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**Committee on Small Business
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Hearing on

Small Business and Health Insurance

Testimony Submitted by

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Small Employers and Health Benefits: Findings From the 2002 Small Employer Health Benefits Survey

by Paul Fronstin, EBRI

Highlights:

- Overall, 19 percent of small employers offering health benefits made changes to their health plan between 2001 and 2002. Sixty-five percent increased deductibles and co-pays; 35 percent switched insurers; 30 percent increased the employee share of the premium; and 29 percent cut back on the scope of benefits. Twenty-six percent increased the scope of benefits offered.
- Over 40 percent of the employers in our sample reported that the cost of health benefits affected some aspect of their business other than the actual health benefits. Some employers reported that they reduced or eliminated pay raises or bonuses, reduced other employee benefits, or put off equipment and other purchases. Some employers also reported that they either were not able to hire needed workers or they laid off some workers.
- Nearly one-quarter of small employers offering health benefits think their firm would change coverage and 3 percent think it would drop coverage if the cost were to increase an additional 5 percent.
- Most small employers offer sound business reasons for offering health benefits to workers. Many report that it helps with employee recruitment and retention, and increases productivity. More than three-quarters report that offering health benefits is “the right thing to do.”
- Most small employers that *do* offer health benefits report that it has a positive impact on various aspects of the business, such as recruitment, retention, employee attitude and performance, employee health status, and the overall success of the business. Most small employers that do *not* offer health benefits tend to think that not offering them has no negative impact on the above aspects of their business or the overall success of the business. However, those not offering benefits are more likely than those offering them to report that most of their employees are high-turnover and stay on the job only a few months.
- Small employers that offer health benefits tend to be distinctly different from those not offering them. Worker income in firms not offering health benefits tends to be considerably lower than in firms that do offer them. Employers not offering health benefits are more likely than those offering them to have a smaller proportion of full-time employees, and employers that do not offer health benefits have a larger proportion of females, workers under age 30, and minority employees. Even among firms with three to

49 employees, firms that do not offer health benefits tend to be smaller than those that do. In addition, employers not offering benefits are more than twice as likely to have annual gross revenues of less than \$500,000.

- Many small employers that do not offer health benefits are potential purchasers. Eleven percent are either extremely or very likely to start offering health benefits in the next two years, and 22 percent are somewhat likely to start offering health benefits.
- A number of factors would increase the likelihood that a small business would seriously consider offering a health benefits plan. Nearly three-quarters would seriously consider offering health benefits if the government provided assistance with premiums. More than 40 percent would consider doing so if insurance costs fell 10 percent. In addition, nearly half would be more likely to seriously consider offering a health benefits plan if employees demanded it.

Introduction

Employment-based health insurance is by far the most common form of health insurance coverage in the United States. More than 100 million workers, or 74 percent of the adult working population, were covered by employment-based health benefits in 2001 (Fronstin, 2002b). Overall, the employment-based health benefits system covered more than 162 million Americans under age 65, or 66 percent of the nonelderly population. Public programs—such as Medicaid, Medicare, and Tricare—covered 15 percent of the nonelderly population.

Employers offer health benefits to workers for a number of reasons. Health benefits provide workers and their families with protection from financial losses that can accompany unexpected serious illness or injury. Health benefits can also be used to promote health, to increase worker productivity, and as a form of compensation to recruit and retain qualified workers. When asked to rank the importance of all employee benefits, health benefits are by far the benefit most valued by workers and their families. Sixty percent of workers responding to a recent survey rated employment-based health benefits as the most important benefit (Christensen, 2002).

Most workers with access to employment-based health benefits take up coverage from that employer. In 2001, 82 percent of workers whose employer offered them health benefits were covered by that plan (Fronstin, 2002a). Of the remaining 18 percent not participating in their employers' benefits plan, 61 percent were covered by another health plan. In other words, of workers offered health benefits by their employer, 82 percent were covered by that plan, 14 percent had coverage elsewhere, while 4 percent remained uninsured.

The likelihood that a worker has health benefits from his or her employer varies substantially by firm size. Workers in the smallest firms tend to be the least likely to have health benefits from their own employer. In 2001, 28 percent of workers employed in firms with fewer than 10 employees were covered by their employer's health benefits (Fronstin, 2002b). More than 40 percent of workers employed in a firm with 10 to 24 employees had coverage from their employer, and 56 percent of workers in firms with 25 to 99 employees had coverage from their employer. In contrast, 68 percent of workers in firms with 1,000 or more employees were covered by their employer's health benefits.

The likelihood that a worker has coverage from his or her own employer is a function of whether the employer offers that employee health benefits, and whether the employee takes it when offered. Overall, workers in small firms are less likely to be offered health benefits. In 2001, 44 percent of workers in establishments with fewer than 10 employees were offered coverage, compared with 86 percent among workers in establishments with 100 or more employees.¹ When offered coverage, workers in small establishments are almost as likely as workers in large establishments to take coverage. In 2001, 81 percent of workers in establishments with fewer than 10 employees took the coverage when offered, compared with 89 percent among workers in establishments with 100 or more employees.

While most workers participate in their employer's health plan when it is offered to them, many workers are clearly not offered health benefits or do not participate in the plan when it is offered. Of the 41 million Americans who do not have health insurance coverage, 86 percent are in a family with a worker and 62 percent of uninsured workers are employed by firms with fewer than 100 employees (Fronstin, 2002b). Since workers

in small firms are less likely to be offered health benefits than workers in large firms, it is important to understand why small employers are less likely than large employers to offer health benefits, and what might motivate more small employers to offer health benefits to workers.

This testimony presents findings from the 2002 Small Employer Health Benefits Survey (SEHBS). It is based on work found in Fronstin and Helman (2003). The testimony also presents a comparison of the 2002 survey to data collected in 2000.² The survey examines a number of issues related to small employers and their decision to offer health benefits to workers. The goal of the survey was to gather information to better understand how to get more small employers to offer health benefits. Since the vast majority of large employers offer health benefits, but many small employers do not, understanding the health coverage decisions of small-business owners is of critical importance in efforts to expand health insurance coverage in the current health insurance system and reduce the growing number of uninsured Americans.

Health Benefit Costs

Like employers nationally, the employers in the SEHBS sample have been experiencing double-digit cost increases. In 2002, the cost of employee-only coverage averaged \$3,392 annually for the employers in our sample, up from \$3,008 in 2001.³ This represents an increase of 13.1 percent between 2001 and 2002 and is consistent with other surveys of small employers.⁴

While these averages help to explain important trends, on the surface, they mask other important changes that are taking place. For example, while 35 percent of employers paid between \$3,000 and \$4,000 for employee-only coverage in 2002, the premium was less than \$1,000 for 3 percent of employers, between \$1,000 and \$2,000 for 11 percent, between \$4,000 and \$5,000 for 8 percent, and \$5,000 or higher for 11 percent (Figure 1).

