

California Small Businesses and the Patient Protection and Affordable Care Act

A Listening Tour:
May 2010 – January 2011



Table of Contents

Why a listening tour?	1
Goals	2
What we did	2
Creating local partnerships	3
Event format	3
Introduction by Dr. Weinberg	3
Presentation by Small Business Majority	4
Presentation by California state official	6
Question and comment period	7
Our findings	7
Top comments and concerns	8
Additional outreach	10
Summary	11
Action items	11
Appendix	12
Event details	12
Biographies of listening tour speakers	13

Small Business Majority

Small Business Majority is a California-based, national nonprofit, nonpartisan small business advocacy organization founded and run by small business owners and focused on solving the biggest problems facing small businesses today. We speak for the nearly 28 million Americans who are self-employed or own businesses of up to 100 employees. Our organization sponsors scientific research that guides us to understand and advocate on behalf of the interests of small businesses across the country.

Acknowledgement

The California Small Business Listening Tour and Small Business Majority's related outreach work is supported by generous grants from The California Endowment and Blue Shield of California Foundation.

Why a Listening Tour?

Small business owners face many different challenges in their efforts to create jobs, stimulate the economy and make a living. For many small businesses, one of the biggest obstacles is the skyrocketing cost of health insurance premiums, making it more and more difficult for them to provide coverage to their employees. Many small employers simply cannot offer insurance at all due to astronomically high prices. Those who do provide it are struggling to do so as they are hit with double-digit increases year after year.¹

Our nation's leaders from both ends of the political spectrum recognized that reform was necessary. To help address the problems of affordability, access and quality of healthcare, the United States Congress and President Obama introduced several different proposals to reform our broken system. As is often the case when significant change is attempted, all stakeholders found something to dislike. Consumers, businesses, providers and insurers all believed reform was necessary but could agree on few details. And as healthcare is a uniquely personal issue for most people, the debate on these reform proposals quickly became contentious.

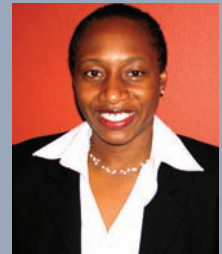
Nonetheless, after more than a year of in-depth discussion Congress passed the Patient Protection and Affordable Care Act (ACA). President Obama signed the legislation into law on March 23, 2010 creating significant reforms in our nation's healthcare system. Many of these reforms have a direct impact on California's 700,000 small businesses that collectively employ 7.2 million people, plus another 2.6 million self-employed entrepreneurs.² The impact on small businesses is particularly important, as fewer than 60% of firms with less than 10 employees can afford to provide health insurance to their workers³ and a staggering 30% of the self-employed have no health coverage at all.⁴

But the debate did not end with the bill's passage. Fighting words and a continuous stream of misinformation continue to make it very difficult for the American public to figure out what the law entails. Further complicating the matter, the ACA is thousands of pages long, making any attempt at reading or understanding the new law overwhelming to say the least. The result has been that an honest fact-based discussion of these important issues has often been drowned out by partisan rhetoric and distortions of the truth.

In research Small Business Majority conducted prior to the law's enactment, small business owners across the nation expressed support for healthcare reform proposals similar to the new law.⁵ However, just like other Americans, small employers for the most part are unaware of the details of the ACA. Busy running their businesses, small employers often do not have the time or patience to listen to the rhetoric coming out of Washington. Nonetheless, the reforms in the new law will dramatically impact small businesses and, therefore, it is vital that owners be made aware of these changes. In addition, the ACA leaves many of the implementation responsibilities to the states, creating a need for small businesses to be engaged in the process and offer their suggestions and concerns. It has become clear that there is an overwhelming need for dialogue with small business owners to help educate them and seek their input on how the law can best be implemented.

SMALL BUSINESS VOICE

"I'm a CPA with several small business clients who will probably be impacted by the new healthcare bill. I had a high-level knowledge of the healthcare bill, but really needed to understand what it all meant and what was applicable to small businesses. So I attended the listening tour event. The tour gave me a better understanding of the new rules, when they are to be applied, and when they are available."



Bridget Trumpet
Trumpet Financial Group
Los Angeles

Goals

The goals of our California listening tour were to

- 1) Educate business owners and organizations about the new law and;
- 2) Seek their input on how to best move forward with implementation.

From our research we know that the top healthcare concern for small employers is affordability.⁶ We decided that our education efforts would need to demonstrate to business owners how this new law might have an impact on reducing costs, thus increasing the likelihood that they could provide coverage to their employees and that the self-employed could afford it for themselves. Our goal was to highlight the major provisions that apply directly to small businesses such as the small business tax credits and the insurance exchanges, explain them in detail and show how each provision would help address affordability.

There is not only a need to help educate small business owners; there is an equally great need to explain the law to business organizations that represent small employers. By asking local business groups across California to co-host each Listening Tour stop, we could meet our goal of activating business organizations around healthcare reform, ensuring they had understanding of what is in the ACA and demonstrating the need for their involvement in the implementation process.

Most importantly, the goal of our Listening Tour was to hear directly from small business owners. We needed to listen to their concerns about the law and hear their suggestions for making any necessary improvements. We were also interested in their ideas on how our state and federal officials should be implementing the reform to make the ACA successful in bringing down the costs of health insurance for small employers.

What We Did

Creating local partnerships

Our Listening Tour consisted of nine events throughout the state, ensuring geographic and ethnic diversity. We implemented the Listening Tour in conjunction with other outreach activities that are summarized later in this report. We plan to continue our outreach, using the Listening Tour format wherever possible, through 2011 and beyond.

