNERS AND FAMILIES THOUSANDS OF DOLLARS ON PREMIUMS PER YEAR.

5



AHPS CAN HELP MILLIONS OF SMALL BUSINESS OWNERS AND ENTREPRENEURS.

## **BOTTOM LINE:**

STATES SHOULD REMOVE BARRIERS TO AHPS AND MAKE COVERAGE MORE AFFORDABLE FOR SMALL BUSINESSES AND WORKERS, ESPECIALLY IN LIGHT OF COVID-19.

## Overview

Small businesses are an indispensable engine of entrepreneurship and job creation in the United States. In 2018, small businesses made up three-quarters of all firms.<sup>1</sup> However, small businesses have fewer resources at their disposal to recruit and attract workers than larger firms, especially in light of the recent COVID-19 pandemic, which has strapped countless businesses for cash across the United States.<sup>2-7</sup> As a result, their ability to invest in their employees and compete for labor is far more limited.

As states begin to reopen their economies and transition to a post-coronavirus world, small businesses facing severe financial and market pressures will need to find ways to build their businesses, maintain and provide for their employees, and expand. Their need for affordable health insurance will be greater than ever as Americans' minds are on the public health crisis and the needs of their families.

Unfortunately, an uneven playing field exists which forces small businesses to pay more for health coverage, pricing many of them out of the market altogether.<sup>8</sup> As costs have skyrocketed, fewer and fewer small businesses have been able to offer coverage to their workers.<sup>9</sup>

Thankfully, new rules finalized by the Trump administration could offer small businesses a new path to offer affordable health coverage for their workers.<sup>10</sup> Unfortunately, some states still have prohibitive regulatory frameworks that keep small businesses from being able to take advantage of this new federal flexibility.<sup>11</sup>

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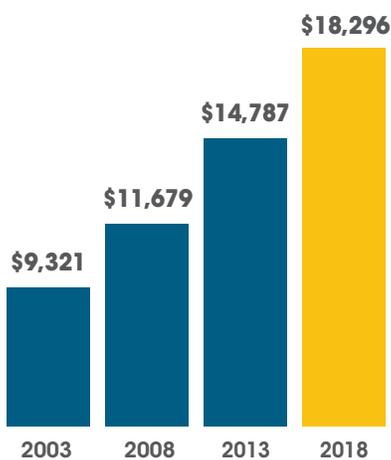
## Small business health insurance costs have skyrocketed

Over the last several years, small businesses have been hit especially hard by soaring premiums, impacting their businesses, profits, employees, and communities. In fact, small businesses report that the cost of providing health insurance to their employees remains their number one concern—as has been the case for decades.<sup>12</sup>

These concerns should come as no surprise. Premiums for family coverage at small businesses have nearly doubled since 2003.<sup>13-15</sup> The total cost to provide family coverage now sits at more than \$18,000 per worker, up from just over \$9,000 in 2003.<sup>16</sup> In some states, average premiums have now reached more than \$23,000 per year.<sup>17</sup>

Ultimately, these cost increases are caused in part by an uneven regulatory framework that forces small businesses to play by a different set of rules than their larger counterparts.

### HEALTH INSURANCE PREMIUMS HAVE NEARLY DOUBLED FOR SMALL BUSINESSES



Source: U.S. Department of Health and Human Services

## An unlevel playing field exists between small and large businesses

Even though small businesses account for a significant portion of the U.S. workforce, they are forced to play by different rules than large businesses when it comes to providing health insurance coverage to their employees.<sup>18</sup> These rules put affordable coverage out of reach for many working owners and small businesses.

Because most large employers provide self-insured coverage for their employees, rather than purchasing fully insured coverage from health insurance companies, they are exempt from several regulations affecting employers in the small group market, including federal and state benefit mandates, actuarial corridor regulations, health insurance premium taxes, and community rating regulations.<sup>19</sup> Larger employers also have more covered employees than small businesses, providing a more stable risk pool to spread costs across.<sup>20</sup>

As a result, small businesses are far less likely to be able to afford to offer employees health insurance.

## Fewer and fewer small businesses are offering health insurance

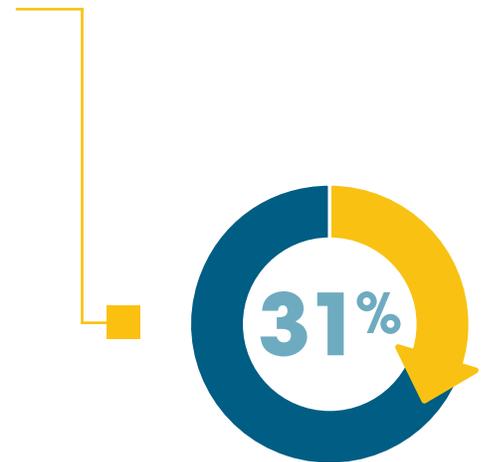
Skyrocketing premiums and uneven health insurance rules have created a situation where fewer and fewer small businesses can afford to offer coverage to their workers.<sup>21</sup>