While 13.1 percent was the average annual increase in premiums, 6 percent of employers reported a decrease in their premium (though never larger than 1 percent), 25 percent reported no change in their premium, and 18 percent reported that their premium increased less than 10 percent (Figure 2). Furthermore, 28 percent of employers reported that premiums had increased by at least 20 percent.

Overall, 19 percent of the employers that offered health benefits made changes to their health plan between 2001 and 2002. Given recent stories about premium increases, this is a surprisingly small percentage, but it is also related to whether or not an employer made a benefit change in order to avoid large premium increases.⁵ Of the employers that did make changes to their benefits plan between 2001 and 2002, employers were more likely to ask employees to pay more when they needed health care services than to make any other change. Sixty-five percent of employers reported increasing deductibles and co-pays, while 35 percent switched to a different insurer (Figure 3). About 30 percent each increased the share of the premium that employees were required to make to participate in the plan and cut back on the scope of benefits offered. Also, 26 percent of the employers in the sample increased the scope of benefits offered.

While only 19 percent of employers that offered health benefits made changes to their health plan between 2001 and 2002, the employers surveyed in the SEHBS also reported that the cost of health benefits has affected their business in other ways. Some

employers reported that they reduced or eliminated pay raises or bonuses, reduced other employee benefits, or put off equipment and other purchases. Some employers also reported that they either were not able to hire needed workers or they laid off some workers. Overall, 43 percent of the employers in our sample reported that the cost of health benefits affected some aspect of their business other than the actual health benefits. The survey also found that 21 percent of the employers not offering health benefits reported offering them some time within the last five years, with more than 40 percent reporting that the business decided to drop benefits because of the cost.

Affordability for the employer and the worker is a clearly a critical factor affecting the future changes to health benefit programs. Overall, 23 percent of respondents from companies offering health benefits think their firm would change coverage and 3 percent think it would drop coverage if the cost of health insurance in general were to increase by an additional 5 percent (Figure 4). If costs increased 10 percent, 42 percent think their firm would change coverage and 7 percent think it would drop coverage. If costs increased 15 percent, 54 percent think their firm would change coverage, while 15 percent think it would drop coverage.

Of the employers reporting that they would drop coverage at various levels of premium increases, 27 percent were either extremely likely or very likely to provide cash assistance to employees to help them buy health insurance on their own. Nearly 40 percent were somewhat likely to provide cash assistance, and 31 percent were not likely. While employers report that they will drop coverage if costs increase, they may not be able to easily drop coverage if cost increases are coupled with a tight labor market. For example, when costs increased 17 percent between 1998 and 2000 for small employers, the percentage of them offering health benefits increased 24 percent (Levitt, et al., 2001). While some employers may have dropped health benefits in response to the cost increase, even more added health benefits, many for the first time, possibly because they were competing for qualified workers during a time of low unemployment.

Impact of Offering Benefits

Employers offer health benefits for a number of reasons. In general, most employers offer sound business reasons for offering health benefits to workers. Among the small employers responding to the survey, 45 percent reported that a major reason for offering it is that it helps with employee recruitment, while 30 percent said employee recruitment was a minor reason (Figure 5). Many employers already reported that offering health benefits helps increase loyalty and reduces turnover. Fifty-two percent reported that as a major reason, while 26 percent reported it as a minor reason. Increasing productivity was another reason why many employers offered health benefits, with 28 percent reporting it as a major reason, and 36 percent reporting it as a minor reason. Interestingly, 77 percent of employers reported that a major reason for offering health benefits was because “it was the right thing to do.” An additional 15 percent reported it as a minor reason.

When specifically asked whether offering health benefits has an impact on their business, most small employers with benefits agree that it does. More than 70 percent say that offering this benefit has a major or minor impact on employee recruitment and retention, with roughly one-third reporting that it has a major impact (Figure 7). Nearly 70 percent indicate it has either a major or minor impact on employee attitude and

performance, 66 percent each report an impact on the health of their employees and the overall success of the business, 54 percent state offering health benefits has an impact on absenteeism.

The likelihood of reporting an impact is higher for larger than for smaller firms, but even among those with two to nine workers, majorities indicate that offering health benefits has an impact on each of these issues. According to Figure 6, 63 percent of those with two to nine workers say it has either a major or minor impact on employee recruitment, compared to 85 percent among employers with 25 to 50 workers. About 65 percent of employers with two to nine workers report that health benefits have had an impact on retention, compared to 84 percent among employers with 25–50 workers.

In contrast to the value perceived by respondents from firms with health benefits, most of those from companies that do not offer workers health coverage tend to think that not having health benefits has no impact on these factors. Between 68 and 80 percent of employers not offering health benefits report that not offering them has had no impact on employee recruitment, employee retention, employee attitude and performance, the health of their employees, absenteeism, or the overall success of their business (Figure 7).

While employers not offering health benefits generally do not perceive that the lack of health benefits has an impact on employee retention, those without coverage are more likely than those with coverage to report that most of their employees stay only a few months. Specifically, 6 percent of employers not offering health benefits reported high turnover of workers, compared to 2 percent among employers offering health benefits (Figure 8). Furthermore, 53 percent of employers not offering health benefits reported that they experienced little turnover, compared with 62 percent among employers offering health benefits. It is possible that some decision makers may be unaware of or underestimating the effect that their firm's lack of coverage has on turnover. However, respondents without health benefits who describe their employee turnover as high or moderate are more likely than those with little turnover to report that not offering health insurance has an impact on recruitment, retention, performance, health status, absenteeism, and the overall success of their business (Figure 9).

Just as the larger employers among those surveyed are more likely than smaller employers to experience an impact from offering benefits, larger employers that do not offer health benefits are more likely than smaller ones to report an impact due to their lack of employee health coverage. More than 50 percent of employers with 25 to 50 workers report that not offering health benefits has had a major or minor impact on employee recruitment (Figure 10). In addition, 49 percent report that not offering health benefits has had an impact on employee retention, and 43 percent report that not offering health benefits has had an impact on employee attitude and performance. In contrast, between 19 and 29 percent of employers with two to nine workers perceive that not offering health benefits has had an impact on recruitment, retention, performance, health status of workers, and absenteeism.

Employer Profiles

Small employers that offer health benefits to workers tend to be distinctly different from small employers not offering health benefits. This may partially explain why some companies find that offering or not offering health benefits has an impact on employee recruitment, retention, and performance, while others do not. It may also help

explain why some firms do not offer workers health benefits in spite of experiencing an impact on their business as a result of not offering health benefits.