We approached local business groups (chambers of commerce, small business development centers, downtown partnerships, etc.) in each of our nine geographic areas. We found groups that were interested in co-hosting a Listening Tour event and inviting their small business members to attend. Most partners co-hosted the event at their office facilities while other smaller groups hosted at a local venue.



Event Format

Our events consisted of two parts: the first half a panel discussion on the healthcare law and the second half a question and comment period.

The panel discussion consisted of: (1) a team member from Small Business Majority — either Founder and CEO John Arensmeyer or California Outreach Manager David Chase — to explain in detail the small business provisions of the law; (2) Micah Weinberg, Ph.D., Senior Research Fellow at the New America Foundation, to serve as a policy expert and moderator; and (3) in most locations, a senior official within Governor Arnold Schwarzenegger's administration to discuss the state's role and the governor's priorities related to implementation.

We committed to making these events as nonpartisan as possible given that our goals were simply to share the facts of the ACA with small business owners and seek their input. We made sure the information our staff presented was objective and gave attendees a complete picture of what the law does, rather than cherry-picking details to portray the ACA in a positive or negative light. We also used an unaffiliated expert moderator from a nonpartisan organization. Lastly, we had a representative from the state government present to emphasize the need for pragmatic implementation solutions and the state's desire for small business input and guidance.

Introduction by Dr. Weinberg

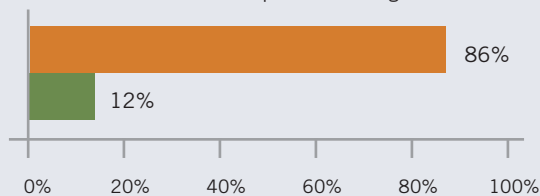
All events began with a brief presentation from Dr. Weinberg. He described the challenges small businesses currently face when trying to provide coverage and the general approach that Congress took in drafting the legislation.

For years, small businesses have suffered from soaring costs of health insurance, especially for businesses with a very small workforce. Of businesses with fewer than 10 workers, 54% do not offer insurance.⁸ And about 30% of the self-employed are not covered, which is almost double the rate for the population as a whole.⁹ Firms that do offer insurance to their workers struggle to do so and pay on average 18% more than large companies.¹⁰ Our research shows that the overwhelming majority of small businesses, both companies that offer insurance and those who do not, find it very difficult to afford.¹¹ And the situation has been expected to get worse. According to a Small Business Majority economic study, healthcare costs were on track to double over the next 10 years to a total of \$243 billion in California alone if no reforms had been passed.¹²

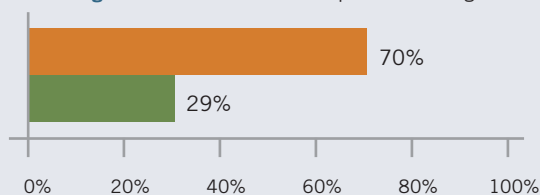
Small businesses struggling with costs

My business cannot afford to provide health coverage.

(Asked of those who don't provide coverage)



My business is really struggling to afford the cost of health coverage. (Asked of those who do provide coverage)



An August 2009 Small Business Majority opinion poll of small business owners.⁷

SMALL BUSINESS VOICE

"I own a homecare business and since we have a lot of part-time employees, I wanted to get more information about the healthcare law's impact on my business. The speakers were very professional and didn't promote the legislation. They were there to inform us and answer questions, something of value to small employers."



Dorothy Dougherty
Comfort Keepers
Burbank

Next, Dr. Weinberg explained that Congress decided to build upon our existing healthcare system rather than create a new one. The American public made it clear that they were largely comfortable with the structure of the current employer-sponsored system although they were concerned about costs. In keeping with the desires of their constituents, Congress avoided any changes such as the "public option" that would have created a government insurance plan to compete with private insurers. Instead, the ACA builds on the existing system. Most people will continue to get private insurance through their employer, seniors will still be covered by Medicare and lower income individuals will be eligible for Medicaid.

Finally, Dr. Weinberg gave a quick summary of the timeline for implementation, with some immediate benefits for small businesses and others coming between now and 2014. Some provisions that took effect in 2010 include tax credits for employers who offer insurance, a temporary high-risk pool for people with preexisting conditions and a program that helps employers provide insurance for early retirees. There were also several insurance reforms that went into effect in 2010, including a ban on rescissions, guarantee issue for children, free preventative care and expanding coverage to adult children up to age 26.

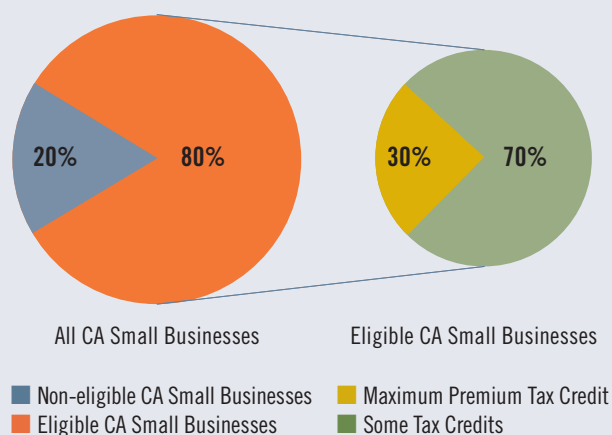
Presentation by Small Business Majority

Next, the conversation moved to specific details about the major provisions in the law that will impact the small business community, which were presented by John Arensmeyer or David Chase of Small Business Majority.

