EBRI
EMPLOYEE BENEFIT RESEARCH INSTITUTE®

NOTES

May 2006, Vol. 27, No. 5

Executive Summary:

The Impact of Hours of Work on Employment-Based Health Benefits

- ***Declining employment-based benefit coverage:*** Since 2000, there has been a reduction in the percentage of individuals under age 65 with employment-based health benefits: 62.4 percent of the nonelderly population was covered by employment-based health benefits in 2004, compared with 66.8 percent in 2000.
- ***Reasons cited:*** Numerous factors have been cited as contributing to the erosion of employment-based health benefits. These include both *structural* changes in the work force (the movement of jobs and workers from the manufacturing sector to the service sector; the growth of jobs in small firms; decreased unionization) and *nonstructural* changes (such as the rising cost of health benefits, and a decline in take-up rates among workers with access to health benefits). Public policy designed to stop the erosion of employment-based health benefits must treat these changes with different approaches, if it is to be effective.
- ***Work trends affect health benefits:*** An increasing share of the U.S. labor force is employed part-time: 17.5 percent of workers ages 18–64 were employed part time in 2004, up from 16.3 percent in 2000. The movement of workers from full-time status to part-time status has significant implications for their health benefits: In 2004, 18.6 percent of workers employed part time were covered by employment-based health benefits through their own employer in 2004, compared with 61.5 percent of full-time workers. As a result, any shift of workers from full time to part time will likely lead to fewer workers with employment-based health benefits unless they obtain them from another source, such as a working spouse.

Typical Health Benefit Package in Private Industry

- ***Offer vs. take-up rates:*** This article presents data from a variety of sources about private-sector health benefits. For instance, the *offer rate* of health benefits among private-sector health plan sponsors was 61 percent in 2005 for active workers, and 4–5 percent for retirees. The *take-up rate* of a medical care plan among workers who both had access to and participated in the plan was 75 percent.
- ***Plan type:*** The predominant type of health care plan was the PPO, or preferred provider organization type of managed care plan (covering 67 percent of participating workers in 2003), followed by an HMO, or health maintenance organization (covering 24 percent of participating workers). So-called "traditional" indemnity health plans covered 7 percent of participating workers.

The Impact of Hours of Work on Employment-Based Health Benefits

by Paul Fronstin, EBRI

Introduction

Since 2000, there has been a reduction in the percentage of individuals under age 65 with employment-based health benefits. In 2004, 62.4 percent of the nonelderly population was covered by employment-based health benefits, compared with 66.8 percent in 2000.[1] Numerous factors have been cited as contributing to the erosion of employment-based health benefits. They include the rising cost of health benefits and a decline in take-up rates among workers with access to health benefits.[2] Other factors cited include changes in the work force. For example, the movement of jobs and workers from the manufacturing sector to the service sector;[3] the growth of jobs in small firms;[4] and decreased unionization all potentially contribute to the decline in employment-based health benefits.[5] These are structural changes in the work force, and are different from nonstructural changes (such as the increasing cost of providing health benefits) that also account for the decline in the percentage of workers with employment-based health benefits.

Structural changes and nonstructural changes affect the percentage of individuals with health benefits in fundamentally different ways. Public policy designed to stop the erosion of employment-based health benefits must treat these changes with different approaches, if it is to be effective. This article examines changes in the distribution of workers by hours of work and the resulting impact on employment-based health benefits.

