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Nov. 20, 2017

Small business owners who purchase their health insurance on the individual marketplace are facing growing premium costs that are outpacing the rise of other operating expenses, according to a new report by the JPMorgan Chase Institute. In 2014, 16 percent of individual market participants were self-employed.

While growth rates in insurance premiums have slowed in recent years, from 10 percent in 2014 to 7 percent in 2017, typical small business owners still spend about \$500 per month on premiums to cover themselves and/or their families. Additionally, the data show small business owners who paid at least 6.5 percent of their expenses toward healthcare costs in 2016 were more likely to stop making healthcare payments and perhaps left the marketplace entirely in the following year.

The report, *[Paying a Premium: Dynamics of the Small Business Owner Health Insurance Market](#)* provides insight into the decisions of small business owners as participants in the individual health insurance market and a unique perspective into the magnitude of health insurance premiums relative to other operating expenses small business owners face.

“The majority of America’s small business owners face a real financial burden when purchasing insurance for themselves and their families,” said **Diana Farrell, President and CEO, JPMorgan Chase Institute**. “Small businesses operate under fragile circumstances, with the average small business having only **27 cash buffer days**. These businesses are significantly vulnerable to revenue shocks and health insurance premiums represent a material and growing operating cost for these

business owners. As policymakers consider the path forward on healthcare, it's

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businesses.

Some of the report's key takeaways include:

- **Health insurance premiums have increased dramatically in recent years, but the rate of growth has decelerated over time.** Small business owners saw their premiums grow 10 percent in 2014, though that growth rate declined to 7 percent in 2017.
- **Health Insurance premiums for small business owners have grown significantly faster than their operating expenses.** In 2014, the median health insurance premium burden was 2.3 percent. In 2017, the median burden among the same set of firms had grown to 2.9 percent, increasing about 0.2 percentage points each year.
- **Small business owners with the highest insurance burdens are leaving the individual market, and possibly going without health insurance.** Forty-two percent of firms in the sample with health insurance payments amounting to 6.5 percent or more of their expenses in April 2016 were no longer in the sample a year later. Firms with high health insurance premium burdens were more likely to leave the sample the following year – as opposed to firms with lower health insurance premium burdens – most commonly because they discontinued those payments.

The sample was constructed from more than 30,000 nonemployer firms who hold business banking deposit accounts with Chase and also make regular health insurance premium payments from those accounts. The JPMorgan Chase Institute used the 117 million anonymized transactions from these businesses to produce a monthly view of health insurance premium payments and other operating expenses from January 2014 to April 2017. To support some analyses of within-firm payment changes, the JPMorgan Chase Institute also constructed a panel sample, comprised of 3,505 firms that appear in the cross-sectional sample (described above) every month.

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- **Health insurance premiums are an increasing economic burden for nonemployer business owners, whose health insurance payments have grown substantially since 2014.**
  - Our longitudinal data allows us to analyze the experiences of individual firms. The dynamism of the small business sector can mask those experiences in aggregate cross-sectional data. We investigated intra-firm health insurance premium payment growth, not only in our full sample that allows entry and exit, but also in a longitudinal panel of firms that are present in every month of our sample period.
  - Nonemployer small businesses experience typical HIPPP growth rates of 7-10%.
  - Most nonemployer firms experienced substantial health insurance premium growth, significantly faster than the growth of their other operating expenses.
  - In 2014, the median burden (health insurance premium payments as a share of all expenses) was 2.3 percent. In 2017, the median burden had grown to 2.9 percent, increasing about 0.20 percentage points each year.
  - Small business owners who maintain health insurance are left with a decreasing share of funds to spend on their business or use to support their families.
- **The growth rate of health insurance premiums experienced by individual firms has slowed since 2014.**
  - The median within-firm growth rate of health insurance premiums slowed from about 10 percent in 2014 to about 7 percent in 2017.
- **Nonemployer businesses for whom health insurance premiums are most burdensome are exiting the health insurance market.**
  - 42 percent of firms in the sample with health insurance payments amounting to 6.5 percent of expenses or more in April 2016 were no longer in the sample a year later.

- Firms with high HIPP burdens were more likely to leave the sample the

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### **burden varied widely within metropolitan area and industry.**

- Median HIPP levels are not consistent across location of a business, or industry in which a business operates.
- Premium payments within metro areas also varied over time, in addition to variation in premium payment burdens.
- There was no clear relationship between median HIPP level and burden by industry.

[Click here to read the full report.](#)

Small Business

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