Tax credits

One of the first provisions to take effect provides tax credits to help small employers afford insurance. The credits were available immediately after the bill was enacted and it is estimated that by 2019 about \$40 billion in credits will accrue to small businesses. To qualify, a company must have fewer than 25 full-time-equivalent employees, annual average wages below \$50,000 and the employer must pay at least 50% of the premium costs. The credits are available on a sliding scale and cover up to 35% of expenses for 2010-13 and up to 50% of expenses for any two years starting in 2014. Tax credits do not cover premium expenses for the owners or their families and cannot be claimed by the self-employed. A Small Business Majority/Families USA economic study found that about 80% of small businesses in California are eligible for this credit.¹³

California small businesses that are eligible for premium tax credits in 2010



July 2010 study by Small Business Majority/Families USA¹⁴

Grandfathering

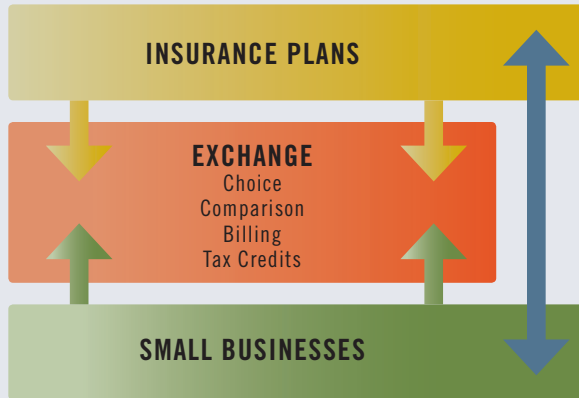
Congress and President Obama committed to maintaining a system that allowed those who like their current health insurance coverage to keep it. To that end, the ACA gives grandfather status to any plan that was in effect on March 23, 2010, the day the law was enacted. Many of the new reforms in the law will not apply to grandfathered plans. Consumers and businesses can keep their grandfather status as long as they do not make any major changes to their plans. Changing insurance carriers will not impact grandfather status, but the Department of Health and Human Services has stated that any of the following changes to a health plan will cause it to no longer be grandfathered:

- Significantly cutting or reducing benefits
- Raising co-insurance charges
- Significantly raising co-payments or deductibles
- Significantly lowering employer contributions
- Adding or tightening annual limits

Preexisting Condition Insurance Plan

Starting in 2014, insurance companies will no longer be able to deny coverage due to preexisting conditions. In the meantime, the ACA provides an avenue for qualified individuals, including many of the 780,000 uninsured self-employed entrepreneurs in California, to purchase insurance. People who have been uninsured for at least six months and have been denied coverage due to a preexisting condition are eligible to purchase coverage from their state's Pre-existing Condition Insurance Plan (PCIP). California's plan began offering coverage in October 2010 and enrollees will automatically be transferred to the state insurance exchange starting in 2014.

Small Business Exchange



State insurance exchange

One of the most significant aspects of the healthcare reform law for small businesses is the insurance exchange. The exchange, which is a large marketplace to be established by each state, will allow individuals and businesses with fewer than 100 workers to pool together to purchase private health coverage. This increase in buying power will result in more competition, reduced administrative costs, higher quality and lower premiums. According to a study by the RAND Corporation, exchanges will expand coverage for small business workers to 85.9%, up from 60.4% today, an increase of 10.5 million employees nationally.¹⁵

The exchange will establish a one-stop shop web portal to meet the needs of business owners and individuals. The web portal will allow consumers to easily compare plans; get detailed information about price, quality and service; purchase coverage; and interact with a streamlined billing process all in one place.

Benefits through the exchange will be standardized so employers no longer have to go through a maze of options to figure out what is best for them. All plans will be separated into categories: bronze, silver, gold and platinum. A fifth option, catastrophic coverage, will be available to individuals under 30 years old.

The individual and small group pools will be kept separate in recognition that the two markets are different and to ensure there is no undue disruption as the exchange is established. Insurance will still be sold in the outside market as it is today. Moreover, members of Congress will be required to purchase coverage through the exchanges.

Cost Containment

The ACA makes several efforts to contain healthcare costs, the most significant one being the health insurance exchanges. Leveraging purchasing power will spread risk and lower administrative costs, with savings passed on to small businesses and individuals. The law also ensures that at least 80% of premium dollars in the small group market go directly to patient care rather than administrative costs. Incentives for wellness and prevention will help increase healthy living to avoid treating preventable illnesses and conditions like diabetes and obesity. Implementing a “pay for performance” model for healthcare providers rather than the current “pay for service” system will encourage providers to seek more efficient procedures. Lastly, the law’s individual responsibility provision gets almost all Americans in the healthcare system. This will end the cost-shifting that occurs when the uninsured receive medical care but do not pay for it. Currently, the uninsured often receive treatment in emergency rooms, the most expensive place to be treated, and those unpaid costs are passed on to those with insurance.

SMALL BUSINESS VOICE

“I always walk away from events like the listening tour learning something. I find that they are a good use of my time, because healthcare is one of our single biggest expenses.”