Trends in Hours of Work

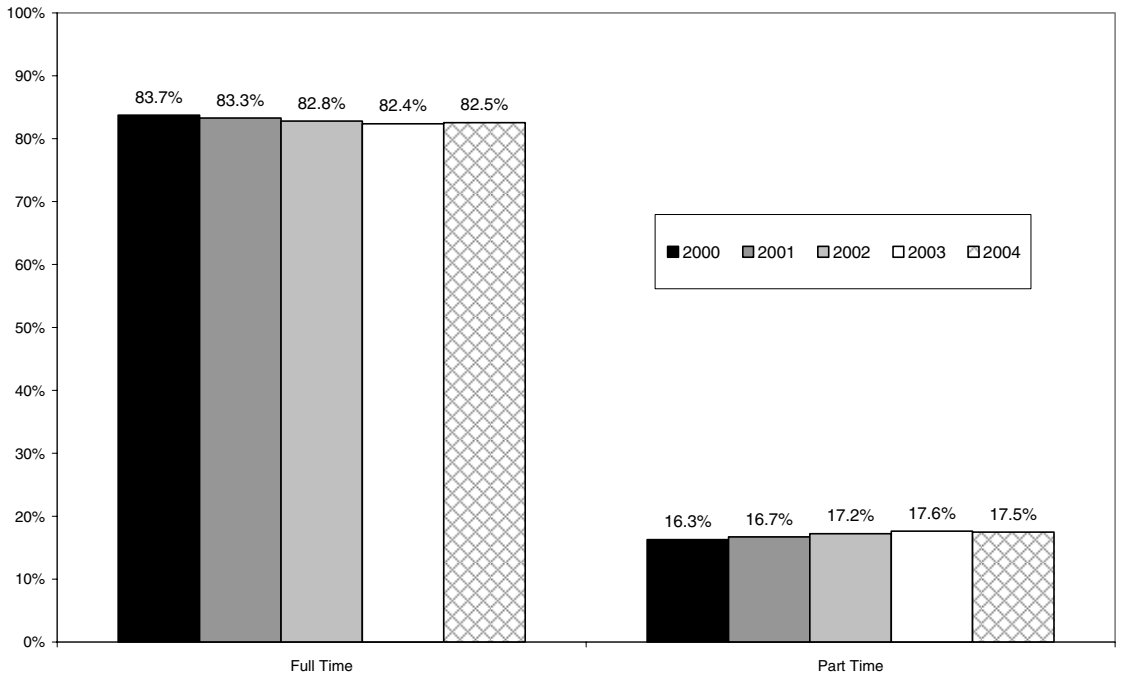
The percentage of workers in the labor force employed either full time or part time tends to vary with the strength of the economy, and for various other reasons. In 2004, 17.5 percent of workers ages 18–64 were employed part time, up from 16.3 percent in 2000 (Figure 1).[6] The movement of workers from full-time status to part-time status has significant implications for their health benefits. In 2004, 18.6 percent of workers employed part time were covered by employment-based health benefits through their own employer (Figure 2). This compares with 61.5 percent of full-time workers with health benefits through their own employer. As a result, any shift of workers from full time to part time will likely lead to fewer workers with employment-based health benefits unless they obtain them from another source, such as a working spouse.

Between 2000 and 2004, not only did the percentage of workers employed part time increase but the likelihood that a part-time worker had employment-based health benefits from his or her own employer dropped as well, from 19.6 percent in 2000 to 18.6 percent in 2004 (Figure 2). Similarly, the percentage of full-time workers with employment-based health benefits from their own employer dropped from 64.4 percent to 61.5 percent between 2000 and 2004. While the drop for part-time workers was only 1 percentage point, compared with a drop of 2.9 percentage points among full-time workers, the relative decline in the likelihood of having employment-based health benefits was about the same for both full-time and part-time workers —1.2 percent for full-time workers and 1.3 percent for part-time workers.

