

Small Business Health Insurance Survey Findings

Summary of findings: Although nearly 70 percent now offer health insurance to their employees, Kansas small businesses face the same concerns as small businesses in other states. More than a fifth of the firms in a recent survey of Kansas small businesses were considering dropping coverage, and nearly three-fifths were planning to increase employee contributions. Among Kansas small businesses that did not offer health insurance benefits, cost was by far the most important reason. Fortunately, a majority of Kansas small businesses support a number of policy options that might make health insurance more affordable. Options with significant support include insurance purchasing pools, joining the State Employees' health plan, health savings accounts, tax credits, Medicaid buy-in for children, and subsidies for low income workers.

Survey Description: In 2000, the former Insurance Commissioner Kathleen Sebelius commissioned a study of the uninsured in Kansas. The resulting Kansas Health Insurance Survey revealed that 10.5 percent of Kansans under the age of 65 were uninsured. Over 95 percent of the uninsured lived in a household with a linkage to the workforce: being either the worker; the spouse of a worker; or the dependent of a worker. In addition, over half of the uninsured worked full time and more than 54,000 workers were in firms with less than 50 employees. The concentration of the uninsured in small firms highlighted the need to gain additional information about this sector. As a result, Kansas Insurance Commissioner Sandy Praeger authorized this study.

Characteristics of All Survey Respondents

Representative survey. Kansas small businesses that participated in this survey were representative of other small businesses throughout the United States. Kansas firms averaged just under 13 employees each, with half of the firms having eight or fewer employees. Of these firms, 69 percent offered full-time employees health insurance while an additional seven percent offered part-time employees health insurance. These data dovetail with recent national data which show that approximately three-quarters of all firms in rural areas have fewer than 20 employees and 64 percent of small businesses nationwide offered their employees health insurance¹.

Rising cost of health insurance. At a national level, the falling number of small employers that offer health insurance coverage is largely due to its rising cost. Kansas employers in our survey reported that insurance premiums increased substantially last year. Over thirty percent of the firms reported that their

premiums rose by 16-25 percent, and 28 percent reported that their premiums rose over 25 percent (Figure 1). Due to these rising costs, 58 percent of firms said that increases in employee contributions for health insurance were somewhat or very likely. In addition, 21 percent said that they were somewhat or very likely to stop offering health insurance to employees.

Figure 1. Health Insurance Cost Increases Next Year

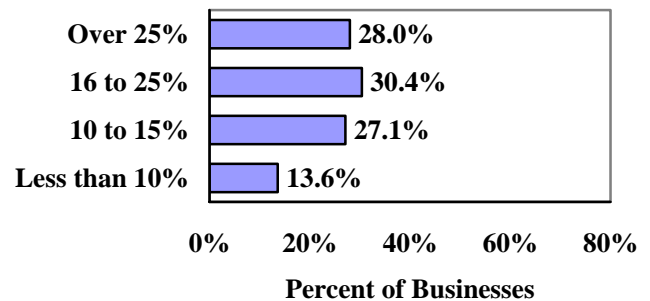
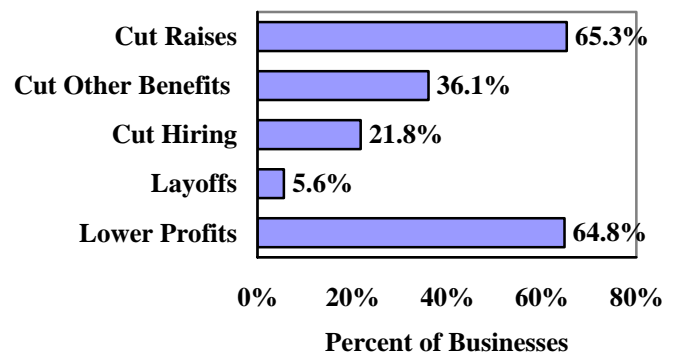


Figure 2. Responses to Rising Cost of Health Insurance



Impact on business. The firms in our survey indicated that rising health insurance costs had significant business effects. Sixty-five percent said that they reduced raises or bonuses as a result; 36 percent reduced other benefits; 22 percent reduced hiring; and six percent laid off workers (Figure 2).

