

NEWS RELEASE

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New EBRI Health Benefits Survey:

Small Employers Cite Affordability for Employees And Themselves as Key Barrier to Health Benefits

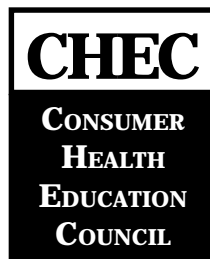
But Misperceptions May Compound Affordability Problems

WASHINGTON, DC—Small employers without health insurance coverage identify affordability problems for both themselves and their employees as a key barrier, according to a major new small-business survey released today. But those problems may be compounded by misperceptions about the business value of offering health benefits, tax deductions for both employers and workers, and recent regulatory changes by the state and federal governments that have restructured the small-employer health insurance market.

Policymakers have long recognized that employees of small firms are disproportionately likely to be uninsured: Nearly one-third of workers in firms with 25 or fewer employees are uninsured. According to Scott Serota, president and CEO of the Blue Cross Blue Shield Association, "We have yet to meet the challenge of the uninsured in this country. One of the best ways to increase the number of people with health coverage is to offer business advantages and incentives to the small employers that currently employ most of the low-income, uninsured workers. We have a responsibility to pursue this, and all other avenues, in order to expand the number of people who receive health coverage."

The 2000 Small Employer Health Benefits Survey (SEHBS) examined major drivers of the uninsured problem among small businesses. The Blue Cross Blue Shield Association (BCBSA), the Employee Benefit Research Institute (EBRI), and the Consumer Health Education Council (CHEC) cosponsored the survey. Its primary findings identify the following factors as prevalent among small businesses:

- *Affordability Is a Barrier to Coverage:* As expected, a significant percentage (53 percent) of small employers that did not offer coverage cited their inability to afford insurance as a key obstacle. However, more than one-third said a major reason they failed to offer coverage was because their employees could not afford it, and 17 percent said employee affordability was a minor reason for failure to offer coverage.



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- *Dependent Coverage Also a Barrier:* Small employers cited employee affordability as a major obstacle to dependent coverage as well. Twenty-seven percent of employers that offer dependent coverage indicated employees declined dependent coverage because of affordability. Dependent coverage rates among small employers are particularly problematic. Fifty-one percent of small firms that offer coverage reported that fewer than one-half of their eligible employees accept coverage for dependents under the employer's health plan.
- *Misperceptions Regarding Insurance Market Rights:* Many small employers without health plans are unaware of the new rights granted to small employers through state and federal legislation. For example, 67 percent of these employers were unaware that insurers could not deny them coverage, even if their employees were sick.
- *Lack of Understanding of Pooling of Small Firms:* Eighty percent of respondents did not realize that virtually all states have required insurers to spread the claims cost of small employers with sick employees across their larger pool of small firms through the use of rating restrictions. More than 65 percent did not realize there are regulatory limits to how much insurers can charge employers with healthy workers compared with employers with sick workers.
- *Misperceptions Regarding the Tax Treatment of Coverage:* Small employers without health plans also held misperceptions regarding the tax treatment of coverage. Fifty-seven percent were unaware that their contributions toward employee health coverage were 100-percent tax deductible, and 48 percent did not realize that their workers could not deduct their health insurance premiums when they purchase coverage on their own.
- *Support for Tax Credits:* Eighty-six percent of small employers supported tax breaks that they could use for health insurance for their low-wage workers, and 64 percent indicated that they would be more likely to offer health insurance if a government assistance program were available.

"It is important for employers to understand the tax treatment of health insurance. Misperceptions about how health insurance is taxed may prevent employers from offering health benefits," said Dallas Salisbury, EBRI president and CEO. "If employers are unaware of how the tax code affects their workers, it is likely that the workers are also unaware, and would not know the true value of health insurance."

The survey results suggest that education may be as important a factor as funding is for many small employers, according to Mary Nell Lehnhard, senior vice president, Blue Cross Blue Shield Association. "BCBSA has long advocated for additional tax credits for the small business community. However, these survey results may indicate that educational efforts are also necessary to assure that small employers understand existing tax incentives and the relatively new laws on access to coverage and pooling of small employers," Lehnhard noted. "In addition, these findings indicate we need to explore initiatives that increase the affordability of coverage for employees and dependents, in particular."

The survey included several other notable findings, including:

- *Health Insurance Offers Business Advantages:* According to the survey, most small employers offering health benefits report that it has had a positive impact on their business. Nearly 8-in-10 say that offering health benefits has an impact on employee recruitment (78 percent). Three-fourths each indicate it has helped improve employee retention (75 percent) and employee attitude and performance (75 percent). Two-thirds report an impact on the health of their employees (67 percent), and almost 6-in-10 state that offering a plan has an impact on lowering absenteeism (58 percent).

In contrast, most small-business owners that do not offer health benefits tend to think that doing so has no impact on these issues. Roughly three-fourths each say that not offering a health plan to their workers has no impact on employee recruitment (72 percent), employee retention (78 percent), employee attitude and performance (78 percent), and the health of their employees (78 percent). More than 8-in-10 maintain it has no impact on absenteeism (85 percent).

- *Key Differences Between Sponsors/Nonsponsors:* Small employers that offer health benefits tend to be distinctly different from small employers without health benefits. Small firms that do not offer coverage tend to pay considerably lower wages, employ fewer workers (e.g., fewer than 10 workers), and to have been in business a shorter time than those that do offer health benefits.

“Small-business owners that do not offer health benefits need to see evidence that offering health benefits has a positive impact on business. That could go a long way toward expanding health insurance coverage,” said Ray Werntz, CHEC president. “This survey shows that evidence exists—especially among small firms that do offer health benefits.”

The SEHBS was co-sponsored by the Blue Cross and Blue Shield Association (BCBSA), a federation of independent, locally operated Blue Cross and Blue Shield Plans that collectively provide health care coverage to 75 million—more than one in four—Americans; the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan public policy research organization; and the Consumer Health Education Council (CHEC), a health education organization that was formed to help the American public better understand, acquire, and utilize health insurance. Mathew Greenwald & Associates, Inc., conducted the survey.

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