



**Testimony of the
Association for Enterprise Opportunity**

Submitted to the House Small Business Committee

***The Small Business Health Options Program (SHOP):
Is It Working for Small Businesses?***

December 11, 2013

On behalf of the Association for Enterprise Opportunity (AEO), I am pleased to take this opportunity to share our views on the implementation of the Small Business Health Options Program (SHOP) exchanges with the Committee.

For more than 21 years, AEO and its more than 450 members and partner network of nonprofit lenders and business development organizations have provided critical access to capital and business counseling to underserved entrepreneurs and microbusinesses all across the country.

The importance of our topic today – health insurance and its value to microbusinesses — cannot be overstated. Similarly, the discussion of how certain elements of the Affordable Care Act (ACA, P.L. 111-148) and their implementation are changing the healthcare landscape could not be timelier. On this note, we are particularly concerned by the Administration’s one-year delay of the online enrollment option for small business in the federal SHOP exchange operating in 36 states.

Before addressing that issue, however, it is important to understand the current environment for microbusinesses—those businesses with five or fewer employees.

In an AEO report released November 2013, *Bigger Than You Think: The Economic Impact of Microbusinesses in the United States*, our research tells a powerful story of how the nation’s smallest businesses make an outsize contribution to our economy. There are 26 million microbusinesses in the United States, or about 92% of all businesses. The ripple effect of direct, indirect, and induced economic activity of these firms is impressive: total employment of more than 41 million Americans, total economic impact of nearly \$5 trillion, and total revenue contributions of \$135 billion to federal, state, and local governments in 2011.¹ In other words, although these main street businesses are small, their combined impact is significant.

Furthermore, starting a business and creating a job is a pathway to upward mobility and poverty alleviation, especially for women and people of color. Our research shows that the median net worth of business owners is almost two and a half times greater than that of non-business owners; for a Latino man, the difference is five times higher for business owners compared to non-business owners; for an African-American woman, the difference is more than ten-fold.²

Despite these advantages, many would-be entrepreneurs are reluctant to leave their jobs due to concerns about healthcare access, a recognized phenomenon called “job-lock.”³ For decades, the inability to obtain health insurance has been a barrier for

¹ “Bigger Than You Think: The Economic Impact of Microbusinesses in the United States,” The Association for Enterprise Opportunity, November 2013.

² Ibid.

³ Madrian Gruber (2002). “Health Insurance, Labor Supply and Job Mobility: A Critical Review of the Literature.” National Bureau of Economic Research.

http://www.nber.org/papers/w8817.pdf?new_window=1

those who are interested in starting a business. It is well documented that access to health insurance is a driving factor with respect to employee decisions.⁴ Before the ACA removed pre-existing conditions as a barrier to obtaining health insurance, employees often chose to stay with employers even though they were unhappy or unsatisfied with their employment. The inability to access health insurance prevented those who might have otherwise left their jobs to start businesses.⁵ Indeed, the Robert Wood Johnson Foundation projects that nearly 1.5 million Americans, including 31,000 in the Chair's home state of Missouri and 65,000 in the Ranking Member's home state of New York, will become self-employed thanks to insurance reforms in the Affordable Care Act.

Not only has access to health insurance stood in the way of those wanting to start businesses, it has also greatly impacted small business growth. For small businesses that needed to offer health insurance to their employees to be competitive, additional health insurance costs presented a real problem. For these reasons, small business owners, in a January 2013 Wells Fargo/Gallup poll named healthcare costs as their greatest concern; 54% said the costs were "hurting a lot."

The entrepreneurs and microbusinesses that AEO's members and partner network serve have had the unfortunate choice of hamstringing their revenues by providing health insurance to their employees or losing their employees or potential employees to larger companies who can provide that insurance. They have struggled to provide insurance because insurance companies dropped them if an employee got sick.

Given the statistics that we just cited, it is no wonder that AEO applauded the disruption in the health care market that the ACA caused, because the previous health insurance market fell flat when it came to the self-employed and microbusinesses.

The ACA reforms to the health insurance market, in our opinion, were necessary and we hoped that these changes would lead to better prices and more choices. Our optimism is based largely on the exchanges, also referred to as new marketplaces, which allow individuals or small businesses to pool together statewide to obtain insurance. The logic behind the exchanges is that if microbusinesses can belong to a large pool rather than try to obtain insurance one business at a time, more insurance companies will be interested in insuring the pool. Therefore, since more plans will be offered, free market competition will drive the prices down. Our members, and the entrepreneurs they serve, have been looking forward to a break

⁴ See Field & Shapiro, "Employment and Health Benefits," Institute of Medicine, 1993; Bundorf, "Employee demand for health insurance and employer health plan choices," *Journal of Health Economics*, 2002; and Anand, "The Effect of Rising Health Insurance Costs on Compensation and Employment," Yale University, 2011.

⁵ Linda Blumberg, Sabrina Corlette, et al (2013). "The Affordable Care Act: Improving Incentives for Entrepreneurship and Self-Employment." Robert Wood Johnson Foundation.

in prices and better access to health insurance, both on the individual and small business exchanges.⁶

It is with profound disappointment that the federal rollout of this program is in complete disarray. While most of the government's attention has been focused on fixing the federal individual exchange (healthcare.gov), the SHOP exchange has been treated as a secondary concern. Nowhere is this more clear than the recent announcement that online enrollment in the federal SHOP exchange would be delayed until November 2014. While other methods of enrolling are available, the absence of the anticipated ease of enrolling online is frustrating.

The near term concerns are just as great. Even though the law requires individuals to obtain health insurance by March 2014, many plans for individuals and businesses end at the end of 2013. Decisions about coverage have to be made whether or not the federal government can successfully improve the exchanges. Between now and December 23rd, there will be a scramble for enrollment through brokers and private plans outside the exchanges to obtain coverage. This is not the scenario we initially hoped and advocated for.

We note that many individuals have received notices saying that their coverage will be discontinued because their plan does not comply with the ACA and the insurance companies have advised these customers to shop in the exchanges. Combined with the issues involved with both exchanges, entrepreneurs are left with questions. Do they just go without insurance and allow a gap in coverage? What does an employer tell its employees about when to expect coverage? These are real problems that microbusinesses around the country are facing.

In closing, our message is not based on any political leaning or philosophical notion regarding health insurance. We just want it to work. We urge the Congress and the Administration to come together to make it work for the 26 million microbusinesses on the front lines of our economy.

⁶ As a note, it is important to remember that the self-employed and sole proprietors must shop in the individual exchange, not as small businesses. The self-employed account for 70% of all businesses in the United States.