Hours of Work and Industry of Employment

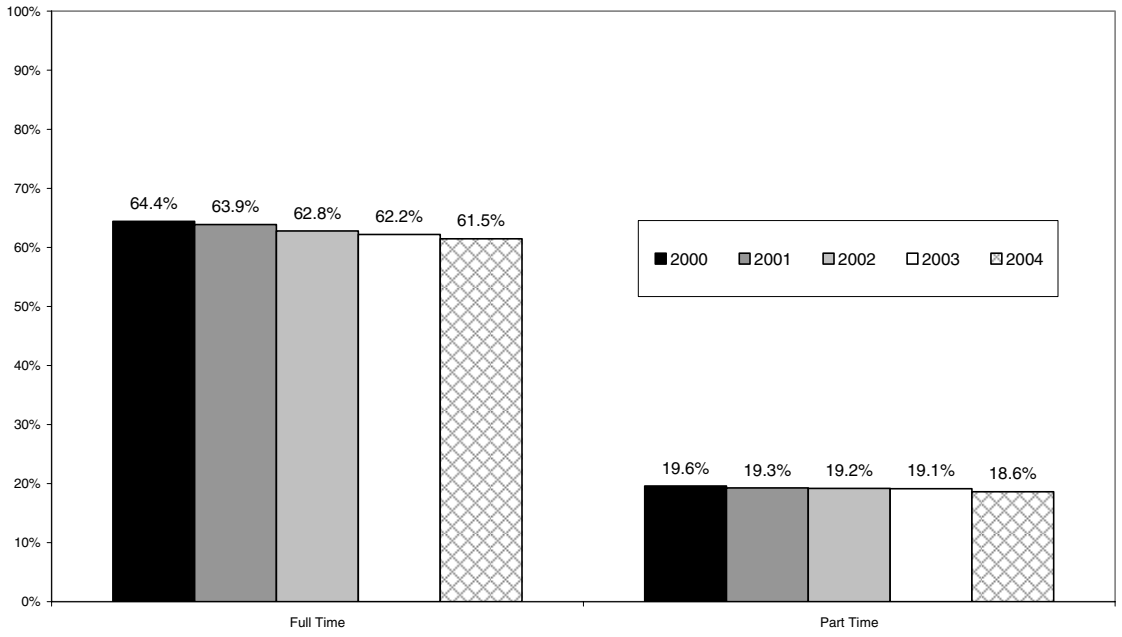
Not only does the use of part-time employees vary by industry, but the change in the propensity to use part-time workers has not been evenly distributed across industries. The personal service and manufacturing industries have been the ones most likely to increase the use of part-time workers between 2000 and 2004 (Figure 3). In contrast, the use of part-time workers declined by nearly 3 percent in the wholesale and retail trade industry, and declined slightly in the public sector. Furthermore, simply examining 2000 and 2004 as endpoints masks some variation in the use of part-time workers between those years. For example, in the personal service sector, the use of part-time workers first decreased and then increased before decreasing again. In the manufacturing sector, the use of part-time workers first increased, and then decreased between 2000 and 2004.

Figure 1
Workers, Ages 18–64, by Hours of Work, 2000–2004



Source: Employee Benefit Research Institute estimates from the Current Population Survey, March 2001–2005 supplements.

Figure 2
Percentage of Workers, Ages 18–64, With Employment-Based Health Benefits From Own Employer, by Hours of Work, 2000–2004



Source: Employee Benefit Research Institute estimates from the Current Population Survey, March 2001-2005 supplements.

The degree to which part-time workers had employment-based health benefits from their own employer changed across the industry groups examined in this study. In 2004, 16.4 percent of part-time workers in the service sector had employment-based health benefits from their own employer, down from 20.3 percent in 2000, a 5.2 percent decline. Part-time workers in manufacturing experienced a 1.6 percent drop in the likelihood of having employment-based health benefits from their own employer, declining from 29.2 percent in 2000 to 27.4 percent in 2004, but there was important variation in the years in between. The likelihood that a part-time worker in manufacturing had health insurance reached 32.6 percent in 2001, but was as low as 27.4 percent in 2002, before rebounding in 2003, and declining again in 2004.

Figure 3

Hours of Work and Employment-Based Health Benefits, Workers Ages 18–64, by Industry, 2000–2004

	2000	2001	2002	2003	2004
Workers, by Hours of Work					
Agriculture, forestry, fishing, mining & construction					
full time	90.8%	89.8%	90.1%	89.4%	89.9%
part time	9.2	10.2	9.9	10.6	10.1
Manufacturing					
full time	93.9	93.9	93.4	92.6	92.9
part time	6.1	6.1	6.6	7.4	7.1
Wholesale & retail trade					
full time	79.1	78.8	81.9	81.9	81.4
part time	20.9	21.2	18.1	18.1	18.6
Personal services					
full time	76.1	76.5	72.4	71.3	72.3
part time	23.9	23.5	27.6	28.7	27.7
Public sector					
full time	85.5	85.2	85.1	86.1	85.8
part time	14.5	14.8	14.9	13.9	14.2
Percentage of Workers With Employment-Based Health Benefits From Own Employer					
Agriculture, forestry, fishing, mining & construction					
full time	43.1	42.3	44.6	41.2	40.2
part time	15.3	15.2	15.7	14.2	13.7
Manufacturing					
full time	75.4	75.0	72.3	72.7	71.7
part time	29.2	32.6	27.4	30.5	27.4
Wholesale & retail trade					
full time	57.5	56.3	60.5	59.5	58.8
part time	14.7	14.1	17.1	17.6	15.6
Personal services					
full time	60.7	61.3	53.2	52.9	52.4
part time	20.3	19.0	17.1	16.2	16.4
Public sector					
full time	81.8	82.0	81.0	81.3	81.5
part time	29.6	31.6	28.5	29.3	31.7

Source: Employee Benefit Research Institute estimates from the Current Population Survey, March 2001–2005 supplements.

