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The 2006 Small Business Health Coverage Pilot Survey: The Findings

EXECUTIVE SUMMARY

Results from the *2006 Small Business Health Coverage Pilot Survey* strongly favor the creation of an affordable coverage option like the proposed Small Business Buy-in to the Public Employee Health Plan (PEHP). When asked whether they would buy into a plan like PEHP, the vast majority of employer respondents (83%) indicated they would participate.

This is a pilot study of approximately 200 businesses, and the results should not be over-generalized. However, these data clearly indicate that small business owners want to attract the best employees and they need affordable health coverage options to do so. Right now, such coverage is just too expensive. But if small businesses could buy into the Public Employee Health Plan (PEHP), and if we developed a sensible premium subsidy approach, they would clearly be interested.

On the positive side, 50% of all respondents indicated they would be willing to cover 75-100% of the premium. Another 26% said they would cover at least 50% of the premium. Stated health industry concerns about adverse selection¹ are overstated. Small business employers are younger (average age is 37)—and presumably healthier—than current PEHP enrollees (average age is 44).

Employers in the retail and leisure/hospitality sectors indicated a willingness to cover less than 50% of the premium. This raises serious concerns about affordability and real-time access to coverage for lower wage employees who would not be able to pay the other half of the premium. These workers—or their employers—would need either some sort of premium subsidy or a different solution altogether.

KEY FINDINGS

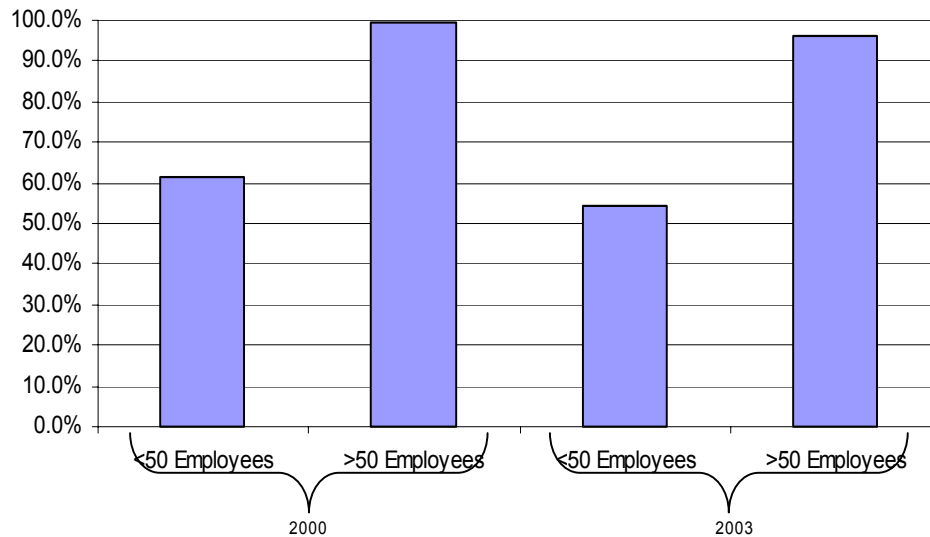
- These results demonstrate that *all* companies are struggling to balance the competing concerns of cutting costs (through cutting coverage) at the expense of losing desirable employees. The vast majority of companies said the cost of health coverage impacts their business profitability (91%) and their ability to attract and retain quality employees (86%). Cost-effective coverage like the proposed small business buy-in to PEHP would solve this problem for them.
- Across all industries sampled, smaller companies were less likely to offer coverage, underscoring the importance of cost concerns. The more cost-effective we can make it for small employers to offer coverage, the more likely they will be to do so.
- But when it comes to companies' willingness to buy in to a PEHP-like program, industry *type* matters more than *size*. Overall, the vast majority of companies (83%) said they would buy in to a PEHP-like option. The retail and hospitality industries were significantly less interested in this option, even if they had enough employees to make it more cost-effective. This suggests that there are industry-specific issues (from wage structures to "corporate culture") that we need to address through outreach and marketing strategies and broader changes in economic policies.
- The average age of the workforce sampled was 37, notably less than 44, the average age of employees *currently* enrolled in PEHP (Public Employee Health Plan). This suggests that adding such businesses into the current PEHP mix could actually *lower* the actuarial risk ratios in PEHP and thus reduce state costs.

