

Small firms, their workers bear brunt of rising health care costs

For almost all of the family-owned company's 78-year history, the insured employees at Suburban Maintenance Corp. in Buffalo didn't have to pay anything for health coverage.

At the beginning of this year, the company adopted a new "high-low" plan from Univera Healthcare, giving its 18 employees the choice of

higher or lower co-pays. Employees had to pay the difference in cost if they wanted low co-pays and a gym membership, but Suburban paid the cost of the "high" plan. The dam finally broke in April, after the company lost a major contract. Immediately, employees had to pay 40 percent of their insurance costs. "Costs are just going up so high," said Karen Stasierowski, the office-cleaning company's controller. "We just try to keep it lower if we can and look at what we can change that doesn't affect too much."



Bill Wippert/Buffalo News
Kurt Amico, foreground, is co-owner of MidCity Office Equipment, which fully paid employee health insurance until three years ago. Then the company began passing on cost increases to employees such as Katie Clark, Barry Cohen, Sara Schall, Sam Albert and Shannon York.

The rising costs of health insurance are hammering employers of all sizes, from the largest corporations in the nation to the local mom-and-pop stores. Expensive medications and costly hospital care have driven up expenses for insurers and led to double-digit percentage premium increases every year for the past several years. An August 2003 survey by the Business Council of New York State found that premiums for employers in the state rose between 14 percent and 18 percent last year.

Small business owners complain that they can least afford big cost hikes because of their low profit margins and because the costs can't be spread across a large operation and employee base. Firms employing between three and 199 workers saw premium hikes of 15.5 percent from 2002 to 2003, compared to 13.2 percent for larger employers, according to the Health Research and Educational Trust, a research group affiliated with the

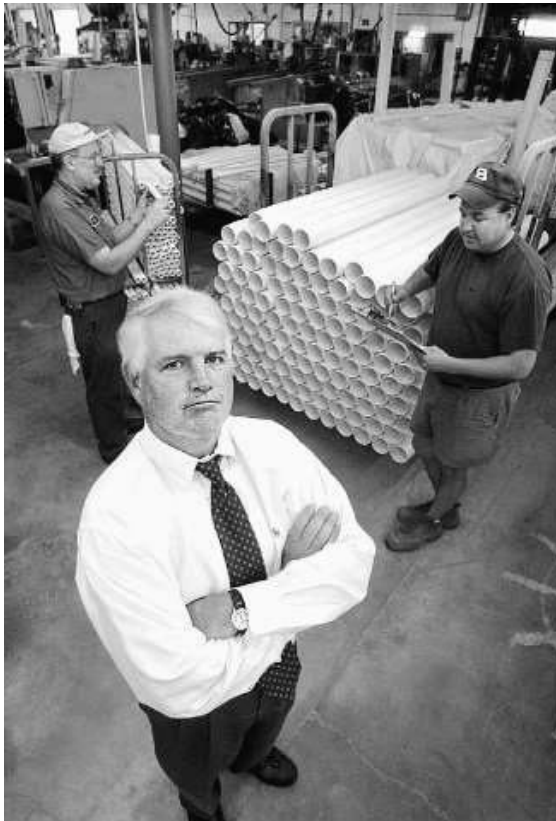
American Hospital Association. "Their pockets aren't as deep," said Conrad F. Meier, senior fellow for health-care policy at the Heartland Institute, a research group in Chicago. "There are some employers who can't afford to get into it at all."

In New York, costs are increased by laws known as "community rating" and "guaranteed issue," which mandate what health insurers must cover or set limits on how insurance risks can be measured. Together, those laws require that insurers allow

anybody to be covered at any time. And prices are controlled for an entire geographic community. The state also limits how high co-pays can go. As a result, Meier said, the average annual premium for high-end family coverage at a small employer in New York is \$8,427.50, compared to \$5,945.61 for the same coverage in California. New York has the third-highest average annual cost of employer health insurance for a family and the eighth-highest for a single employee, according to the Business Council. "Albany has imposed a lot of mandates on anybody who buys health insurance," said Matthew Maguire, spokesman for the Business Council. "When a mandate is passed, that makes health insurance more lavish. It also makes it more expensive, and

more and more companies and individuals find they can't afford it at all." Critics say that's only going to drive up the rolls of the uninsured or underinsured. About 44 million Americans nationwide, 3 million statewide, and about 50,000 in the Buffalo area lack health insurance, according to the Employee Benefit Research Institute and Emory University. The president of Buffalo Well Products in Clarence says he would like to be able to offer prescription drug coverage to his employees. He also does not offer vision or dental insurance. But the riders for each of those would cost as much as \$40 each per employee just for an individual plan. "It's just too expensive," said Paul Barron, whose company makes PVC pipe and offers drilling for soil testing. "If we were to offer it,

we would have had to charge our employees more money." Where large employers can be flexible and cut costs by "self-insuring," small groups - defined as between two and 50 workers - don't have that option. That means small employers are essentially limited to the pricing and fixed menu of products that the insurers normally offer. "There are some bells and whistles that the larger groups get that the smaller groups don't have access to," said Kevin B. Gannon, senior client executive at Niagara Insurance Group in Williamsville. The result is increasing pressure on small employers to share the burden with their workers or to reduce or eliminate benefits. That's a sharp change for many businesses, who consider themselves more friendly, paternal and family-oriented than larger companies. "Because they're so much smaller, they know their employees and their employees' family members," said Timothy Foster, senior director of commercial sales at Blue Cross Blue Shield of Western New York, a division of HealthNow New York. "They can see the impact it has on their employees and families." Take Mount Mercy Academy in Buffalo. The all-girls Catholic high school derives its revenues primarily from tuition,



Robert Kirkham/Buffalo News
Paul W. Barron, president of Buffalo Well Products, wishes he could afford dental, vision and prescription riders for employees like Ed Shutt, left, and Jim Holtz, right.



which for the next academic year is \$5,500.

Rising insurance costs have placed more pressure on the school's operating budget, leaving it with two unpalatable options: raise tuition or increase the costs for teachers.

"You don't want to put the burden on the students and their parents," said Principal Paulette Gaske. But "our teachers don't make the kind of money they would make at a public school, so you still want to provide them with the kind of benefits that they're entitled to."

Local benefits consultants say small businesses do have more options to help them today. The three local health insurers - HealthNow, Independent Health, and Lifetime Healthcare Companies' Univera Healthcare - each offer products geared for the small employer, with a range of co-pays and benefits at a low cost.

"We've really taken a hard look at what the small business owner is struggling with and how we can help," said Mary Lee Campbell-Wisley, regional president of Univera.

Independent Health doubled the number of products it offers for all employers from 13 in 2001 to 30 today. "We're trying to build products and services to help service the small employer group," said Joseph Wild, senior vice president.

And the state's Healthy New York program already allows small businesses with no health

coverage to offer more affordable insurance.

Lawmakers are considering a bill to expand it, and give small employers a tax credit so they can provide coverage.

Still, that only goes so far. MidCity Office Equipment, a family-owned office equipment distributor, paid for full coverage for its 15 employees until three years ago. At that point, facing increases of 15 percent one year and 17 percent the next, it started passing on the costs to workers. Two employees dropped out because they didn't want to pay.

"You start seeing that and you start feeling for employees. You look for other ways to cut so you can have benefits for all," said co-owner Kurt Amico.

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