

**Delaware's Small Employers:  
the Health Insurance Dilemma  
2001**

**prepared for  
the Delaware Health Care Commission**

**by**

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## Highlights of the 2001 Delaware Small Business Survey

- 1601 firms sampled; 725 responses; 550 with insurance and 175 without
- Top three reasons for **Not** offering health insurance: 1) business can't afford it; 2) employees can't afford it; 3) Revenue too uncertain.
- One-third of the firms suggest that the employees have insurance elsewhere or that they are seasonal or part-time workers. The owner has insurance elsewhere 24% of the time.
- Employee recruitment, retention, performance issues related to health insurance are seen as important by less than one fifth of the firms. Businesses that offer health insurance are twice as likely to believe that these issues are important.
- About one-fifth of businesses have previously offered health insurance in the past 5 years and nearly 60% have contacted some provider about insurance in the last year.
- The median firm expects that the total cost of providing health insurance for an employee is about \$4800. The actual cost is about \$2800.
- Of those that could offer an estimate, the median contribution they would be willing to make was \$900 per year and that is less than 20% of the anticipated cost. It is roughly one-third of the cost that small employers tend to pay.
- Government provided assistance would influence about half of these businesses. They would be looking for a 60% contribution. This would require the employee to provide 20% coupled with the 20% the employer is willing to contribute. Remember the employers are overestimating the actual cost of the typical small business.
- On the series of true/false questions about health insurance, business that do not offer health insurance tend to get the right answer 58% of the time. The result for those businesses that offer health insurance was 64%.
- Seventy six percent of the firms without health plans are family owned compared with 57% for those with health plans. Seventy six percent of the owners of businesses that don't have health plans are covered compared with 90% of the owners for firms with insurance having coverage.
- Those businesses without insurance are 3 years younger (12 years in business compared with 15).
- Turnover rates are 24% for those firms without health plans compared with 13% for those with insurance.
- Median full-time employees are 3 for those without insurance and 13 for those with insurance. Median salary for salaried employee is \$25,000 compared with \$30,000 for those offering insurance. Hourly workers receive \$9.00 compared with \$10.00 for those who offer health insurance. The median business without insurance has 20% of employees under 30 compared with 17% for those with insurance.
- Forty one percent of businesses that do not offer health insurance think they have either a small obligation or no obligation to do so.

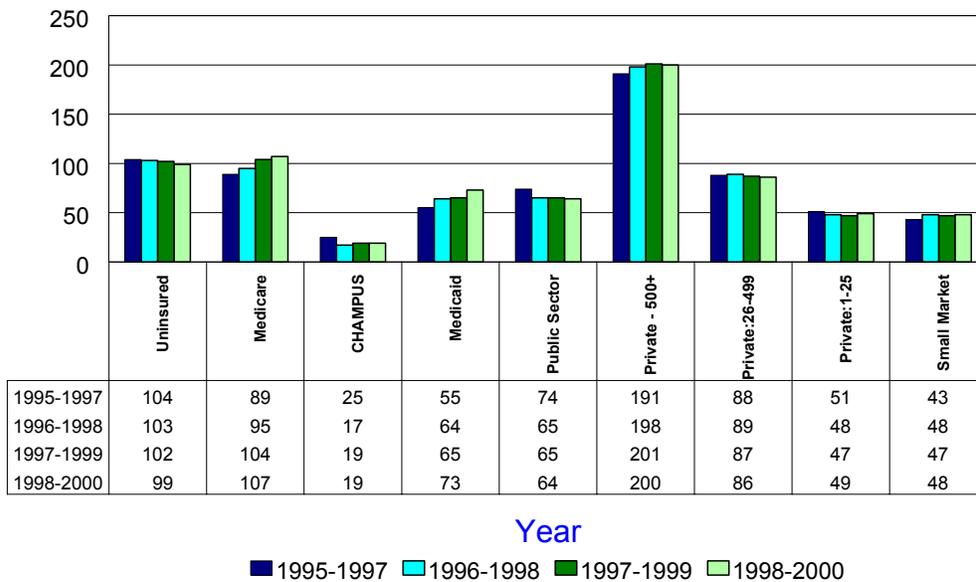
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- Half of those that offer insurance also pay something for dependent coverage.
  - Roughly a third of the businesses say less than 50% of their employees take the insurance. Roughly a third report participation by 100% of their employees. The median firm suggests that 25% of their employees have some dependent

## Introduction

The Delaware Health Care Commission has, since its inception, been concerned about access to health care for all Delawareans. While that is not its only focus, since the Commission’s mandate is broad, improving access to health care is a primary goal. Access to health care has several dimensions. One of those dimensions is covered in this report, and that is health insurance coverage. Those with health insurance typically enjoy greater access to health care providers than do those who are without it.

Persons who do not have health insurance are still likely to require medical care at some point in time. When they do require such services, their condition may be significantly worse than had it been detected and addressed at an earlier stage. In addition, the uninsured will tend to use one of the most expensive providers, the emergency room. Ultimately, providers must cover all of their costs. Services delivered to the insured and the uninsured alike, figure into that cost. As a result, some of the cost of services provided to the uninsured is shifted to the insured population. This raises the overall cost of fringe benefits to employers.

**Figure 1-1  
Number of Persons in Delaware  
by Source of Insurance**



Source: Center for Applied Demography and Survey Research, University of Delaware  
US Bureau of Census Current Population Survey, March 1995-2000

To better understand the nature of the uninsured population, the Delaware Health Care Commission has been monitoring its size and structure for a number of years. This report adds to the depth of this information and analysis by focusing on the small employers of the state. Most Delawareans, who are not covered by one of the government programs, are dependent on their employers for health insurance (see Figure 1-1, above). Unfortunately, the capacity for employers to provide this coverage and for employees to pay their share is uneven. This is particularly true for employers with fewer than 50 employees and for employers who have low wage and/or part-time employees.

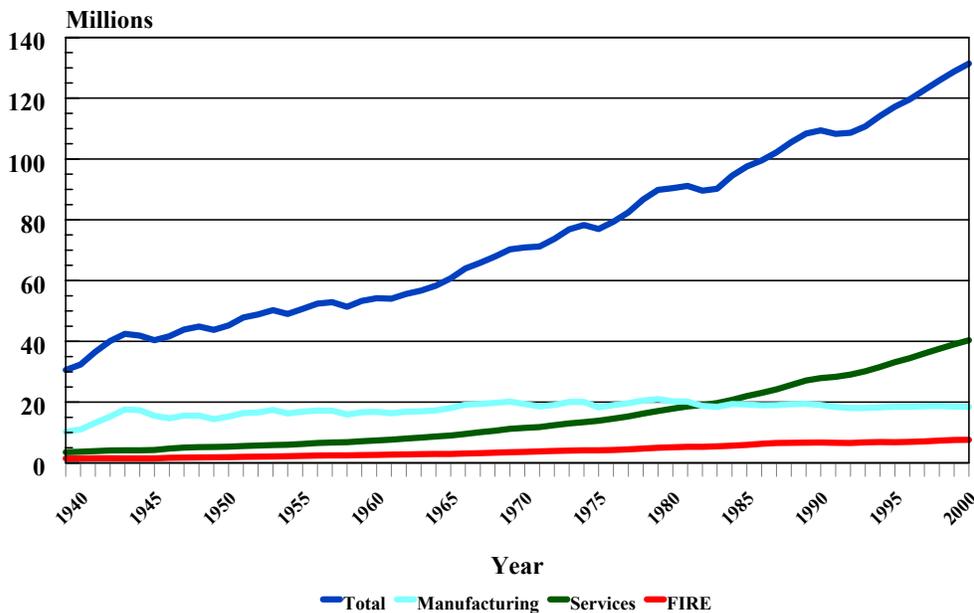
The report has four major sections. In the first section, the focus is on the labor market in Delaware and on existing and future trends that might affect employer provided health coverage. The second section contains results from the employer survey conducted this year that focuses on the variables that are correlated with not having a health plan. This survey draws heavily on the instrumentation used in the "2000 Small Employer Health Benefits Survey", which was co-sponsored by the Blue Cross and Blue Shield Association, the Employee Benefit Research Institute, and the Consumer Health Education Council. The third section focuses on firms that do not have health plans. Observations about these trends and responses are provided in the last section.

# The Labor Market

## Background

Health care coverage is inexorably linked to an individual's employment status along with the type and size of firm for which they work. Many Delawareans have recently experienced more instability in their labor market activity and this has, inevitably, affected aspects of their coverage. The factors producing this increased instability are varied and are both national and international in scope. There are, however, some basic trends that are important to understand since they are affecting and will continue to affect health care coverage in the years to come.

**Figure 2-1**  
**US Non-Agricultural Employment:**  
**Selected Sectors 1939-2000**

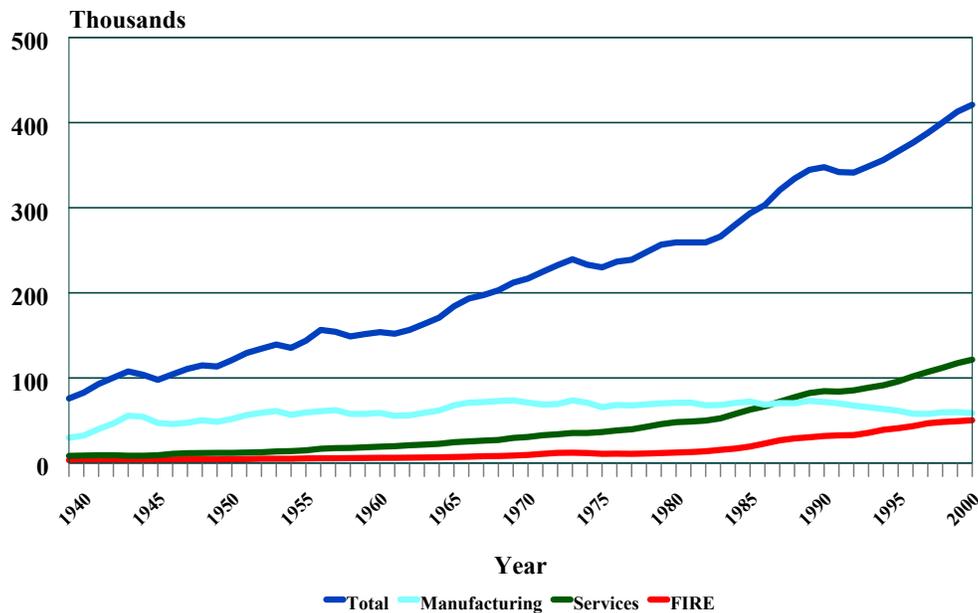


Source: Center for Applied Demography and Survey Research, University of Delaware  
US Bureau of Labor Statistics

In Figure 2-1 above, the total employment for the United States from 1939 through 2000 is shown along with three of the ten employment sectors namely: manufacturing, services, and FIRE (finance, insurance, and real estate). The graph clearly shows the impact that the business cycle has had on total employment in the mid-1970s, the early 1980s, and the early 1990s. All of these economic events are associated with rapid increases in the percentage of persons without health coverage. The more subtle influence is related to the change in the structure of

employment. Manufacturing employment reached its peak in the late 1970s and has been in a steady but very shallow decline for the most part. Service industry employment increased steadily over the entire period and began accelerating its growth when manufacturing employment was at its peak. In 1981, service sector employment surpassed manufacturing employment and today it accounts for nearly twice as much employment as manufacturing. This trend will probably continue unabated for the foreseeable future.

