

2002 Small Employer Health Benefits Survey

Summary of Findings



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

A Blue Cross and Blue Shield Association Analysis

A new survey released by the Employee Benefit Research Institute (EBRI), the Consumer Health Education Council (CHEC) and the Blue Cross and Blue Shield Association (BCBSA) offers important insight on strategies for improving access to health insurance coverage for small employers. Expanding health coverage in the small business community is an important step in reducing the growing number of uninsured Americans. The survey indicates that tax credits for health coverage, improved knowledge of current employer tax breaks, and education on the value of offering health benefits would increase the number of small employers who offer coverage.

BACKGROUND

The 2002 Small Employer Health Benefits Survey was designed to better understand how to encourage small employers to offer health benefits. With statistics showing that half of all uninsured workers in 2001 were in private firms with fewer than 100 employees (EBRI, 2002), reducing the number of workers in small firms who lack access to health insurance should be a top priority in addressing the uninsured.

Small firms are less likely to offer coverage than larger companies. Only 55% of the smallest companies (3-9 workers) offer health insurance, compared to 74% for firms with 10 to 24 workers and 88% for businesses with 25 to 49 employees (Kaiser Family Foundation, 2002).

Low-wage workers are especially vulnerable to being uninsured. Two-thirds of low-wage workers in firms with fewer than 10 employees do not have access to coverage through their employer.

Understanding the health coverage decisions of small-business owners is of critical importance in efforts to expand health insurance coverage and reduce the growing number of uninsured Americans.

The survey examined a number of issues related to small employers and their decision to offer health benefits to workers. Major areas addressed in the survey include:

- Reasons employers choose to offer or not offer coverage;
- Employer knowledge about tax treatment and small employer health insurance reforms; and
- Strategies to increase the number of number of employers that offer coverage.

The survey was conducted through telephone interviews with health insurance decision makers for 1,000 companies with 2-50 workers across the nation. Firms interviewed included those that offered health benefits (502) and firms that did not offer benefits (498). The survey was conducted between July and September of 2002 and has a margin of error of approximately +/-3 percentage points.

The 2002 Small Employer Health Benefits Survey updates findings of a similar survey released by BCBSA and EBRI in 2000.

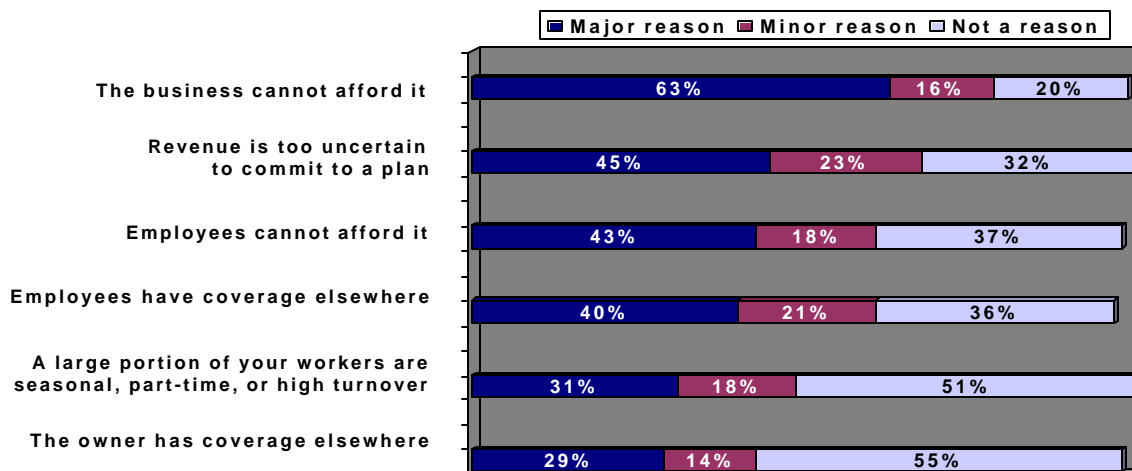
SURVEY HIGHLIGHTS

Firms Cite Worker Affordability as A Major Barrier to Offering Coverage

- The inability of workers to afford their share of premiums was cited as a significant reason why employers decide not to offer health coverage.
 - Sixty-one percent of uninsured small firms said that they did not offer coverage because their employees cannot afford it.
- Small firms that do offer health insurance also indicate that affordability is an important barrier for their workers. Thirty-five percent said that cost was a reason why eligible employees did not obtain dependent coverage.
- Sixty-three percent of uninsured businesses cite affordability as a major reason for not offering health benefits.
- Small employers cited being able to afford benefits as one of the biggest challenge facing their business today.
 - The economy: 16%
 - Being able to afford health benefits: 12%
 - Attracting good employees: 12%
 - Competition from other businesses: 11%
 - Keeping costs in line/maintaining profit margin: 11%