In 2018, **fewer than one in three small businesses offered health insurance to their workers, a drop of 31 percent since 2003.**<sup>22-24</sup> In some states, the number of small businesses offering coverage has dropped by a whopping 56 percent.<sup>25</sup> Meanwhile, offer rates at large companies actually increased over the same time frame, illustrating the effects of the unlevel regulatory playing field.<sup>26</sup>

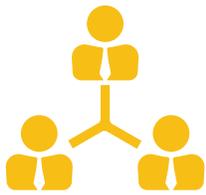
## States can help small businesses rebuild their economies by removing barriers to AHPs

Association health plans (AHPs) represent a solution to help small businesses purchase affordable health insurance coverage for their employees. AHPs are multi-employer groups that band small businesses together to purchase health insurance with the bargaining power of a single, larger company.<sup>27</sup> Easing rule restrictions on AHPs make it easier for small businesses to come together and offer affordable, high-quality insurance to their employees.

Fortunately, the Trump administration finalized a rule change in June 2018 to allow more small businesses to join together with greater flexibility and offer insurance to their employees.<sup>28</sup> The new rule allows associations to form for primarily health purposes, permits businesses in different industries to band together if they are in the same state or region, enables small businesses to form AHPs even if they have employees who do not live in the same state, and allows self-employed entrepreneurs or married business owners to join AHPs.<sup>29</sup> However, some states still have prohibitive regulatory frameworks that keep small businesses from being able to take advantage of this new federal flexibility.<sup>30</sup>



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## Five steps states can take to help small businesses offer more health coverage options:

1

Eliminate legal barriers that discourage AHPs and clarify existing laws to encourage businesses to join together to provide affordable health insurance.

2

Clarify existing laws to give husband and wife teams access to affordable health insurance.

3

Eliminate artificial waiting periods before new associations can begin offering health insurance.

4

Remove regulations which force AHPs to comply with small business insurance requirements—which are intended for much smaller and more volatile groups—and instead give them the flexibility to design health plans that are best suited for their employees.

5

Allow self-insurance—with strong financial safeguards—to give AHPs the same options as large employers.

These important reforms would help small businesses and entrepreneurs afford coverage for workers, put small businesses on a similar regulatory playing field, and **provide as many as four million people with access to more affordable health coverage.**<sup>31</sup>

As states work to rebuild their economies, AHPs would provide new options for small businesses struggling to offer health insurance, helping uninsured Americans find affordable coverage and individuals currently receiving Medicaid transition onto employer-sponsored coverage.<sup>32</sup>

This would also provide fiscal relief to states. State policymakers are already bracing for massive upticks in Medicaid costs due to the COVID-19 outbreak and economic lock-downs, and are estimated to lose up to 20 percent of their general revenues on average.<sup>33</sup> Freeing up small businesses to form AHPs would help preserve scarce taxpayer dollars currently spent on Medicaid by allowing individuals to find affordable private coverage.

Small businesses are ready to take action—all they need is a legal pathway, which state policymakers can provide.

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## **AHPs could save families and businesses thousands of dollars per year**

Entrepreneurs and small businesses are likely to see significant savings by moving to AHPs from the individual and small group markets. In fact, states that have moved to reform their existing regulatory structures are already seeing significant reductions in costs.

By 2022, AHPs are expected to offer up to \$10,000 in premium savings on average.<sup>34</sup> States that have already adopted AHP-friendly policies have already reduced costs for entrepreneurs. Associations have formed in Minnesota, Nebraska, and Nevada, providing comprehensive insurance plans with premiums savings of up to 35 percent.<sup>35</sup> In Arizona and Oklahoma, chambers of commerce have launched AHPs designed to serve thousands of small businesses.<sup>36-37</sup> And comprehensive data on recently created AHPs suggests the plans have produced double-digit cost savings of nearly 30 percent across the country.<sup>38</sup>

Reductions in premiums will offer a greater opportunity for affordable health coverage to millions of Americans, including “mom and pop” small businesses, farmers, and sole proprietors.

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By removing barriers to AHPs, states can ensure small businesses will find more ways to band together to save money and offer more private health coverage options.

# APPENDIX 1

## HEALTH INSURANCE PREMIUMS HAVE NEARLY DOUBLED FOR SMALL BUSINESSES

Average family health insurance premiums at firms with fewer than 50 employees, by state

STATE	2003	2018	PERCENT CHANGE
Alabama	\$7,442	\$16,978	128%
Alaska	\$10,461	\$22,638	116%
Arizona	\$9,208	\$16,995	85%
Arkansas	\$8,484	\$18,143	114%
California	\$8,716	\$17,948	106%
Colorado	\$10,349	\$17,377	68%
Connecticut	\$10,086	\$18,148	80%
Delaware	\$10,242	\$21,075	106%
District of Columbia	\$11,380	\$20,774	83%
Florida	\$9,732	\$19,129	97%
Georgia	\$8,529	\$16,077	88%
Hawaii	\$8,423	\$17,004	102%
Idaho	\$8,246	\$14,919	81%
Illinois	\$9,488	\$20,104	112%
Indiana	\$9,062	\$17,205	90%
Iowa	\$7,216	\$16,922	135%
Kansas	\$8,580	\$15,745	84%
Kentucky	\$9,073	\$19,078	110%
Louisiana	\$8,567	\$18,233	113%
Maine	\$10,066	\$17,400	73%
Maryland	\$8,871	\$17,273	95%
Massachusetts	\$10,129	\$19,036	88%
Michigan	\$9,534	\$15,346	61%
Minnesota	\$9,285	\$16,946	83%
Mississippi	\$9,061	\$15,552	72%

