

SEHBS

**SMALL
EMPLOYER
HEALTH
BENEFITS
SURVEY**

2000 Small Employer Health Benefits Survey

Summary of Findings

This summary presents findings from the 2000 Small Employer Health Benefits Survey (SEHBS). The survey examines a number of issues related to small employers (between two and 50 workers) and their decision to offer—or not offer—health benefits to workers. The goal of the survey was to gather information to better understand what would make more small employers offer health benefits. It is a well-known fact that small employers are less likely than large employers to offer health benefits. In 1999, 40 percent of employers with between three and 49 workers did not offer health benefits to their employees.¹ In contrast, nearly all employers with 200 or more employees offered coverage.

Since the vast majority of large employers offer health benefits, but many small employers do not, small businesses are seen as perhaps the most crucial factor in efforts to reduce the growing number of uninsured Americans. There are many reasons why small employers do not offer health benefits. While small employers report that cost is the primary reason they do not offer health benefits, many other factors may also contribute to their lower coverage rates (table 1). For example, small employers that do not offer health benefits often are not aware of the value of offering benefits, do not understand how the tax code provides incentives to offer benefits, and do not understand how insurance laws have addressed the accessibility and affordability of health benefits.

The survey was conducted within the United States between May 16 and June 30, 2000, through 20-minute telephone interviews with 506 companies with health benefits and 449 companies without 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 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 formed to help the American public better understand, acquire, and utilize health insurance. Mathew Greenwald & Associates, Inc., conducted the survey.

The following sections present the survey's findings on various topics concerning health benefits and small employers. These topics include the tax treatment of health benefits, knowledge of insurance regulations, the impact that offering health benefits has on employers, the difference between employers that do and do not offer health benefits, worker and family participation in health benefits, the likelihood that employers will offer health benefits in the future, and the impact of future costs and tax incentives on employer behavior.

¹ Larry Levitt et al., *Employer Health Benefits: 1999 Annual Survey* (Menlo Park, CA and Chicago, IL: Henry J. Kaiser Family Foundation and Health Research and Educational Trust, 1999).

Table 1
Small Employers Cite Affordability as the Primary Reason for Not Offering Health Benefits

	Major Reason	Minor Reason	Not a Reason
The business cannot afford it.	53%	16%	30%
Employees have coverage elsewhere.	43	18	35
Revenue is too uncertain to commit to a plan.	40	16	43
Owner has coverage elsewhere.	40	13	45
Employees cannot afford it.	37	17	43
Large portion of workers are seasonal, part time, or high turnover.	34	15	49
Employees prefer wages and/or other benefits.	30	20	47
Company does not need to offer a plan to recruit and retain good workers.	18	17	63
Setting up a plan is too complicated and time consuming.	11	20	68
Employees are healthy and do not need it.	10	17	71
Do not know where to go for information on starting a plan.	8	21	71

