



# Small Business Growth and Latino Health under Health Care Reform

Policy Brief

December 2009

La Fe Policy Research and Education Center, 1313 Guadalupe, Ste 102, San Antonio, TX, 78207 210.208.9494/ 208.9493  
[www.lafepolicycenter.org](http://www.lafepolicycenter.org)

Small businesses which the U.S. Small Business Administration defines as firms with less than 500 employees are critically important to the American economy.<sup>1</sup> They represent 99.7% of all employer firms; generate one-half of America's Gross Domestic Product (GDP), and two-thirds of new jobs every year. Smaller firms with fewer than 20 employees accounted for approximately 18 percent of private sector jobs in 2006, but nearly 25 percent of net employment growth from 1992 to 2005.<sup>2</sup> These businesses account for a large majority of jobs in start-up and are a key source of innovation and economic growth.

**The competitiveness of U.S. businesses continues to be negatively impacted by the rising costs of health care and a concurrent rise in the number of uninsured and underinsured workers.**<sup>3</sup> There is a substantial competitiveness gap between the United States and numerous other industrialized countries in the global economy, including the loss of jobs to competitor countries.<sup>4</sup> Small businesses with less than 50 employees are particularly challenged to both thrive and compete.<sup>5</sup> The magnitude has led some to suggest that employer-sponsored health insurance (ESI) as currently structured has outlived its usefulness.<sup>6</sup>

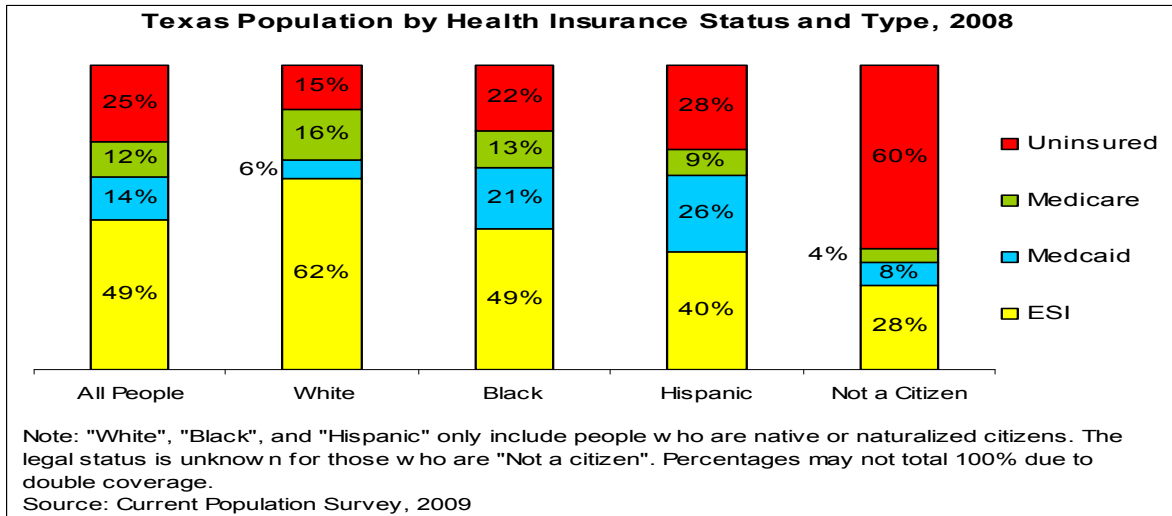
Indeed, health care costs are a barrier toward greater economic success for the small business owners and their employees, as well as contributing to income disparities.<sup>7</sup> Addressing how the cost of health care impacts small business is a major policy issue in the current health care reform legislation under consideration in both the Congressional House and Senate.<sup>8</sup> While there are identifiable business organizations lobbying on the purported behalf of small business, a major survey of small business owners indicates that they are not adequately being represented.<sup>9</sup>

The rise in health care costs and how it is leading to the growth in uninsured workers is a major salient issue in Texas because the state has the highest percentage (25%) of uninsured U.S. residents, a majority of whom works full-time. In 2006, there were 386,422 small business employers in Texas who accounted for 98.7% of all employers, and 46% of the state's private-sector employment.<sup>10</sup> Small businesses with fewer than 50 employees accounted for 72% of Texas businesses. About 2 million or 24% of private sector employees worked in these firms in 2005, and over one-half of these private-sector small firms have fewer than ten employees. Of these businesses, 33.6% and 25.9% offered health insurance for firms with less than 50 and 10 employees respectively.<sup>11</sup>