Reasons for Not Offering A Health Plan

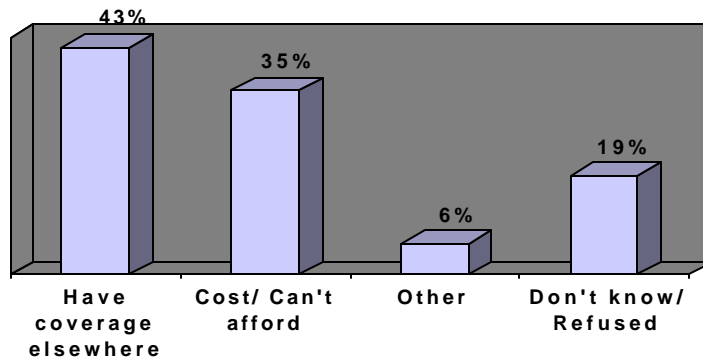
Is...a major reason, a minor reason, or not a reason why your business does not offer a health plan?
No benefits (2002 n=498)



Source: BCBSA/EBRI/CHEC 2002 Small Employer Health Benefits Survey

Reason for Not Obtaining Coverage for Dependents

Regardless of whether any of your employees turn down dependent coverage, why do you think eligible employees might choose not to obtain coverage for their dependents through the health plan offered by your business? Among businesses with benefits, including family coverage (2002 n=480)



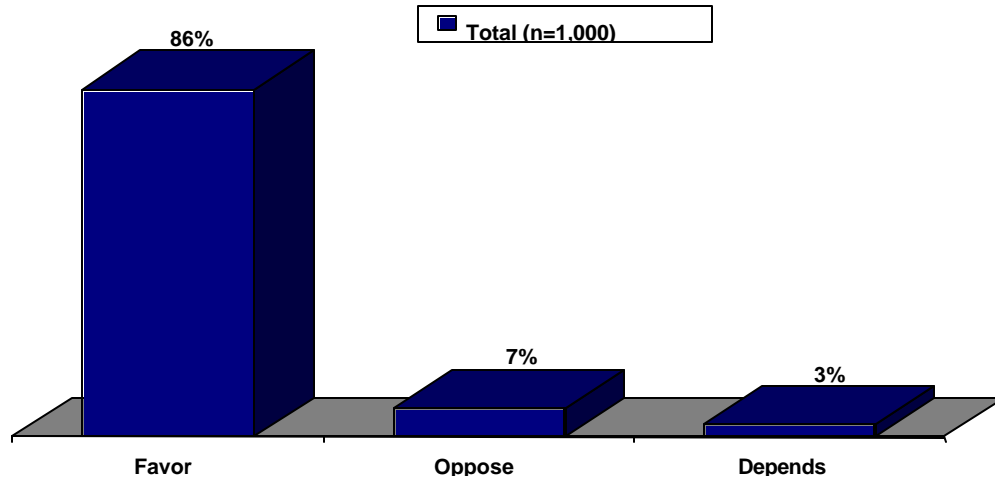
Source: BCBSA/EBRI/CHC 2002 Small Employer Health Benefits Survey

Tax Credits Would Enhance Likelihood of Offering Benefits

- Many small employers that do not offer health benefits are potential purchasers.
 - 11% are either extremely likely or very likely to start offering health benefits in the next two years
 - 22% are somewhat likely to start offering health benefits.
- A number of factors would increase the likelihood that a small business would seriously consider offering a health plan.
 - 71% would consider offering health benefits if the government provided assistance with premiums
 - 63% would consider offering health benefits if there was an increase in the business' profits
 - 45% would consider offering health benefits if employees demanded or expected it
 - 44% would consider offering health benefits if insurance costs fell ten percent
- Most small employers support tax breaks to expand coverage for firms with low-wage workers.
 - 86% of small employers support tax breaks that small employers could use to reduce health insurance costs for their low-wage workers.
 - 7% would somewhat or strongly oppose tax breaks for low-wage workers in small firms.
- Seventy-five percent of small employers that do not offer health coverage would consider offering a health plan if the government provided tax credits to workers to help them pay for coverage.