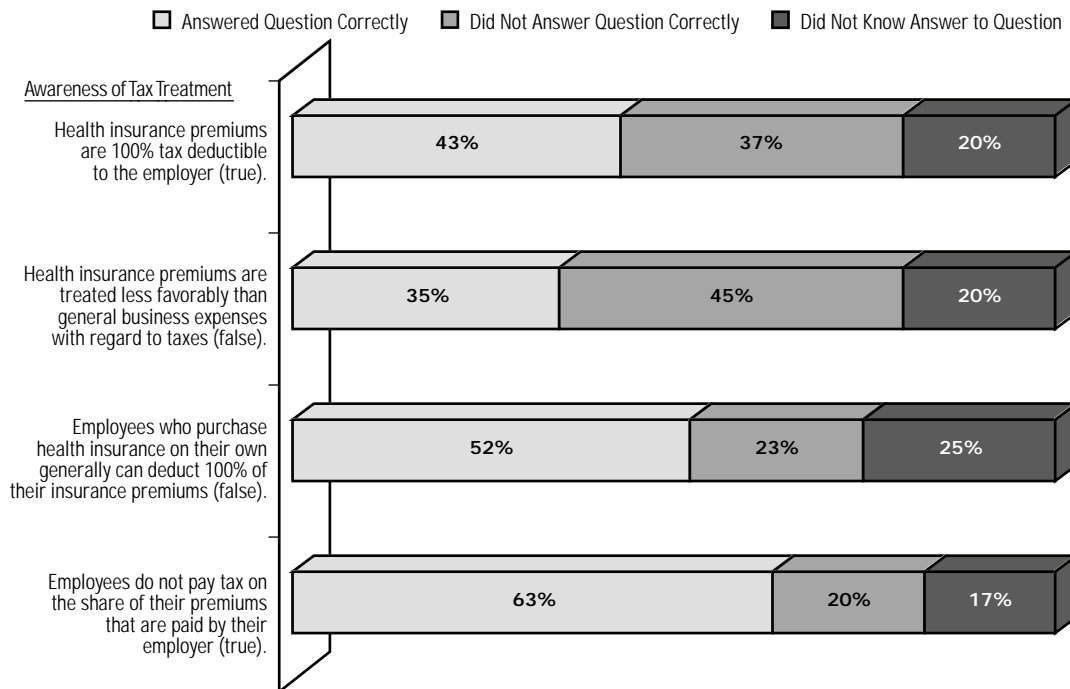
Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

Tax Treatment

Many small employers make decisions about whether to offer health benefits to their workers without being fully aware of the tax advantages that can make this benefit more affordable (chart 1).

- 57 percent of small employers do not know that health insurance premiums are 100 percent tax deductible.
- 65 percent of small employers do not realize that health insurance premiums are treated like general business expenses with regard to taxes.

Chart 1
Many Small Employers Are Unaware of Tax Incentives to Offer Health Insurance Benefits



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

Small employers not offering health benefits are less aware of the tax treatment than those that do offer health benefits.

- 59 percent of small employers offering health benefits do not know that health insurance premiums are treated like general business expenses, compared with 73 percent of employers that do not offer health benefits.

Many small employers are not knowledgeable about the tax treatment of health benefits as it affects their workers (chart 1).

- 48 percent are not aware that employees who purchase health insurance on their own generally cannot deduct 100 percent of their health insurance premiums.
- 37 percent do not know that employees do not pay tax on the share of their premiums that are paid by their employer.

Small employers offering health benefits are much more likely to be aware of the tax treatment of employee contributions to health benefits.

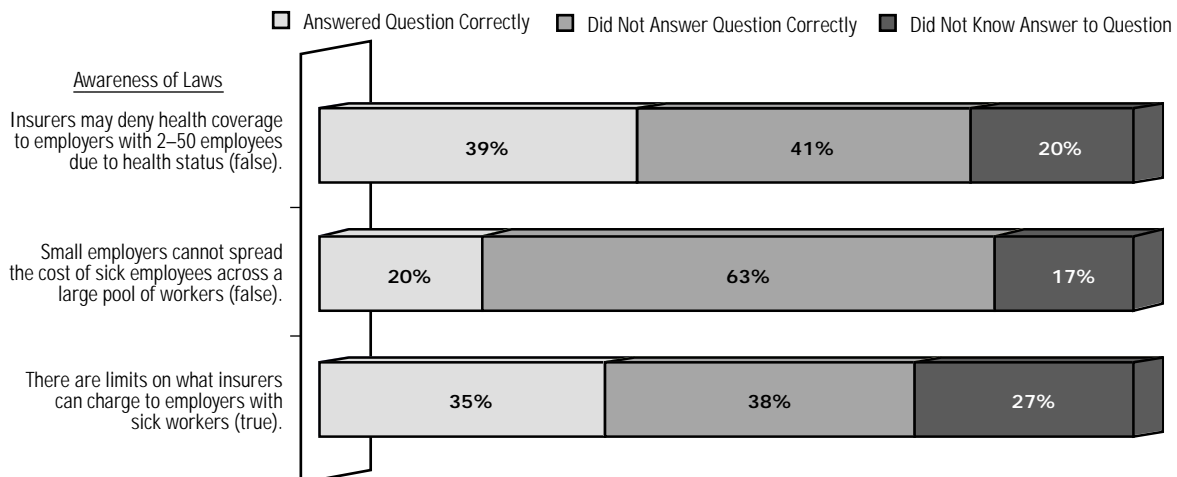
- 69 percent of small employers offering health benefits understand that the employer share of the premium is not included in an employee’s taxable income, compared with 53 percent of employers not offering health benefits.