**The *bienestar* (well-being) and health of the Latino population in Texas is intertwined with the economic growth of small businesses and with the current national legislative proposal to reform the U.S. health care delivery system.** More specifically, reform policies directed at addressing disparities<sup>12</sup> in health care access greatly affect Latinos in Texas. Many Latinos are very worried about health insecurity and strongly support current national health reform initiatives.<sup>13</sup> The long-term implications are clear in light of Hispanic population growth and the projected impact on the states' education system, the labor force, the health system, and overall economy.<sup>14</sup>

Another important aspect of this debate is the concurrent underlying disproportionate negative impacts of these issues on the *bienestar* and health of uninsured Latino workers<sup>15</sup> because among Latino workers, the majority is employed in small businesses, many of whom are also small business owners.<sup>16</sup> In fact,

Latino small business owners are growing at three-times above the average of non-Latino owned small businesses.<sup>17</sup> However, most Latino small business workers are low-wage earners whose overall *bienestar* is at risk because of health disparities (e.g., being uninsured and/or in poor health) that impact them.<sup>18</sup> Only 40% of Latinos had employer-based health insurance in 2008 compared to 62% for non-Latino Whites.



**Latinos are the most uninsured population in the nation and in Texas, a trend that has existed for well over a decade.** During the 1996-1998 period, the Latino uninsured rate (ages 19-64) in Texas was 38%; ten years later in 2008 it was 39%.<sup>19</sup> Their uninsured rate is still twice that of non-Latinos after excluding non-citizens (documented and undocumented U.S. Latino residents). Reasons cited for this severe health insurance disparity include:

- Lower education and income levels;
- High levels of employment in small businesses which do not offer health insurance coverage;
- Work in service and other occupations with the least access to affordable health insurance coverage; and
- Unaffordable premium-share when health insurance coverage is offered given their lower wages.

It is also worth noting that the health insurance disparity for Latinos persists when compared to the same level of education for Non-Latinos.<sup>20</sup>

**Texas Uninsured by Race/Ethnicity and Educational Attainment**

Education	Texas	White	Latino	African American
No high school diploma	42%	22%	36%	28%
High school or equivalent	30%	19%	41%	36%
Some college, less than 4-yr degree	20%	13%	29%	23%
Bachelor's degree or higher	9%	5%	16%	15%

Source: US Census Bureau: Community Population Survey 2007

**Note: Percentages reflect individual racial/ethnic and educational attainment sub groups and will not add up to 100%**

**For Latino small businesses and low-wage workers, affordability is increasingly challenged by the cumulative changes in health insurance premiums, inflation, and workers' earnings.** The trend has a direct impact on the question of what is affordable, and if disparities will be addressed. In Texas, severe affordability issues are exemplified by the following:<sup>21</sup>

- Health insurance premiums for working families increased by 86.8% from 2000 to 2007, while the median earnings of Texas' workers increased by only 15% (\$23,032 to \$26,484). Health insurance premiums rose 5.8 times faster than median earnings.
- Family health coverage (employer and worker share of premiums combined) rose from \$6,638 to \$12,403.
- Family health coverage for the employer's portion rose from \$4,879 to \$9,191, while the worker's portion rose from \$1,759 to \$3,212.
- Individual health coverage (employer and worker share of premiums combined) rose from \$2,627 to \$4,385.
- Individual health coverage for the employer's portion rose from \$2,220 to \$3,613 while the worker's portion rose from \$407 to \$772.

For small business employers and their employees the challenges include:<sup>22</sup>

- Less than half of employees working in firms work for an employer offering coverage, compared to 93% in large firms. There are fewer in Texas than nationally.
- Of the 1.9 million employees working in small firms, less than 800,000 (42%) are eligible for coverage and less than 650,000 (32%) are enrolled.
- Texas families pay a higher share of premiums, deductibles, and out-of-pocket expenses for health insurance than nationally.
- The majority of small business employers who do not offer coverage report that they can only pay \$100.00 or less per employee per month for health insurance.