Worker Characteristics

The income of workers in firms *not offering* health benefits tends to be considerably lower than worker income in firms that *do offer* health benefits. Nearly 50 percent of employers not offering health benefits, pay annual wages of less than \$15,000 per year to 40 percent or more of their employees, compared to 13 percent of companies that do offer health benefits (Figure 11).

In addition to differences in income, companies not offering health benefits are more likely than employers offering health benefits to have a smaller proportion of full-time employees. More than one-half of employers not offering health benefits, and 30 percent of employers offering health benefits indicate that fewer than 80 percent of their employees work full time (Figure 12). Firms that do not offer health benefits also tend to have larger proportions of females, workers under age 30, and minority employees.

Firm Size and Revenue

The smaller a firm, the less likely it is to offer health coverage. Of the employers that do not offer health benefits, 85 percent employed fewer than 10 workers (Figure 13). In contrast, of the employers surveyed that do offer health benefits, 66 percent employed fewer than 10 workers. In addition, employers not offering health benefits are more than twice as likely to have annual gross revenues of less than \$500,000. Sixty-five percent of employers that do not offer health benefits had annual gross revenue of less than \$500,000, compared with 33 percent among employers that did offer health benefits (Figure 14). While 29 percent of companies with health benefits report gross revenues of \$1,000,000 or more, 18 percent of employers not offering health benefits report this level of revenue.

Some of the differences in revenues between companies with and without benefits result from the fact that firms with benefits tend to have more workers than those without benefits. However, companies with health coverage generally have higher gross revenues than those without benefits even when comparing companies with similar numbers of employees.

Firm Tenure

Companies that do not offer workers health coverage have generally been in business for less time than have those that offer coverage. In particular, companies without plans are more likely than those with plans to have been in business for less than five years (13 percent vs. 19 percent), and less likely to have been in business for 30 years or longer (20 percent vs. 12 percent) (Figure 15).

Likelihood of Offering Benefits

Some employers not currently offering health benefits have offered them in the past. Overall, 21 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, up from 12 percent in 2000 (Figure 16). Just over 40 percent reported that the cost of coverage was the main reason for dropping health benefits, while another 18 percent reported that

either too few employees took coverage when offered or because employees did not want it, and 14 percent reported that employees had coverage elsewhere.

Reasons for Not Offering Benefits

Financial concerns, together with the availability of coverage elsewhere, are the reasons most frequently mentioned for not offering health benefits to employees. Nearly 80 percent of employers not offering health benefits report that a major or minor reason for not offering them was because their business cannot afford to offer them, up from 69 percent in 2000 (Figure 17). In addition, 68 percent report that revenue is too uncertain to commit to offering a health benefits plan, up from 56 percent in 2000, and 61 percent report that their company does not have a plan because employees have coverage elsewhere, which is unchanged from 2000. Nearly 50 percent reported that they did not offer health benefits because they did not need it to recruit and retain workers, up from 35 percent in 2000.

Potential Benefit Sponsors

One-third of firms that do not currently offer health benefits are potential purchasers of health benefits for their employees. Eleven percent of employers not currently offering health benefits are either extremely or very likely to start offering a health benefit plan for employees in the next two years (Figure 18). This is statistically unchanged from 2000. An additional 22 percent are somewhat likely to start a health benefits plan, up from 17 percent in 2000. However 66 percent of employers not offering health benefits said they are not likely to offer them in the next two years.

Companies likely to start a health benefits plan differ from others not currently offering a plan in a number of ways. Those likely to start a health benefits plan are more apt to have been in business for less than 10 years. Nearly 70 percent of employers not offering health benefits, but who are extremely or very likely to offer them in the next two years, report that they have been in business for less than 10 years (Figure 19). In contrast, only 31 percent of those not likely to offer health benefits have been in business less than 10 years.

Employers who are extremely or very likely to start offering a health plan are also more likely than those not likely to start offering a health plan to report that not offering health benefits has had an impact on employee recruitment, retention, performance, the health status of their employees, absenteeism, and the overall success of the business.

Factors That Would Encourage Sponsorship

Employers not offering health benefits were read a list of factors that might make their business more likely to seriously consider offering a health benefits plan. Not surprisingly, respondents are most inclined to say that factors having to do with increasing the affordability of health insurance coverage would make them more likely to consider offering a health benefits plan. For example, if the government were to provide assistance with premiums, 71 percent said they would be much more likely or somewhat more likely to seriously consider offering health benefits (Figure 20). Also, 63 percent would consider offering health benefits if there were an increase in the business's profits, and 44 percent report that they would consider doing so if insurance costs fell 10 percent. Forty five percent said they would be more likely to seriously consider offering a health

benefits plan as a result of employee demand and 40 percent said they would do so if it improved recruitment and retention.

Tax Incentives

In general, small employers support tax breaks to reduce the health insurance costs of low-wage workers. More than half (58 percent) of employers surveyed strongly favor tax breaks that they could use to reduce health insurance costs for their low-wage workers (Figure 21). An additional 28 percent would somewhat favor such a proposal. Just 7 percent would somewhat or strongly oppose it. Companies that currently offer health benefits are slightly more likely than those that do not to strongly favor tax breaks. Among employers not offering health benefits, 30 percent said they would be much more likely to offer them if the government provided tax breaks to reduce health benefit costs for low-wage workers, while another 47 percent would be somewhat more likely to offer benefits (Figure 22).

Small employers not offering health benefits would also be more likely to offer them if tax credits for health insurance were available to workers. Just over one-quarter would be much more likely to offer health benefits and another 49 percent would be somewhat more likely to offer them if workers had such assistance (Figure 22).

Employer Knowledge of the Tax Treatment of Health Benefits

Currently, health insurance premiums paid by employers on behalf of workers are tax-deductible for employers as a business expense. They are treated the same way other labor costs and general business expenses are treated under the tax code. For example, the cost of health benefits are tax-deductible just like wages and salaries are tax deductible as a business expense.

The amount that employers pay on behalf of workers is excluded, without limit, from workers' taxable income. However, if a worker were to purchase health insurance directly from an insurer, generally none of the premium can be deducted from the workers' taxable income. For individuals who do not receive employment-based health benefits, total health care expenses (including premiums) are deductible only if they exceed 7.5 percent of adjusted gross income, and only the amount that exceeds 7.5 percent of adjusted gross income is deductible.

Until 2003, the health insurance premiums of the self-employed were treated differently from those for wage and salary workers. Seventy percent of health insurance premiums paid for partners in a business, Subchapter S owners, and self-employed individuals was deductible from such individuals' gross income in 2002. These individuals will be able to deduct 100 percent of the cost of their health insurance beginning in the year 2003.