BACKGROUND

Introduction

In Utah ninety-five percent of employees of large businesses have a health benefit, but only 55% of small business employees do. And small business employees are losing health benefits at an alarming rate.

Percent of Employees in Utah Businesses that offer health benefits by firm size, 2000-03



Source: www.meps.ahrp.gov

Most of the state's 337,000 uninsured are employees of small businesses or their dependents. Thus, if we solved the small business health coverage problem, we would therefore solve a big piece of the uninsured problem.

About our Pilot Survey Design

The Small Business Health Coverage Survey was designed to understand the issues influencing small business owners' decisions about health care coverage. The Governor's Office of Economic Development and the Utah Department of Health provided helpful input into the survey's design and content. Questions were organized into the following three sections:

- *Their Business:* Basic information about business type, size, demographics, and other factors.
- *Ability to Afford Health Insurance:* Do they currently offer insurance? Do they have difficulty affording it? If they do not offer coverage, do they even *want* to?
- *Willingness to Buy or Change Insurance.* Given a PEHP-like option, with specified levels of employer participation, benefit levels and deductibles, would they "take the deal?" If so, what percentage of the premium would they be willing to cover?



About the Survey Respondents

Participants were recruited using a simple email invitation from the Governor's Office of Economic Development (GO-ED), the Board of the Vest Pocket Coalition (a coalition of small business owners), or the Utah Health Policy Project using the Local First mailing list, an online directory and resource for locally-owned businesses (www.localfirst.org).

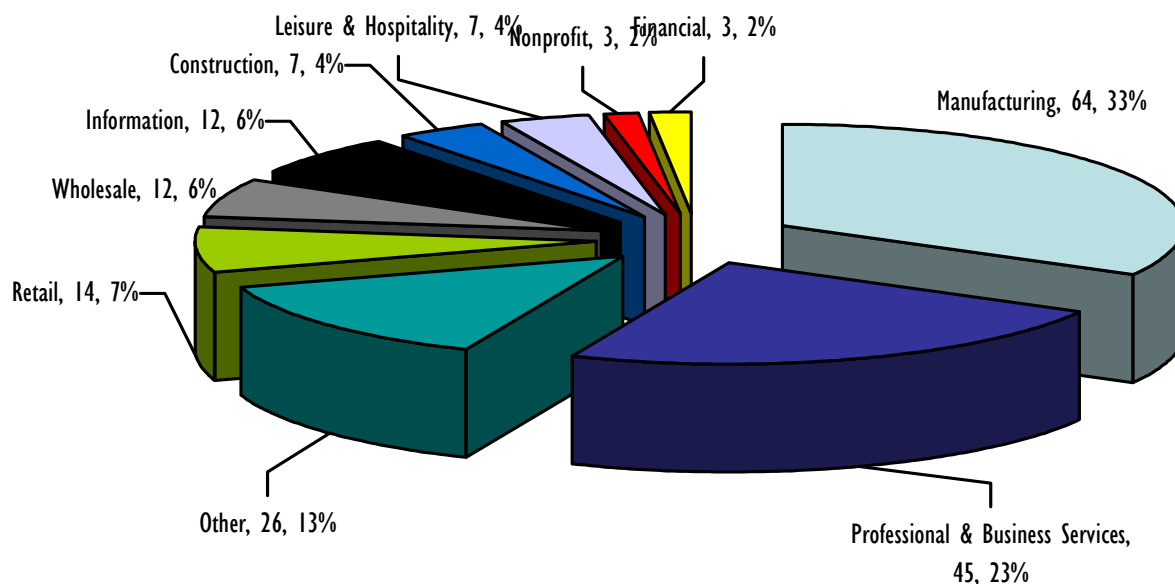
Since GO-ED's 5,000+ mailing list is heavily populated by manufacturers and professional and business services (industries with older workers and higher rates of insurance coverage), some recruitment calls had to be made to the Local First list, which has a better balance of industries reflecting the small business community in Utah. A striking number of respondents indicated they were willing to be contacted for follow up interviews, suggesting strong interest in collaborative problem solving. These qualitative interviews are in process, and will give us the more "fleshed out" responses that we need to really make the most of these data.