Differences between Firms That Did and Did Not Offer Health Insurance

Number of employees, wages, and education. There were some important differences between Kansas firms that did and did not offer health insurance to their employees. Firms that offered health insurance averaged nearly twice as many employees as those that did not. Firms that offered health insurance also offered wages that were over \$4,000 higher. In terms of education, firms that offered health insurance were more likely to report that jobs in their firm required at least a high school degree and more employees had a college degree or post-baccalaureate degree (Figure 3).

Urban and Rural Differences. Firms in more urban counties (Douglas, Johnson, Leavenworth, Sedgwick, Shawnee, and Wyandotte) were more likely to offer full-time employees health insurance than firms elsewhere. Seventy-eight percent of the firms in these six counties offered coverage to full-time employees; 63 percent of firms in other counties did so. There were no meaningful differences in the proportions of firms offering coverage to part-time workers or to family members. Firms in the more urban counties were not appreciably larger than firms elsewhere, but did offer larger salaries (\$27,620 *versus* \$24,007).

Age, ethnicity, and gender. Other demographic differences were not found to be statistically significant based on the survey. The average age of employees was comparable in both groups of firms. However, firms that offered health insurance had fewer employees with less than two years with the firm. There was a nine percent chance that this difference was due to chance. Firms that offered health insurance and firms that did not had similar percentages of female and African-American employees. Firms that did not offer health insurance tended to have a higher percentage of Hispanic employees, although there was a 16 percent probability that this was due to chance.

Figure 3: Firms that Did and Did Not Offer Health Insurance

	Did	Did Not
Number of Employees *	15.3	7.8
Average Full-time Salary *	\$26,788	\$22,549
Average Age of Employees	41.1	41.2
Female %	45.3	44.1
Hispanic %	4.5	7.3
African-American %	2.4	2.5
Short-term Employees %	25.0	31.2
Requiring College or Above % *	27.4	9.4
Not Requiring High School % *	9.2	20.6

* Statistically significant difference

Small Firms Not Offering Health Insurance

Reasons for not offering. Cost was the main reason for not offering health insurance. Sixty-six percent of small firms that did not offer health insurance cited this as the main reason why. Although 21 percent said that their employees get coverage from other sources, 61 percent of these firms knew that some of their employees lacked any health insurance coverage whatsoever. Most other firms focused on the preferences of their employees as to the reason they did not provide health insurance. Nine percent said that employees preferred higher wages; three percent said that a majority of employees could not afford the premium. Only one percent said that too much paperwork was the main barrier to offering coverage.

Support for employer provided health insurance. Interestingly, small firms that did not offer health insurance generally supported the premise that employers should offer it. Sixty-eight percent said that employers should offer health insurance. While this is more than a two-thirds majority, this is significantly less than the 91 percent agreement among small firms that offered health insurance.

Employer potential cost sharing. Small firms that did not offer health insurance were willing to pay only modest amounts for employee coverage. A third were not willing to pay anything; 36 percent were willing to pay less than \$100 per month; and only 2 percent were willing to pay more than \$300 per month. None expressed a willingness to pay more than \$400 per

month. Should these employer decide to offer health insurance, employer contributions of this size would likely mean high premiums for employees.

Firms Offering Health Insurance

Eligibility. Most firms limited health insurance eligibility to full-time employees, but 14 percent reported that all employees were eligible. Sixty-four percent of employees signed up for health insurance when offered. (This may slightly understate the acceptance rate, because not all employees were eligible.)

Employer contributions for employees. Employers that offered employee coverage covered most of its cost. Just over half (51.4 percent) paid the entire premium, and nearly 95 percent paid more than \$100 per month for employees. Accordingly, employee contributions were usually modest. Seventy-five percent of the firms reported that employees paid \$100 or less per month for their coverage.

