

Small Employers and the Provision of Small Group Health Insurance Coverage

Connie Majure-Rhett, CCE, and Kristen L. Dubay, MPP

Overview

Employers are the main source of health insurance for North Carolinians. In 2004, more than 60% of non-elderly North Carolinians accessed health insurance coverage through an employer-sponsored health insurance program.¹ However, small businesses are much less likely to offer health insurance coverage than larger business. In 2002 and 2003, only 29% of North Carolina firms with fewer than ten employees offered health insurance coverage, compared to 68% of firms with 10-24 employees, 79% of firms with 25-99 employees, and 90% of firms with 100 or more employees.²

One reason that fewer small firms offer health insurance coverage may be due to higher health insurance premiums, on average, for smaller firms. In North Carolina, 2002-2003 the average annual health insurance premium for workers in small firms with fewer than 50 employees was \$3,597, compared to \$3,206 for firms with more than 50 employees.³ Small employers, those with 50 or fewer employees, are subject to health insurance rates set by state "small group" rating laws. These laws were modified in the 1990s to reduce the variation in premiums charged to small employers with similar employment characteristics. Small group rating laws are used to spread the health risks of small employer groups across a larger pool of workers. However, despite these laws, small-firm premiums continue to vary widely, and health insurance premiums are still higher on average for small firms than for larger firms.

Reasons for (Not) Offering Health Insurance

Nonetheless, some small employers still feel that it is important to offer health insurance to their employees. Some employers choose to offer health insurance in order to attract the most qualified workers. This may gain importance as our population ages—a serious concern for small employers. Beginning in 2006, for every two "baby boomers" who retire, only one new worker will join the workforce.⁴ The decreasing size of the workforce is making the hiring process more competitive for small employers. As a result, the ability to offer a comprehensive benefit package, particularly one with healthcare coverage, is integral to attracting the most talented and qualified employees.

Offering health insurance is also connected to worker retention. Many workers remain in jobs that might not be their preferred position because of good health insurance. For example, married men who receive health insurance from their employer are approximately one-third less likely to leave their jobs than married men not receiving health insurance from their employers.^{5,6}

A few small employers choose to offer health insurance coverage to employees because the employer would be unable to access affordable insurance for themselves or their own family members in the non-group market due to pre-existing health conditions. Other employers offer health insurance coverage in lieu of providing higher wages. Research indicates that some employees would support that decision. A survey conducted

"Many workers remain in jobs that might not be their preferred position because of good health insurance."

Connie Majure-Rhett, CCE, is the President and CEO of the Greater Wilmington Chamber of Commerce. Ms. Majure-Rhett can be reached at majure@wilmingtonchamber.org or One Estell Lee Place, Wilmington, NC 28401. Telephone: 910-762-2611.

Kristen L. Dubay, MPP, is a Project Director with the North Carolina Institute of Medicine. She can be reached at kdubay@nciom.org or 5501 Fortunes Ridge Drive, Suite E, Durham, NC 27713. Telephone: 919-401-6599.

for *The Wall Street Journal Online's* Health Industry Edition found that more than 60% of adults with employer-sponsored health insurance would prefer no pay increase while maintaining or increasing health insurance coverage rather than receiving a pay increase and a decrease in health insurance coverage.⁷

Nonetheless, employers' desires to provide health insurance coverage often contrast with their financial abilities to afford coverage. There are many reasons that employers choose not to offer health insurance coverage, but the main reason is cost.⁸ In addition to the higher average health insurance premium costs for small businesses compared to large ones, small business owners also are often unable to hire a benefits manager and must spend considerable time completing the administrative tasks associated with offering health insurance.⁹ Facing annual premium increases, many small businesses shop around for lower prices, compounding the administrative burden imposed on the owners or managers. Finally, in a small business group, a serious health event experienced by a covered worker can also significantly increase the premiums for the group as a whole in the following year, thus making it difficult to continue to offer insurance and maintain participation rates.

Another barrier that small businesses face is minimum participation requirements. Many health insurers require businesses to insure at least 50-75% of eligible employees in order to offer the coverage. Presumably, insurers have this requirement in order to prevent adverse selection into the plan. However, this requirement can be very challenging for small businesses, particularly for those with a high proportion of lower-income workers who cannot afford their share of the insurance premium. There are many small employers around the state who would like to offer coverage, but who cannot because they cannot meet the minimum plan participation requirements.