Insurance Regulation

Small employers are largely unaware of the laws that nearly all states and the federal government have enacted to make health insurance more accessible and more affordable for many small employers (chart 2).

- 61 percent do not know that insurers may not deny health insurance coverage to small employers even when the health status of their workers is poor.
- 80 percent do not realize that states have, in effect, required insurers to spread the cost of insuring small employers with sick employees across a large pool of workers through the use of rating restrictions.
- 65 percent are not aware that there are limits on what insurers can charge employers with sick workers compared with employers that have healthier workers.

Chart 2
Many Small Employers Are Unaware of State and Federal Laws That Address Accessibility and Affordability of Health Benefits in the Small-Group Market



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

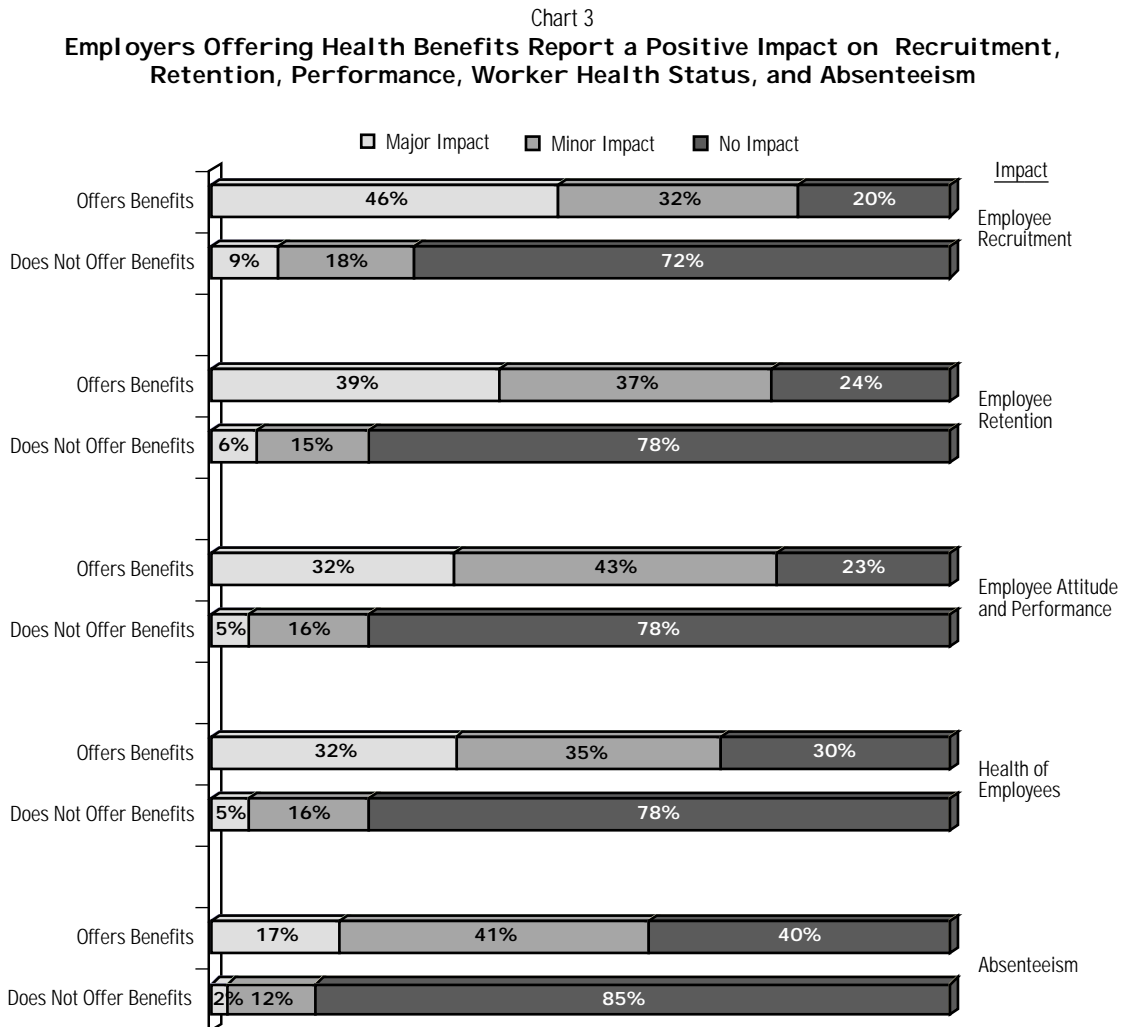
Impact of Benefits

Most small employers offer sound business reasons for offering health benefits to workers.

- 80 percent report that it helps with recruitment and retention.
- 70 percent report that it increases productivity by keeping employees healthy.
- 69 percent report that employees demand it.
- 68 percent report that it reduces absenteeism by keeping workers healthy.
- 88 percent report that they offer health benefits because it is the right thing to do.

When specifically asked whether offering health benefits has an impact on their business, most small employers with benefits agree that it does (chart 3).

- 78 percent report that offering this benefit has had an impact on employee recruitment.
- 75 percent indicate it has had an impact on employee retention, attitude, and performance.
- 67 percent report an impact on the health status of their employees.
- 58 percent state that offering health benefits has had an impact on absenteeism.



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

In contrast to the value perceived by respondents from small firms *with* health benefits, most of those from companies that do *not* offer benefits tend to think that not offering them has had no impact on their business.

- 72 percent report that not offering coverage has had no impact on employee recruitment.
