

Small businesses are about to get more and cheaper health insurance choices

By: Alfredo Ortiz and Thomas Price

The Labor Department is set to issue a new rule that will lower health care costs and increase choices for millions of American small businesses, which have been among the hardest hit by rising health care costs including those caused by Obamacare.

Following an executive order last fall from President Trump, the department will expand what are known as association health plans (AHPs) in the coming weeks. These plans allow small businesses to band together to purchase health insurance in bulk, lowering prices and mitigating risk.

AHPs have long been an escape hatch from rising health care costs for small businesses. However, state regulations have made them much harder to operate. Now only a handful remain in most states, and they don't have the cost and choice advantages of large corporate health plans.

The Labor ruling couldn't come at a better time. Small businesses have been particularly susceptible to the dramatic health care cost increases of recent years. They have neither the negotiating power nor the profit margins of their big-business competitors. In fact, the number of small businesses with fewer than 25 employees offering health insurance for their employees dropped by roughly one-third between 2008 and 2015.

Rising health care costs are contributing to the decline of new businesses and preventing existing enterprises from achieving their full potential. This has a significant impact in slowing the growth of the economy, since small businesses create two-thirds of all new jobs and are responsible for most of the major innovations that improve our quality of life. Minorities, who disproportionately fuel small business growth, are especially disadvantaged.

So how will the new rule help? It should make at least two reforms that would have an immediate benefit on small businesses and AHPs. First, it would move oversight of AHPs to the federal level under the Labor Department. This change is important because it would preempt the myriad state regulations that make it extremely difficult for AHPs to sell plans across state lines. The

increased competition and choice from being able to shop for AHPs across the country would significantly bring down prices.

However, in order for AHPs to be successful, we believe the Labor Department needs to develop a “safe harbor” as to the appropriate level of funding reserves that an AHP must maintain. The reserves will ensure that American families enjoy quality health care at reduced costs. This will largely eliminate many of the issues raised by detractors of AHPs who wish to encourage the current lack of competition promoted by the insurance industry and the favored treatment that such insurers enjoy in many states.

Second, the new federal rule should relax regulations surrounding who can form an AHP. A sufficient commonality of interest should exist where any group of employers participates in a bona fide association, including one formed solely for the purpose of purchasing health care coverage. No limitation should be placed on the size of the employer, including sole proprietorships. Democrats, who claim to worry about the lack of benefits of those in the gig economy, should welcome this change because it would create health care options for millions of freelancers around the country. This expansion would allow AHPs to achieve the economies of scale necessary to bargain for lower premiums and better plans.

In this fractious political environment, it's clear that comprehensive health care reform to truly lower health care costs across the board won't come any time soon. But targeted rule changes in the executive branch, such as the forthcoming AHP expansion, will offer real relief to up to 11 million small business owners and employees who have suffered most under Obamacare. That's still something to celebrate.

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