Small Employers Support Tax Breaks to Reduce Costs For Low-Wage Workers

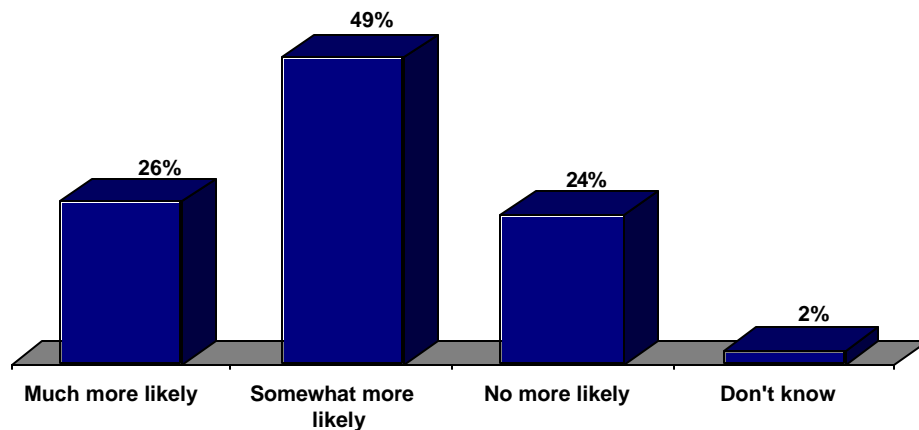
Some members of Congress have proposed tax breaks that small employers could use to reduce health insurance costs for their low-wage workers. Would you favor or oppose such a proposal?



Source: BCBSA/EBRI/CHEC 2002 Small Employer Health Benefits Survey

Tax Credits Enhance Likelihood of Offering Health Benefits

Suppose the government were to provide tax credits to workers to help them pay for coverage. Would that make your business much more likely, somewhat more likely, or no more likely to seriously consider offering a health plan to employees? No benefits (n=498)



Source: BCBSA/EBRI/CHEC 2002 Small Employer Health Benefits Survey

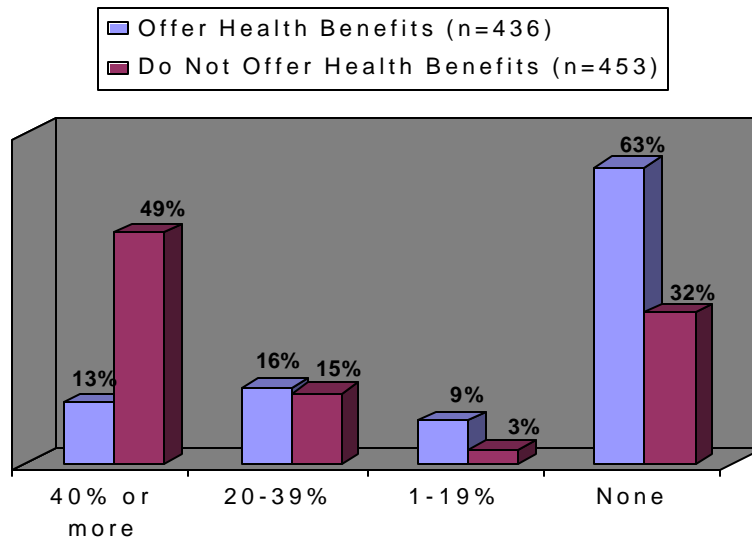
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Uninsured Firms have more Low-Wage and Part-time Workers

- Firms with a high proportion of low-wage workers are much less likely to offer health benefits than other firms.
 - 49% of employers that do not offer health benefits pay annual wages of less than \$15,000 to 40% or more of their workers.
 - 13% of companies that do offer health benefits pay annual wages of less than \$15,000 to 40% or more of their workers.
- Employers that do not offer benefits have a higher proportion of part time workers.
 - 60% of workers in firms that do not offer coverage are part-time, while 48% of workers in firms that offer coverage are part-time.
- Employers that do not offer health insurance tend to have lower annual revenue.
 - Employers not offering benefits were more than twice as likely to have annual gross revenue of less than \$500,000.