- 78 percent report that not offering coverage has had no impact on retention, attitude or performance, or the health status of their employees.
- 85 percent report that not offering health benefits has had no impact on absenteeism.

Employer Profiles

Small employers that offer health benefits tend to be distinctly different from those not offering health benefits.

- 48 percent of employers not offering health benefits pay annual wages of less than \$15,000 per year to 50 percent or more of their employees, compared with 12 percent of companies that do offer health benefits.
- 43 percent of small employers not offering health benefits report that 100 percent of their workers are employed full time. In contrast, 56 percent of small employers offering health benefits report that 100 percent of their workers are employed full time.
- Of the employers that do not offer health benefits, 83 percent employ fewer than 10 workers. In contrast, of the employers that do offer health benefits, 66 percent employ fewer than 10 workers.

Small employers not offering health benefits are more than twice as likely to have annual gross revenues of less than \$500,000.

- 60 percent of employers that do not offer health benefits have annual gross revenue of less than \$500,000, compared with 27 percent of employers that do offer health benefits.
- 29 percent of companies offering health benefits report gross revenues of \$1,000,000 or more, while only 8 percent of employers not offering health benefits report this level of revenue.

Small employers not offering health benefits are more likely than those offering them to have a larger proportion of females, workers under age 30, or minority workers.

- 6 percent of employers offering health benefits report that 100 percent of their employees are female, compared with 16 percent of employers not offering health benefits.
- 17 percent of employers offering health benefits report that at least 50 percent of their employees are under age 30, compared with 30 percent of employers not offering health benefits.
- 11 percent of employers offering health benefits report that at least 50 percent of their employees are minority, compared with 21 percent of employers not offering health benefits.