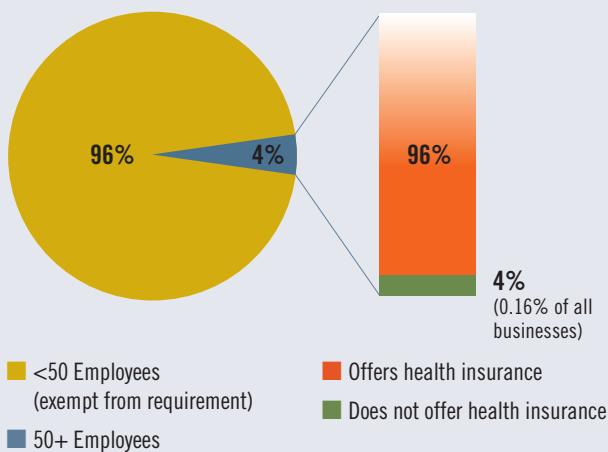
Virginia Donahue
Pet Camp
San Francisco

Shared responsibility

The ACA exempts all businesses with 50 or fewer workers from any requirement to offer health insurance. This means that 96% of all businesses in the nation will be under no obligation.¹⁶

Starting in 2014, businesses with more than 50 workers will pay a fine if they are not offering insurance and at least one of their employees is eligible for a subsidy. Currently, 96% of businesses with more than 50 workers offer insurance, so the fine is not expected to affect a large number of companies.¹⁷ To avoid the fee, businesses must be paying at least 60% of the insurance premiums. There are two ways to calculate the fee and the employer will pay whichever amount is less.

Shared responsibility requirements



Example A:

Business with 55 workers; does not provide insurance; 10 workers eligible for subsidies

Option 1: \$2,000 for every employee in company; fee for first 30 employees is waived

■ 55 workers minus 30 = 25

■ 25 x \$2,000 = \$50,000 fine

Option 2: \$3,000 for each employee receiving subsidy

■ 10 x \$3,000 = \$30,000 fine

Example B:

Business with 51 workers; does not provide insurance; 30 workers eligible for subsidies

Option 1: \$2,000 for every employee in company; fee for first 30 employees is waived

■ 51 workers minus 30 = 21

■ 21 x \$2,000 = \$42,000 fine

Option 2: \$3,000 for each employee receiving subsidy

■ 30 x \$3,000 = \$90,000 fine

Additional provisions for small businesses

Other benefits of the ACA for small businesses include grants that will be made available for employers to start wellness programs for their workers. Employers will have the option to offer incentives to employees who adopt healthier lifestyles and therefore lower their healthcare costs.

The new law will end “job lock,” where workers stay in their job solely for the health benefits. With the implementation of insurance reforms, workers will have the confidence in knowing that they will be able to purchase insurance regardless of their employment status. Individuals will be free to change jobs or start their own businesses — a boost for the economy overall.

Many small business employees will be eligible to receive subsidies to assist in their purchasing of health coverage. Individuals with incomes up to 400% of the federal poverty level (about \$90,000 for a family of four) will qualify if they are not receiving health benefits from their employer.

Starting in 2011, employers will have the option to report the total amount they spent on workers’ health benefits on the annual W-2 form. In 2012, this will be required. Health benefits will continue to be tax-exempt; this reporting requirement is strictly informational only.

Beginning in 2012, the ACA calls for businesses to annually file a 1099 form for every individual or firm from which a company buys more than \$600 in goods and services. However, members of Congress from both parties have expressed their intentions to repeal this provision before it is scheduled to take effect.

Presentation by California State Official

In five of our events, our panel was joined by a senior representative of Governor Schwarzenegger to highlight what role the state has in implementation and what approach the governor was looking to take in his last year in office. At the five events, the governor was represented by one of the following: Lisa Kalustian, Chief Deputy Director of the Governor’s Office in Los Angeles; Katie Marcellus, Assistant Secretary of the California Health and Human Services Agency; or Charlene Zettel, Director of the Governor’s Office in San Diego.

Each state official opened by conveying the governor’s sentiment that while the ACA is not perfect, it is the law of the land and therefore inaction is not a responsible option. The success of the law will largely depend on steps taken by the states. No state is better positioned to lead than California due to our experience and expertise relating to healthcare reform.

One of the first decisions the state faced was related to the Pre-Existing Condition Insurance Plan. The state could accept federal dollars and run the pool itself or the federal government would step in and administer it. California preferred to control the plan itself, so it accepted \$761 million from the federal government and began enrolling individuals, including the self-employed, in October 2010. The state already runs a similar high-risk pool and the governor believed California's experience would help make the program more efficient.

Health insurance sold in California is regulated by the Departments of Insurance and Managed Health Care. The ACA contains many new insurance protections, but since it is a federal law the California regulators do not have the ability to enforce those particular reforms. To ensure that individuals and employers in California could continue to rely on the two state regulators to solve any problems, Governor Schwarzenegger and the state legislature enacted legislation to match federal law to state law so that many of the new insurance rules could be enforced at the state level. This includes: insurance rate review, extending health coverage to adult children up to age 26, providing free preventative services, banning insurers from cancelling policies once a person becomes ill, and guaranteeing that insurers will sell policies to children with preexisting medical conditions.

The state representatives also spoke of the governor's interest in establishing a framework for the California exchange. State policymakers believed California's experience in this matter made it a natural leader, and also recognized that to have a successful exchange up and running by 2014, work must begin immediately. In September 2010, Governor Schwarzenegger signed legislation creating the California Health Benefit Exchange. In our subsequent events, the state officials informed the attendees about the specifics of the new law. The exchange will be governed by an independent five-member board and will be made accountable by requiring open meetings and annual reporting. To ensure individuals and employers buying through the exchange are getting the lowest rates and highest quality possible, the exchange will have the power to negotiate with insurers on consumers' behalf.

Question and Comment Period

After our panel presentations were complete, the second half of the event was dedicated to answering questions and hearing comments from the small business owners in attendance. This portion was moderated by Dr. Weinberg and the other panelists made comments when appropriate. In each event, questions and comments were numerous. Attendees often stayed after the event was over to continue discussions about the ACA and its impact on their business.