**Figure 2-2**  
**Delaware Non-Agricultural Employment:**  
**Selected Sectors 1939-2000**

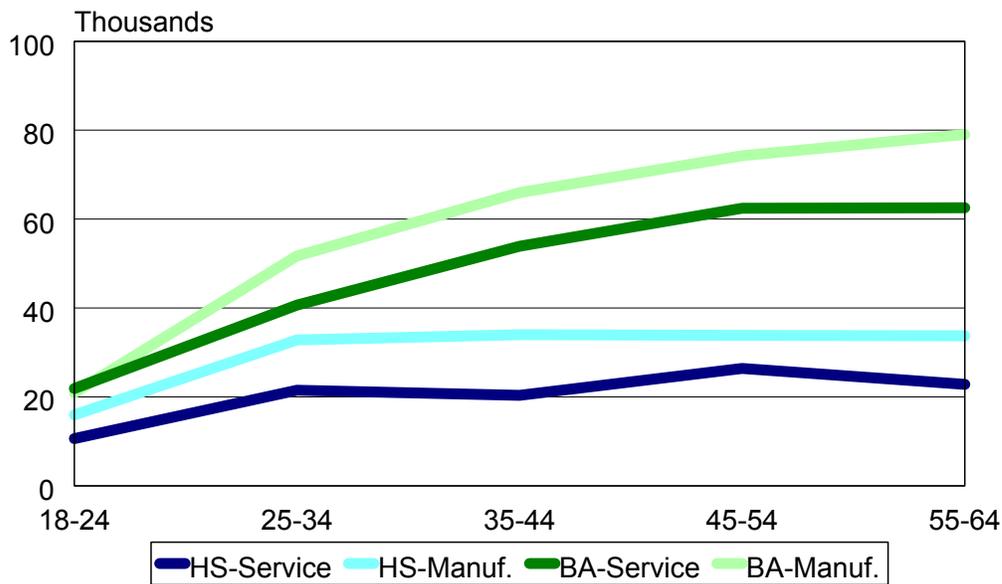


Source: Center for Applied Demography and Survey Research, University of Delaware  
US Bureau of Labor Statistics, Delaware Department of Labor

The pattern was similar in Delaware, although the recession of the mid-1970s was more severe and the later ones were perhaps less damaging than they had been nationwide. For instance, statewide manufacturing employment peaked during 1989. This marked the end of the expansion of the 1980s. Since then, the number of manufacturing jobs available to Delawareans has dropped significantly and continues to fall even today. In 1986, four years after it happened nationally, statewide service industry employment surpassed manufacturing employment. The rate of growth in service sector employment in recent years has slowed somewhat compared with the rate for the U.S. but this has been offset by the incredible growth in the FIRE sector.

Employment in the FIRE sector clearly exploded after the passage of the Financial Center Development Act in the early 1980s. It continued to grow dramatically until the 1990-1991 recession. To most observers' surprise, the growth re-ignited in 1992 and continues today. A comparison of the trends in Figure 2-1 and Figure 2-2 show this to be a Delaware phenomenon.

**Figure 2-3**  
Average Annual Earnings by  
Sector, Age, and Education in 1998-2000



Source: Center for Applied Demography and Survey Research, University of Delaware  
US Bureau of Census Current Population Survey, March 2000

The importance of these inter-sector employment shifts is shown in Figure 2-3 above. Figure 2-3 shows the average annual earnings by age, education, and industrial sector. The top two lines represent annual earnings for college graduates in the manufacturing and service sector respectively. The bottom two lines depict the same information for high school graduates in the same two sectors.

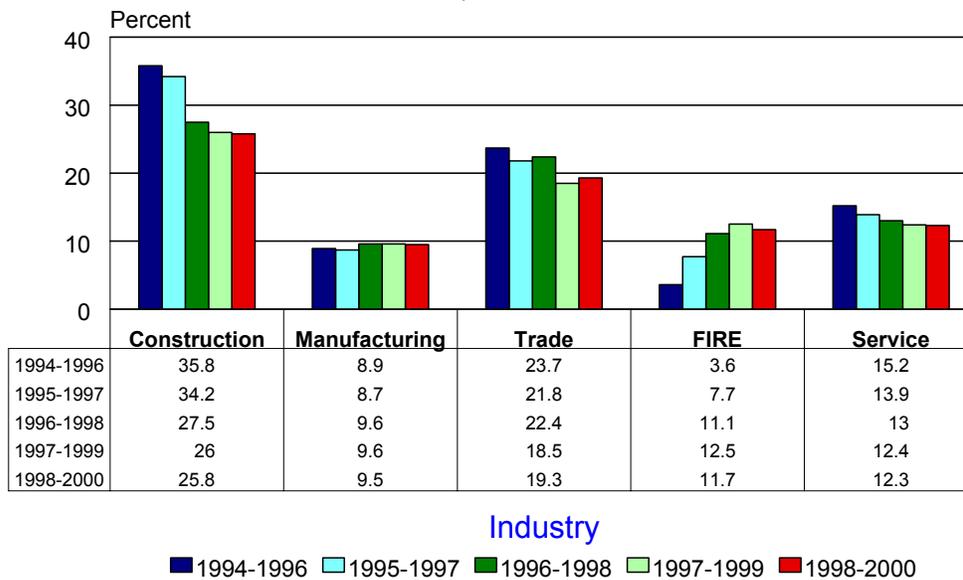
The graph shows a difference of about \$40,000 in annual earnings between the two sectors for both levels of education. If the same health care benefits were offered in both sectors, the cost to employers would be a much larger proportion of the annual salary in the service sector than in manufacturing. This suggests that employees in the service sector will likely be offered fewer benefits.

In addition, those employed in manufacturing are much more likely to be represented in a collective bargaining unit, a union. They are also more likely to work full-time with significant overtime, which further reduces the impact of the cost of benefits on total compensation. In contrast, service sector workers are more likely to be employed by non-union companies and are much more likely to work part-time. These factors, coupled with the increasing number of service sector workers relative to the number of manufacturing workers will tend to increase the number of uninsured or under-insured people.

**Firm Sector and Size**

There are significant differences in both the level and pattern of the uninsured, depending upon the type of industry in which an individual is employed. For instance, according to Figure 2-4 below, construction workers frequently report being uninsured. Although it may be noted that some construction workers are unionized, and are usually provided health coverage, many more are either employed by a non-union company or are self-employed. Overall, it is estimated that more than 25% of all construction workers are uninsured.

**Figure 2-4  
Percent of Persons without Health Insurance in Delaware  
by Industrial Sector**



Source: Center for Applied Demography and Survey Research, University of Delaware  
US Bureau of Census, Current Population Survey, March 1994-2000

Many persons employed in the trade industry (retail and wholesale) also find themselves without health coverage. Because this sector is not heavily unionized and is reliant on a large number of part-time workers (most of whom do not qualify for a typical health insurance

package), it is not unexpected that an estimated 19% of those employed in the trade industry currently lack health coverage. The most recent data suggests that the upward trend operating since 1994 has moderated.

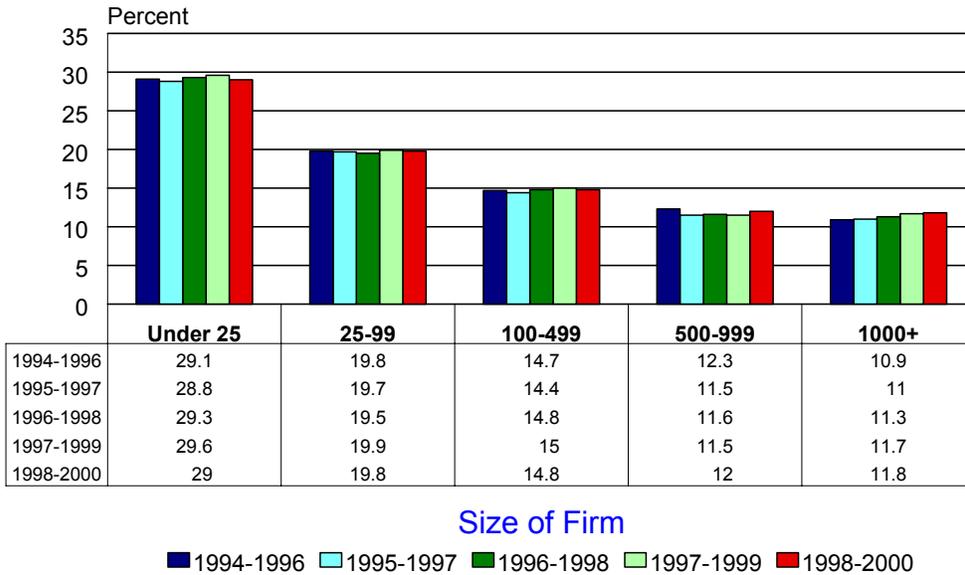
Of the other industries represented in Figure 2-4, approximately 12% of all those employed in the service industry are not offered access to health insurance as part of a benefits package. This number appears to be declining somewhat over the period. This probably reflects the changing nature of the service industry.

Roughly 10% of those employed in manufacturing and FIRE do not have health coverage. However, the proportion uninsured in the FIRE sector appears to be increasing. This could, for example, reflect an increase in full-time temporary employees in this sector

Finally, it also should be pointed out that the differences in coverage between industries are among the largest observed for any variable in this report. The importance of this information relates to the changing structure of the economy. As employment shifts from manufacturing to the service sector, the percentage of uninsured workers increases by about 3%. The importance of the FIRE sector in Delaware cannot be over estimated at least with respect to health coverage, although the 2000 estimates make this conclusion less clear. While the percentage of uninsured in the region has been rising, Delaware's rate has either been falling or remaining steady. This appears, in large part, to be related to the accelerating FIRE sector and to a less rapidly growing service sector.

The other important inter-sector shift, which is more subtle, is associated with the nature of downsizing in Delaware's manufacturing sector. A significant portion of those employees who were "downsized" belonged to headquarters support operations as opposed to the factory floor. In many cases, those same employees started or joined firms that supplied services to their previous employer who simply wanted to "out-source" those functions. Many of these new jobs are classified as business services, part of the service sector, and are far from the typical "hamburger flipper" often discussed in the media. This has produced increases in annual earnings in the service sector that bodes well for benefit programs in the future.

**Figure 2-5**  
**Percent of Persons without Health Insurance in the US**  
**by Size of Firm**



Source: Center for Applied Demography and Survey Research, University of Delaware  
 US Bureau of Census, Current Population Survey, March 1994-2000

Employees who work for small firms (under 100 employees) are less likely to have health insurance than those that work for large firms (more than 500 employees). Figure 2-5 above shows this relationship.

The graph shows that there are two distinct groupings: (1) firms with less than 100 employees where the percentage without health insurance is 24% and (2) firms with more than 500 employees where the percentage of those without health insurance is 12%. The larger firms are perhaps more likely to be unionized at least to the extent that larger firms have a higher probability of being in sectors such as manufacturing. They are also more likely to pay higher wages, which makes the relative cost of health insurance more tolerable. From a tax perspective, the provision of health insurance also provides a convenient way to increase total compensation.

A somewhat disturbing trend is also evident in Figure 2-5. It appears, at least from the national perspective, that those working for smallest firms are not improving their insurance coverage in comparison with five years ago. What makes this trend so disconcerting is the fact that the economy has been expanding for almost ten years. The same can be said for larger firms, however. One explanation for this lack of improvement is the lack of increases in wages

nationally and the restructuring and cost cutting practiced by most firms, which has produced significant increases in earnings.

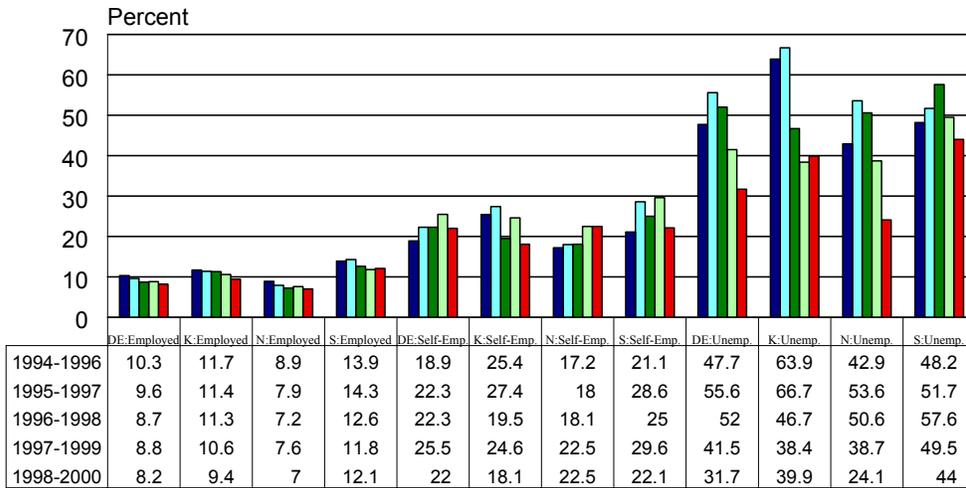
In conclusion, these data suggest that any effort to increase coverage must focus on smaller firms. Those firms will tend to provide lower levels of compensation, will probably use more part-time employees, and may offer less stable employment. However, they are growing faster and becoming a bigger part of the economy. This fact may tend to mitigate some of the negative factors over time. On the other hand, the large firms with better coverage are becoming smaller and that does not help the long-term outlook. There is no doubt, however, that all of these factors will tend to make the goal of better access to health care a challenge for the foreseeable future.