FINDINGS BY SURVEY SECTION

Section I *Your Business* (identification of industry type and company size)

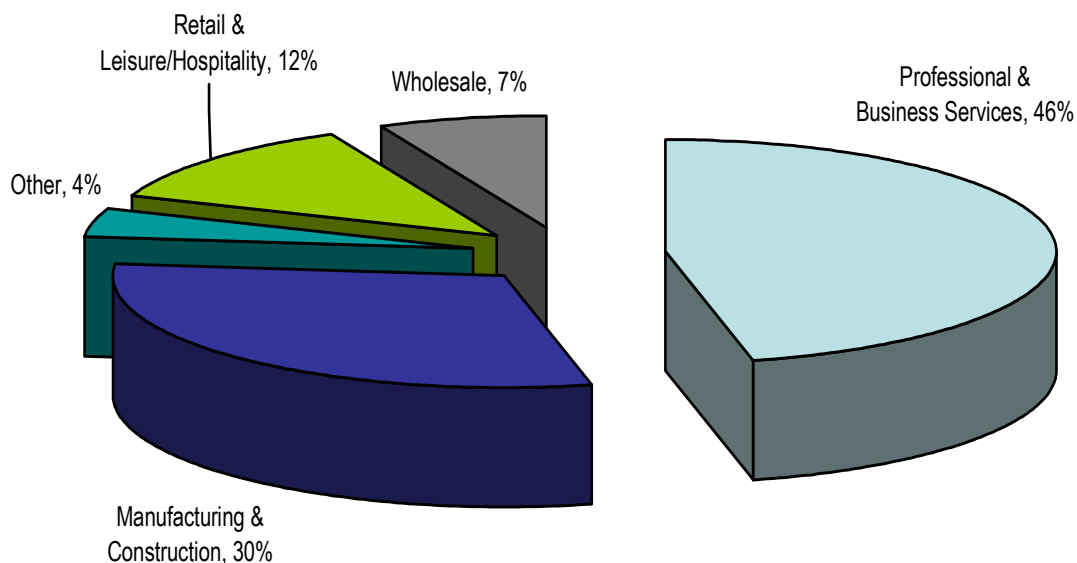
Due to the mailing lists we had available, industries with generally higher rates of coverage like manufacturing and professional and business services were overrepresented in the sample. The following graph shows the breakdown of respondents by industry categories used in the actual survey.

Survey Respondents by Original Survey Categories



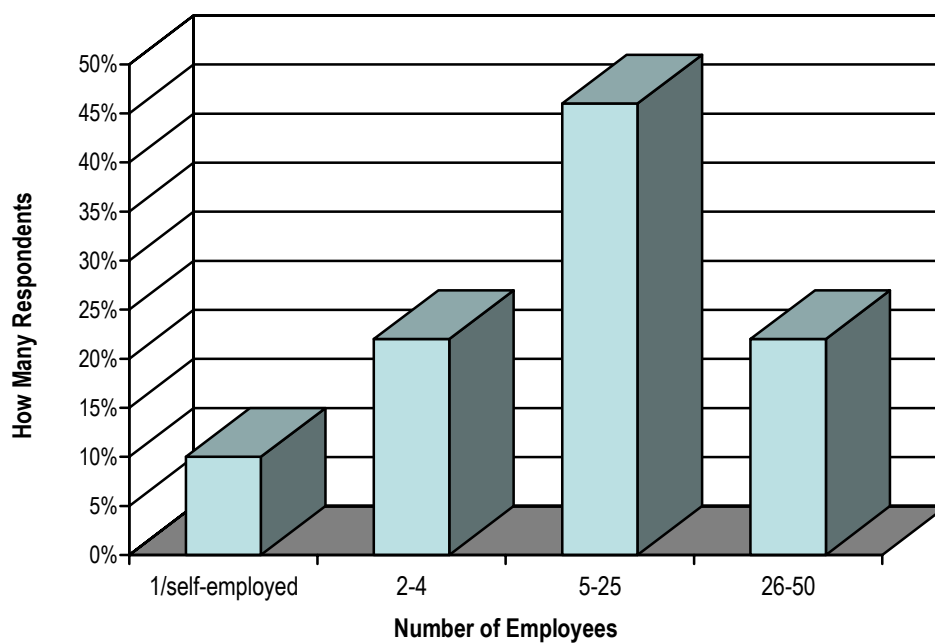
For the purposes of analysis, we aggregated similar industry categories. For example, we combined retail with leisure and hospitality. Manufacturing and construction were also combined (see chart below).

