

## The cash cows' beef (3/11/10)

Dr. Bob Graboyes, Senior Fellow for Health and Economics  
NFIB Research Foundation | 1201 F Street NW, Suite 200 | Washington, DC 20004  
202.314.2063 | [bob.graboyes@nfib.org](mailto:bob.graboyes@nfib.org) | [www.NFIB.com/DrBob](http://www.NFIB.com/DrBob)

*Washington Post:* Last week, President Obama [admonished insurance company executives](#) for excessive rate increases. He took aim at them again in his speech in Philadelphia on Monday. How much of our problem rests with insurance companies and how much is the result of other facets of the health-care system?

What portion of America's health-care problems are attributable to insurance companies? That's a huge question, and this is a small blog. So I'll only address a narrow slice of the question: How is the insurance industry a problem for small business?

Small business has come to view insurers with hostility. In their view, private insurers -- both for-profits and not-for-profits -- use the small-group market as a cash cow. Premiums are substantially higher for small groups than they are for large groups. Small-group premiums are more volatile, and their choices are more limited. Small businesses depend on brokers for information and insurance products, but brokers can only offer small business the limited products that carriers offer them.

Small-group is the cash cow for several reasons. Unlike large firms, small businesses have no human resources departments to distinguish between justifiable and unjustifiable premium increases. State insurance markets are mostly oligopolies or near-monopolies, so they lack the competitive forces necessary to drive prices down. Year-after-year, the insurance industry has fought reforms (e.g., interstate purchasing, transparency rules, more efficient pooling arrangements) that could make the small-group market more competitive. This intransigence has brought insurers short-term monetary gains, but also hostility from purchasers and politicians. In doing so, the insurers have made it difficult to distinguish between legitimate and spurious criticism.

Small business supports the existence of private, competitive insurance markets. To the regret of small business, the insurance industry may soon look back and realize that it was its own worst enemy.