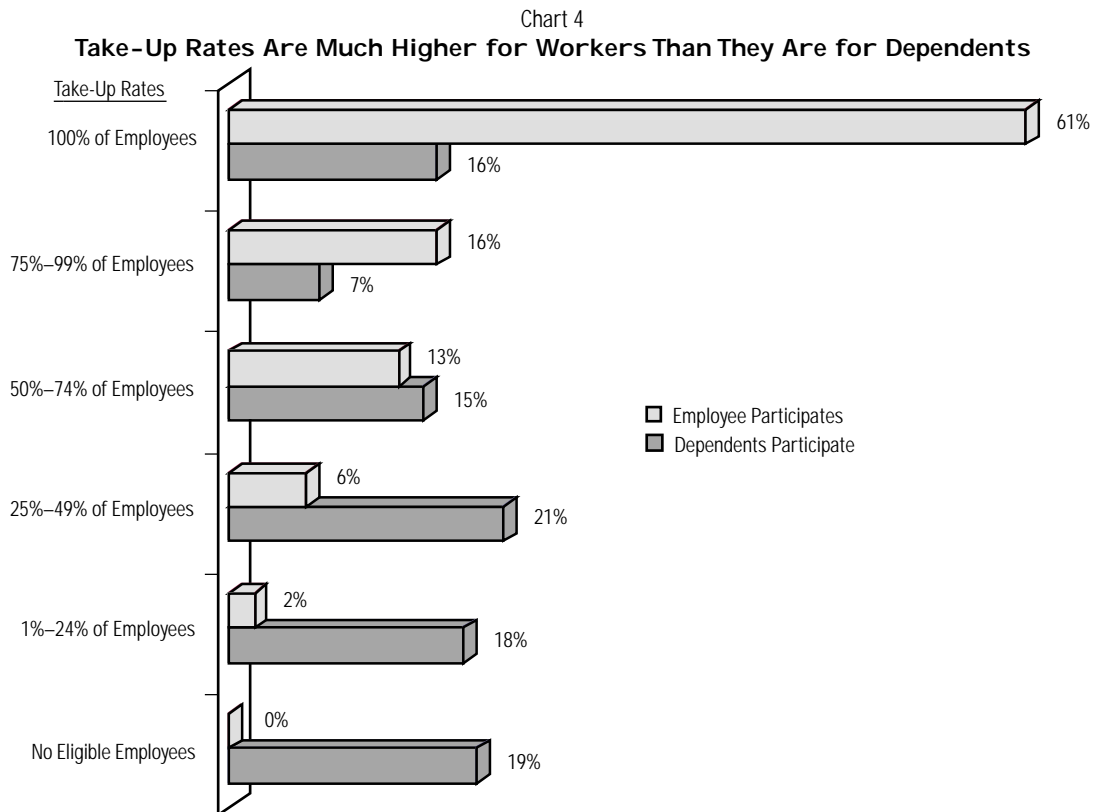
Employee Participation

Not all workers are eligible to take advantage of the health benefits offered by their employers.

- 61 percent of small employers offering health benefits report that all workers are eligible for health benefits.
- 7 percent report that less than one-half of their workers are eligible to participate.
- 19 percent report that between 50 percent and 79 percent of their workers are eligible to participate.
- 11 percent report that between 80 percent and 99 percent are eligible.

Not all small employers that offer health benefits get full participation among those workers who are eligible (chart 4).

- Just over 60 percent of employers offering health benefits had 100 percent participation among employees.



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

Not all small employers offer health benefits to dependents.

- 13 percent do not offer health benefits to dependents.