Categories for Survey Analysis



The figure below shows the breakdown of companies with respect to workforce size (since we were only interested in small businesses, we did not include companies with more than 50 employees):

Survey Participants by Size of Firm



The average age of the small employer workforce is 37, notably lower than 44, the average age of PEHP (Public Employee Health Plan) beneficiaries. One of the original purposes of the survey was to characterize the impact of absorbing small business employees into the private, non-profit PEHP on actuarial risk ratios and cost. This finding suggests that adding small businesses into the PEHP mix could actually *lower* the risk ratios in PEHP and thus the overall costs to the state and other entities which utilize PEHP.

Section 2 Your Ability to Afford Insurance

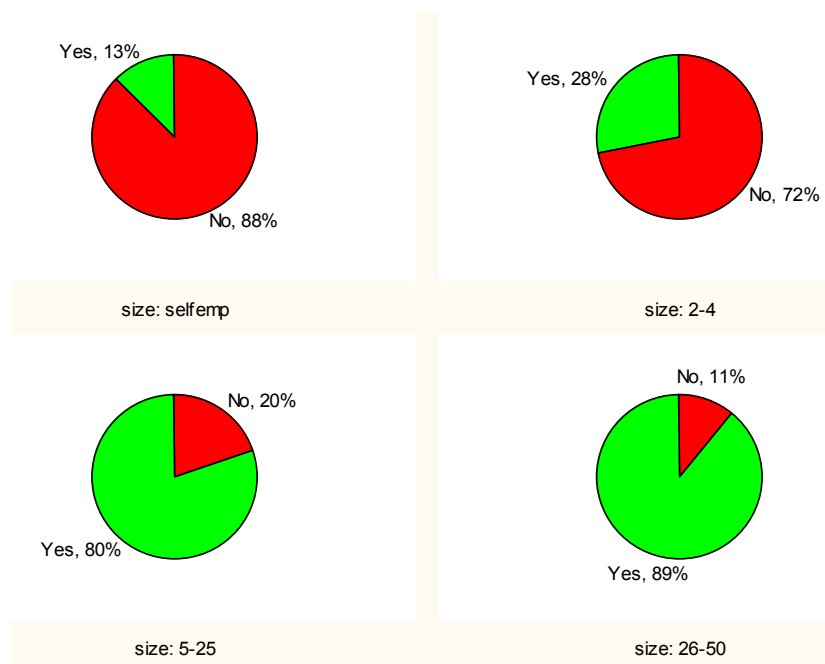
An overwhelming majority of business owners reported that they had insurance for themselves (90%) and their families (84%). This is not surprising, given the level of income that is required to start and maintain a small business. The small number of business owners who do *not* have insurance for themselves are evenly divided across the different business size categories. Only 5 are self-employed, 7 have companies with 2-4 employees, 4 have 5-25 employees, and 3 have 26-50 employees.

Overall, the percentage of small business owners in this survey who currently offer health insurance (65%) was higher than the conventional MEPS (Medical Expenditure Panel Survey) estimate for Utah (55%). However, this might just be due to the fact that our sample had a disproportionate number of manufacturing and professional companies, who are more likely to offer coverage.