SMALL BUSINESS VOICE

"I'm a bookkeeper and looking to build my bookkeeping practice for small businesses. I wanted to find out as much information as possible to benefit and serve my clients."



Linda Coyle
Linda Coyle's Bookkeeping
and Tax Service
Van Nuys

Our Findings

Overwhelming agreement – "We need reform"

Consistent with the previous economic and opinion research we've conducted, the small business owners we talked with overwhelmingly agreed that healthcare costs are growing too fast and we desperately need to reform our current system. We heard stories of businesses seeing double-digit premium increases year after year. Some employers told us they were providing health benefits at one point but had since dropped coverage due to the astronomical costs. Others indicated they would like to offer insurance to their workers but they feared it would kill their business.

Employers also expressed frustration with the administrative burden involved in selecting and providing health benefits. Those who do offer insurance spoke of the countless hours spent going through paperwork, looking at websites, making phone calls, and talking with brokers to simply enroll employees. Once they are enrolled, small business owners consistently have to go back and fill out more forms, make more phone calls and pay again for assistance from brokers. Administering health benefits is taking them away from running their business, as many small employers do not have human resources departments to handle this kind of work. Business owners not only told us that health insurance needs to be more affordable, but it needs to be simpler to purchase and manage.

No matter the employer we were talking to, what industry they were in, the size of their business or geographic location, we heard the same message: Small business owners want to provide health insurance to their workers; they see it as a great recruiting and retention tool. But there is widespread agreement that something has to be done to increase affordability and accessibility while decreasing the administrative burden.

Level of information – very little

Very quickly, we discovered that most small business owners have very little, if any, knowledge of the ACA. They are aware it has been signed into law and have general knowledge of the issues that were debated while the legislation was going through Congress. They know the law is controversial and will bring about significant change. Many are aware there will be impacts on their small businesses but are unsure what those changes will be. A few provisions that several small business owners do have knowledge of are banning preexisting condition exclusions, expanding health benefits to adult children up to age 26 and the 1099 reporting requirement for employers.

Few details are known about the provisions in the law that effect small businesses the most, such as the tax credits and the insurance exchange. Owners who are aware of these provisions generally know few, if any, specific details. This is consistent with recent polling we have done on these two topics.¹⁸ While many likely are eligible for the tax credit, few know how to qualify. While employers generally support the concept of pooling together to purchase health coverage, most are unaware that the exchange will allow them to do just that.

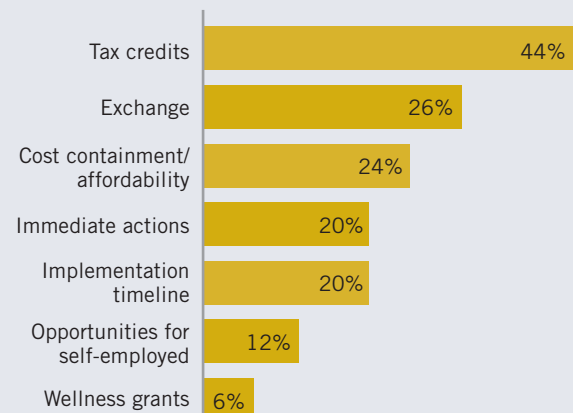
Some employers believe popular myths about the law to be fact. For example, we heard many comments about the ACA providing government run-healthcare. They were unaware that the new law keeps the private health insurance market intact and does not create government competition. There is much confusion related to the employer W-2 reporting requirements. Based on emails that small business owners have received from organizations opposed to the ACA, they believe that this new requirement means health benefits will now be taxed. Some employers we encountered had been told rate increases they were seeing in 2010 were a direct result of the ACA even though most of the provisions in the law had not yet taken effect. Many also believe that all businesses will be required to offer health insurance and are not aware that about 96% of all businesses will be under no obligation whatsoever.

Top Comments and Concerns

Tax credits

After learning more about the ACA from the panel discussion, employers were eager to hear even more about the tax credits. How to determine eligibility, how to calculate the number of full-time equivalent employees and how to apply for the tax credit were some of the most frequent questions. Some employers, especially those from areas with high costs of living, such as the Bay Area, were concerned about the credits only being available to businesses with average annual wages below \$50,000. In some areas and industries, this cap on income limits the number of businesses that can qualify. There was also concern expressed that the tax credit is non-refundable.

Top issues Listening Tour attendees wanted to hear about (based on evaluation forms)



Percentages add up to over 100 due to multiple responses

Given the current economic climate, not all small businesses are making a profit and paying taxes, meaning they may not immediately benefit from the credit. While the credit can be carried back one year and forward 20 years, small business owners are more concerned about their bottom line for the current year.

Health insurance exchanges

The small employers we talked with were also very interested in discussing the health insurance exchanges. Many small employers told us that they are paying higher costs than large companies and often receive fewer benefits. We found consensus that this inequality needs to be eliminated and they are excited about the possibility of getting the same discounts large companies get today. Almost all attendees believed, in theory, that employers could get better prices by pooling together. But there was some concern that businesses with young, healthy employees may see higher premiums if they join with businesses that have older employees with health conditions.

Employers told us they liked the idea of being able to shop online for insurance and see their options clearly displayed in an easy to understand format. They showed frustration with the administrative burden currently placed on employers who provide insurance and were interested in any mechanism that could ease that process. In particular, having an apples-to-apples comparison available was especially attractive. Many of the smaller employers told us they do not have human resource departments to handle the administrative work involved in providing health insurance so they saw real value in an exchange that would offer them assistance in that area.