The Role of Small Businesses in the North Carolina Economy

Small businesses play an integral role in the state's economy. Therefore, everyone stands to benefit from ameliorating the challenges facing small businesses and their employees in their quest to obtain affordable health insurance coverage. In 2003, approximately 74% of private-sector establishments in North Carolina were small businesses with less than 50 employees, and 55% were very small businesses with less than ten employees.¹⁰ Of all employees working in private-sector establishments in North Carolina in 2004, more than 26% of workers were employed by an employer with less than 50 employees, and 11% worked for an employer with fewer than ten employees.¹¹ Additionally, annual payrolls for North Carolina small firms with less than ten employees accounted for more than \$9.5 billion in 2003, and small firms with less than 20 employees accounted for more than \$15.8 billion in annual payroll.¹²

Therefore, when small businesses are unable to offer health insurance coverage to their employees, the economic impact is felt across the state. People without health insurance coverage use fewer healthcare services and often end up with health conditions that could have been prevented. As a result, the lack of insurance

impacts worker productivity. Workers without insurance have 10% more sick days than those with healthcare coverage.¹³ Additionally, some estimates indicate that providing health insurance coverage to those without it increases annual productivity and earnings by 10-30% annually.¹⁴ Nationally, the Institute of Medicine of the National Academies estimated that between \$65 billion and \$130 billion is lost annually due to the poorer health and premature deaths of the uninsured.¹⁵

Policy Options for Small Business Health Insurance Coverage

Expanding health insurance coverage across North Carolina for all population groups would be beneficial, but the need for some immediate solutions is particularly acute for small businesses. There are a number of potential policy options at both the state and national levels for expanding health insurance coverage to small businesses. Some of them were highlighted in the North Carolina Institute of Medicine's *Covering the Uninsured Task Force report*,¹⁶ and others have been introduced into the North Carolina General Assembly or in the United States Congress.

The North Carolina Institute of Medicine (NC IOM) Task Force recommendations that would particularly benefit small businesses include: development of a Healthy North Carolina program, implementation of a high-risk pool, expansion of the Medicaid program for low-income parents, and reviewing the impact of the state's small group reform laws. The Healthy North Carolina program would be targeted specifically for small businesses and sole proprietors. It would use government reinsurance to reduce the costs of a new private market health insurance plan for small employers, low-income individual workers, and self-employed individuals previously without health insurance coverage. It is expected that Healthy North Carolina would provide a 30% premium cost reduction over similar plans in the healthcare market, leading to health insurance coverage for approximately 33,500 currently uninsured North Carolinians.

The Task Force also recommended implementing a high-risk pool in North Carolina. There are many individuals with pre-existing conditions who work in or own a small business who would benefit from participation in a high-risk pool. A high-risk pool would control the premium costs of health insurance for individuals with greater health risk factors and take some of them out of the small group market. This could potentially have the effect of lowering the overall market risk and, thus, reducing costs for health insurance coverage in the small group market.

Another Task Force recommendation could benefit workers in small businesses through premium assistance for employer-sponsored insurance. The Task Force recommendation suggests expanding Medicaid to cover parents with incomes less than 200% of the federal poverty guidelines. Through this expansion and an associated waiver from the federal government, Medicaid-eligible parents could use state Medicaid funds to buy into their employers' health plans. As a result, this would help small businesses with low-income workers meet the plan

participation requirements of insurance carriers.

Tiered benefit plans were also recommended by the Task Force; however, there is some concern among small businesses regarding the potential this could have for reducing healthcare coverage to “bare bones” plans offering only minimal coverage. Catastrophic coverage is very important to a small business because if a small business owner experiences a serious health event without catastrophic coverage, it could result in the bankruptcy of the entire business. Therefore, unless tiered benefit plans were linked with catastrophic coverage, these plans would not be optimal for small businesses. However, even limited insurance coverage is preferred to none.