Not surprisingly, we found a strong association between firm size and ability to offer insurance (shown in the next graph). When we examined both industry size and industry type as predictors of coverage, we found that “size matters.” Across all industries, larger companies were more likely to offer coverage. This reflects the current realities of the health care marketplace: Small businesses simply have few affordable coverage options.

Do you currently offer health care coverage to your employees?

Answers stratified by company size

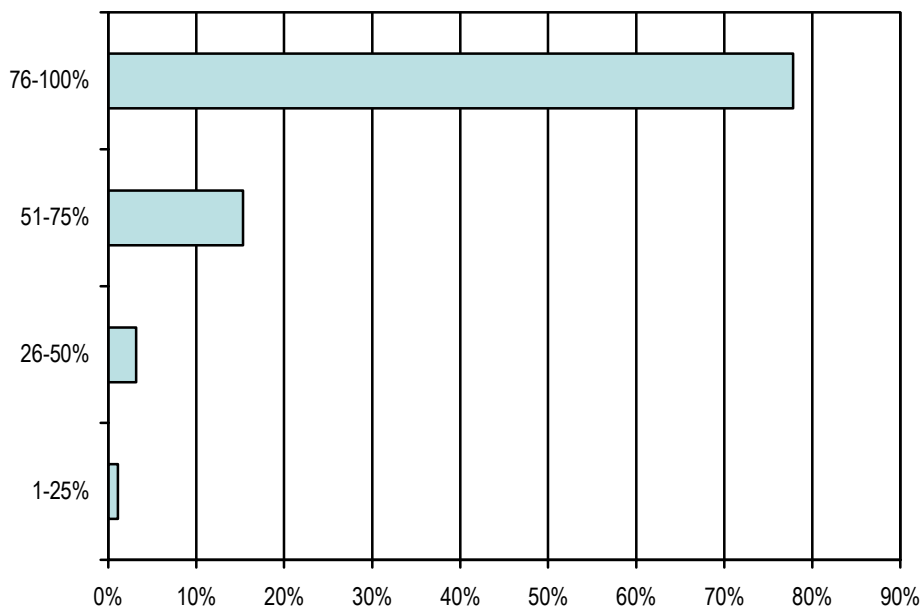


Responses regarding companies' difficulty in offering health coverage were not surprising, though still ominous. Seventy-five percent of employers indicated they were having trouble affording health coverage, and the same percentage reported that employees were also having trouble.

The vast majority of business owners also said the cost of health coverage impacts their business profitability (91%) *and* their ability to attract and retain quality employees (86%). This suggests that business owners are struggling to balance these issues. They can increase profitability by cutting coverage, but they may lose high-quality employees as a result.

In order to ascertain what proportion of small business employees do not need health insurance from their employer, the survey included a question about what percent of a company's current employees would be interested in health insurance. For instance, some may prefer to access insurance coverage through their spouses' or partners' benefits. Our survey found that the vast majority of employers thought their workforce wanted coverage.

What percentage of your employees are interested in having health coverage?