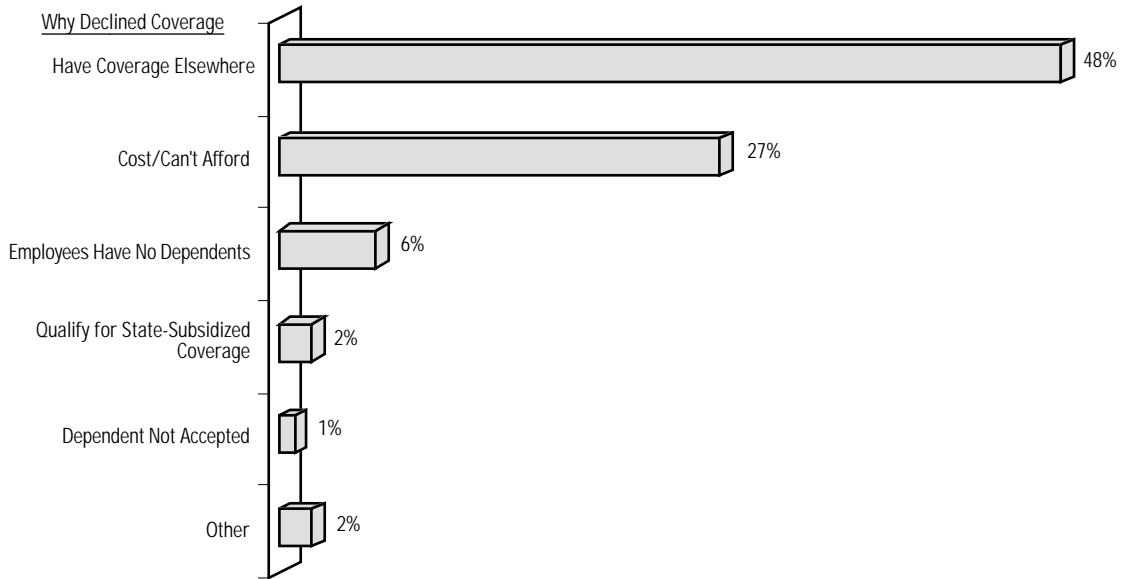
Among small employers that offer health benefits to dependents, take-up rates are much lower for dependents (chart 4).

- Only 16 percent report that all employees eligible for dependent coverage actually include dependents in their health benefits coverage.

Small employers report a number of reasons why workers do not accept health benefits for dependents when this type of coverage is available (chart 5).

- 48 percent of the employers offering dependent coverage report that the workers do not take coverage for their dependents because the dependents have coverage from somewhere else.
- 27 percent report their employees decline coverage because they cannot afford the premiums.

Chart 5
Other Coverage, Costs, and Affordability Are the Main Reasons Why Workers Do Not Take Coverage for Dependents

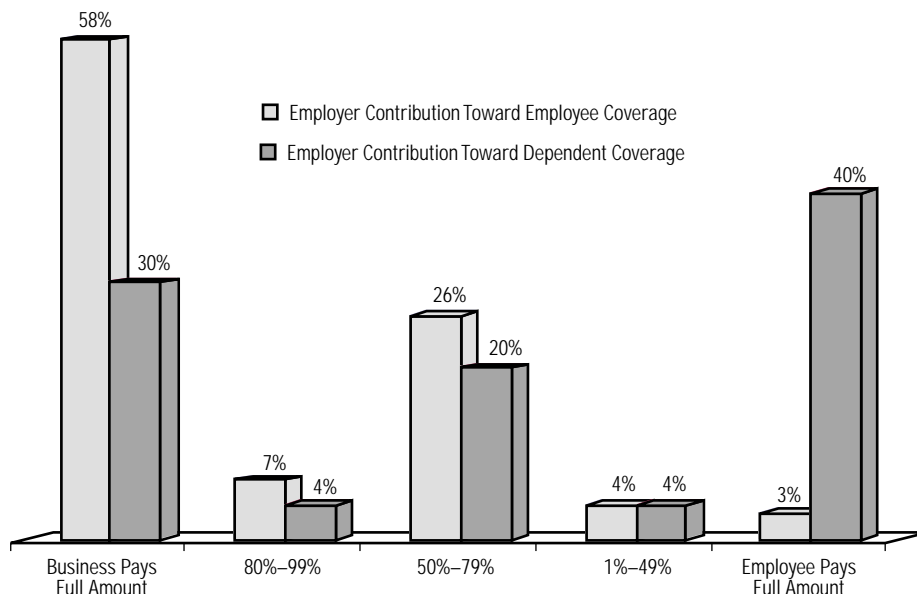


Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

Small employers are more likely to make contributions toward the cost of employee-only coverage than they are to contribute to dependent coverage (chart 6).