Firms That Do Not Offer Coverage Have More Low-Wage Workers

Of your employees, how many are paid less than \$15,000 a year by your business? (re-expressed in percentages)



Source: BCBSA/EBRI/CHEC 2002 Small Employer Health Benefits Survey

Small Firms Report that Offering Health Insurance has a Positive Impact on their Business

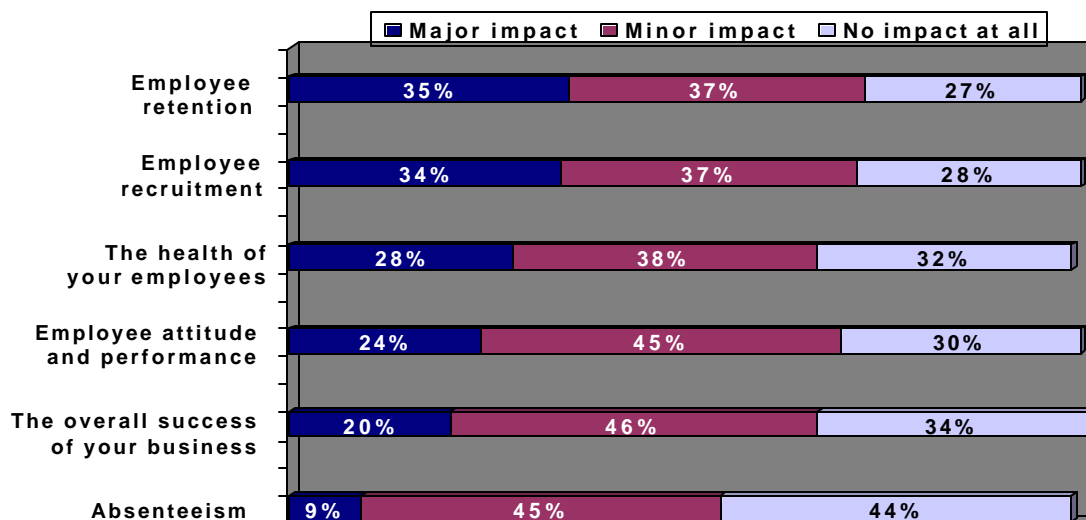
- Small employers that offer health benefits do so for sound business reasons.
 - ❑ 78% said it increases loyalty and decreases turnover
 - ❑ 75% said it helps with employee recruitment
 - ❑ 64% said that it increases productivity by keeping employees healthy
 - ❑ 62% said that employees demand or expect it
 - ❑ 58% said it reduces absenteeism by keeping employees healthy

- Two-thirds of small employers that offer coverage believe that it has had an impact on the overall success of their business. Small employers also believe that offering benefits has an impact on:
 - ❑ Employee retention (72%)
 - ❑ Employee recruitment (71%)
 - ❑ Employee attitude or performance (69%)
 - ❑ The health of their employees (66%)
 - ❑ The overall success of their business (66%)

- In contrast, only 25% of firms that do not offer health benefits think that failing to offer health benefits has had an impact on their business overall. One-third or fewer of these small employers think that not offering coverage has had an impact on employee recruitment, retention, performance, or absenteeism.

Impact of Offering A Health Plan

Do you think that offering a health plan to your employees has had a major impact, minor impact, or no impact at all on...? With benefits (2002 n=502)



Source: BCBSA/EBRI/CHEC 2002 Small Employer Health Benefits Survey

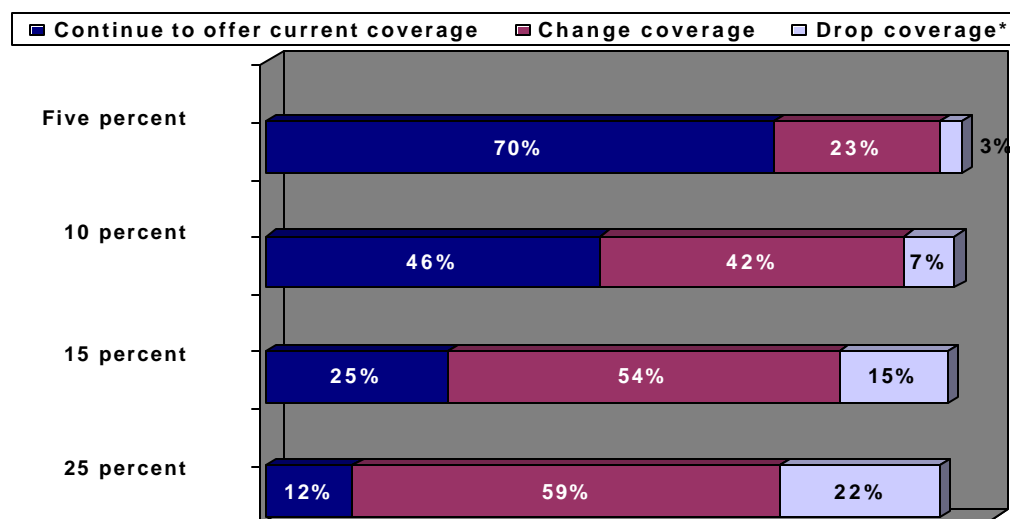
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Responses to Health Care Cost Increases