Many small employers are making decisions about whether or not to offer health insurance coverage to their workers without being fully aware of the tax advantages that can make this benefit more affordable. For example, 57 percent of all small employers surveyed in the 2002 SEHBS did not know that health insurance premiums are 100 percent tax deductible for the employer (Figure 23).

With respect to an employer's knowledge about the tax treatment of health benefits as it affects their workers, many continued to make false assumptions. More than one-third are not aware that employees who purchase health insurance on their own

generally cannot deduct 100 percent of their health insurance premiums. In addition, 38 percent did not know that employees do not pay tax on the share of premiums paid by their employer. However, employers offering health benefits were much more likely to be aware of this provision in the tax code than those not offering. Seventy percent of employers offering health benefits understood that the employer's share of the premium was not included in an employee's taxable income, compared with 48 percent among employers not offering health benefits.

While the SEHBS found a number of cases where employers offering health benefits were more knowledgeable than employers not offering health benefits about the tax treatment of health benefits as it applies to themselves or their workers, a surprisingly high percentage of employers offering health benefits still did not understand how those benefits are treated by the tax code. It is important for employers to understand the tax treatment of health benefits for a number of reasons. Probably the most important reason is the fact that misperceptions about how health benefits are taxed may prevent employers from offering health benefits.

Conclusion

While employment-based health benefits are by far the most common form of health insurance coverage in the United States, many workers are not offered health benefits or do not participate in the plan when it is offered. As a result, of the 41 million Americans who do not have health insurance coverage, 86 percent are in a family with a worker, and small firms employ 62 percent of uninsured workers. Since the vast majority of large employers offer health benefits, but many small employers do not, small-business owners are seen as perhaps the most crucial opportunity in efforts to expand health insurance coverage in the current health insurance system and reduce the growing number of uninsured Americans. In order to better understand how to get more small employers to offer health benefits, the SEHBS conducted a survey of small employers with between two and 50 employees.

This testimony presents a number of important findings from the 2000 and 2002 SEHBS as they relate to small employers and their decisions to offer health benefits to workers. First, most small employers offer sound business reasons for offering health benefits to workers. When asked specifically whether offering health benefits has an impact on their business, most small employers with benefits agree that it does. Employers not offering health benefits generally do not perceive that the lack of health benefits has an impact on their business, but there is evidence that it does. This analysis finds that employers not offering health benefits are more likely than those offering them to report that most of their employees are high-turnover and stay with the business for only a few months.

Second, one-third of employers not currently offering health benefits indicate they are likely to offer it in the next two years. If employers were given financial incentives to offer health benefits, health insurance coverage could be expanded, although whether the expansion would be significant is the subject of debate.

This SEHBS also identified numerous challenges to expanding health benefits among small employers. Small employers that offer health benefits tend to be distinctly different from small employers not offering them. Worker income in firms not offering health benefits tends to be considerably lower than in firms that do offer them.

Employers not offering health benefits are more likely than those offering them to have a smaller proportion of full-time employees, and employers that do not offer health benefits have a larger proportion of females, workers under age 30, and minority employees. Even among firms with three to 49 employees, firms that do not offer health benefits tend to be smaller than those that do. In addition, employers not offering benefits are more than twice as likely to have annual gross revenues of less than \$500,000.

Finally, employers—especially small employers—are sensitive to the rising cost of providing health benefits. Nearly 20 percent of the employers in the sample made changes to their health plan between 2001 and 2002. Of those that made changes, they were more likely to ask employees to pay more for needed health care services than to make any other change. If the cost of providing health benefits were reduced, more small employers would offer them. In contrast, if the cost of providing health benefits continues to increase, some employers will drop health benefits. Specifically, if the cost of health insurance increases an additional 5 percent, 23 percent of employers said that they would change their plans and 3 percent report that they would drop coverage.

Methodology

The Small Employer Health Benefits Survey (SEHBS) was designed to examine the reasons America's small employers (with two to 50 workers) offer or do not offer health benefits to their workers and related issues. The survey was conducted within the United States between July 25 and Sept. 5, 2002, through 18-minute telephone interviews with 502 companies with health benefits and 498 companies without health benefits. Within each group, quotas were established to ensure sufficient representation for analysis by number of employees. The resulting sample was weighted by presence of plan and number of employees to reflect the national population of small employers with two to 50 workers.

In theory, the weighted sample of 1,000 yields a statistical precision of plus or minus three percentage points (with 95 percent certainty) of what the results would be if all nongovernment businesses with two to 50 workers were surveyed with complete accuracy. There are other sources of error on all surveys, however, that may be more serious than theoretical calculations of sampling error. These include refusals to be interviewed and other forms of nonresponse, the effects of question wording and question order, and screening. While attempts are made to minimize these factors, it is difficult or impossible to quantify the errors that may result from them.

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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¹ EBRI estimates from the 2001 Medical Expenditure Panel Survey (MEPS). See www.meps.ahrp.gov/Puf/PufDetail.asp?ID=87 (last reviewed October 2002) for more information regarding the 2001 MEPS.