Employer contributions for family coverage. Eighty-nine percent of the firms that offered health insurance to their employees also offered family coverage, but employer contributions for these plans were smaller. Thirty-eight percent of firms made no contribution to family coverage, and an additional seven percent contributed less than \$100 per month. Only 25 percent of the firms paid more than \$300 per month for family coverage.

Support for Health Insurance Expansion Options

Support for insurance pools, health savings accounts, and Medicaid buy-in for kids. At almost 96 percent, support for small business pools was overwhelming (Figure 5). Nearly sixty-six percent of the firms supported health savings accounts (Figure 6) and more than 64 percent supported a Medicaid buy-in for children (Figure 7). The responses of firms that offered insurance and firms that did not were essentially the same for these three options.

Figure 5. Support for Small Business Pools

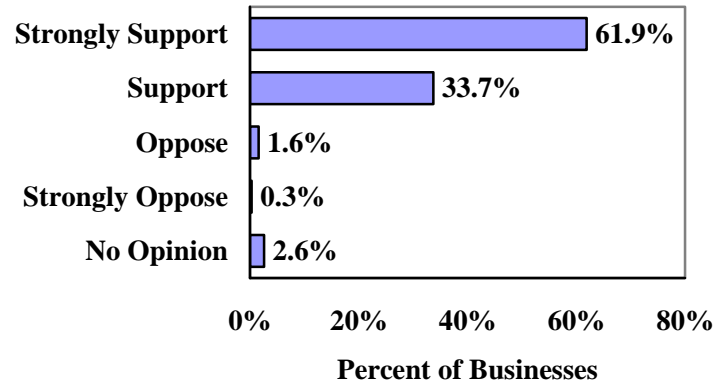


Figure 6. Support for Health Savings Accounts

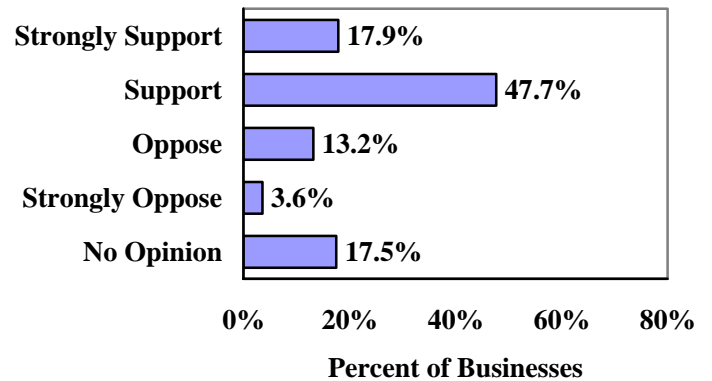
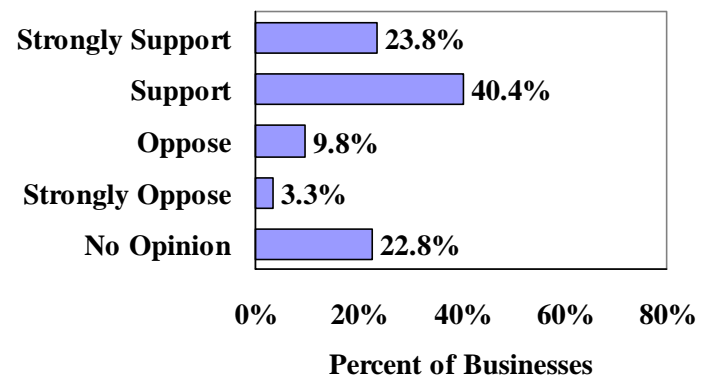


Figure 7. Support for Medicaid Buy-in for Children



Support for state government plan buy-in. Nearly seventy percent of firms favored letting small businesses buy into a state government insurance plans (Figure 8). Seventy-six percent of firms not

offering health insurance and 67 percent of firms offering health insurance favored this option. Over 69 percent of respondents also stated that they were more likely to offer health insurance if the government provided tax credits to help them do so (Figure 9).

