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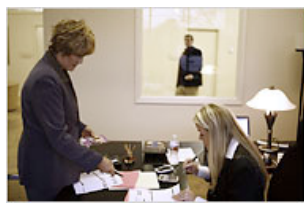


Small Payroll, but Big Woes on Insurance

By KEVIN SACK
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BELLAIRE, Tex. — When the bottom fell out of the automotive market last year, Amberly Allen's fast-growing direct-mail firm hit a wall in a hurry.

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Michael Stravato for The New York Times
Amberly Allen, right, at her Texas direct-mail business, is looking at whether to end health benefits to avoid layoffs.

As orders from car dealerships fell by half, Ms. Allen deferred plans to hire more sales representatives. She put off buying the building she now leases in this Houston suburb. And in November, both she and her husband, one of her four employees, stopped drawing salaries.

Still that may not be enough to keep the four-year-old company afloat. Determined not to lay off any of her tight-knit band of workers, Ms. Allen is now agonizing over an equally unappealing option: whether to terminate the health benefits she provides for her employees and herself.

Even before the recession, owners of the smallest businesses had struggled to absorb the inexorable annual rise in health premiums. The share of firms with fewer than 10 workers that offer health benefits has declined by 16 percent since 2001, to 49 percent, according to an annual survey by the Kaiser Family Foundation and the Health Research and Educational Trust, while the rate in larger firms essentially stayed flat.

The economic downturn has only accelerated the pressure on small-business owners to pinch every penny, and many feel they have few options but to go after employee health coverage.

Surveys suggest that rising premiums have prompted more than half of small businesses to reduce benefits, raise deductibles or require workers to shoulder a larger share of an ever more expensive pie.

Workers in firms with fewer than 25 workers are now twice as likely to be uninsured as those in larger firms, according to the Employee Benefits Research Institute. For those

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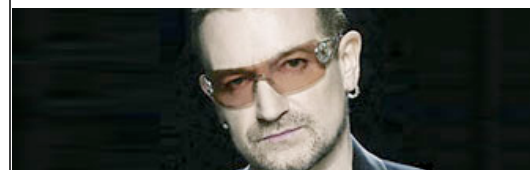
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small-business employees who do have insurance, the share with high deductibles has more than doubled in the last two years.

Yet for many small-business owners, it can be excruciating to reduce or eliminate benefits for employees who have long been treated as family and who continue to work at their sides, every day.

“When it’s a small business, it’s personal, and the impact is more emotional,” Ms. Allen said. “It’s not just about dollars and cents. These are actual people, and they’re very important to me. And I care about them.”

With the help of her insurance broker, Ms. Allen is exploring whether her employees could afford individual health policies if she provided them with stipends equal to about half of what she now pays for their health care. She is also researching whether it may make sense to shift her workers to a personnel leasing firm with more affordable group coverage, and then rent them back.

With her current insurance policy up for renewal on April 1, the clock is ticking.

“Either way, I’m going to make sure they have coverage,” said Ms. Allen, whose sales were stagnant in 2008 after two years of exponential growth. “That’s very important — to make sure they don’t feel I’m just cutting expenses and pulling the rug out from under them.

“I have a good team in place and they take care of me. They’re loyal, they work very hard, they’re honest, and with the extra effort they put in, I want them to know it will be reciprocated, that I will take care of them.”

Ms. Allen’s current small-group policy with UnitedHealthcare costs the company \$19,575 a year, equal to 17 percent of her payroll expenses. Although her workers have filed few reimbursement claims, premiums were set to rise 16 percent this year, said Carolyn L. Goodwin, her broker in Dallas.

“You can’t cut your rent unless you move, you can’t cut your Internet, you can’t cut your phone — so where do you cut?” Ms. Allen, 28, said. “When you’re not taking a dime out of the company, at some point you have to question whether you’re just working to pay everyone else’s bills.”

Many small-business owners, like Monty J. Friebel, who co-owns a wood fabricating shop in Shelby, Ohio, have significantly increased the share of premiums that employees must pay, in his case to 46 percent from 15 percent a decade ago. Others, like Thomas L. Fritts, proprietor of T. L. Fritts Sporting Goods in Winnetka, Ill., have ended coverage for the children and spouses of employees and moved to plans with high deductibles.

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