Hours of Work and Firm Size

The use of part-time employees also varies by firm size, and the change in the propensity to use part-time workers has not been evenly distributed across firm size either. Generally, the percentage of workers employed part time declines with firm size, although a greater percentage of workers at firms with 500 or more employees worked part time than the percentage of those at firms with 25–499 workers (Figure 4). Firms with 500 or more workers appear to have increased their use of part-time workers the most between 2000 and 2004. However, workers in firms with fewer than 10 workers were the least likely to have employment-based health benefits from their own employer, and have experienced the most erosion in coverage when compared with workers in firms of other sizes.

Figure 4

Hours of Work and Employment-Based Health Benefits, Workers Ages 18–64, by Firm Size, 2000–2004

	2000	2001	2002	2003	2004
Workers, by Hours of Work					
Feweer than 10 employees					
full time	75.4%	74.7%	75.0%	74.6%	75.2%
part time	24.6	25.3	25.0	25.4	24.8
10–24 employees					
full time	80.6	80.7	79.9	80.5	81.0
part time	19.4	19.3	20.1	19.5	19.0
25–99 employees					
full time	85.5	85.2	85.1	84.2	84.6
part time	14.5	14.8	14.9	15.8	15.4
100–499 employees					
full time	88.0	87.5	86.9	87.5	87.7
part time	12.0	12.5	13.1	12.5	12.3
500 or more employees					
full time	85.6	85.7	85.0	84.4	84.2
part time	14.4	14.3	15.0	15.6	15.8
Percentage of Workers With Employment-Based Health Benefits From Own Employer					
Fewer than 10 employees					
full time	31.3	31.0	30.3	30.1	29.2
part time	13.2	11.7	12.0	12.6	11.8
10–24 employees					
full time	49.7	48.4	48.6	47.4	46.2
part time	13.0	12.6	12.7	12.4	12.5
25–99 employees					
full time	62.6	63.4	61.0	61.8	61.1
part time	17.9	18.7	16.6	17.6	18.3
100–499 employees					
full time	72.2	71.3	71.3	70.4	69.5
part time	21.3	23.0	22.4	23.6	22.9
500 or more employees					
full time	77.4	77.0	76.6	76.3	75.9
part time	25.8	26.1	26.5	25.3	24.4

Source: Employee Benefit Research Institute estimates from the Current Population Survey, March 2001–2005 supplements.

Conclusion

The percentage of individuals under age 65 with employment-based health benefits has been falling since 2000. The underlying causes of this decline can be attributed to *structural changes* in the economy, such as the movement of workers from the manufacturing sector to the service sector, and the increase use of part-time workers. The decline can also be attributed to *nonstructural changes* such as the rising cost of health benefits. The fundamental difference between structural and nonstructural changes must be understood in order to formulate sound public policy.

Currently, employers that offer health benefits are continuing to experience increases in health benefit costs that are about four times the overall rate of inflation. Given these rising costs, and other factors such as structural changes in the work force, there is every reason to believe that the decline in the percentage of workers with employment-based health benefits will continue. As long as the erosion of employment-based health benefits is partly due to structural changes in the economy, and with health benefit cost increases predicted to continue in the future, the current downward trend in health coverage can be expected to continue and even accelerate.

Endnotes

[1] Paul Fronstin, "Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2005 Current Population Survey," *EBRI Issue Brief* no. 287 (Employee Benefit Research Institute, November 2005).

[2] _____, "Employment-Based Health Benefits: Trends in Access and Coverage," *EBRI Issue Brief* no. 284 (Employee Benefit Research Institute, August 2005).

[3] _____, "The Impact on Employment-Based Health Benefits of the Shift From a Manufacturing Economy to a Service Economy," *EBRI Notes,* no. 6 (Employee Benefit Research Institute, June 2004).

[4] _____, "Has There Been a Shift to Small Firms? The Impact of Firm Size on Employment-Based Health Benefits," *EBRI Notes,* no. 8 (Employee Benefit Research Institute, August 2004).

[5] Paul Fronstin, "Union Status and Employment-Based Health Benefits," *EBRI Notes,* no. 5 (Employee Benefit Research Institute, May 2005).

[6] The Census Bureau defines a part-time worker as one who worked less than 35 hours per week in a majority of the weeks in which he or she worked during the year.