- 58 percent of employers pay the full premium for employee-only coverage.
- 30 percent pay the full amount of family coverage.
- 3 percent require the worker to pay the full amount of employee-only coverage
- 40 percent require them to pay the full amount for dependents.

Chart 6
Employers Are More Likely to Contribute Toward the Cost of Employee-Only Coverage Than Dependent Coverage



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

Dependent take-up is considerably higher in small firms that contribute at least some percentage toward the cost of the coverage than it is in firms where the employee is required to pay the full amount.

- The average take-up rate for dependents among employers that contribute toward the cost of dependent coverage is 56 percent, compared with an average take-up rate of 23 percent among employers that do not contribute toward the cost of dependent coverage.

— Likelihood of Offering Benefits —

Some small employers not currently offering health benefits have offered them in the past.

- 12 percent of companies that do not currently offer health benefits report their business has offered some type of health benefits plan in the past five years.

Nearly one-third of small employers that do not currently offer health benefits are potential purchasers.

- 12 percent of employers not currently offering health benefits say they are either extremely or very likely to start offering a health benefits plan for employees in the next two years.
- 17 percent are somewhat likely to start a health benefits plan.

Small employers that are likely to start a health benefits plan differ from others not currently offering a plan in a number of ways.

- Nearly 70 percent of employers not offering a health benefits plan, but who are extremely or very likely to offer one in the next two years, report that they have been in business for less than 10 years.
- 35 percent of those not likely to offer health benefits have been in business less than 10 years.

A number of factors would increase the likelihood that a small business would seriously consider offering a health benefits plan. Affordability of health benefits is the dominant factor (chart 7).

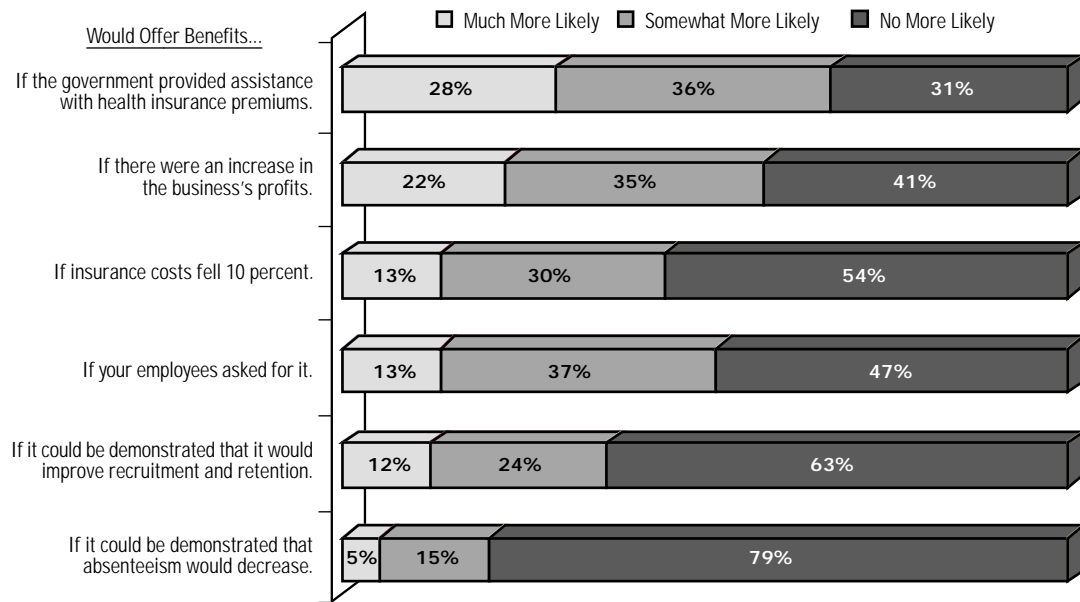
- 64 percent would seriously consider offering health benefits if the government provided assistance with premiums.
- 57 percent would consider offering health benefits if there were an increase in profits.
- 43 percent report that they would consider doing so if insurance costs fell 10 percent.
- 50 percent would be more likely to seriously consider offering a health benefits plan as a result of employee demand.
- 36 percent would consider offering a health benefits plan if it improved recruitment and retention.