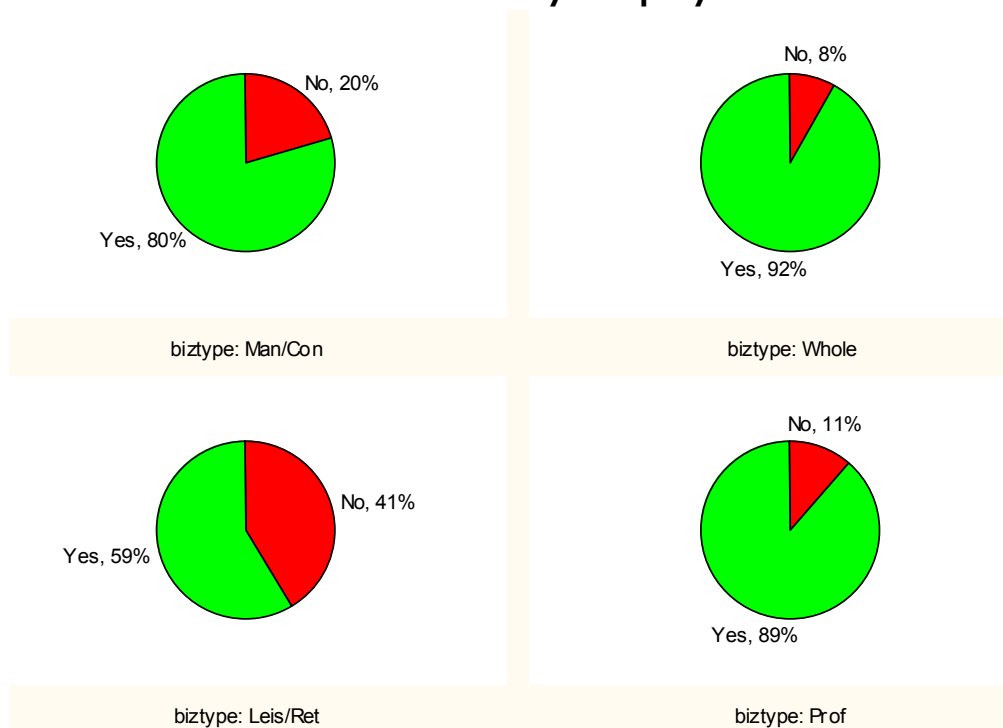
Section 3 Your Willingness to Buy or Change Insurance

The survey asked about interest in a hypothetical PEHP benefit package for small businesses designed by the Governor's Office of Economic Development and PEHP administrators. If small businesses bought in to this hypothetical option, the cost would be approximately \$300 per employee, per month. For purposes of the survey, "standard care" was defined as all medically necessary care covered with a \$250 deductible for individuals and \$500 deductible for families with standard co-pays. To participate, employers would have to cover at least 50% of the premium cost. When presented with this option, responses to the survey indicate overwhelming interest in this hypothetical option: 83% of business owners said they would buy such a



product. However, interest varied according to industry type. Business owners in the retail and leisure sectors were less interested in this option.

Would you Buy Into This Plan? Answers stratified by company size



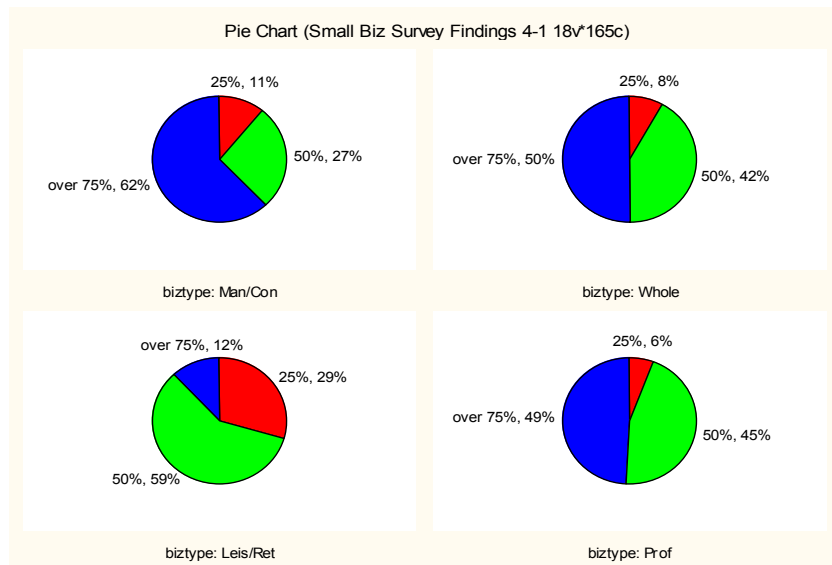
This means that if an option like the small business buy-in to PEHP were available, participation would be quite high across all sectors, but probably less so in the leisure and retail sectors.

This is true even if we account for industry size. Even large retail/leisure companies seem less interested in the buy-in option. The key question, of course, is why. Likely possibilities are wage structure, percentage of part-time employees, and company culture.