A recent *Institute of Medicine* report notes, "Businesses must realize there are real bottom-line costs associated with health disparities. Employers cannot afford to continue shouldering the costs and consequences (illnesses, disabilities, premature death) of unnecessary or unequal health care particularly in light of a more diverse workforce."<sup>23</sup> Racial and ethnicity minorities will comprise the majority of the U.S. population by 2042, and over 50% of the working-age population (30% Latino, 15% Black, and 9.6% Asian) by 2039, up from 34% in 2008. Latinos are projected to represent over 53% of the Texas population in 2040 compared to 32% and 10% for Anglos and African Americans respectively.<sup>24</sup>

Documented research demonstrates that high risks pools, health saving accounts, and the like have had limited impact in helping small businesses acquire affordable health insurance coverage.<sup>25</sup> Further, research shows that tax credits and subsidies must be well-developed and targeted to either the small business and/or individual employees to improve their chance of success.<sup>26</sup> In Texas, legislative efforts have had limited success in helping small businesses or low-wage workers to successfully purchase affordable health insurance coverage through high risks pools or tax credits.<sup>27</sup>

In summary, research repeatedly demonstrates the disadvantaged position of small businesses, as exemplified by the following issues:<sup>28</sup>

- A decade-old trend of rising premium cost;
- Higher premium cost disparities between small and large businesses;
- More limited health plan choices and less comprehensive health benefits;
- Disproportionately higher operating costs for small businesses;
- Health insurance access disparities between higher and lower-wage workers within small and large firms;

- A more severe decline in their ability to offer affordable health insurance compared to larger businesses;
- A lack of access to affordable health insurance coverage in private health insurance market for individuals or their families.

The current health reform proposals contain policies directed at addressing the negative impacts that health care costs are having on business, particularly policies that will assist small businesses to have access to affordable health insurance coverage.<sup>29</sup> According to proponents, 233,000 small businesses in Texas could be helped, and they would also be exempt from any employer responsibility provisions. Several important means are identified for providing access to affordable coverage: 1) a health insurance exchange that pools small businesses and their employees with millions of other Americans to increase purchasing power and competition in the insurance market; 2) tax credit for small businesses (with less than 50 employees); 3) termination of the ‘hidden tax’ on small businesses that provide health insurance, 4) prevention of arbitrary premium hikes; and 5) prevention of denial of coverage or high costs because of pre-existing health conditions.

There is, of course, heated debate about the impact that current health care reform proposals will have, and whether a final bill will either help or hurt small business regarding access to affordable health insurance coverage, as well as whether it will strengthen their long-term competitive growth and development. The strongest opposition has been from the U.S. Chamber of Commerce and National Federation of Independent Businesses, with some beginning support from the Business Roundtable. Whereas other business groups such as the Small Business Majority, Main Street Alliance, and National Minority Business Council have indicated strong support for the proposed reforms.

The importance of meaningful health care reform for small businesses and the disproportionate large number of uninsured Latinos is evident. As such, affordable health insurance expansion for small businesses and Latinos must consider:

**Health Disparities** - Over the next decade, the prevalence of disease will shift from White non-Latinos to Latinos who are primarily young and of working age. Therefore, socio-economic conditions coupled with existing health disparities and environmental circumstances of uninsured Latinos must be considered in order to successfully develop and implement effective policy solutions.

**Affordability** - Latinos are most likely to have lower education attainment, to live in poverty, have less disposable income, and be uninsured, and work in small businesses. Improvements to the system must include significantly reduced costs.

**Accessibility** - It is vital to healthy outcomes that services be accessible. Texas Latinos are not only the most uninsured, but are also more likely to reside in medically and health professions underserved areas.

National data indicate that over the next 10 years, Latino-owned businesses will have a growth rate of 8%--3 times the rate of U.S. firms overall, and their revenue and worker growth is also expected to be higher.<sup>30</sup> The most recent business data (2002) indicated that 18.4% (319,340) of all (1,694,485) Texas business owners were Latino, which represented a 32.8% increase from 1997. According to the State Comptroller, Latinos help propel the Texas economy. Latinos contributed more than 171 billion in 2008, and expected to rise to 252 billion by 2013 (47% increase), plus significant growth is expected in Latino-owned businesses.<sup>31</sup>

While all small businesses may share common concerns, it is imperative to determine if the experiences and perspectives of Latino small businesses are truly known and are accurately and adequately represented in the health reform debate. The disproportionate negative impacts are probably greater on Latino small businesses, their employees and families. While Latinos continue to grow in population,

labor force, and entrepreneurship, access to healthcare and prevention are negatively impacting Latinos, hence the economic well-being of Texas. Latino small business opportunities are more limited regarding maintaining affordable and comprehensive health insurance benefits for their employees, while continuing to prosper in size and profits.