### **Employment Status and Class**

Approximately 75% of all Delawareans are covered by some form of group health insurance. The vast majority is covered through their employer and therefore any disruption in employment will undoubtedly increase the likelihood that coverage will lapse. The reason that coverage may not automatically lapse is because that individual may be covered by another worker in the family, or the coverage may be extended through payments by the employee, or the individual may qualify for some government sponsored plan like Medicaid or Medicare. Still, the disruption is significant as is shown in Figure 2-6, below.

The information reported in Figure 2-6 shows that the probability of being without health insurance increases by nearly a factor of four when the individual is unemployed. The percentage on the average rises from about 8% to in the vicinity of 32% as the individual's employment status changes. There is considerably more volatility in the estimates in Kent and Sussex counties because of small sample sizes, but the relationship mirrors that in New Castle County where sample size is not a problem. While those that are self-employed are also found in relatively small numbers in the BRFSS survey, the lack of health insurance is at least twice as prevalent as that of those with traditional employment. This year there is little observable difference between the counties with respect to the self-employed.

**Figure 2-6**  
**Percent of Adults without Health Insurance in Delaware**  
**by County and Employment Status**



**Employment Status by County**

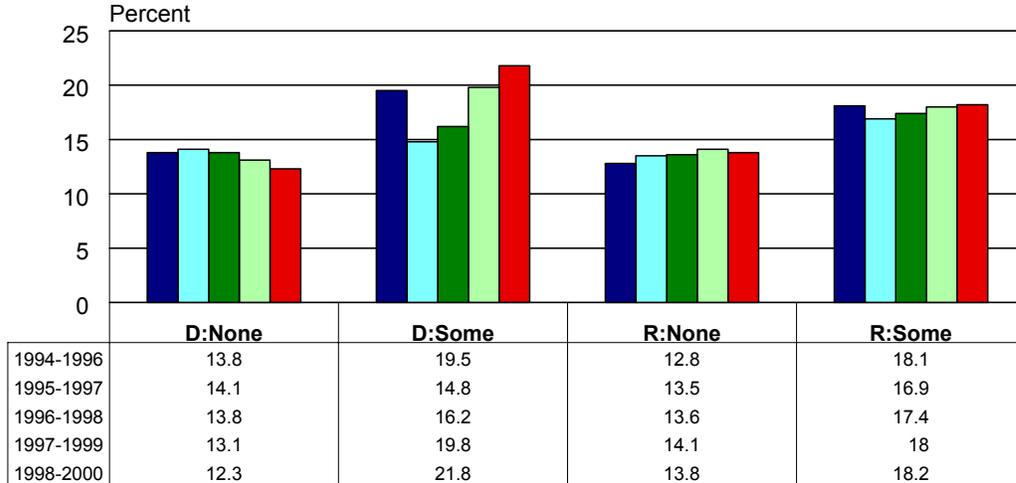
■ 1994-1996   ■ 1995-1997   ■ 1996-1998   ■ 1997-1999   ■ 1998-2000

Source: Center for Applied Demography and Survey Research, University of Delaware  
 Delaware Health and Social Services, 1994-2000 Behavioral Risk Factor Survey

The other piece of information that deserves comment is the relative differences between the lack of coverage for employed workers in the three counties. The rate in New Castle County is significantly lower than those observed in Kent and Sussex counties. Following the earlier argument, this probably arises from differences in the economic base, since larger firms with higher wages and more stable employment are located primarily in the northern part of the state.

In Figure 2-7 below, further evidence is found about the relationship between insurance coverage and employment status. In this analysis, the receipt of unemployment compensation is used as an indicator of an interruption of employment at some point during the year. In both Delaware and the region, there is a significant rise in the lack of health coverage associated with receiving benefits. While the effect is more muted than in Figure 2-6, where a more direct measure was available, the percentage is always higher in the region where the sample size permits a better estimate.

**Figure 2-7**  
**Percent of Persons without Health Insurance**  
**by Receipt of Unemployment Compensation and Area**



**Unemployment Compensation by Area**

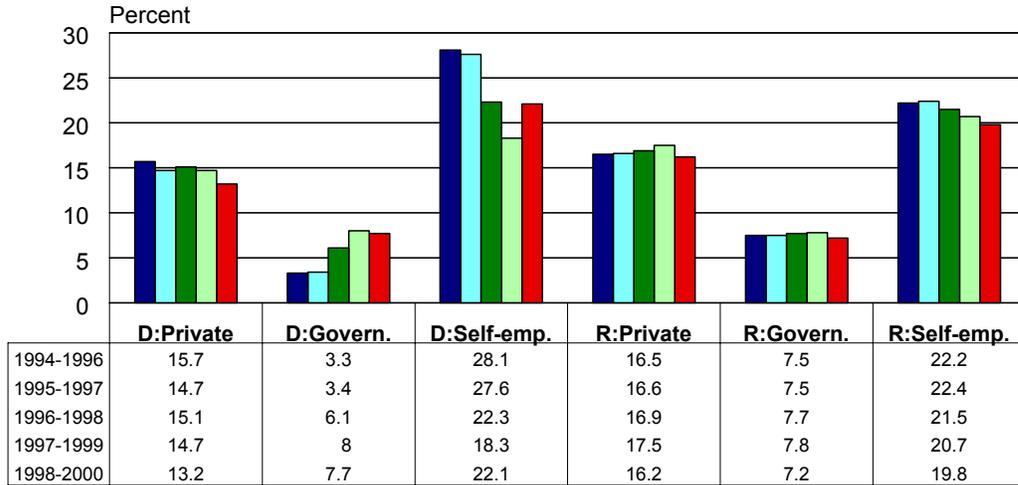
■ 1994-1996   ■ 1995-1997   ■ 1996-1998   ■ 1997-1999   ■ 1998-2000

Source: Center for Applied Demography and Survey Research, University of Delaware  
 US Bureau of Census, Current Population Survey, March 1994-2000

The final graph in this section of the report represents the percentage of workers without health insurance in Delaware and the region as indicated by three broad classes namely: private sector workers, government workers, and the self-employed. In Figure 2-8 below, Delaware workers in the private sector average 3% fewer uninsured than those in the region. Within the private sector, Delaware seems to be improving slightly over the time period, which is consistent with the increase in workers in the FIRE sector. The rates in the region, for the private sector, are increasing, which probably reflects increases in the service sector and in part-time employees. Both trends should be watched carefully.

It is no surprise that government employees both in Delaware and the region are far more likely to have health insurance than the private sector in general. Government rates are comparable with very large private sector firms operating in a unionized work place. The only government workers who are likely to lack coverage are temporary/part-time workers or private contractors.

**Figure 2-8**  
**Percent of Persons without Health Insurance**  
**by Class of Worker and Area**



**Class of Worker by Area**

■ 1994-1996    □ 1995-1997    ■ 1996-1998    □ 1997-1999    ■ 1998-2000

Source: Center for Applied Demography and Survey Research, University of Delaware  
 US Bureau of Census, Current Population Survey, March 1994-2000

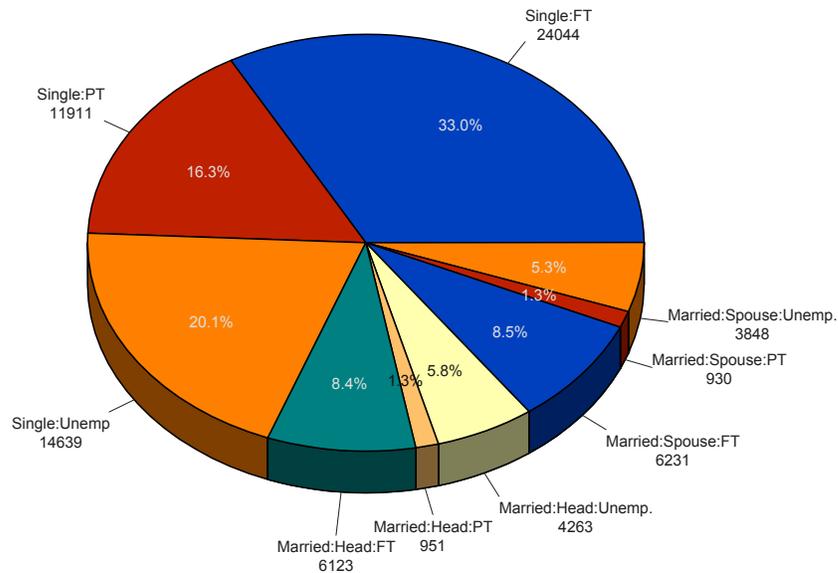
A more interesting structural shift, which has been underway for some time, is that government workers are representing a smaller proportion of the labor force, since that sector is growing less rapidly than employment overall. This implies that the percentage of uninsured workers will tend to rise, even if all the rates within these classes remain constant.

The information about the self-employed corroborates the information from the BRFSS discussed earlier. The data for the region, however, shows that the significant upward trend previously identified has moderated. There are a variety of potential explanations. One reason, which is consistent with other data, is that tight labor markets have allowed many of those previously classified as “self-employed” to find work and to gain benefits. Those that remain self-employed are likely to be financially stronger and better able to obtain health insurance.

Finally, one other useful way of looking at this problem is to divide the uninsured into independent groups, i.e. they do not overlap. There are approximately 26,000 persons under the age of 18 who are uninsured. In Figure 2-9, below the 73,000 uninsured adults are displayed by marital status, employment status and household relationship. Almost 70% of the uninsured population is single and they are almost equally split between full-time employment where they might possibly get access to health insurance and an employment status where access to health insurance through an employer is realistically remote. In fact, one could reasonably conclude that

only half of the lack of health insurance problem with adults can be approached through employers and that is an outside limit.

**Figure 2-9**  
**Persons 18-64 Without Health Insurance**  
**by Marital Status, Household Relationship, and Employment**



Source: Center for Applied Demography and Survey Research, University of Delaware  
 US Bureau of Census, Current Population Survey, March 1998-2000

## **Health Plan Status**

### **Background**

In the previous section, clear evidence was presented that suggested that small employers required special study if the number of uninsured was to be reduced. The proportion of those uninsured who were working for employers with 25 or fewer employees was 2.5 times the rate found in Delaware's largest employers (29% compared with 11.8%). In addition, about half of those who are currently uninsured are working full-time, and many of those work for small employers. This information led to the conclusion that any potential solution to the problems of the uninsured must address the situation faced by small employers. The result of that observation was the design, execution, and analysis of a survey of this group of employers.

Using a database supplied by the Delaware Department of Labor, some 12,875 firms with between 2 and 50 employees were identified. Together they comprised 92% of the firms with more than a single employee. Single employee firms were judged to be special cases since they included only the firm owner in most cases and were excluded from the study.

The study used a disproportionate stratified sample design with four strata, namely 1) less than 6 employees, 2) 6 to 15 employees, 3) 16 to 25 employees, and 4) 26 to 50 employees. The sample was drawn to produce equal numbers of firms in each strata. While this makes the analysis more complex, it satisfied the need to do analysis between the groups as well as for the overall sample.

Each employer received an initial letter from the Delaware Healthcare Commission explaining the purpose of the study set to arrive several days before the actual survey instrument. Two survey instruments were mailed out asking employers to fill out the green survey if they offered insurance and a different survey colored red if they did not. If a response was not received within a week a reminder post card was sent, followed by a second copy of the questionnaire. This too was followed by another reminder card and a third survey.