We plan to explore these issues in our upcoming interviews. If we can discover – and eliminate – the hurdles that diminish retail and leisure companies’ interest in health care coverage, perhaps we can bridge some of the gap and bring them on board. The majority of small business employers are willing to pay at least half of the hypothetical \$300 per member, per month premium for PEHP coverage.



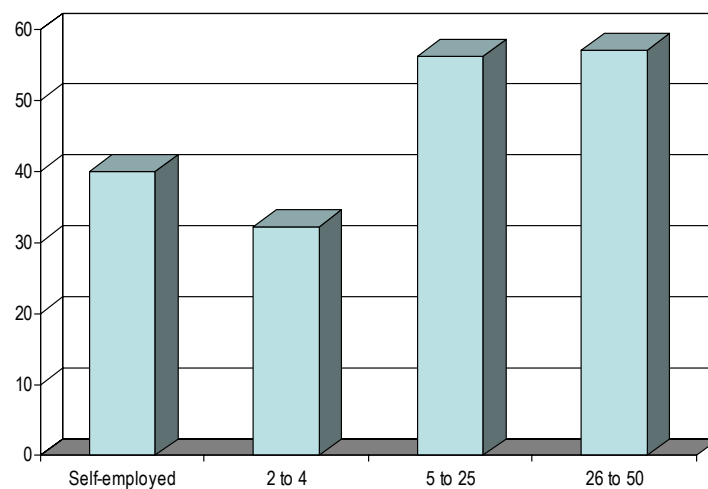
What Percentage of the Premium would you Cover? Answers Stratified by Industry Type



Although it is encouraging that we would have many “takers,” the large number of employers who were only willing to cover *less than* 50% raises serious concerns about affordability and real-time access to coverage for many employees. If certain employees, particularly the lower wage employees in retail, were made to cover the remaining 50% of the premium, many would not be able to participate. These workers—or their employers—would clearly need some sort of premium assistance. Fortunately, state policymakers and health department administrators are very receptive to making premium assistance programs work in Utah.ⁱⁱ

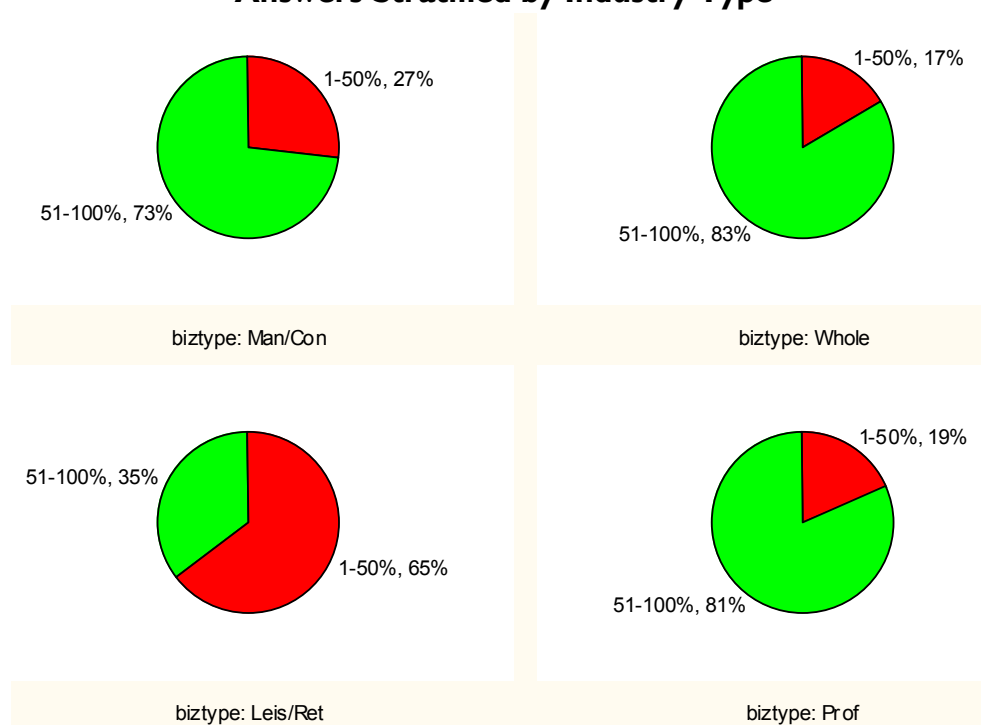
On the bright side, 50% of all respondents indicated they would cover *even more* than the necessary 50%, and would bump up their contribution to 75-100% of the premium. This was especially true among larger employers, not surprisingly.