Figure 8. Support for Joining State Employee Plan

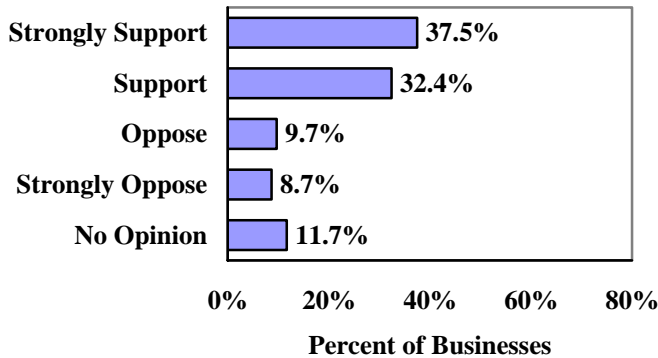


Figure 9. Effect of Tax Credits on Offering Health Insurance

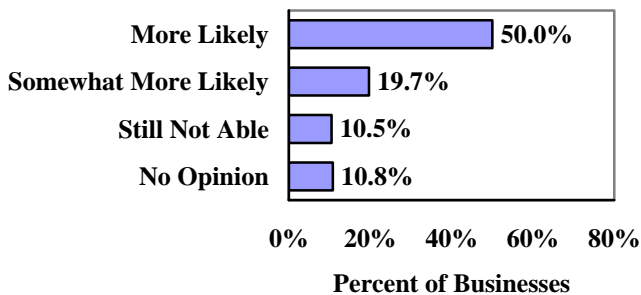
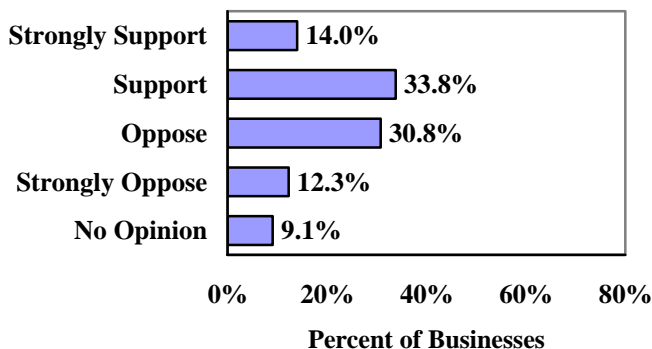
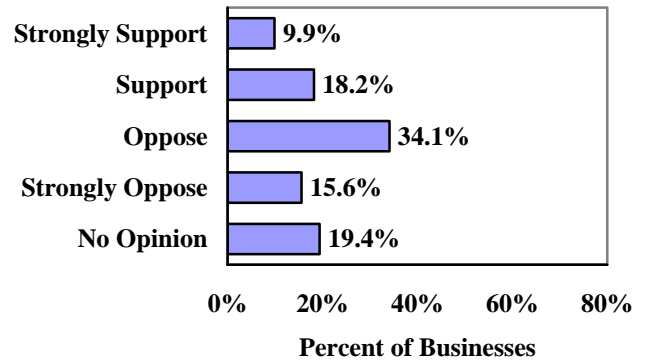


Figure 10. Support for Subsidies for Low-income Workers



Moderate support for low-income worker subsidies; less for Medicaid buy-in for parents. Nearly half of firms favored subsidies for low-income workers (Figure 10). However, only 28.1 percent favored expansion of Medicaid to parents of eligible children. The responses of both groups of firms were quite similar (Figure 11).

Figure 11. Making Parents of Medicaid-eligible Children Eligible



Conclusion:

Most Kansas small businesses wanted to offer health insurance to their employees, but the cost of doing so deterred a majority of them. In addition, those firms that offered health insurance felt increasingly pressured by higher costs. A majority intended to increase employee contributions next year, and a substantial number were considering dropping employee coverage.

Respondents supported a number of ways of addressing this issue. They overwhelmingly supported creation of insurance purchasing pools, broadening access to health savings accounts, and allowing non-eligible children to buy into Medicaid. There was also support for allowing small businesses to join the state employee plan and for providing subsidies for low income workers.

¹ Kaiser Family Foundation Employer Health Benefits 2003 Annual Survey

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