Of the 1601 surveys that were mailed, 725 were returned at the completion of the protocol yielding an overall response rate of 45.3%. The response rates for the four strata were similar namely, 1) 45.4%, 2) 39.2%, 3) 48.9%, and 4) 45.7%. While these levels are not sufficient

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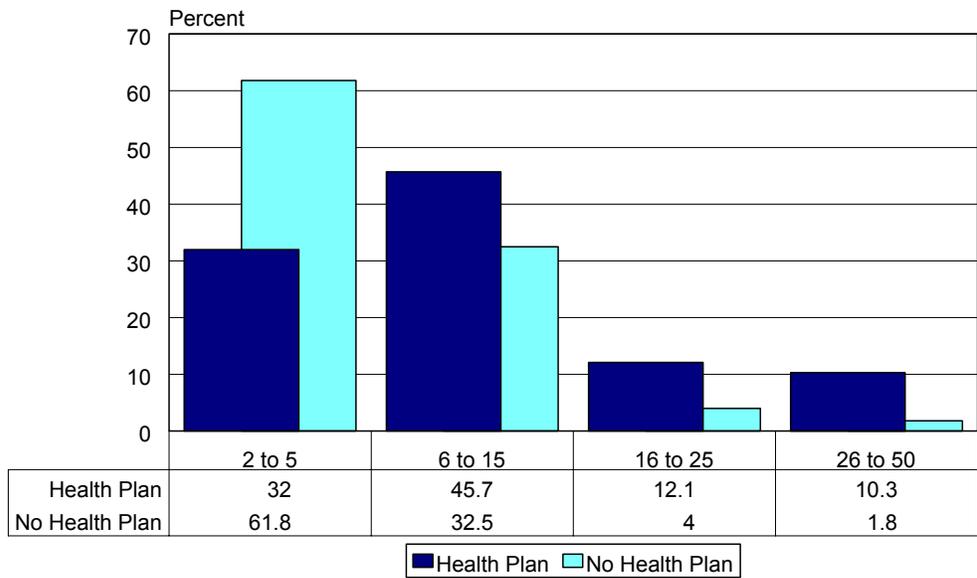
to suggest that the potential for non-response bias is minimal, they are significantly higher levels than typically are found in business surveys. This is at least consistent with the hypothesis that the problem of health insurance is a matter of concern to this particular group of employers.

**Health Plan Status**

A number of factors affect the decision to offer health insurance coverage to employees and many of those factors are directly related to the nature and structure of the business the employer is conducting. In this section, a series of those factors will be addressed with respect to two different relationships between the variable and the business’s health coverage status.

Size of firm in terms of the number of employees is important, as was noted in the first part of this report where significant differences were noted in health coverage for employees working for firms of different sizes. In Figure 3-1 below, the distribution of employers within each health coverage status is displayed.

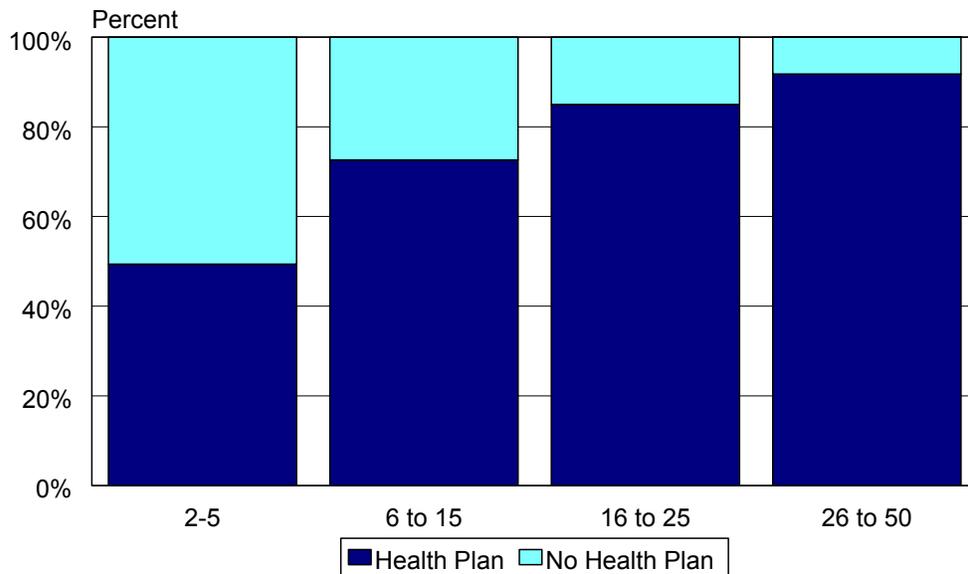
**Figure 3-1  
Number of Employees  
by Firm Health Plan Status**



Source: Center for Applied Demography and Survey Research, University of Delaware

It is hardly unexpected that firms that do not offer health insurance are disproportionately concentrated in the smallest employee category with a proportion that is nearly twice that of those who offer coverage. The overall relationship is even clearer showing the probability of providing coverage within each size classification (see Figure 3-2, below).

**Figure 3-2**  
**Firm Health Plan Status**  
**by Number of Employees**



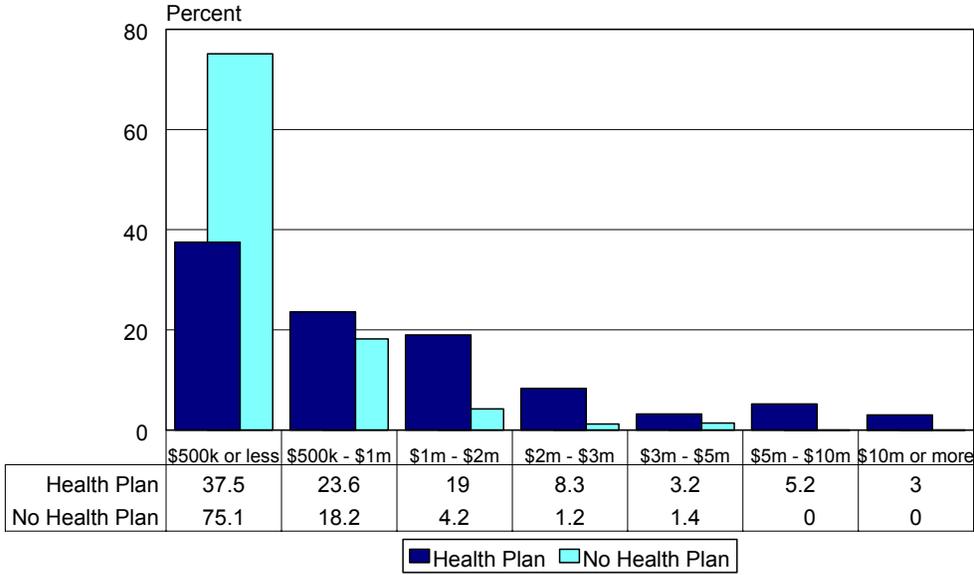
Source: Center for Applied Demography and Survey Research, University of Delaware

The chart shows that the proportion of firms offering health insurance increases as the number of employees increases. It is instructive to see that nearly 50% of the firms even in the smallest size category offer coverage. Obviously there is significant variation in the profitability and stability independent of size in order to afford this benefit. There are substantial differences between a small accounting firm with full-time professionals and a small retail firm with part-time low wage employees.

There is more than one measure of economic size. Gross revenue is quite often used as a measure to complement the number of employees. The results with health plan status are much more pronounced than the earlier chart by number of employees (see Figure 3-3, below). Firms that do not offer plans are even more concentrated in the smallest revenue category and are totally absent in the two largest categories.

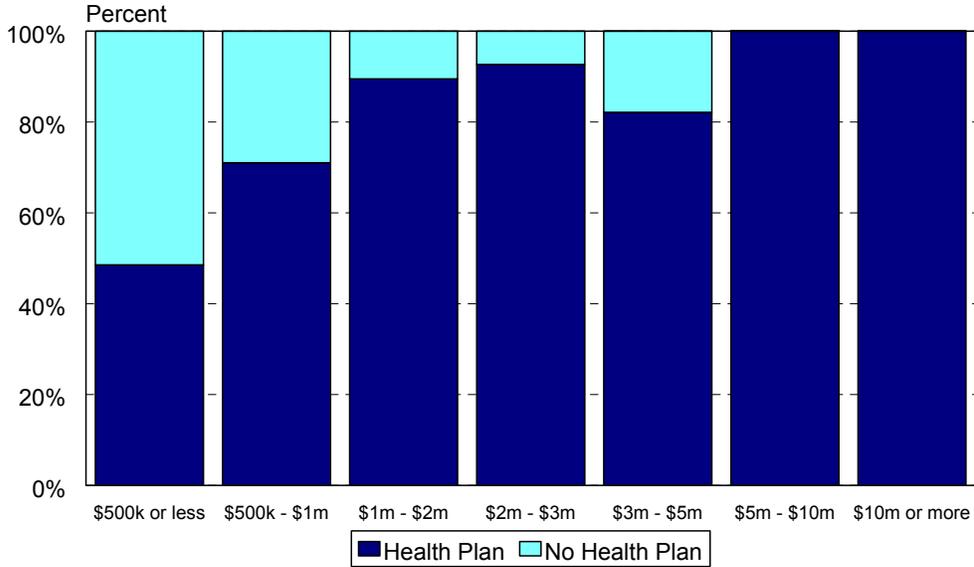
The distribution within revenue class is shown in Figure 3-4, below. A smaller proportion of firms within the smallest revenue class offer health insurance compared with the smallest employee class. Clearly, health insurance coverage increases as revenue increases.

**Figure 3-3**  
**Revenue Class**  
**by Firm Health Plan Status**



Source: Center for Applied Demography and Survey Research, University of Delaware

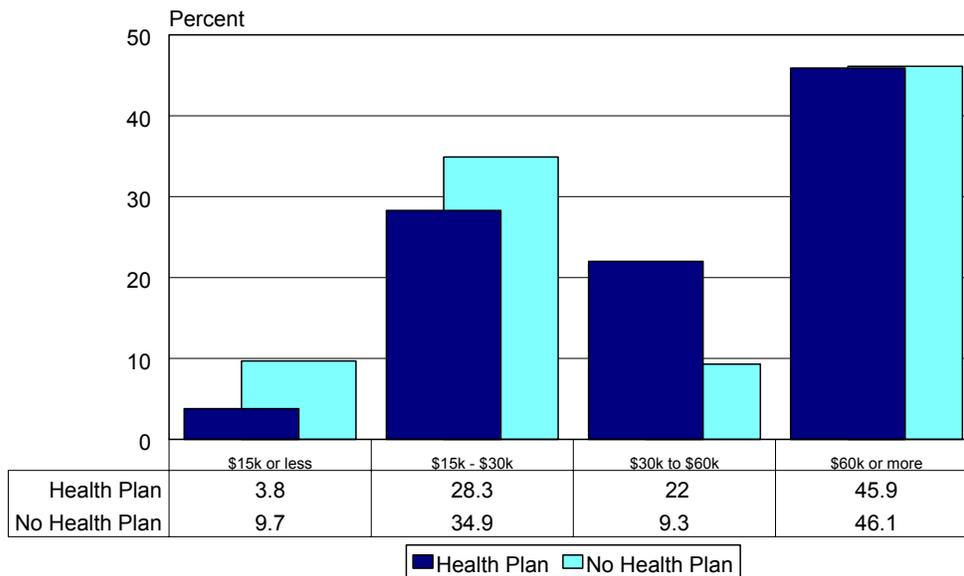
**Figure 3-4**  
**Firm Health Plan Status**  
**by Revenue Class**



Source: Center for Applied Demography and Survey Research, University of Delaware

The ability of the employee to share in the cost of health insurance coverage and the willingness of the employer to contribute depends at least to some degree on the amount the typical employee is being paid. The larger the wage, the easier it is for the employee to contribute. As the wage increases, health insurance costs become a smaller share of total employment costs.