- Small firms are very sensitive to rising health care costs. When asked how they would respond if health care costs increased by 10 percent, 42% of firms said that they would change coverage and 7% said that they would drop coverage entirely.
- Only one-in-five (19%) small employers offering health benefits made changes to their health plan in the past year. Among firms that made changes:
 - Two-thirds (65%) increased employees' out-of-pocket costs and 30% increased employees' share of the premium.
 - More than one third (35%) switched to a new health insurance company.
 - While 29% cut back on the scope of benefits, one-quarter (26%) added to the scope of benefits covered.
- Forty-three percent of small employers said that health care costs had caused them to make other changes to their business:
 - 19% reduced or eliminated pay raises or bonuses
 - 16% put off equipment or other purchases
 - 10% reduced other benefits
 - 6% were not able to hire needed workers
 - 6% laid off some workers

Changes to Coverage by Increase in Cost

If the cost of health insurance in general were to increase by..., would your business continue to offer its current coverage, change coverage, or drop health insurance coverage? With benefits (2002 n=502)



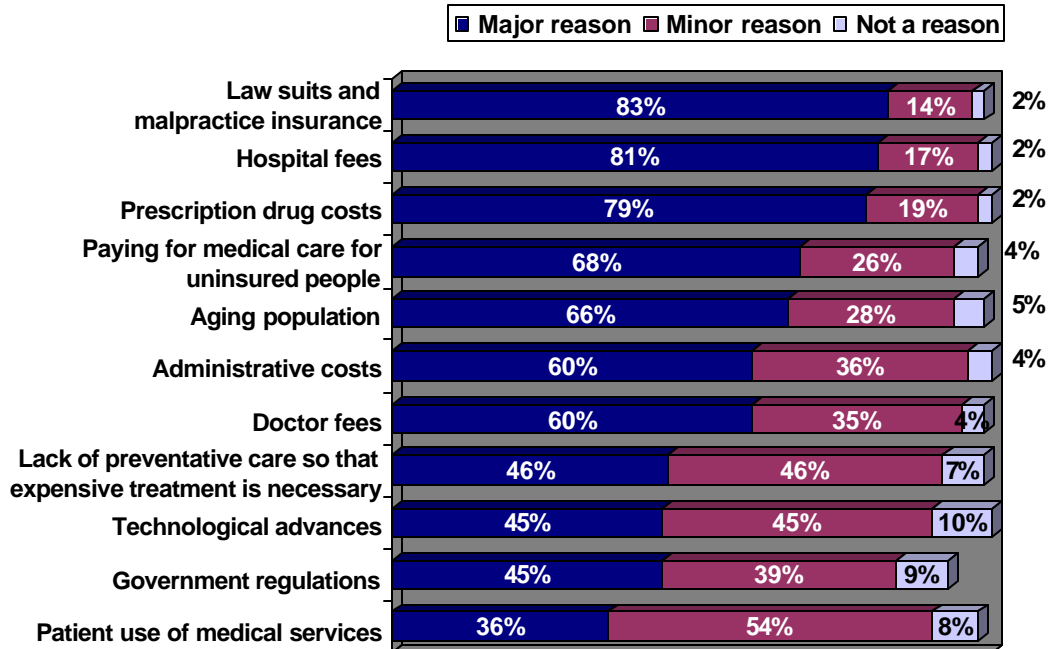
* Drop coverage percentages are cumulative

Source: BCBSA/EBRI/CHC 2002 Small Employer Health Benefits Survey

Perceptions of Major Cost-drivers

Factors Increasing the Cost of Health Care

Please tell me whether you think each of these factors is a major reason, a minor reason, or not a reason why health care costs are rising in the U.S. today. (n=1,000)



Source: BCBSA/EBRI/CHEC 2002 Small Employer Health Benefits Survey