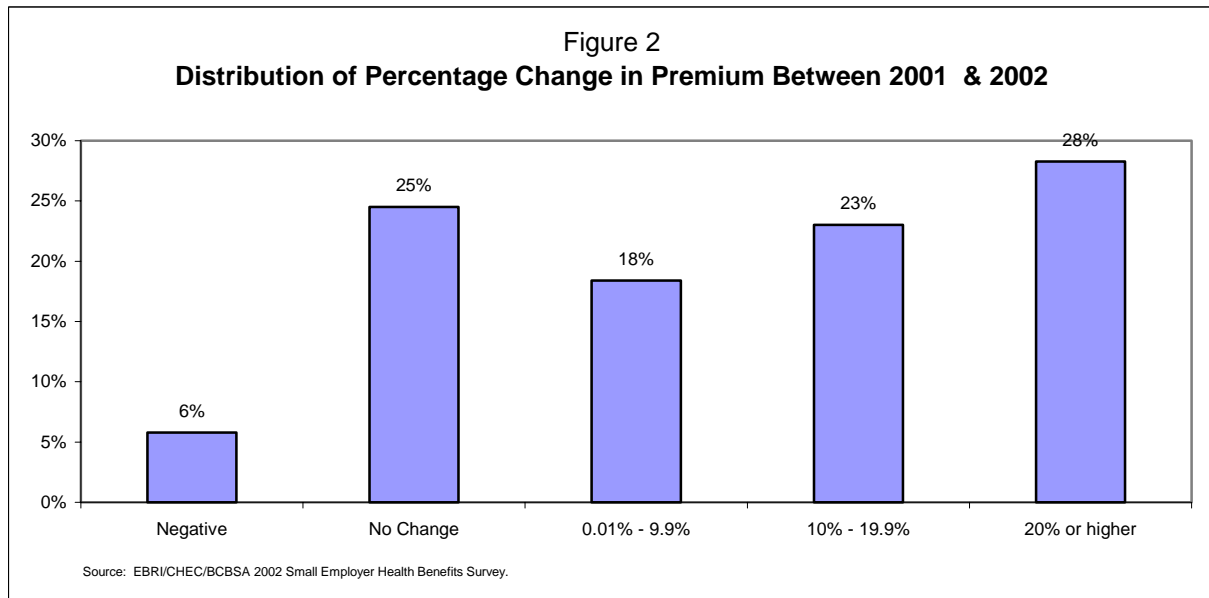
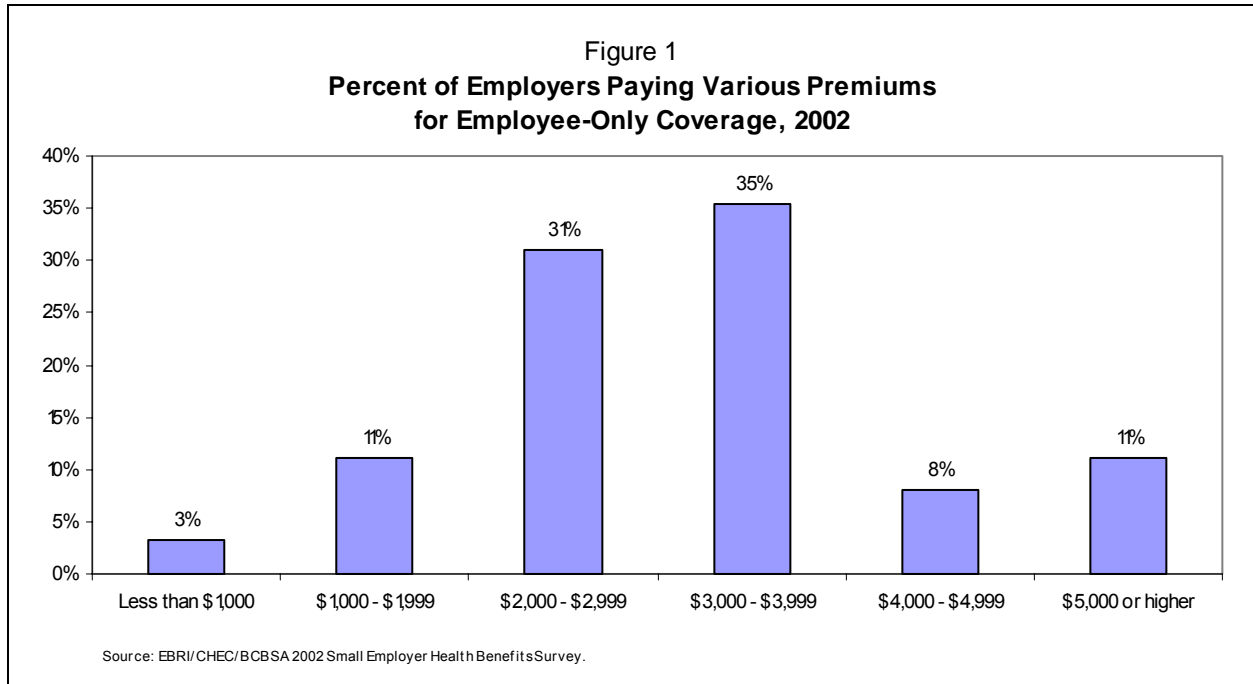
² See Fronstin and Helman (2000) for a summary of findings from the 2000 SEHBS.

³ These figures are based on the sample of 339 employers offering health benefits in both 2001 and 2000 and who also were able to report the cost of health benefits for employee-only coverage for both years.

⁴ The Kaiser Family Foundation/Health Research and Educational Trust survey found that premiums increased between 14.2 percent and 14.9 percent for employers with three to 49 employees. The survey also found that the annual premium for employee-only coverage was \$3,419 for employers with three to 9 employees, \$3,233 for employers with 10–24 employees, and \$2,867 for employers with 25–49 employees. See Gabel et al. (2002) for more information about the survey.

⁵ Plans with reductions, no change, or low increases in premiums might be expected to have been more likely to make changes to keep premium increases from occurring. However, no variation was found in the likelihood making a plan change by the change in the premium. These findings may be due to small sample sizes.

Figures



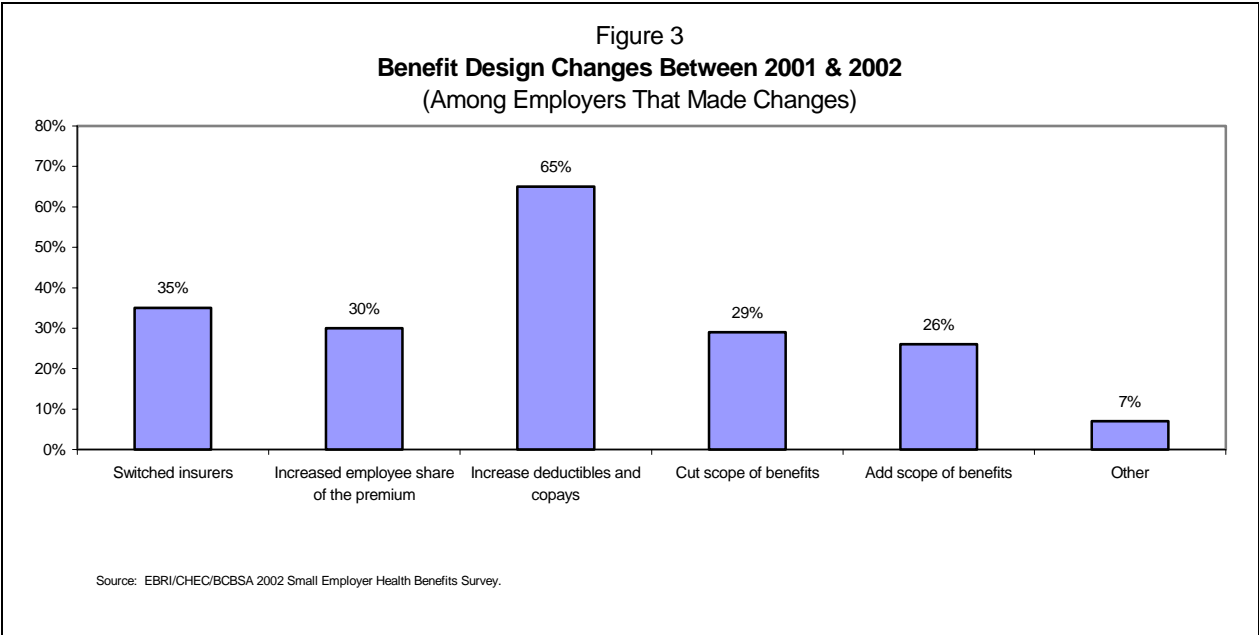


Figure 4
Potential Small Employer Reaction to Increase in Health Insurance Costs

If cost increased:	Continue to Offer			
	Current Coverage	Change Coverage	Drop Coverage	Don't Know
5 percent	70%	23%	3%	4%
10 percent	46%	42%	7%	4%
15 percent	25%	54%	15%	5%
25 percent	12%	59%	22%	6%

Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits Survey.