North Carolina must also steer clear of supporting association health plans. Association health plans are a way for small businesses to pool their employees to spread health risks across a larger group in order to access lower premiums for health insurance coverage. In North Carolina, association health plans are required to meet the state consumer protection laws outlined by the Department of Insurance, which includes specific mandated services. However, there is a new bill in Congress, S1955 Health Insurance Marketplace and Modernization and Affordability Act of 2006, introduced by Senators Michael Enzi and Ben Nelson, that would enact national standards for regulating and administering health insurance. This bill would favor small group rating laws that lead to larger premium variations charged to small employers.¹⁷ As a result, insurers could avoid offering state-mandated benefits if they offered a benefit plan that includes the mandates covered by the state employee health plans of the five most populous states. As such, insurers offering non-state mandated plans could attract the healthier consumers, thereby increasing the average health risks for the population remaining in health plans with mandated benefits. This could lead to higher premium costs and continued loss of insurance coverage for the smallest businesses and businesses with the highest-risk workers.

At the state and national levels, there are a number of other policy options that could be beneficial to small employers, particularly in the form of tax incentives for businesses that offer and/or contribute to health insurance for their employees.

House Bill 20 was introduced into the North Carolina General Assembly in 2005 by Representatives Holliman, Bordsen, Goforth, and Ross. The bill recommends providing a tax credit for small businesses that pay for at least 50% of health insurance premiums for all eligible employees.¹⁸ At the national level, United States Senator Olympia Snowe recently introduced the “Small Business Health Insurance Relief Act of 2006” (S2457), which would provide tax incentives to small businesses offering health insurance coverage to their employees. In particular, the law would offer greater tax credits to the smallest businesses, which have fewer than ten employees, and enable small businesses to offer “cafeteria plans” with non-taxable benefits.¹⁹

In addition, both the House and Senate of the North Carolina General Assembly have discussed the idea of a Healthy North Carolina model, similar to the one recommended by the North Carolina Institute of Medicine Task Force. In the 2005-2006 Session, the Senate discussed a proposed committee substitute, which focused on a version of the Healthy North Carolina model. The House of Representatives Select Committee on Health also chose a Healthy North Carolina model as one of their recommendations from the full committee, making it eligible for consideration in the 2006 short session.

Every year, small business surveys indicate that health insurance coverage is one of the top issues of concern to North Carolina small business owners. Small businesses need to remain steadfast in their work to find effective and realistic ways to access more affordable health insurance coverage for their workers. Supporting the introduction of the Healthy North Carolina program and a high-risk pool are two of the most important efforts small businesses could make to affect change in the near-term. At the federal level, support for tax incentives could also offer some relief. Small business owners and employees make up more than a quarter of the state’s workforce and face much greater challenges accessing health insurance than workers in larger firms. To continue to keep North Carolina’s economy strong and supported by this workforce, greater access to healthcare should be made available to small businesses. **NCMedJ**

REFERENCES

- 1 Holmes M. Analysis of US Census. Current Population Survey 2004-2005 (Calendar years 2003-2004). Cecil G. Sheps Center for Health services Research, The University of North Carolina at Chapel Hill, 2005.
- 2 Holmes M. Analysis of Medical Expenditure Panel Survey-Insurance Component. Percent of private-sector establishments that offer health insurance by firm size and state: United States, 2002 and 2003 (Table II.A.2). Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. Tables available at: <http://meps.ahrq.gov/>. Accessed January 30, 2006.
- 3 Holmes M. Analyses of 2002 and 20093 Medical Expenditure Panel Survey; Insurance Component, 2002, 2003 (Tables II.B.2, II.C.1, II.C.2). Agency for Healthcare Research and Quality, Center for Financing Access and Cost Trends. Tables available at: <http://meps.ahrq.gov/>. Accessed January 30, 2006.
- 4 Dohm A. Gauging the labor force effects of retiring baby-boomers. *Monthly Labor Review* 2000;123(7):17-25.
- 5 Madrian BC. Employment-based health insurance and job mobility – Is there evidence of job-lock? *Quarterly Journal of Economics* 1994;109(1):27-54.
- 6 Buchmueller TC, Valletta RG. The effects of employer-provided insurance on worker mobility. *Industrial and Labor relations Review* 1996;49(3):439-455.
- 7 The Wall Street Journal Online. Health-Care Poll. The Majority of Adults with Employer-Provided Health Insurance Would Forego a Pay Increase to Maintain their Health Insurance Benefits. 2005;4(15). Available online at: http://www.harrisinteractive.com/news/newsletters/wshealthnews/WSJOnline_HI_Health-CarePoll2005vol4_iss15.pdf. Accessed May 5, 2006.