**In summary, of 23 million Texans, one in three is Latino (36.5%), and their projected growth and economic contributions combined with improved health care access can further ensure our state's productivity.** Health insurance coverage increases the likelihood for regular access to a medical home for preventive primary care and access in the event of an unanticipated health care need. In short, access should provide the opportunity to maintain good health and not add to the risk of financial health care debt. Further, the coverage cost should not be a barrier to parents to pursue and retain individual and family financial security and self-sufficiency. The objective should be to reduce disparities, not increase them. Provided with affordable opportunities to access coverage for themselves and their employees, small businesses can increase their growth and make significant contributions to reducing the number of uninsured Latinos while improving their overall health status. All of Texas and all of its residents will benefit, thereby insuring the economic growth and prosperity of the state for decades to come.

---

<sup>1</sup> The Small Business Economy, A Report to the Presidents, Small Business Administration, Office of Advocacy, 2009, and Frequently Asked Questions, U.S. Small Business Administration, Office of Advocacy, Updated September 2009.

<sup>2</sup> Key Finding from Quantitative and Qualitative Research Among America's Small Business Owners, The Robert Wood Johnson Foundation – Small Business Research, 2008.

<sup>3</sup> An International Comparison of Small Business Employment, Center for Economic and Policy Research, August 2009.

<sup>4</sup> Health Care Value Comparability Study, The Business Roundtable, Executive Summary, 2009.

<sup>5</sup> The High Cost of Small business Health Insurance: Limited Options, Limited Coverage, Hearing before Committee on Energy and Commerce, Subcommittee on Oversight and Investigation, U.S. House of Representatives, Statement of Linda J. Blumberg, Senior Fellow, The Urban Institute, October 20, 2009.

<sup>6</sup> The Future of Employment-Based Health Benefits: Have Employers Reached a Tipping Point?, Employee Benefit research Institute, Issue Brief No. 312, December 2007, and Quality, Affordable health Care for All: Moving Beyond the Employer-Based Health Insurance System, Committee for Economic Development, 2007.

<sup>7</sup> How health care costs contribute to income disparity in the United States, McKinsey Global Institute, The McKinsey Quarterly, March 2009.

<sup>8</sup> Out of Options: Why So Many Workers in Small Businesses Lack affordable Health Insurance, and How Health Care Reform Can Help, The Commonwealth Fund, Issues Brief September 2009.

<sup>9</sup> The Small Business Dilemma: How Rising Health Care Costs Are Tough On Small Business, U.S., PIRG Education Fund, July 2009; and The Employers Health Care Burden, New America Foundation, Issue Brief, May 2008.

<sup>10</sup> Texas Small Business Profile, U.S. Small Business Administration, Office of Advocacy, October 2009.

<sup>11</sup> Revitalizing the Small Employer Group Health Insurance Market in Texas, Mayors Office, City of Houston, August 2008.

Data references can be accessed at <http://www.meps.ahrq.gov/mepsweb/>

<sup>12</sup> Disparities in “health care” and in “health” are not the same. A health care disparity refers to differences in coverage, access, or quality of care that is not due to health needs. A health disparity refers to a higher burden of illness, injury, disability, or mortality experienced by one population group in relation to another. The two concepts are related in that disparities in health care can contribute to health disparities, and the goal of the use of health services is to maintain and improve a population's health.

<sup>13</sup> Health Care Insecurity Greatest Among Hispanics, Economic Policy Institute, Snapshot, February 20, 2008; and , New Survey Shows Overwhelming Support among Latinos for Health Care Reform That Includes Public Option, Latino Decisions, the Robert Wood Johnson Foundation Center for Health Policy at the University of New Mexico (UNM-RWJF Center), and impreMedia, Latino Decisions New Release, December 3, 2009.

<sup>14</sup> Population Change in Texas: Implication for Human and Socioeconomic Resources in the 21<sup>st</sup> Century, Steve H. Murdock, Institute for Demographic and Socioeconomic Research, University of Texas at San Antonio, 2006.