**Figure 3-5**  
**Full-time Employee Salary Class**  
**by Firm Health Plan Status**

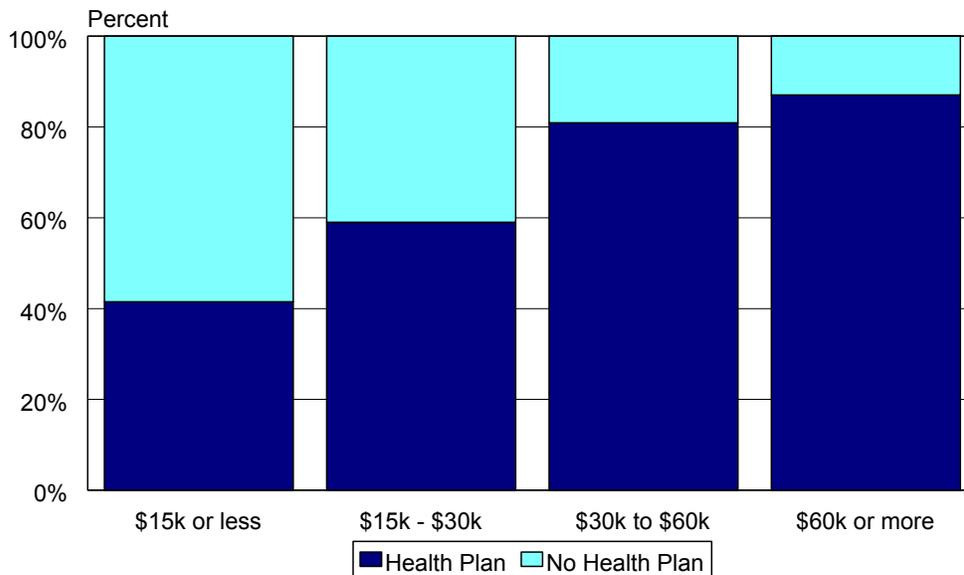


Source: Center for Applied Demography and Survey Research, University of Delaware

Figure 3-5, above, shows the distribution of firms within health plan status across categories depicting the typical salary of a full-time worker in the firm. In contrast to many of the other charts, there is no clear pattern. In fact, both categories of firms have almost identical representation in the highest salary category.

A much clearer view emerges when one looks within each salary category. That result is found in Figure 3-6, below. In this chart the positive relationship between salary levels and the availability of a health plan is readily apparent. Over that range the ratio of total health insurance cost to the typical individual’s salary falls from 19% to under 5%. In addition, the tax benefit even further expands the difference.

**Figure 3-6**  
**Firm Health Plan Status**  
**by Full-time Employee Salary Class**

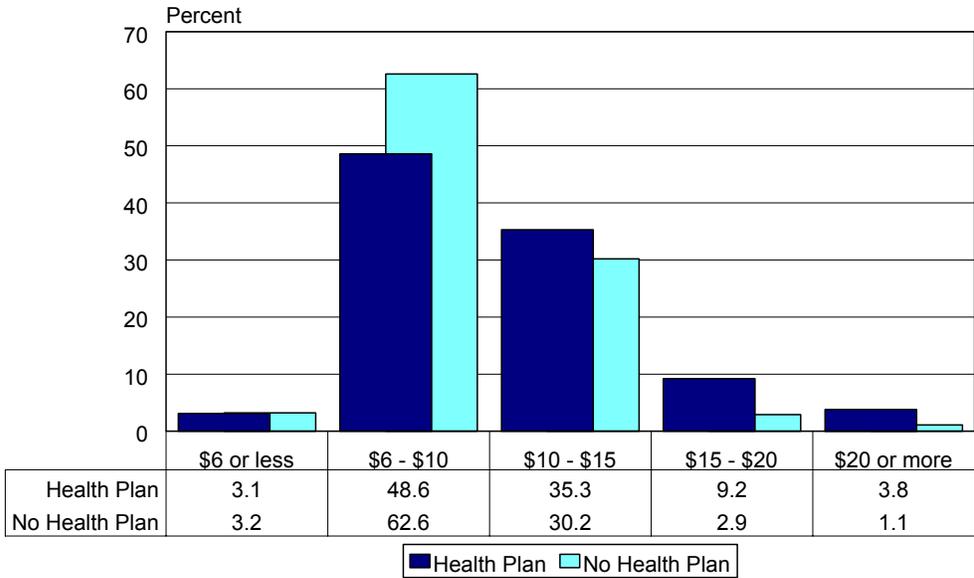


Source: Center for Applied Demography and Survey Research, University of Delaware

Since a significant proportion of the labor force receives an hourly pay rate as opposed to an annual salary, respondents were asked about the typical hourly wage rate as well. The pattern is quite similar to that observed for the annual salary data. Both sets of firms are distributed similarly across the wage spectrum. If anything, firms that do not offer health insurance tend to more frequently report paying wages under \$10 per hour and there are very few of those firms that pay more than \$15 per hour. This can be seen in Figure 3-7 below.

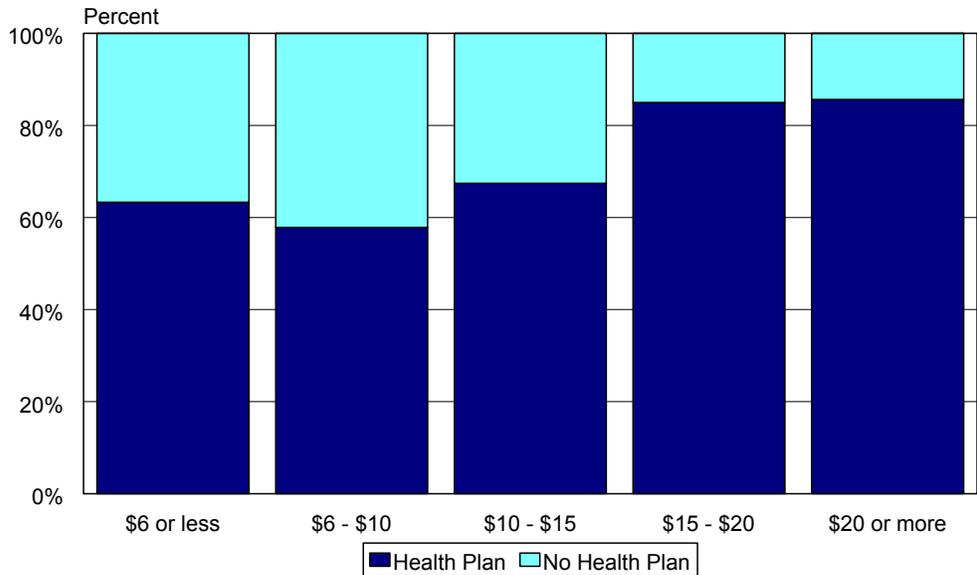
In Figure 3-8, below, the relationship between offering a health plan and typical hourly wage is even clearer. Instead of the rather nice rising relationship between annual salary and health coverage, there appears to be a threshold effect operating at \$15 per hour. Below that wage, the probability of the firm offering health insurance is reasonably stable. After that point, which is the equivalent of \$30,000 per year at full-employment, there is a substantial increase in the probability of offering insurance. That level is similar to what was observed for salaried workers in the \$30,000 to \$60,000 salary class.

**Figure 3-7**  
**Typical Hourly Wage**  
**by Firm Health Plan Status**



Source: Center for Applied Demography and Survey Research, University of Delaware

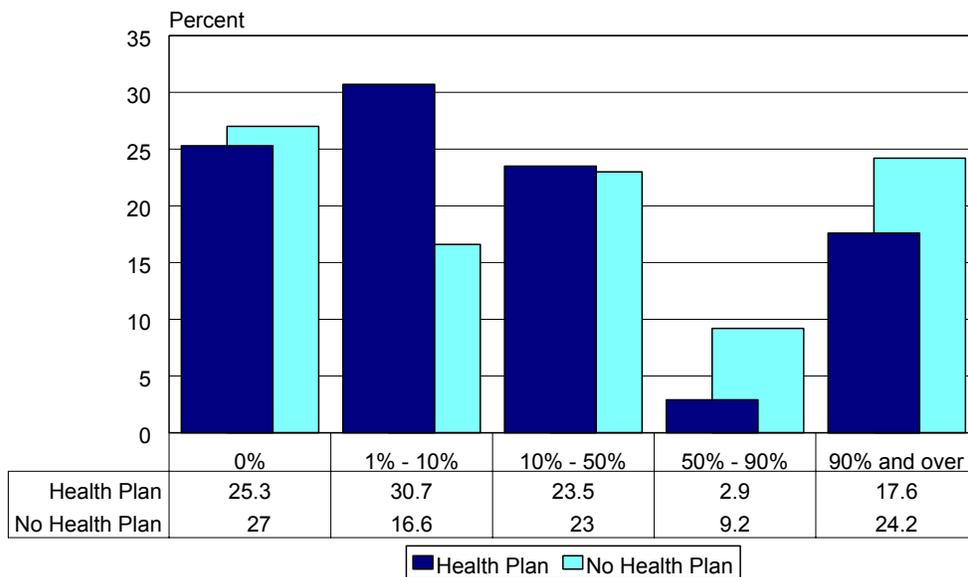
**Figure 3-8**  
**Firm Health Plan Status**  
**by Typical Hourly Wage**



Source: Center for Applied Demography and Survey Research, University of Delaware

The relationship between turnover rates and the willingness of an employer to offer health coverage is complex. Turnover is in part defined by the tightness of the labor markets where employees continually try to improve their income level, benefit offering or working conditions. An employer will be very sensitive if there are significant training costs associated with new employees. If these costs are low relative to the wages paid, then turnover becomes the norm. Offering health insurance coverage will probably add to employment costs without corresponding productivity. The turnover rates for the two sets of firms are shown in Figure 3-9, below.

**Figure 3-9  
Turnover Rates  
by Firm Health Plan Status**



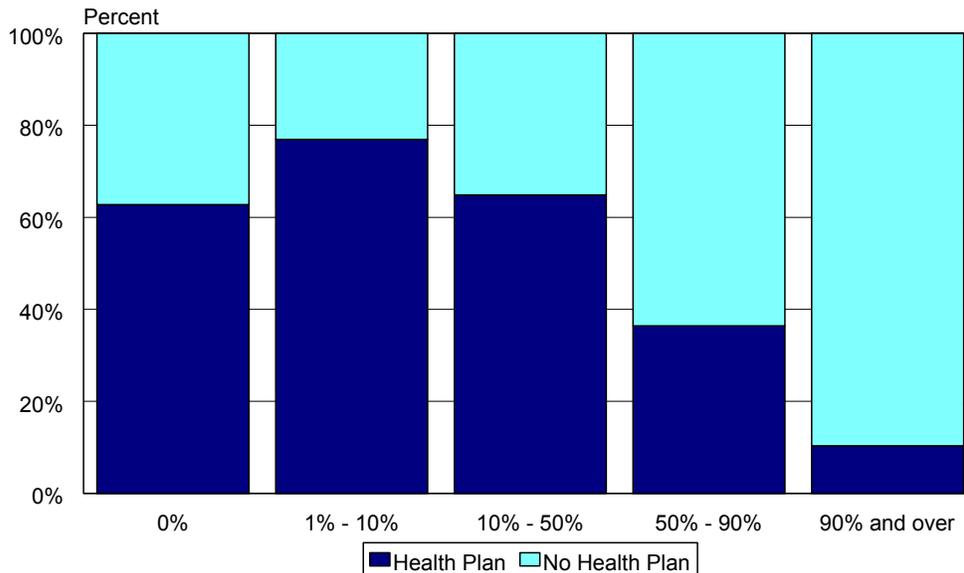
Source: Center for Applied Demography and Survey Research, University of Delaware

There is a great deal of similarity between the two sets of firms with respect to health plan status. In fact about a quarter of firms in both categories are in the “no turnover” category. Firms with a health plan are more prevalent in the low turnover category (1%-10%) and firms without health insurance coverage are much more prevalent in the 50% and higher categories.

The relationship between health plan status and the turnover categories is also interesting (see Figure 3-10, below). The no turnover category is a special case and not having health insurance coverage obviously is not a problem for those employees. For the other categories, there is a clear decrease in the availability of coverage as the turnover rate increases. While there

certainly appears to be a relationship, the information is not sufficient to draw the conclusion that health insurance plans reduce turnover. Their existence is certainly correlated with turnover.