**Figure 5
Reasons for Offering a Health Plan, 2000 & 2002**

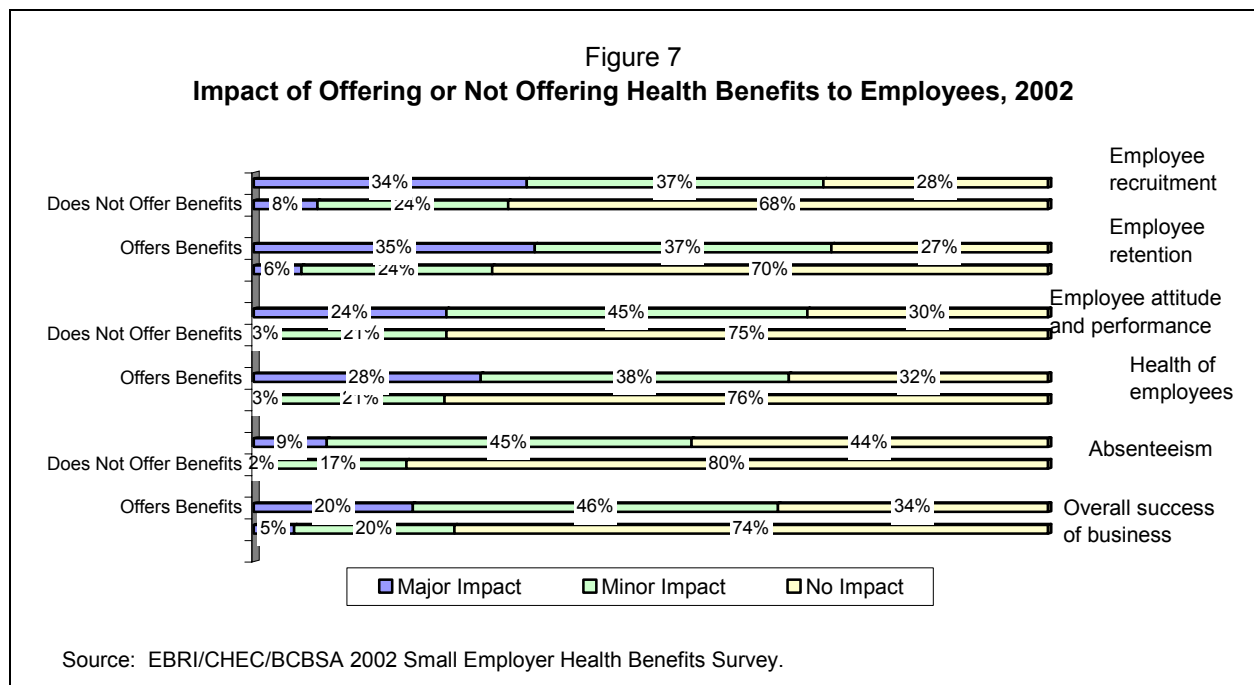
	Major Reason		Minor Reason	
	2000	2002	2000	2002
It is the right thing to do.	71%	77%	17%	15%
It helps with employee recruitment.	58	45	22	30
It increases loyalty and decreases turnover.	53	52	27	26
It increases productivity by keeping employees healthy.	37	28	33	36
Employees demand or expect it.	38	34	31	28
It reduces absenteeism by keeping employees healthy.	31	24	37	34
Competitors offer it	35	29	30	28
Tax deductible for the employer.	23	18	38	42
Not included in taxable income for employees.	11	15	35	32
One or more employees have medical problems.	11	11	23	19

Source: EBRI/CHEC/BCBSA 2000 & 2002 Small Employer Health Benefits Survey.

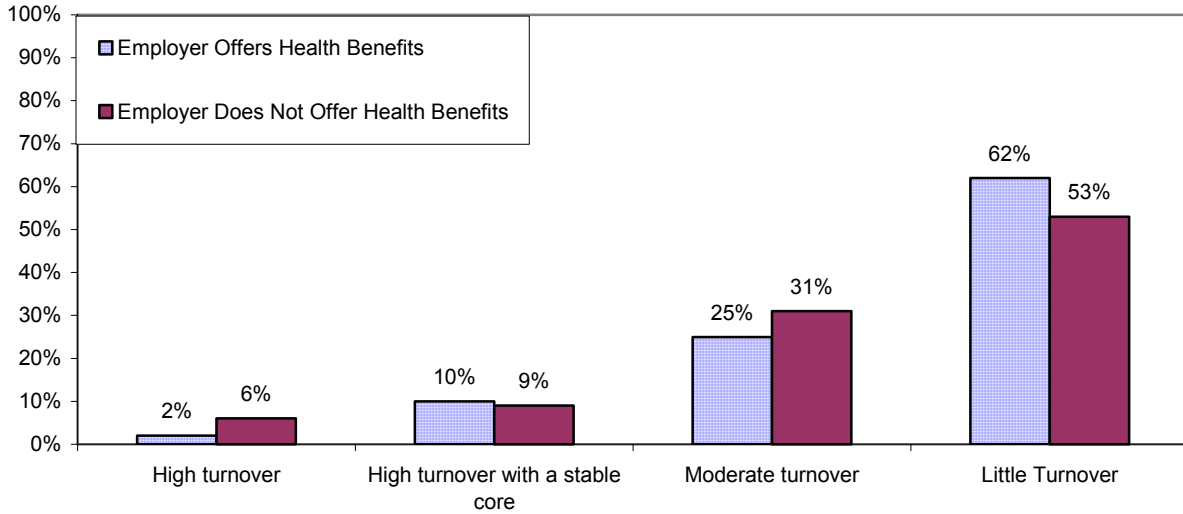
**Figure 6
Impact of Offering a Plan, by Size of Business, 2002**

	Total		2-9 Workers		10-24 Workers		25-50 Workers	
	Major Impact	Minor Impact	Major Impact	Minor Impact	Major Impact	Minor Impact	Major Impact	Minor Impact
Employee recruitment	34%	37%	27%	36%	45%	42%	54%	31%
Employee retention	35%	37%	31%	34%	42%	43%	43%	41%
Employee attitude and performance	24%	45%	22%	43%	32%	49%	23%	54%
Health of employees	28%	38%	28%	35%	27%	43%	30%	47%
Absenteeism	9%	45%	8%	43%	13%	48%	7%	56%
Overall success of Business	20%	46%	19%	42%	21%	53%	20%	57%

Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits Survey.