## APPENDIX 1 CONTINUED

STATE	2003	2018	PERCENT CHANGE
Missouri	\$8,241	\$15,438	87%
Montana	\$7,381	\$16,951	130%
Nebraska	\$9,137	\$18,178	99%
Nevada	\$10,246	\$14,251	39%
New Hampshire	\$11,078	\$19,003	72%
New Jersey	\$10,956	\$20,985	92%
New Mexico	\$8,376	\$16,291	94%
New York	\$10,115	\$23,122	129%
North Carolina	\$9,384	\$14,829	58%
North Dakota	\$7,539	\$16,793	123%
Ohio	\$8,600	\$17,597	105%
Oklahoma	\$8,875	\$15,874	79%
Oregon	\$8,597	\$17,733	106%
Pennsylvania	\$10,195	\$17,658	73%
Rhode Island	\$10,159	\$19,046	87%
South Carolina	\$9,634	\$19,607	104%
South Dakota	\$8,476	\$18,580	119%
Tennessee	\$9,332	\$15,411	65%
Texas	\$9,831	\$20,710	111%
Utah	\$7,861	\$14,885	89%
Vermont	\$9,398	\$19,932	112%
Virginia	\$8,678	\$19,813	128%
Washington	\$8,880	\$17,606	98%
West Virginia	\$8,803	\$16,319	85%
Wisconsin	\$9,854	\$17,701	80%
Wyoming	\$10,255	\$16,992	66%
<b>TOTAL</b>	<b>\$9,321</b>	<b>\$18,296</b>	<b>96%</b>

Source: U.S. Department of Health and Human Services

## APPENDIX 2

### OFFER RATES AT SMALL BUSINESSES HAVE DROPPED BY MORE THAN 31 PERCENT

Health insurance offer rates at firms with fewer than 50 employees, by state

STATE	2003	2018	PERCENT CHANGE
Alabama	44.8%	28.8%	-36%
Alaska	34.8%	21.1%	-39%
Arizona	38.5%	24.3%	-37%
Arkansas	25.7%	22.6%	-12%
California	43.8%	34.0%	-22%
Colorado	40.8%	27.6%	-32%
Connecticut	54.6%	36.4%	-33%
Delaware	49.1%	27.0%	-45%
District of Columbia	69.1%	52.4%	-24%
Florida	41.4%	25.6%	-38%
Georgia	36.9%	22.8%	-38%
Hawaii	81.5%	74.9%	-8%
Idaho	41.1%	22.8%	-45%
Illinois	40.2%	28.5%	-29%
Indiana	35.5%	25.0%	-30%
Iowa	37.3%	32.9%	-12%
Kansas	41.4%	34.8%	-16%
Kentucky	44.0%	30.3%	-31%
Louisiana	34.9%	29.5%	-15%
Maine	42.7%	27.9%	-35%
Maryland	47.3%	40.2%	-15%
Massachusetts	56.2%	32.8%	-42%
Michigan	50.3%	31.2%	-38%
Minnesota	42.9%	29.5%	-31%
Mississippi	28.4%	27.9%	-2%

## APPENDIX 2 CONTINUED

STATE	2003	2018	PERCENT CHANGE
Missouri	41.2%	30.8%	-25%
Montana	36.3%	22.7%	-37%
Nebraska	31.5%	20.1%	-36%
Nevada	44.8%	28.9%	-35%
New Hampshire	60.1%	38.8%	-35%
New Jersey	51.6%	36.2%	-30%
New Mexico	37.6%	22.7%	-40%
New York	50.5%	35.9%	-29%
North Carolina	43.1%	19.2%	-55%
North Dakota	34.9%	34.6%	-1%
Ohio	44.0%	28.5%	-35%
Oklahoma	32.0%	32.3%	1%
Oregon	47.2%	28.1%	-40%
Pennsylvania	54.4%	30.4%	-44%
Rhode Island	55.4%	33.0%	-40%
South Carolina	39.9%	17.5%	-56%
South Dakota	34.8%	28.3%	-19%
Tennessee	33.9%	28.8%	-15%
Texas	31.4%	29.1%	-7%
Utah	33.9%	17.5%	-48%
Vermont	46.1%	28.2%	-39%
Virginia	47.7%	27.7%	-42%
Washington	45.9%	30.0%	-35%
West Virginia	35.4%	27.6%	-22%
Wisconsin	44.0%	26.5%	-40%
Wyoming	31.9%	22.8%	-29%
<b>TOTAL</b>	<b>43.2%</b>	<b>29.8%</b>	<b>-31%</b>

Source: U.S. Department of Health and Human Services

Percent change figures represent the percent change in offer rates between 2003 and 2018, not the percentage-point difference.

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