Although the exchange should make shopping for and administering health benefits easier, employers told us that brokers should have a role in selling insurance in the exchange. Business owners told us they significantly value their insurance brokers because they provide guidance and expertise that most employers do not possess. Small business owners generally viewed the exchange as another option for them. They appreciate the fact that it is voluntary and many expressed an interest in learning more about it to see if it might be right for their particular business.

Cost containment

Many small business owners told us they would like to see the ACA strengthened with additional cost control measures. Employers recognize getting everyone covered is an important first step. While the new law takes several measures to control costs, they told us they would like to see more work done in this area. Some suggestions include reducing medical malpractice lawsuits, ending television commercials for pharmaceuticals and continuing to reform the way in which providers get paid for services.

One cost-control measure in the ACA that many small business owners are very excited about is the wellness and prevention programs. Employers expressed interest in starting wellness programs at work to encourage healthier living. They appreciated lawmakers recognizing that small businesses do not have the resources to start programs on their own. Many were eager to get more details from our panel about how to apply for the wellness grants.

Timeline

Small business owners asked a lot of practical questions about the implementation timeline and when they would begin to see the effects of the new law. Some were disappointed to learn many of the reforms in the ACA would not kick in until 2014. There was widespread interest in hearing more about the immediate and near-term benefits of the law.

Grandfathering

The grandfathering provisions were comforting to employers who like the plans they currently have. Some expressed concern that the grandfathering regulations could make it difficult to maintain their grandfather status. Meanwhile, others were unhappy with their current plans so were not attempting to keep a grandfathered plan.

Self-employed

Self-employed individuals were interested in discussing the opportunities the law presents for them. Many stated they had fewer options than most people to purchase insurance and were eager to learn about provisions in the law that would offer them additional choice and flexibility in getting covered.

Shared responsibility

Employers were pleased to learn that businesses with 50 or fewer employees are exempt from the shared responsibility requirement. However, there is some concern about the administrative burden placed on businesses to determine if they are over or under 50 full-time-equivalent threshold. Part time workers, seasonal workers and payrolls that grow and shrink throughout the year could make calculating the number of workers a time consuming task for small business owners. Employers would like to see the process made as straightforward and simple as possible.

1099 reporting requirement

We heard in an almost unanimous voice that the 1099 reporting requirement would cause a huge administrative burden for small employers. Keeping their businesses afloat is already tough enough; additional paperwork would make it even harder.

Business owners do not believe a measure like this belongs in a healthcare law and many do not think it would bring in the additional revenue that the law assumes. The overwhelming majority of small businesses and self-employed contractors are paying their taxes in full. They do not want to be required to fill out additional paperwork because of the bad actions of a few. Employers told us loud and clear that they are anxiously waiting for Congress to fully fix this provision before it is scheduled to take effect in 2012.

Role of government

While most listening group attendees supported most of the ACA's specific provisions, they expressed a healthy skepticism about the ability of government to really make it work. They liked the fact that most of the reforms will be implemented in Sacramento and not Washington. But they do have a "wait and see" attitude, given the magnitude of change embodied in the new law and a predisposition that government is not always the best vehicle to effect change. When specifically discussing the exchange, they expressed a preference that the implementing body be as independent from government as possible.

A few small business owners told us of their frustration with elected officials and the political process leading up to the passage of the ACA. They felt that Congress was not being sincere in their efforts to reform our healthcare system and that more meaningful legislation could have been passed had members of Congress listened more to their constituents. While minimal, we did encounter some disappointment that policymakers were focusing on healthcare reform rather than being solely focused on economic recovery and jobs. A few others wanted objective information about the ACA but did not trust elected officials to be honest.

Additional Outreach

Although the Listening Tour is the centerpiece of our outreach to California small business owners, it is clear that additional interaction with small business owners and business organizations is necessary. The following summarizes our additional outreach efforts.

Speaking at small business conferences

To reach as many small business owners as possible, Small Business Majority accepted several invitations to speak at other small business events. These included conferences organized by:

- Burbank Chamber of Commerce with the City of Burbank (two events: in-person and webinar)
- California Association for Micro-Enterprise Organizations (webinar)
- City of Alameda
- Fremont Chamber of Commerce
- Governor Arnold Schwarzenegger's Conference on Small Business and Entrepreneurship
- Sacramento Business Journal
- Small Business Development Center of the Inland Empire (webinar)
- Small Business Development Center of Orange County (webinar)
- Southern California Hispanic Chamber of Commerce
- Zòcalo Public Square with the California Healthcare Foundation

Either John Arensmeyer or David Chase spoke at these events. They discussed most of the same material that was covered in the Listening Tour and the feedback was very similar. Collectively, they spoke to about 650 small business owners.

Partnering with members of Congress

Members of the California Congressional delegation asked for our assistance in speaking with their small business constituents about the ACA. Representatives John Garamendi, Lucille Roybal-Allard and Diane Watson invited our staff to speak with them at town halls and conferences in their districts about the small business tax credits, insurance exchanges and other major provisions related to small businesses.

Working with other business organizations

Business organizations across California have come to rely on our expertise to inform them on healthcare reform. Groups such as the Los Angeles Area Chamber of Commerce, Los Angeles County Business Federation, Employers Group and Valley Industry and Commerce Association asked our team to brief their senior staff and leadership on the ACA and to keep them informed on implementation developments at the state level. Other groups including the Asian Business Association, Neighborhood Market Association and Riverside Downtown Partnership asked us to provide content for their websites and newsletters, which were distributed to their small business members. When the legislature and governor were working on legislation that would create the state's insurance exchange, our staff worked with chambers of commerce in San Francisco, San Diego, Riverside, San Jose and Los Angeles to encourage them to be a part of the process and get their voices heard.