**Figure 8
Employee Turnover By Whether Employer Offers Health Benefits, 2002**



Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits Survey.

**Figure 9
Impact of Not Offering Health Benefits, by Employee Turnover, 2002**

	High or Moderate Turnover		Little Turnover	
	Major Impact	Minor Impact	Major Impact	Minor Impact
Employee recruitment	12%	29%	4%	19%
Employee retention	10	35	2	15
Employee attitude and performance	5	25	1	18
Health of employees	3	28	2	15
Absenteeism	3	23	2	12
Overall success of Business	8	26	3	15

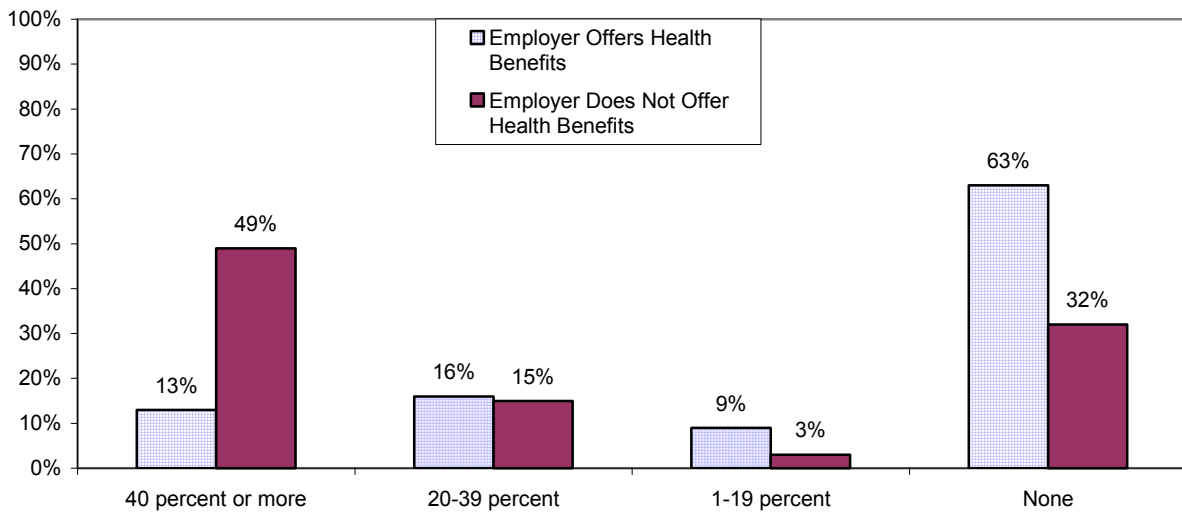
Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits Survey.

**Figure 10
Impact of Not Offering Health Benefits, by Size of Business**

	Total		2-9 Workers		10-24 Workers		25-50 Workers	
	Major Impact	Minor Impact	Major Impact	Minor Impact	Major Impact	Minor Impact	Major Impact	Minor Impact
Employee recruitment	8%	24%	7%	22%	9%	32%	16%	35%
Employee retention	6	24	5	22	8	37	19	30
Employee attitude and performance	3	21	2	21	5	25	5	38
Health of employees	3	21	2	21	5	23	11	22
Absenteeism	2	17	2	17	3	21	3	22
Overall success of Business	5	20	5	19	5	26	16	32

Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits Survey.

Figure 11
Percentage of Workforce Paid Less than \$15,000 Annually, 2002



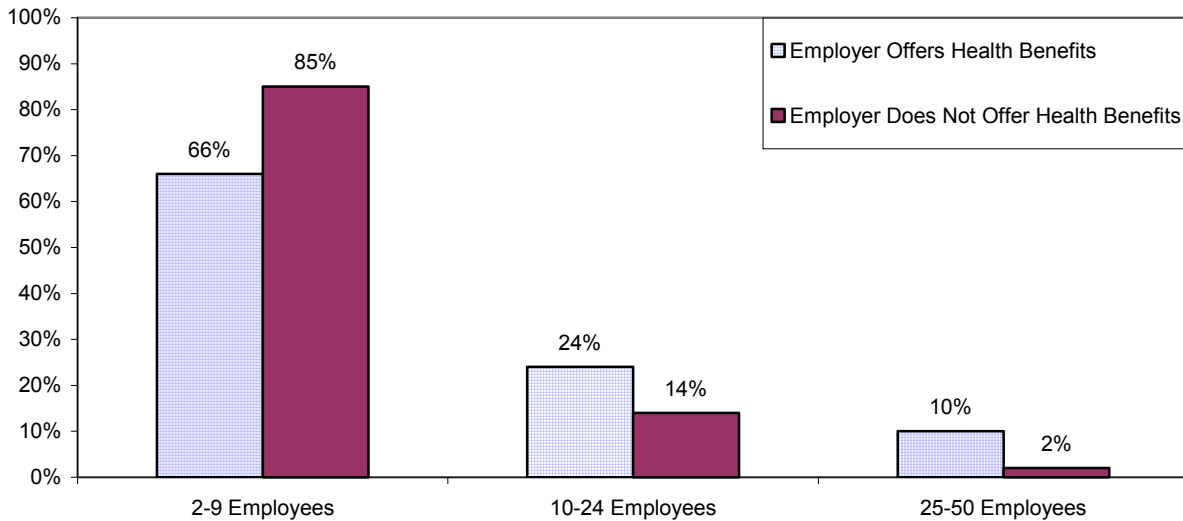
Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits

Figure 12
Workforce Characteristics, 2002

Percentage of Workforce	Employer Offers Health Benefits	Employer Does Not Offer Health Benefits
Full-time		
100%	52%	40%
80%-99%	18%	7%
50%-79%	22%	30%
Less than 50%	8%	22%
Female		
100%	6%	17%
80%-99%	8%	9%
50%-79%	25%	26%
Less than 50%	60%	47%
Under Age 30		
40% or more	19%	26%
20%-39%	25%	24%
1%-19%	18%	7%
None	38%	42%
Minority		
100%	4%	8%
50%-99%	10%	12%
20%-49%	13%	11%
1%-19%	20%	7%
None	50%	60%

Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits Survey.