A large number of small companies not offering health benefits state they would need major government subsidies for them to provide health insurance coverage.

- 20 percent would need to receive a subsidy of between 25 percent and 49 percent of the premium.
- 42 percent would need to receive a subsidy of at least 50 percent of the premium.
- 7 percent state they would not provide coverage even if the government paid 100 percent of the cost.
- Among those that indicate they would require subsidies of at least 50 percent to offer coverage, 76 percent say they would be more likely to consider offering a health benefits plan if they were able to receive cash from the government for 50 percent of the premium costs on a quarterly basis and would not have to repay this money.

Chart 7

Employers Would Seriously Consider Offering Health Benefits If Premiums Were More Affordable



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

Future Costs and Tax Incentives

Many small employers with health benefits have recently switched health plans.

- 34 percent report that they switched health plans within the past year.
- 63 percent report that they have switched plans within the past five years.
- 21 percent indicate that their business has always had the same plan.

Affordability for the small employer and the worker is clearly a critical factor affecting the likelihood of switching health plans.

- Nearly all employers who have switched health plans within the past five years cite price or cost as a reason for the change.
- 33 percent of respondents from companies offering health benefits think their firm would change coverage, and 5 percent think it would drop coverage, if the cost of health insurance in general were to increase by 5 percent.
- If costs increased only 1 percent, 10 percent would change coverage and 3 percent would drop coverage.
- If costs increased 10 percent, 46 percent would change coverage, while 14 percent would drop coverage.

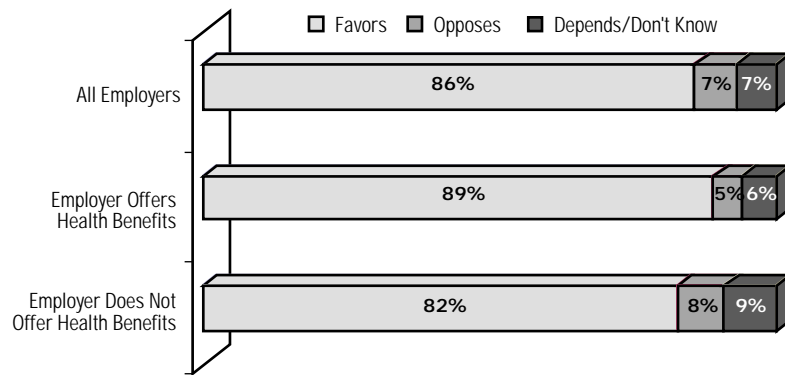
Most small employers support tax breaks to reduce the health insurance costs of low-wage workers (chart 8).

- 86 percent of all small employers favor tax breaks that they could use to reduce health insurance costs for their low-wage workers (56 percent strongly favor and 30 percent somewhat favor).
- 7 percent would somewhat or strongly oppose tax breaks for health insurance.

Companies that currently offer health benefits are slightly more likely than those that do not to strongly or somewhat favor tax credits.

- Nearly 90 percent of small employer offering health benefits favor credits, compared with 82 percent of those not offering health benefits.

Chart 8
Employers Strongly Support Tax Breaks to Reduce Health Insurance Costs for Low-Wage Workers



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.