- 8 Kaiser Family Foundation and Health Research and Education Trust. Employer Health Benefits 2005 Annual Survey. Chart #11. Available at: <http://www.kff.org/insurance/7315/upload/7315.pdf>. Accessed January 6, 2006.
- 9 Nichols LM. Challenges Facing Small Employers in Purchasing Health Insurance. New America Foundation. Statement before the Senate Committee on Small Business and Entrepreneurship. April 20, 2005. Available at: http://www.newamerica.net/Download_Docs/pdfs/Doc_File_2330_1.pdf. Accessed May 5, 2006.
- 10 Medical Expenditure Panel Survey-Insurance Component. Percent of number of private-sector establishments by firm size and state: United States, 2003 (Table II.A.1.a). Agency for Healthcare Research and Quality, Center for Financing, Access and Cost. Available at: <http://www.meps.ahrq.gov/MEPSDATA/ic/2003/Index203.htm>. Accessed May 8, 2006.
- 11 Medical Expenditure Panel Survey-Insurance Component. Percent of number of private-sector employees by firm size and state: United States, 2003 (Table II.B.1.a). Agency for Healthcare Research and Quality, Center for Financing, Access and Cost. Available at: <http://www.meps.ahrq.gov/MEPSDATA/ic/2003/Index203.htm>. Accessed May 8, 2006.
- 12 US Small Business Administration. Office of Economic Research. Employer Firms, Establishments, Employment, Annual Payroll and Receipts by Firm Size, and State, 2003. Available at: <http://www.sba.gov/advo/research/st.pdf>. Accessed May 8, 2006.
- 13 Gilleskie DB. A dynamic stochastic model of medical care use and work absence. *Econometrica* 1998;66(1):1-45.
- 14 Hadley J. Sicker and Poorer: The Consequences of Being Uninsured. Kaiser Commission on Medicaid and the Uninsured. 2002. Available at: <http://www.kff.org/uninsured/upload/Supplement-article-by-Jack-Hadley.pdf>. Accessed May 8, 2006.
- 15 Institute of Medicine. Uninsurance Costs the Country More than You Think. Drawn from: *A Shared Destiny*, 2003; *Hidden Costs, Value Lost*, 2003; *Insuring America's Health*, 2004. Institute of Medicine. Washington, DC: National Academies Press.
- 16 North Carolina Institute of Medicine. Expanding Health Insurance Coverage to More North Carolinians. Durham, NC. April 2006. Available at: <http://www.nciom.org/projects/uninsured/uninsuredreport.html>. Accessed May 8, 2006.
- 17 Congressional Budget Office. S. 1955 Health Insurance Marketplace Modernization and Affordability Act of 2006. May 3, 2006. Available at: <http://www.cbo.gov/ftpdocs/71xx/doc7190/s1955.pdf>. Accessed May 8, 2006.
- 18 Health Insurance Credit/Minimum Wage, HB 20, NC General Assembly (2005-2006). Available at: <http://www.ncga.state.nc.us/Sessions/2005/Bills/House/HTML/H20v3.html>. Accessed May 10, 2006.
- 19 Insurance Journal. "Sen. Snowe Files Small Business Health Insurance Relief Act." April 3, 2006. Available at: <http://www.insurancejournal.com/news/national/2006/04/03/67003.htm>.

Eat Smart, Move More Health Tip



Choose to Move More Every Day

Physical activity is essential for all of us. Children, adults and seniors can benefit from moderate activity every day. Take a walk with a friend, take the stairs instead of the elevator, or work in your yard. Dancing works too and is great fun! Thirty minutes or more of motion for adults and 60 minutes for children on most days can help keep you in shape and feeling good. Can't find a 30 minute chunk of time? Break it up throughout the day.

For more tips on how to move more every day where you live, learn, earn, play and pray, visit

www.EatSmartMoveMoreNC.com



This message brought to you by