Working with healthcare advocacy organizations

Healthcare and consumer advocacy groups such as Health Access, CalPIRG, AARP and Insure the Uninsured Project work with a wide range of stakeholders including small business owners. We participated in regular discussions with these groups to assist them in their outreach to the self-employed and small employers. By speaking at events, providing materials and sharing the perspective of small business owners, these groups were better able to educate entrepreneurs about the effects of the ACA.

Summary

While many small business owners do not have a lot of knowledge about the ACA, there is a hunger for information and a desire to better understand how the law works. Throughout our conversations, employers asked very practical questions about how the law would work and offered constructive comments about how it could be strengthened. We heard very little discussion of the political significance of the law's passage. Most small business owners we talked with were not interested in political ramifications, effect on elections or partisan dialogue. For the most part, they were also not interested in talking about repealing the ACA. We found consensus that our current healthcare system is broken and reform is essential. Most of the small business owners from whom we heard do not want to turn back the clock. While few, if any, believe that the ACA is perfect, California's entrepreneurs want to see the law work; even if they are skeptical about the ability of government to make this happen. In many cases, small business owners are anxious and willing to be constructive partners in implementation. They are glad to know implementation will be done mostly at the state level and that there will be many opportunities for them to be a part of the process. As well as anyone, small business owners understand the need for healthcare reform and are ready to have a seat at the table to offer their real-world experiences and suggestions.

Action Items

Our California Listening Tour and other outreach is just a first step in getting small business voices heard. We will continue to share our findings from the listening tour with elected officials at the state and federal levels, including the new California Health Benefit Exchange Board. We will also reach out to other business groups, health policy advocates, public policy organizations and others who will be working on implementing the ACA in California so they too hear the thoughts and concerns we have heard from business owners around the state. Our conversations with small employers will continue so we can keep seeking their input as implementation moves forward, particularly as it relates to the exchange.

Appendix

Event Details

DATE	LOCATION	PARTNERS	PANELISTS	APPROXIMATE NUMBER OF ATTENDEES
May 27, 2010	San Diego	San Diego Regional Chamber of Commerce	John Arensmeyer, Micah Weinberg, Charlene Zettel	60
August 17, 2010	Santa Cruz	Santa Cruz Chamber of Commerce; Downtown Association of Santa Cruz; Central Coast Small Business Development Center	David Chase, Micah Weinberg	40
August 24, 2010	San Francisco	San Francisco Chamber of Commerce	John Arensmeyer, Micah Weinberg, Katie Marcellus	30
September 14, 2010	Pleasanton	Pleasanton Chamber of Commerce	David Chase, Micah Weinberg, Katie Marcellus	20
September 17, 2010	Santa Clarita	Northern Los Angeles County Small Business Development Center	David Chase, Micah Weinberg, Lisa Kalustian	75
October 6, 2010	Los Angeles	Greater Los Angeles Chamber of Commerce	John Arensmeyer, Micah Weinberg, Lisa Kalustian	40
October 12, 2010	Stockton	San Joaquin Hispanic Chamber of Commerce	David Chase, Micah Weinberg	30
January 13, 2011	Bakersfield	Kern County Black Chamber of Commerce; Kern County Hispanic Chamber of Commerce	David Chase, Micah Weinberg	15
January 14, 2011	Riverside	Riverside Downtown Partnership	David Chase, Micah Weinberg	30

Endnotes

- 72% of small business owners who offer health insurance are struggling to afford it, Small Business Majority, Opinion poll, 4,400 small business owners polled in 17 states, December 2008 – August 2009, <http://www.smallbusinessmajority.org/small-business-research/opinion-research.php>.
- United States Small Business Administration Office of Advocacy, "Data By State, Metropolitan Statistical Area (MSA), And County," Firm Size Data, http://www.sba.gov/sites/default/files/files/State_Economic_Profiles_2009_California.pdf.
- 59% of firms with 3 to 9 workers offer health insurance, The Kaiser Family Foundation and Health Research and Education Trust, "Employer Health Benefits: 2010 Annual Survey, September 2010.
- "The Uninsured: A Primer," Kaiser Family Foundation, Oct. 2009, Page 11 (Table 9).
- Reform is urgently needed to fix the US economy, according to an average of 67% of respondents; 81% of respondents indicated support for the concept of a health insurance exchange; 66% of small business owners support shared responsibility for employers; 83% support banning preexisting condition exclusions, Small Business Majority, Opinion poll, 4,400 small business owners polled in 17 states, December 2008 – August 2009, <http://www.smallbusinessmajority.org/small-business-research/opinion-research.php>.
- An average of 86% of small businesses owners who don't offer health coverage to their employees say they can't afford to provide it; those that do offer it are struggling to afford it, say an average of 72%; Small Business Majority, Opinion poll, 4,400 small business owners polled in 17 states, December 2008 – August 2009, <http://www.smallbusinessmajority.org/small-business-research/opinion-research.php>.
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- "The Economic Effects of Health Care Reform on Small Businesses and Their Employees," Council of Economic Advisers, July 25, 2009, <http://www.whitehouse.gov/administration/eop/cea/Health-Care-Reform-and-Small-Businesses>.
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- Small Business Majority, "The Economic Impact of Healthcare Reform on Small Business", June 2009, http://www.smallbusinessmajority.org/_pdf/SBM-economic_impact_061009.pdf.
- Small Business Majority/Families USA, "A Helping Hand for Small Businesses: Health Insurance Tax Credits", July 2010, http://www.smallbusinessmajority.org/_pdf/tax_credit/Helping_Small_Businesses.pdf.
- Small Business Majority/Families USA, "A Helping Hand for Small Businesses: Health Insurance Tax Credits", July 2010, http://www.smallbusinessmajority.org/_pdf/tax_credit/Helping_Small_Businesses.pdf.
- Eibner, Christine and Peter Hussey, "The Effects of the Affordable Care Act on Workers' Health Insurance Coverage," The New England Journal of Medicine, September 2010, <http://healthpolicyandreform.nejm.org/?p=12339&query=home>.
- U.S. Census Bureau, 2008 County Business Patterns, <http://censtats.census.gov/cbpnaic/cbpnaic.shtml>.
- The Kaiser Family Foundation and Health Research and Education Trust, "Employer Health Benefits: 2010 Annual Survey, September 2010.
- 31% of respondents are familiar with the exchange and 43% are familiar with the tax credits; Small Business Majority, Opinion Poll, 619 small business owners polled across United States, November 2010, http://www.smallbusinessmajority.org/reports/SBM-Healthcare_Survey_010411.pdf.

