**Small Business and Health Insurance**

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John asked his wife, Liza, if they could afford to hire Robert, the best applicant they had found for the boat mechanic job they had open. They both liked him very much, and his references were impeccable, but there was a problem with hiring him that neither of them wanted to admit.

Business was good for John and Liza, and they were happy to have the resources and a customer base to allow them to grow. John started his boat repair business six years ago when he and Liza had moved from their previous home in Chestertown, Maryland to Wilmington, North Carolina. Together they had been part of a family-run marina, but had struck out on their own when they wanted to create a more independent life for themselves. Liza managed the books and ran the office, while John negotiated with customers and repaired the yachts. They had already hired three other mechanics, and all of them were more than busy since the recession had resulted in more people keeping and repairing their old boats rather than upgrading. The office was so busy that Liza had just hired a young woman to help with the paperwork as well.

John was proud of the fact that he was able to provide health insurance for his employees. It was expensive, but the men on his team were young and healthy, and so far, he had been able to afford the premiums. He was shocked when he received his health insurance rates for the new year, however. The premiums had risen 25% in just one year! When he asked for a breakdown to explain the rise in premium costs, he discovered that because one of the mechanics had turned 30 he was in a new risk group, and Mary, the new office worker, was in a high-risk group because she was 25 and could potentially become pregnant. Finally, two of the mechanics were smokers. All of these factors contributed to the increased premiums.

John definitely wanted to hire Robert, who was well known in the Wilmington area for being a top-notch mechanic. Robert was having a hard time finding a job, however, because everyone in the relatively small boarding community knew his wife was ill and required expensive medical care. John is troubled because he knows that by hiring Robert, his health insurance costs will rise yet again. Robert is a great mechanic, but is he good enough to justify the added expense?

John and Liza have been discussing their options. They could continue to absorb the costs of the health insurance premiums and do nothing. They could encourage the men to quit smoking and provide incentives for them to quit. They could ask the smokers to pay a larger share of their health insurance costs. Finally, John and Liza could contribute a fixed amount to everyone’s premium and allow each individual worker to absorb the additional cost of their coverage. However, this last option may encourage some of the workers to drop their health insurance coverage altogether, which would be the last thing that John and Liza would want for them.

**Address the following:**

1. What are the issues in this case?
2. Which of the options that John and Liza are discussing would work best for the company?
3. Should Mary be charged more than the young mechanics because she is a woman?
4. Should all of the workers absorb the group’s increasing costs equally?
5. Should smokers be encouraged to quit with incentives, or be punished for smoking by increased premiums?
6. Should Robert not be hired because of his wife’s illness?
7. Why is it harder for a small business to provide health insurance for its workers than a larger business?
8. What impact, if any, will the passage of the Affordable Care Act have on John, Liza, and other small business owners? Provide a rationale for your responses.