Facts from EBRI: Typical Health Benefit Package in Private Industry

by Ken McDonnell, EBRI

Offer, Access, Participation, and Take-Up Rates

- Percentage of establishments offering health care benefits (2004 data) (health care may include a medical plan or a separate dental, vision, and outpatient prescription drug plan):
  - For current workers: 61 percent.
  - For retirees under age 65: 5 percent.
  - For retirees over age 65: 4 percent.
- Percentage of workers with access to the following benefits (2005 data):
  - Medical care plan: 70 percent.
  - Dental care plan: 46 percent.
  - Vision care plan: 29 percent.
  - Outpatient prescription drug plan: 64 percent.
- Percentage of workers participating in the following benefits (2005 data):
  - Medical care plan: 53 percent.
  - Dental care plan: 36 percent.
  - Vision care plan: 22 percent.
  - Outpatient prescription drug plan: 48 percent.
- Percentage of workers who have access to and participate in the plan (2005 data):
  - Medical care plan: 75 percent.
  - Dental care plan: 78 percent.
  - Vision care plan: 75 percent.
  - Outpatient prescription drug plan: 75 percent.

Plan Type

- Percentage of workers participating in a medical plan by type of plan (2003 data):
  - Traditional indemnity: 7 percent.
  - Preferred provider organization (PPO): 67 percent.
  - Health maintenance organization (HMO): 24 percent.

Cost-Sharing Provisions (2003 data)

- Percentage of workers required to make a contribution to medical plan premium:
  - Single coverage: 76 percent.
  - Family coverage: 88 percent.
- Percentage of medical plan premiums paid by the worker:
  - Single coverage: 18 percent.
  - Family coverage: 29 percent.

- Average monthly contribution to medical plan premium:
  - Single coverage: $68.96.
  - Family coverage: $273.03.

- Percentage of workers with access to a health savings account: 5 percent.

Deductible

- Percentage of workers participating in a medical plan with a deductible, and the average annual deductible amount:
  - Traditional indemnity: 88 percent.
    - ► Average annual individual deductible: $374.
    - ► Average annual family deductible: $792.
  - PPO, without primary care physician: 79 percent.
    - ► Average annual individual deductible: $431.
    - ► Average annual family deductible: $1,124.
  - PPO, with primary care physician: 44 percent:
    - ► Average annual individual deductible: $485.
    - ► Average annual family deductible: $1,115.

Co-insurance

- Ninety-nine percent of traditional indemnity plan participants had a coinsurance provision, with 80 percent being the most common coinsurance rate (77 percent of participants).
- Eighty percent of PPO participants had a coinsurance provision, with 80 percent being the most common coinsurance rate (45 percent of participants).

Maximum Out-of-Pocket Expenses Limit

- Percentage of workers participating in a medical plan with a maximum out-of-pocket expenses limit and average annual amount
  - Traditional indemnity: 73 percent.
    - ► Average annual maximum on individual out-of-pocket expense limit: $1,734.
    - ► Average annual maximum on family out-of-pocket expense limit: $3,486.
  - Preferred provider organization (PPO): 81 percent.
    - ► Average annual maximum on individual out-of-pocket expense limit: $1,982
    - ► Average annual maximum on family out-of-pocket expense limit: $3,944.

Quality of Life Programs (2003 data)

- Percentage of workers who have access to the following benefits:
  - Long-term care insurance: 11 percent.
  - Flexible benefits plan: 17 percent.
  - Health care reimbursement account: 31 percent.
  - Wellness programs: 23 percent.
  - Fitness center: 13 percent.
  - Employee assistance program: 40 percent.
  - Family leave:
    - ► Paid leave: 7 percent.
    - ► Unpaid leave: 81 percent.

Sources: U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in Private Industry in the United States, 2002–2003*; *National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2004* and *National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2005.*

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EBRI Employee Benefit Research Institute Notes (ISSN 1085–4452) is published monthly by the Employee Benefit Research Institute, 2121 K Street, NW, Suite 600, Washington, DC 20037-1896, at $300 per year or is included as part of a membership subscription. Periodicals postage rate paid in Washington, DC, and additional mailing offices. POSTMASTER: Send address changes to: *EBRI Notes*, 2121 K Street, NW, Suite 600, Washington, DC 20037-1896. Vol. 27, no. 5.

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