Biographies of Listening Tour Speakers

John Arensmeyer

Founder and CEO, Small Business Majority

In just a few years, John Arensmeyer has built Small Business Majority into a nationally recognized small business organization and the leading advocate for critical public policy issues facing America's entrepreneurs—particularly healthcare reform, clean energy, access to capital and job creation. John was the founder and CEO of ACI Interactive, an award-winning international e-commerce company. *Information Week* named ACI's signature product one of the nation's top 100 e-business innovations, and the company was cited by the *San Francisco Business Times* as one of the top 100 fastest growing private companies in the Bay Area. Earlier, John was the chief operating officer of a pioneering multimedia business and an attorney in New York. John is a frequent speaker on small business policy issues and a regular guest on TV and radio, including *PBS NewsHour*, *Fox News*, *Marketplace*, and *CBS Evening News*. He served on a panel at the White House healthcare summit in 2009, is a member of the California Task Force on Affordable Care and testifies regularly at congressional committee hearings.

David Chase

California Outreach Manager, Small Business Majority

David Chase manages Small Business Majority's Sacramento office, focusing on building and maintaining relationships with small business organizations and owners across California. Previously, he served for more than four years in the office of California Governor Arnold Schwarzenegger, where he built coalitions with business and other stakeholder groups to advance the governor's agenda. David was part of the team responsible for building the coalition behind Governor Schwarzenegger's 2007 comprehensive healthcare reform proposal.

Micah Weinberg

Ph.D, Senior Research Fellow, New America Foundation

Micah Weinberg is Senior Research Fellow in the Health Policy Program at the New America Foundation. He is based in Sacramento and works closely with policymakers in California and Washington, DC to develop and implement strategies to control the growth of healthcare costs while expanding access and improving health outcomes. Dr. Weinberg has spent his career at the nexus of applied research, practical politics, and policy creation. His written work has appeared in diverse outlets from *Politico* to *Policy Studies Journal*, and he has appeared on Fox News and NPR. He holds a doctoral degree in Political Science from the University of North Carolina at Chapel Hill and graduated with honors from Princeton University with a degree in Politics.

Lisa Kalustian

Chief Deputy Director, Governor's Office, Los Angeles

Lisa Kalustian served as chief deputy director for the Los Angeles office of Governor Arnold Schwarzenegger. This office serves as the primary link between state government and the community spanning the area from Santa Barbara to Orange County, communicates the governor's policy agenda and represents the governor at events in the community. Previously, Kalustian served as vice president of public affairs for the Western Region of Health Net, Inc., one of the nation's largest health plans. As a member of the executive committee, she oversaw public and media relations and communications for the California and Oregon divisions. Kalustian served as deputy cabinet secretary and deputy press secretary in the office of California Governor Pete Wilson overseeing health, welfare and education policy. From 1994 to 1996, she served the Wilson Administration as deputy associate secretary for external affairs for the California Health and Welfare Agency (now known as the Health and Human Services Agency). Kalustian has a master's degree in public administration from the University of Southern California and a bachelor's degree in psychology from the University of California at Los Angeles.

Katie Marcellus

Assistant Secretary, California Health and Human Services Agency

Katie Marcellus was appointed Assistant Secretary of the California Health and Human Services Agency in January 2010. Her policy responsibilities include the Medi-Cal and Healthy Families programs, along with other state health care programs administered by the Department of Health Care Services (DHCS) and the Managed Risk Medical Insurance Board. From 2007 to 2009, Marcellus served as a policy analyst in the Director's office at DHCS. She holds a Bachelor of Science degree and a Master of Public Health degree from the University of California Los Angeles.

Charlene Zettel

Director, Governor's Office, San Diego

Charlene Zettel served as the Director of the San Diego office of Governor Arnold Schwarzenegger. This office communicates the governor's policy agenda with the San Diego region, informs the governor of important issues in the community and represents the him at events in the area. Zettel has also served on the University of California Board of Regents since May 2009. Previously, she served as a member of the San Diego Regional Airport Authority Governing Board from 2007 to 2009 and 2002 to 2004. Zettel was director of the Department of Consumer Affairs from 2004 to 2007 and public interest director for the Federal Home Loan Bank of San Francisco from 2003 to 2004. From 1998 to 2002, Zettel served in the California State Assembly where she served as the chair of the Republican Caucus, vice-chair of the Assembly Committee on Jobs, Economic Development and the Economy and member of the Appropriations, Education, Health, Transportation and GAO committees.

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