<sup>15</sup> The U.S. Economy and Changes In health Insurance Coverage, 2000 – 2006, Health Affairs, 27, No.2, February 20, 2008; and Employer Sponsored Health Insurance: Already Poor Access Further Dwindles for Working Latino Families, National Council de la Raza, Fact Sheet, 2008.

<sup>16</sup> Employment status of the civilian non-institutional population by age, sex, and race (Table 3) and Employment status of the Hispanic or Latino population by age and sex (Table 3), U.S. Department of Labor, Bureau of Labor Statistics, Current

---

Population Survey, Annual Averages 2006. Available at <http://www.bls.gov/cps/cpsa2006.pdf>; and The Characteristic of Small-Business Employees, Monthly Labor Review, April 2000.

<sup>17</sup> Minorities in Business: A Demographic Review of Minority Business Ownership, Small Business Administration, Office of Advocacy, April 10, 2007; and Latino-Business Barometer United State, RDA Global, May 1, 2005.

<sup>18</sup> National Health Care Disparities Report, Agency for Healthcare Research and Quality, December 2009; and How Non-Group Health Coverage Varies with Income, The Henry J. Kaiser Family Foundation, February 2008.

<sup>19</sup> Texas Blue Ribbon Task Force on The Uninsured, Report to the 77th Legislature, February 2001; and U.S. Census Bureau Current Population Surveys, 2002 - 2008.

<sup>20</sup> Texas Medicaid Waiver: Implications for Health Care Reform, La Fe Policy Research and Education Center, March 2009. See Table 9; and The Challenges of Health Insurance for Small Businesses in Texas: Profiles and Trends, LBJ School of Public Affairs, Center for Health and Social Policy, October 2008.

<sup>21</sup> Premiums Versus Paychecks: A Growing Burden for Texas's Workers, Families USA, October 2008.

<sup>22</sup> Texas Small Employer Health Insurance Survey Results 2009, Texas Department of Insurance, May 2009; and Healthy Texas Phase I Report, Senate Bill 20, Section 25, 80<sup>th</sup> Legislature, Regular Session 2007, November 2008.

<sup>23</sup> Challenges and Successes in Reducing Health Disparities: Workshop Summary, Institute of Medicine, Washington D.C., The National Academies Press, 2008.

<sup>24</sup> Population 2000 and Projected Population 2005-2040 by Race/Ethnicity and Migration Scenarios for State of Texas, Texas State Data Center 2005.

<sup>25</sup> What price universal health coverage? For many small employers, any price is too high, Mercer, Survey, October 2008.

<sup>26</sup> Health Tax Incentives: Healthy Choices or Bad Medicine, National Council de la Raza, Issue Brief, No. 18, 2009; and Target Subsidies: Employers Versus Individual, Urban Institute, October 2008.

<sup>27</sup> Analysis of Reinsurance and High-Risk Pool Options for Health Insurance in Texas, LBJ School of Public Affairs: Center for Health and Social Policy, December 2008; Code Red: The Critical Condition of Health Care in Texas, 2006. See Chapter V, State Regulations of Health Insurance; and Expanding Health Insurance Coverage with the Texas Health Insurance Risk Pool, Working Paper from the Policy Research Project on Expanding Health Care Coverage for the Uninsured 2002, The Lyndon B. Johnson School of Public Affairs, The University of Texas at Austin.

<sup>28</sup> Wages and Benefits: A Long-Term View, The Henry J. Kaiser Family Foundation, Snapshots, November 2009; The Widen Health Care Gap Between High and Low-Wage Workers, The Commonwealth Fund, Issues Brief, May 2008; and The Fraying Link Between Work and Health Insurance: Trends in Employer-Sponsored Insurance for Employees, 2000-2007, The Kaiser Commission on Medicaid and the Uninsured, November 2008.

<sup>29</sup> The Economic Effects of Health Care Reform on Small Businesses and Their Employees, Executive Office Of The President Council Of Economic Advisers, July 25, 2009.

<sup>30</sup> Latino-Business Barometer United State, RDA Global, May 1, 2005.

<sup>31</sup> Combs Says Hispanics Help Propel the Texas Economy, Window on State government, New Release, October 1, 2009.