**Figure 3-10**  
**Firm Health Plan Status**  
**by Turnover Rate**



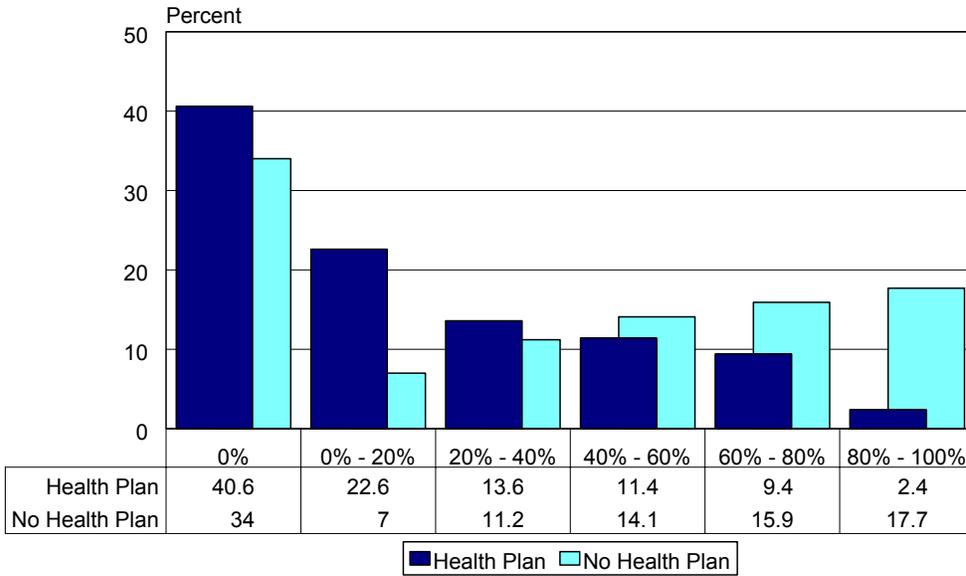
Source: Center for Applied Demography and Survey Research, University of Delaware

Turnover is probably more of an issue for firms that have a significant number of part-time employees. This is particularly true if the part-time employee is really not part-time by choice. In general, part-time employees rarely have access to a health plan especially if they are hourly workers. Thus, as the proportion of the employees in the firm who are part-time grows, one would expect the likelihood of having a health plan would fall.

In Figure 3-11, below, there are substantial differences in the way the two groups of firms are distributed across the percent part-time employment categories. Putting aside the special case of no part-time employees where there are similar proportions of both groups, the proportion of firms with no health plan increases consistently. At the same time the proportion of firms who have health plans falls in a systematic fashion.

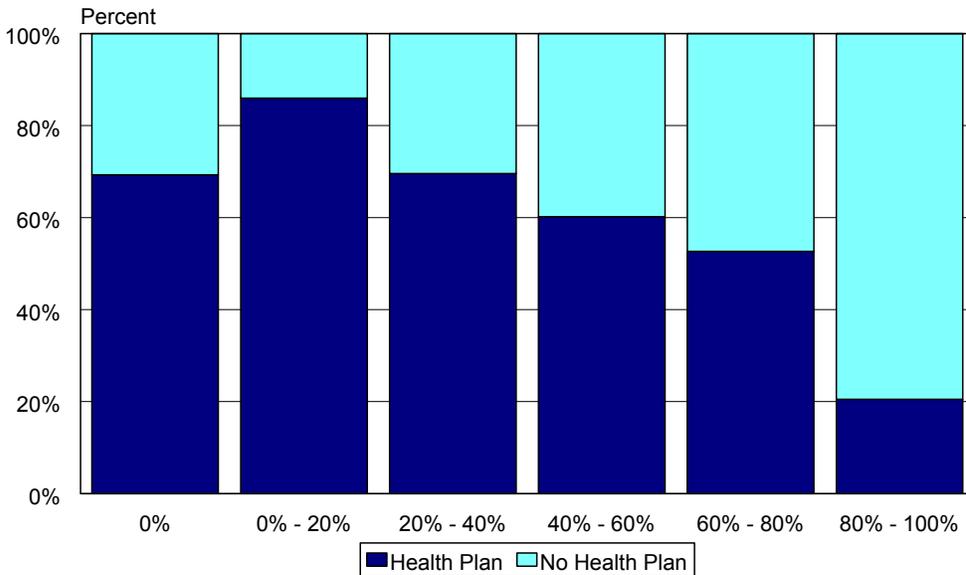
This same relationship is even clearer in Figure 3-12, below. It offers the single strongest relationship in predicting whether a firm will have a health plan. For firms with less than 20% part-time employees, over 80% have health plans. For those with nearly all part-time employees, 80% do not have health plans.

**Figure 3-11**  
**Percent Part-time Employees**  
**by Firm Health Plan Status**



Source: Center for Applied Demography and Survey Research, University of Delaware

**Figure 3-12**  
**Health Plan Status**  
**by Percent Part-time Employees**



Source: Center for Applied Demography and Survey Research, University of Delaware

Other variables were explored, but none offered significant insight into this issue:

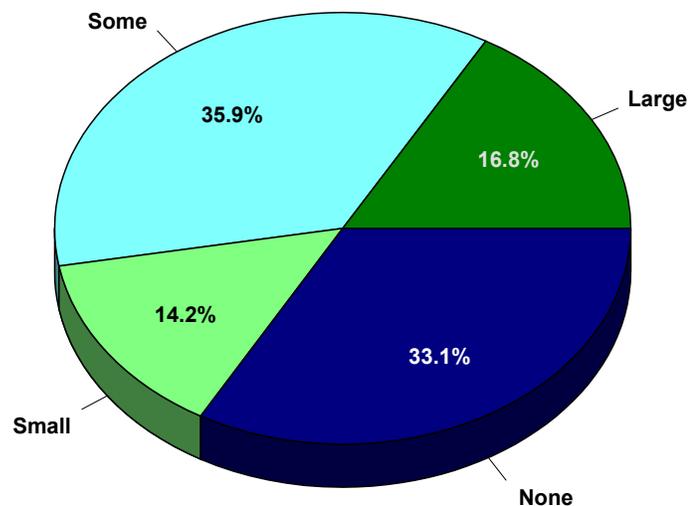
- Age of business should be related to size, revenue, and other key variables but this only made a small difference in the proportion having health plans for firms in business for 20 years or more.
- The firms in this study were more than 90% non-union and the differences in health status were insignificant largely because of sample size.
- The gender distributions between the two groups of firms were similar although firms with health plans had a higher proportion of males (60%). The higher proportion of females (50%) in firms without health plans is related to the differences in part-time workers.

Overall, the variables that explain the differences in having or not having a health plan seem directly related to the economic circumstances of the firm. In the next section, the data gathered from firms who do not have health plans will be explored in more depth.

## Businesses Without Health Plans

Technically, no business is required to offer health insurance. It has been considered mutually beneficial to provide the benefit for a number of reasons. In addition, since the benefit is generally not taxable, the value to the employee is greater than the equivalent amount of salary. In spite of these factors, many firms do not offer benefits for a lot of different reasons. One of the overarching reasons for offering health insurance is that there is an obligation since this is how most people obtain insurance. The survey results for this question among those that do not currently offer insurance are displayed.

**Figure 4-1**  
**Obligation of an Employer**  
**to Provide Health Insurance**



Source: Center for Applied Demography and Survey Research, University of Delaware

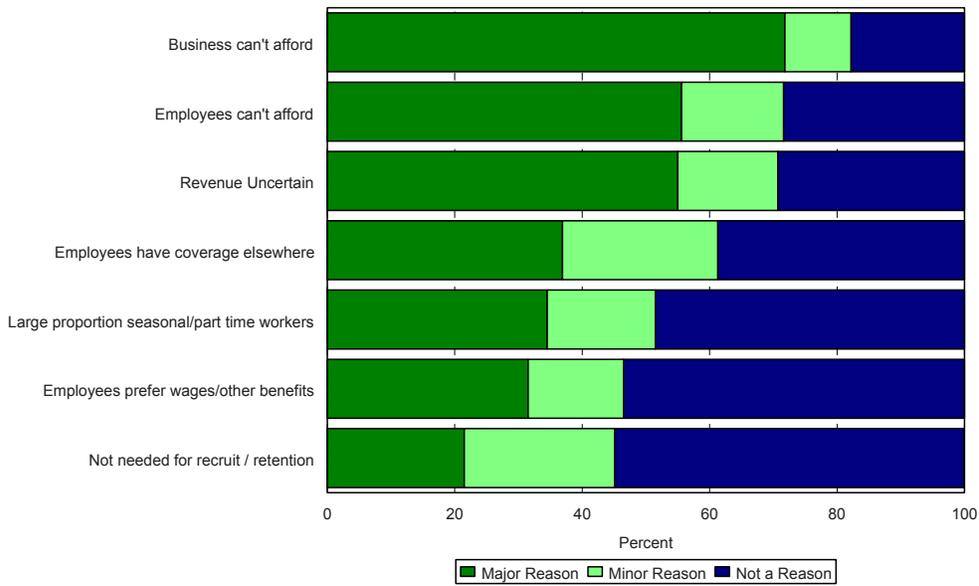
More than half of these firms feel that there is no obligation or only a small obligation to offer this benefit. It is interesting to note that among those businesses that do offer insurance, 66% stated that “It was the right thing to do” was a major factor in their decision. That also corresponds to 71% on a national survey of employers conducted in 2000 who felt the same. Clearly, there is a difference of opinion in this area.

One of the most important reasons for doing the employer survey was to gain some understanding as to why employers didn’t offer health insurance. Figure 4-2 below sheds some

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light on the issue. Employers were asked to classify seven areas as to whether each was a major reason, a minor reason, or no reason at all for not offering health insurance.

**Figure 4-2**  
**Reasons for Not Offering Health Insurance**  
**by Level of Importance**

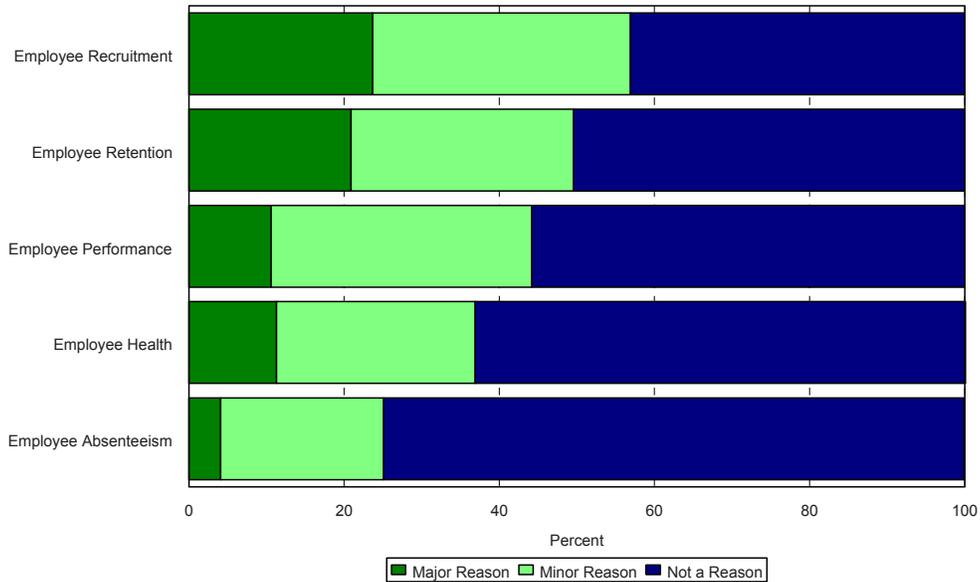


Source: Center for Applied Demography and Survey Research, University of Delaware

The top three reasons are related to simple economics for either the employer or the employee. The employer can't commit either because there are insufficient profit margins or because those profit margins are volatile. The employees on the other hand can't afford to pay their share since it would mean a substantial reduction in their disposable income. All three issues are related to the general problems faced by small businesses and their employees every day.

Once again the results from this survey were similar to those in the national poll. If any thing, the Delaware businesses were more certain that they couldn't afford to provide the health insurance (82% to 69%). They were also more certain that their employees could not afford their share (72% to 54%).