Willing to Cover 75 or 100% of the Premium of Hypothetical Product



The final substantive question concerned what percentage of employees the business owner thought would be interested in this hypothetical plan, and what percentage of the premium they would be willing to pay. This also produced an encouraging result. Over three-fourths of respondents indicated that more than half of their employees would sign up for the hypothetical benefit plan, and this was true for both larger and smaller businesses. Yet industry type rears its head again, with business owners in the retail and leisure industries expecting less interest in this plan among their employees.

What Percentage of Your Employees Would Want the Plan? Answers Stratified by Industry Type



Are the retail and leisure/hospitality employers gambling on the so-called “young immortals,” or are they simply honest about the reality, noted above, that many of their lower wage and younger employees will not take up a product for which they must cover 50% or so of the premium? This distinction is critical, and we plan to delve deeper into this question with our upcoming interview studies.



CONCLUSION

- A PEHP type of health benefit (with low deductibles, comprehensive coverage, and modest cost sharing) priced at around \$300 per member, per month would be attractive to more than 4 out of 5 small business owners and their employees.
- A solution to the difficult challenge of providing affordable health benefits for Utah small businesses would likely increase both employee retention and business profitability. Economic development in Utah depends in part on solving the small business health coverage crisis.
- Offering a PEHP type of benefit to small business employees is an essential part of a comprehensive strategy to address the growing problem of the uninsured in Utah.
- Some employers, particularly in the retail and leisure sectors are unable to afford a PEHP health benefit without some sort of premium subsidy.
- Concerns about adverse selection undermining the affordability of PEHP for its current beneficiaries are unwarranted. In fact, allowing PEHP to offer a health benefit to small business employees is more likely to reduce the average age of the PEHP member population and thereby reduce the cost of health benefits for state government and PEHP's other sponsoring public entities.

In summary, the survey results strongly suggest we are on the right track in terms of the two policy proposals we have put forth: a small business buy-in to PEHP *and* an increase in the premium subsidy level for Covered at Work. With this “magic combination,” we should be able to successfully address the tricky, competing needs of Utah’s small businesses – maximizing profitability AND retaining and keeping quality employees – and *get more Utahns covered*.

For further information about the survey, please contact Judi Hilman, Executive Director of the Utah Health Policy Project at judi@healthpolicyproject.org.

ACKNOWLEDGEMENTS

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ENDNOTES

ⁱ In the health insurance market, adverse selection occurs when people who are older and sicker—and therefore more likely to incur higher medical costs—join the same health plan. Adverse selection often results when one health plan offers more comprehensive benefits than another plan and is thus more attractive to older and sicker people. At the same time, younger and healthier people are likely to pick a cheaper, less comprehensive plan. As a result, comprehensive health plans often become more expensive—and then even more people leave these plans, until only the very sickest are left in them. This cycle of adverse risk selection is called a “death spiral,” and the result is that comprehensive health insurance plans become too expensive for anyone who needs the coverage. Families USA (2004). *Glossary of Health Care Terms*, www.familiesusa.org.

ⁱⁱ The Bush Administration is strongly encouraging states to initiate premium subsidy programs (www.cms.hhs.gov/HIFA/). However, based on their research on experience with premium assistance in the states, the Kaiser Family Foundation is cautious about these approaches. Kaiser Commission on Medicaid and the Uninsured (2003). *Serving Low-Income Families through Premium Assistance: A Look at Recent State Activity*.

