The National Federation of Independent Business recently reported that small businesses identified increasing health care costs as their No. 1 problem. While escalating costs hurt all employers, small business has been particularly disadvantaged by the way health insurance is paid for in this country. Short of more dramatic reform, Maine’s small businesses and their employees would benefit by gaining access to larger insurance pools and an opportunity to participate in Accountable Care Organizations.

Let’s face it — the United States health insurance system was not created with small business in mind. In fact, employers became the primary providers of health insurance only by an accident of history, when the federal government initiated a wage freeze during World War II and businesses competed for skilled workers by offering the additional benefit of health insurance.

The federal government encouraged businesses to include health insurance as a benefit by making employer-paid health insurance tax-free to employees. But what started as a fairly modest expenditure has become an unsustainable cost for small business.

Even though providing health care to the citizens of the richest country in the world ought to be a national priority, placing the cost of health care on the backs of business has been too much for many small businesses to bear. It has become a financial burden for many small businesses to provide health insurance but also a significant challenge for small businesses to attract employees without providing health insurance. Tying health insurance to employment creates a disincentive to start a business and a difficulty for small businesses to recruit and retain high-quality employees.

To compound the problem, many small businesses that offer health insurance to their employees end up paying more than larger companies because small groups have a higher risk pool with higher premium costs per employee. Insurance works most effectively when there is a large pool of participants but only a small number who make a claim against the premiums collected.

Small businesses have ended up in insurance rate setting pools with the least optimal characteristics and that historically have large claims. These out-sized claims drive up insurance premiums for the business and increase deductibles for employees. With higher insurance premiums, small businesses tend to shift more of the costs to employees and those employees also tend to have higher co-pays and larger deductibles than those in larger organizations. As their out-of-pocket costs increase, young and healthy employees often decline the insurance offered, which only exacerbates the situation by creating a vicious cycle that leaves only those people more likely to make large claims left in these high-risk pools.
But even if these insurance pools can be structured with a larger, more representative population, which is the hope of the Affordable Care Act in creating exchanges for small businesses and individuals, they will still have to overcome other weaknesses in our health care system to prevent costs from escalating. Health care costs rise for good reasons such as breakthroughs in medical technology and pharmaceuticals, as well as the simple fact that the population is getting older and requires more care. Insurance premiums also increase because the commercial sector is indirectly picking up costs for both the uninsured and the inadequate payments for care covered by Medicare and Medicaid. In addition, we can point to overuse of medical services, an abuse attributed to having third-party payers, and inefficiencies that arise in a system with fee-for-service payment methods that compensate physicians for the amount of services provided rather than hold them accountable for improving the health of their patients.

Accountable Care Organizations, or ACOs, such as Kaiser Permanente and those now forming in MaineHealth and Eastern Maine Healthcare Systems are trying to overcome these weaknesses in our current health care system. These organizations link patients, providers and payers in a system of mutual cooperation. Under ACOs, these plans provide incentives for patients to take greater responsibility for their own health with proper diet and exercise, physicians are rewarded by patient outcomes rather than fees for the amount of service provided and office visits, hospital stays and post-acute care are seamlessly linked to achieve greater efficiencies.

As health care costs continue to rise, there will be an increased outcry for solutions. Providing small businesses and individuals with opportunities to participate in larger insurance pools and in Accountable Care Organizations will be steps in the right direction.

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