**Figure 4-3**  
**Impact of Not Offering Health Insurance**  
**by Level of Importance**



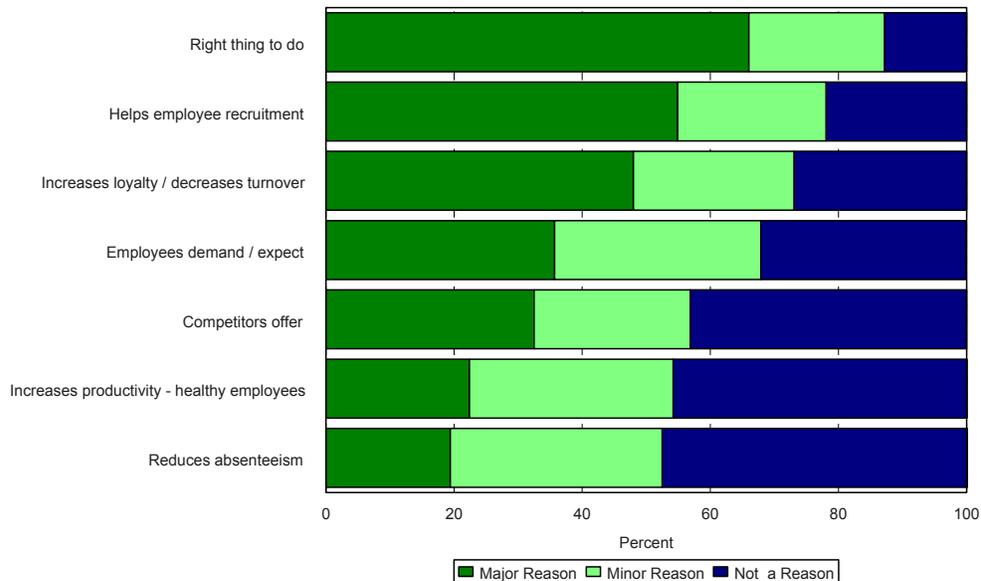
Source: Center for Applied Demography and Survey Research, University of Delaware

Ultimately, business owners will be unlikely to provide a benefit like health insurance if they feel it will make little or no difference to the business. Altruism was effectively ruled out in the earlier discussion. In Figure 4-3 above, only one of the potential positive reasons for offering this benefit is considered a reason for doing so by more than 50% of the businesses that currently do not offer health insurance coverage. However, only one in four consider offering health insurance coverage as having a major impact on employee recruitment.

In the national survey 70% or more of the small businesses responded that offering health insurance had no impact any of the five factors listed above. Generally, Delaware's small business owners were far less likely to agree with that assessment. That may reflect the tightness in Delaware's labor market over the past ten years. This chart coupled with Figure 4-2 could lead one to conclude that these businesses do see the positive aspects of offering health coverage although with modest levels of intensity, but economic factors make this impossible for many of them.

Just as small businesses have reasons for not offering health insurance, others have reasons for doing so. In the figure below, the importance of seven different reasons for offering health insurance are evaluated.

**Figure 4-4**  
**Reasons for Offering Health Insurance**  
**by Level of Importance**

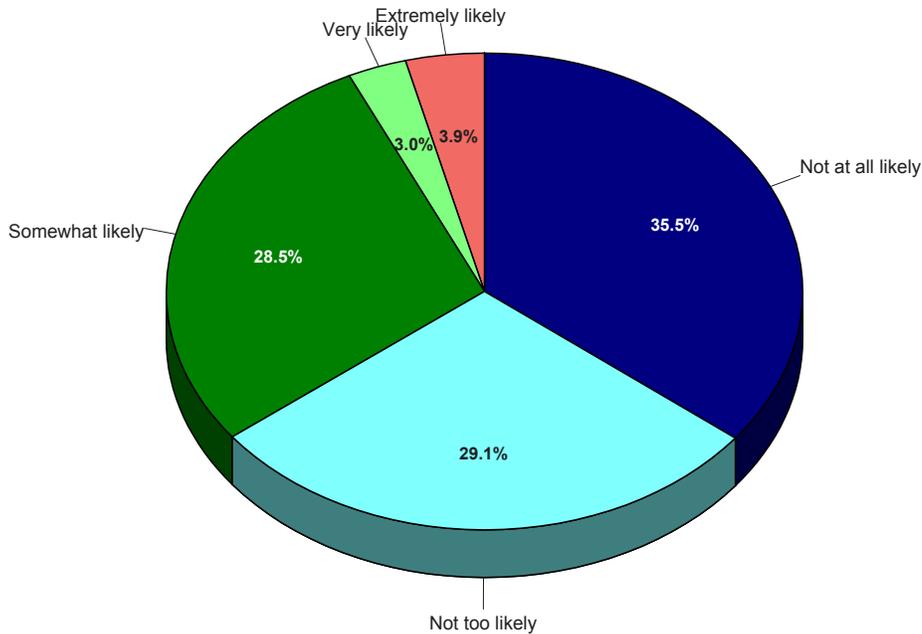


Source: Center for Applied Demography and Survey Research, University of Delaware

One of the interesting aspects of the information found in Figure 4-4, above, is the different level of intensity expressed by firms that have health plans in contrast to evaluations of the same or similar factors by firms that currently do not have health plans.

First, the fact that “it’s the right thing to do” is the most important factor is in direct conflict with the level of obligation felt by business owners who currently do not offer coverage. Second, these firms rate recruitment and retention consistently higher in terms of the positive impact than the other firms rate the negative impact on the same items. Finally, while the ratings are lower for the remaining items, those without health plans consistently evaluated the items as even less important.

**Figure 4-5**  
**Likelihood that the Business Will Offer Health Insurance**  
**within Two Years**



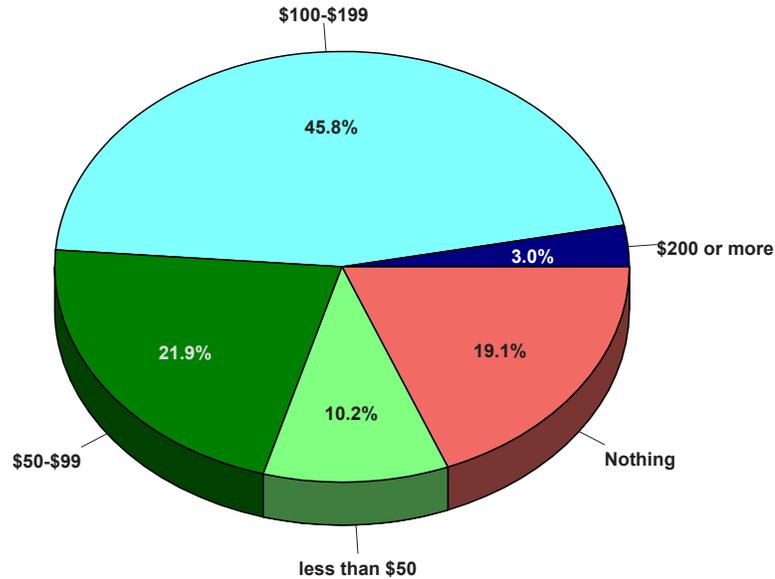
Source: Center for Applied Demography and Survey Research, University of Delaware

Among those businesses that do not currently offer health insurance coverage, 21% have offered coverage of some type in the last five years. That compares with 12% nationally. However, as can be seen in Figure 4-5 above, 65% effectively rule out starting a health plan for employees within the next two years. Approximately 13% of those that had previously offered coverage indicated that they are extremely likely or very likely to do so again. This compares with 5% of businesses that have never offered a health plan.

Perhaps one bright side of this data is that almost 44% of the businesses indicated that they have contacted someone about obtaining coverage. Presumably this means that the information received was not compelling enough to take the next step or that the cost was prohibitive. Once again, Delaware's businesses were more likely to have taken this step since only 31% of the national sample did so.

**Figure 4-6**

**Amount the Business Would Be Willing to Pay  
Per Month for Health Insurance**



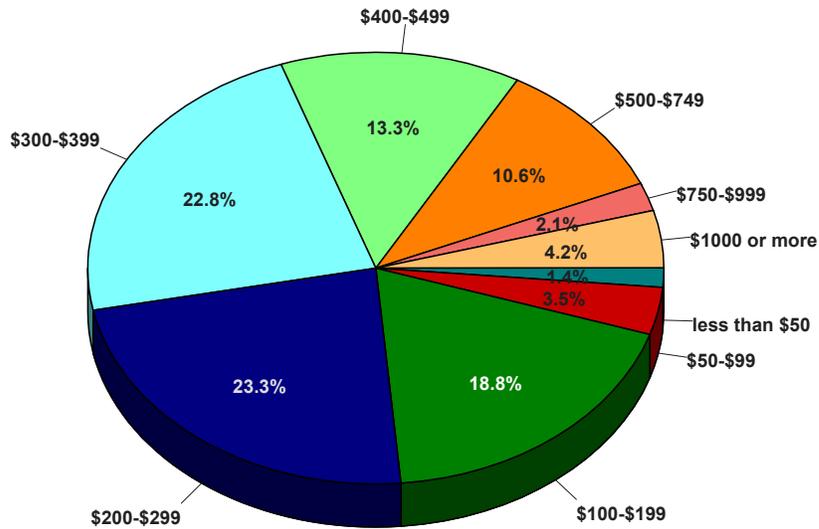
Source: Center for Applied Demography and Survey Research, University of Delaware

There is ample evidence provided in the survey that cost is one of the primary drivers in deciding whether or not to offer health insurance. In Figure 4-6 above, the amounts that employers would be willing to pay to cover their employees are shown. First of all, it's important to note that two-thirds of the respondents could not or would not make an estimate as to the amount that they would be willing to pay. Thus, the chart refers only to those who would hazard an estimate. Overall, these data are similar to that derived from the national survey.

If a typical plan costs \$2800, including both the employer and the employee shares, then about half of those responding would be willing to cover half of the annual cost for their employees. For the typical employee making \$8 per hour in these businesses, the employee share amounts to a 10% reduction in pretax wages. In contrast, employees in firms that offer insurance typically earn 50% more or \$12 per hour with a correspondingly lower proportional outlay in pretax wages.

Just under half of these businesses that do not offer health insurance coverage have inquired about coverage in the past year. This would imply that they have some understanding of the costs of such a benefit. Respondents were asked about the cost of typical health insurance coverage. In this case almost 70% could provide an estimate and those responses are found in Figure 4-7, below.

**Figure 4-7**  
**Amount that Health Insurance Would Cost**  
**Monthly Per Employee**

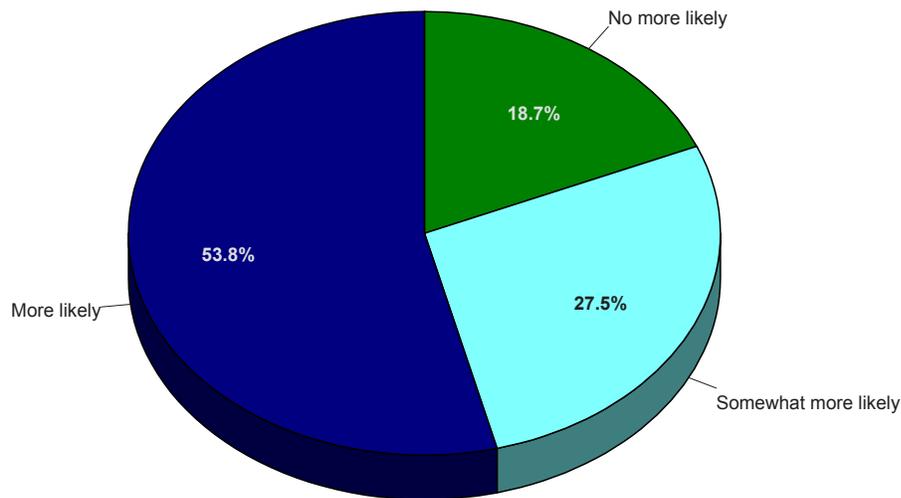


Source: Center for Applied Demography and Survey Research, University of Delaware

The first important aspect of this chart is that 53% of the businesses estimate costs \$300 or above when the typical cost for employee and employer together is closer to \$220 per month. In the national survey, only 33% of businesses provided estimates above the typical cost. It was also interesting to find that the accuracy of the estimate varied little between those that had recently asked about coverage and those that had not. It also might mean that businesses tend to get estimates on a high benefit plan as opposed to bare bones plan.

One conclusion that could be drawn as to why some businesses do not offer health insurance coverage is that they have not carefully reviewed the range of options that are available. However, it also may be that the time cost of this search process is excessive so that many never even start the search until some motivating factor is in place e.g. a key employee or recruit is adamant.

**Figure 4-8**  
**Government Assistance Would Make the Business**  
**More Likely to Offer Health Insurance**



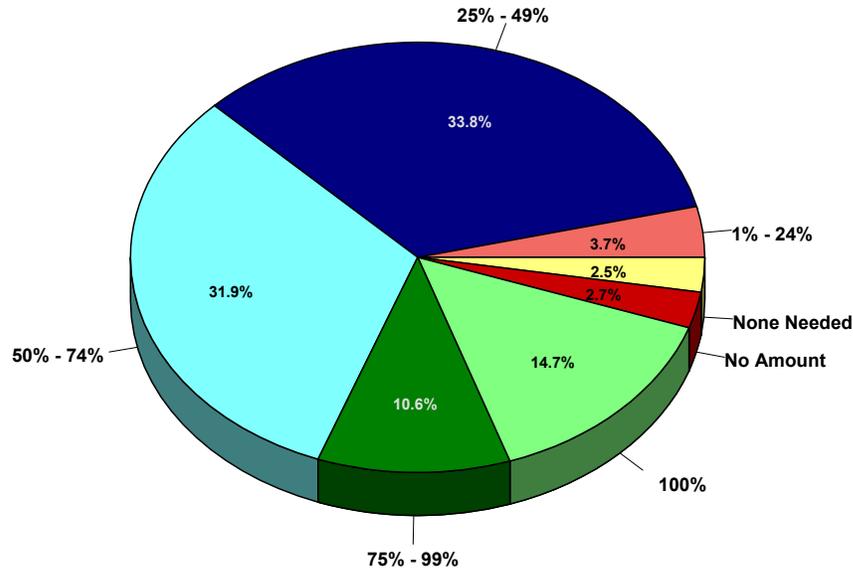
Source: Center for Applied Demography and Survey Research, University of Delaware

One potential way to increase the probability that a business will offer health coverage is to offer incentives that reduce the economic cost of doing so. It also may make it possible to increase the employer share from 50% to 80% and thus increase the probability that a low wage employee will take the coverage.

In Figure 4-8 above, more than 80% of the businesses surveyed said that the likelihood of offering health insurance coverage would increase if there was an incentive. In the national survey only 64% fell into those two categories. However, the question remains as to how much an incentive (subsidy) would be required to make a measurable difference in the number of businesses offering coverage.

To add some reality to the question of what proportion the government should pay of the employers cost, respondents were asked for an estimate. Any time a survey question of this type is asked, one can safely assume the respondent will lean in the direction that favors their situation. This type of result is evident in Figure 4-9, below.

**Figure 4-9**  
**Percentage Government Would Have to Pay**  
**for the Business to Offer Health Insurance**



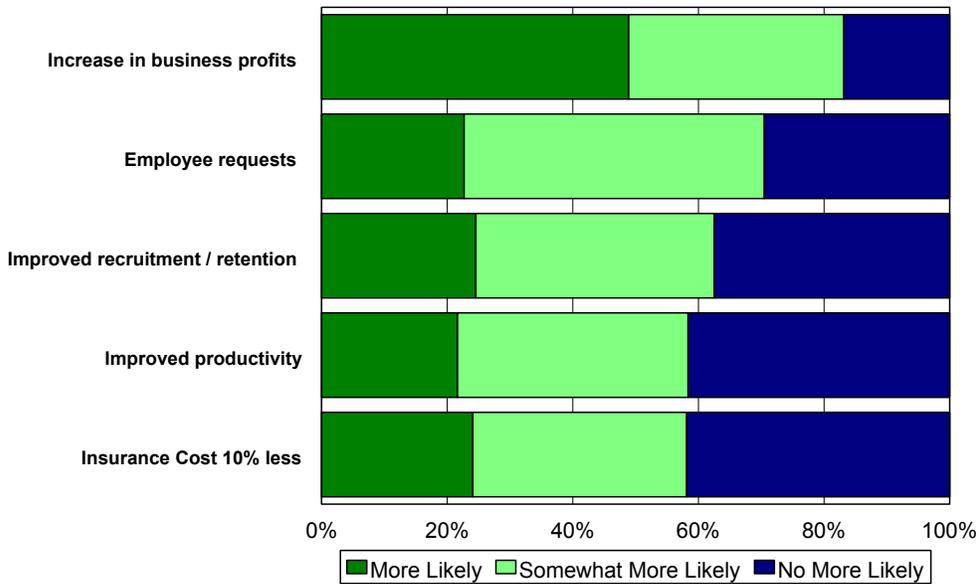
Source: Center for Applied Demography and Survey Research, University of Delaware

It is probably safe to say that government is highly unlikely to pay more than 50% of the cost of health insurance for small businesses like these given crowd-out issues and the total cost. There are however programs where government has paid up to one-third of the total cost for selected employers in order to gain some participation and to bring the cost to employees within a reasonable range.

From the chart, one would say that about 40% of small businesses that do not currently offer health insurance might be influenced if the government would subsidize up to 50% of the premium. That suggests that only half of the original 80% (see Figure 4-7) who originally said they might offer health insurance with a subsidy, would actually receive a subsidy sufficient to commit to offering coverage. These estimates also correspond very closely to the national survey where 40% of the businesses providing an estimate expected a subsidy of less than 50%.

Most of the data examined thus far suggests that most of the small businesses that currently do not offer health insurance coverage may be difficult to convince to change their ways. The economic issues predominate and this is reflected in Figure 4-10 below.

**Figure 4-10**  
**Factors that Might Influence the**  
**Likelihood of the Business Offering Health Insurance**



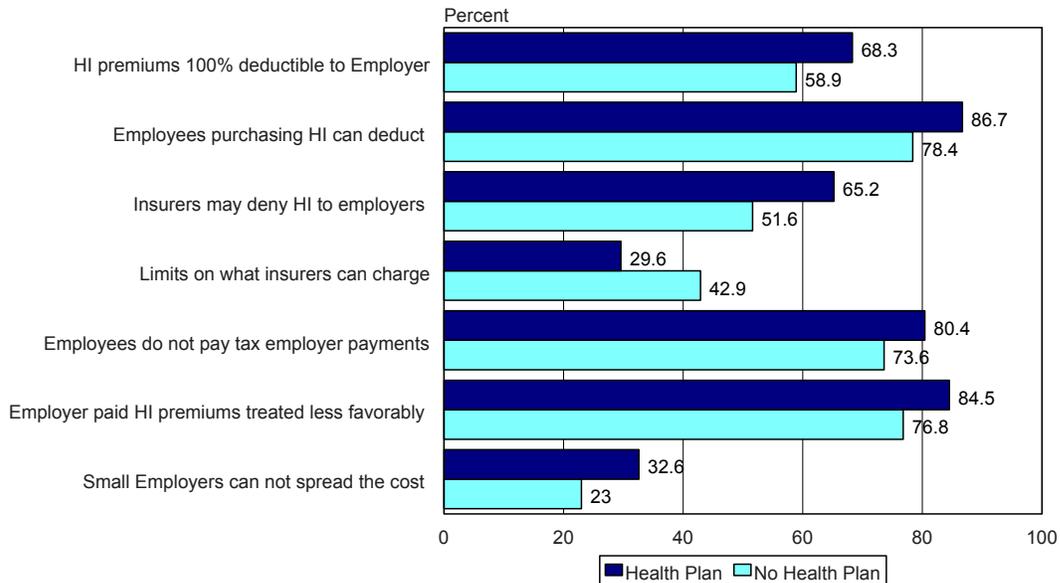
Source: Center for Applied Demography and Survey Research, University of Delaware

These businesses were also asked what factors might be influential in changing their decision on offering health coverage. The responses were somewhat predictable. Any factor that touched the business bottom line in a positive way was seen in a favorable light.

This discussion has only dealt with health insurance for the employee and does not address family coverage. Since family coverage averages three times the cost of covering an individual, it is unlikely that these businesses will take that path unless pressed by a key employee or forced by competition for workers. In addition, typical employee shares of the total cost of health insurance are closer to 15% than 50% for those businesses that currently offer the benefit. In short, it may be difficult to induce this group of employers and employees to

Finally, the question arises as to whether the firms that do not have health plans hold some misconceptions about the product and the process. There was some evidence presented earlier that is consistent with that view. To test this hypothesis a set of seven true-false questions dealing with health insurance were asked of both groups of firms. The results are displayed in Figure 4-11, below.

**Figure 4-11**  
**Percent Answering the Question Correctly**  
**by Firm Health Plan Status**



The full text of the questions asked were as follows:

- 1) Health Insurance premiums are 100% tax deductible to the employer (true);
- 2) Employees who purchase health insurance on their own generally can deduct 100% of their health insurance premiums for federal income tax (false).
- 3) Insurers may deny health insurance coverage to employers with 2 to 50 employees due to health status (false).
- 4) There are limits on what insurers can charge employers with sick workers (true).
- 5) Employees do not pay tax on the share of their premiums that are paid by their employer (true).
- 6) Employer paid health insurance premiums are treated less favorably than general business expense with regard to taxes (false).
- 7) Small employers cannot spread the cost of sick employees across a large pool of workers (false).

On six of the seven questions, those firms with health plans answered correctly more often although the differences were not large. Probably the single most startling result is the fact that neither group did very well on the first question dealing with the deductibility of employer paid health insurance premiums.

## OBSERVATIONS

This investigation of health insurance coverage among Delaware's employers with particular emphasis on the small employer has been revealing. During the survey, it was very clear that this topic was on the minds of small employers whether they currently had a health plan or not. They responded at rates much higher than experienced previously in this state and at substantially higher rates than in the national study. In addition, a significant number of employers provided written comments detailing their concerns about the health insurance problems with which they are faced. The information presented here coupled with other data not detailed suggests that solving the lack of employer paid health insurance among smaller firms will not be easy.

- If the sample of small employers that do not currently have health plans had looked like a random sample drawn from all small employers it might have been concluded that the problem was manageable. However those that do not have health plans are not like those that do.
  - Small employers that do not have health plans are generally smaller than those that currently have them.
  - Small employers that do not have health plans have significantly more part-time workers who rarely qualify for health benefits even when working for employers that have health plans.
  - Both salaries and hourly wages are lower in those firms that do not currently offer health plans. This suggests that those businesses would be paying disproportionate amounts for of the total cost of employment if they offered health care benefits. In addition, workers faced with perhaps paying 50% of the cost would find that an unacceptable reduction in take-home pay.
  - Small employers that do not have health plans tend to have higher turnover rates than in those firms that have them. This is not unusual given the concentration of part-time jobs. It is also likely that firms with higher turnover rates would have tried to reduce them by paying higher rates of pay and benefits if it was to their economic advantage. In other words if the costs of turnover were less than the cure, they will not take the cure.
  - Small employers that do not have health plans seem to understand the basics of health plans as well as those that currently have them. They also seem to periodically check in with insurers to see if there might be a plan for them. Thus, the provision of additional information is likely to have a positive but small effect on these employers.
-

- Small employers without health plans see less positive benefit coming from providing health coverage. Issues such as recruitment, retention, productivity, and absenteeism do not register anywhere as near as high on the scale as they do for those that already have plans.
- While small employers overestimate the true cost of a health plan, the amount that they are willing to contribute is probably insufficient to make a standard plan viable. In addition the amount they would expect the government to subsidize is also probably unrealistic.
- If a significant proportion of these small employers without health plans are to change their position, it will take a multi-pronged approach of improved information, government subsidies, limited benefit plans, and other innovative approaches to make it happen.