**Figure 13
Firm Size of Employers in Sample, by Health Benefits, 2002**



Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits

**Figure 14
Annual Gross Revenue of Employers in Sample, 2002**

Annual Gross Revenue	Employer Offers Health Benefits	Employer Does Not Offer Health Benefits
Less than \$500,000	33%	65%
\$500,000-\$999,999	26%	17%
\$1,000,000-\$1,999,999	17%	5%
\$2,000,000-\$4,999,999	9%	2%
\$5,000,000 or more	3%	1%
Don't know/Refused	11%	9%

Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits Survey.

**Figure 15
Age of Business of Employers in Sample, 2002**

Age of Business	Employer Offers Health Benefits	Employer Does Not Offer Health Benefits
Less than 5 years	13%	19%
5-9 years	19	20
10-14 years	15	17
15-29 years	32	29
30 Years or more	20	12

Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits Survey.

Figure 16
Business Offered Health Plan in Past, Among Employers Not Offering Health Plan, 2000 & 2002

Offered Health Plan in Past	2000	2002
Yes	12%	21%
No	86	79
Don't Know	2	1

Source: EBRI/CHEC/BCBSA 2000 & 2002 Small Employer Health Benefits Survey.

Figure 17
Reasons for Not Offering a Health Plan

	Major Reason		Minor Reason	
	2000	2002	2000	2002
The business cannot afford it.	53%	63%	16%	16%
Revenue is too uncertain to commit to a plan.	40	45	16	23
Employees have coverage elsewhere.	43	40	18	21
Employees cannot afford it.	37	43	17	18
Large portion of workers are seasonal, part-time, or high turnover.	34	31	15	18
Employees prefer wages and/or other benefits	30	28	20	21
Company does not need to offer a plan to recruit and retain good workers	18	19	17	29
Owner has coverage elsewhere	40	29	13	14
Setting up a plan is too complicated and time consuming.	11	8	20	19
Employees are healthy and do not need it.	10	5	17	20
Do not know where to go for information on starting a plan.	8	4	21	18

Source: EBRI/CHEC/BCBSA 2000 & 2002 Small Employer Health Benefits Survey.

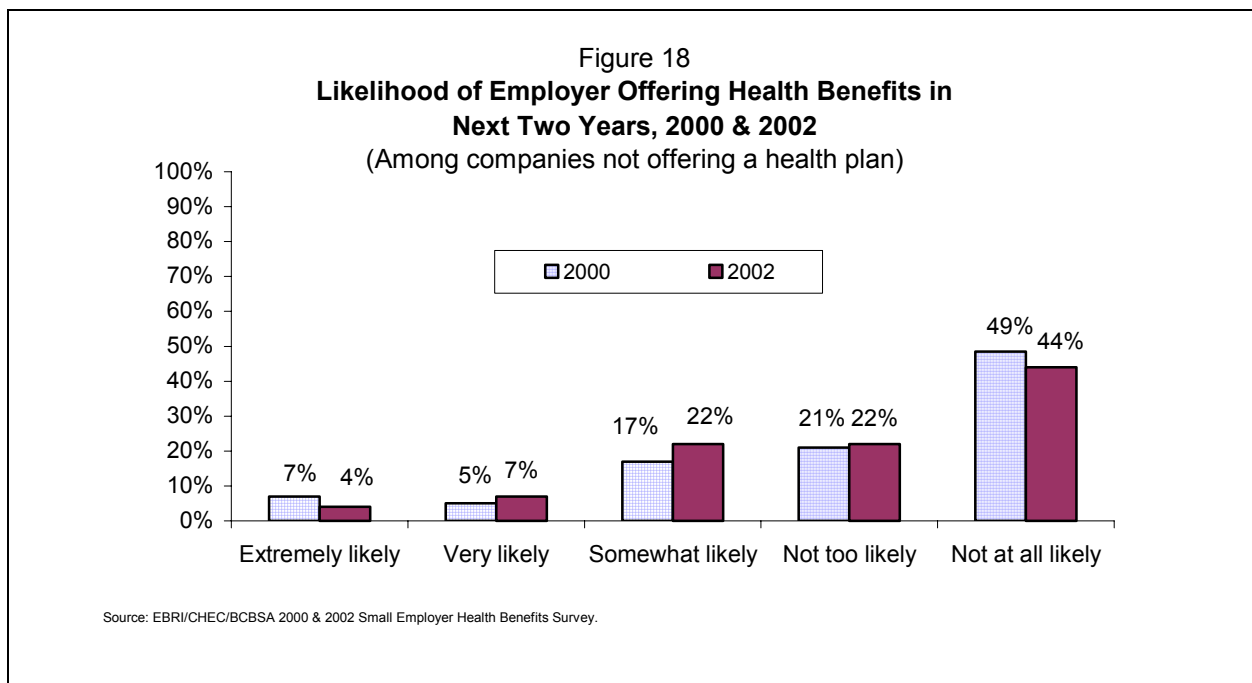


Figure 19 Likelihood of Offering Health Benefits in the Future, Among Employers Not Offering Health Benefits, by Selected Indicators			
	Extremely or very likely	Somewhat Likely	Not Too or Not at All Likely
Company started less than 10 years ago	69%	49%	31%
Not offering health plan has impact on:			
Employee recruitment	42%	44%	26%
Employee retention	40	37	26
Employee attitude and performance	43	29	19
Health of employees	31	28	21
Absenteeism	26	23	18
Overall Success of the business	41	33	20

Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits Survey.

Figure 20 Factors Likely to Make Companies Seriously Consider Offering Plan, 2000 & 2002						
	Much More Likely		Somewhat More Likely		No More Likely	
	2000	2002	2000	2002	2000	2002
If it could be demonstrated that absenteeism would decrease	5%	7%	15%	24%	79%	68%
If it could be demonstrated that it would improve recruitment and retention	12%	10%	24%	30%	63%	59%
If your employees asked for it	13%	14%	37%	31%	47%	54%
If insurance costs fell 10 percent	13%	10%	30%	34%	54%	55%
If there were an increase in the business' profits	22%	24%	35%	39%	41%	36%
If the government provided assistance with health insurance premiums	28%	30%	36%	41%	31%	28%

Source: EBRI/CHEC/BCBSA 2000 & 2002 Small Employer Health Benefits Survey.

Figure 21 Support for Tax Breaks to Reduce Health Insurance Costs for Low-Wage Workers, 2000 & 2002						
	Total		Employer Offers Health Benefits		Employer Does Not Offer Health Benefits	
	2000	2002	2000	2002	2000	2002
Strongly favor	56%	58%	59%	62%	53%	50%
Somewhat favor	30	28	30	24	29	34
Somewhat oppose	4	3	3	3	5	3
Strongly oppose	3	4	2	2	3	6
Depends	4	3	3	3	6	3
Don't know	3	4	3	4	3	4

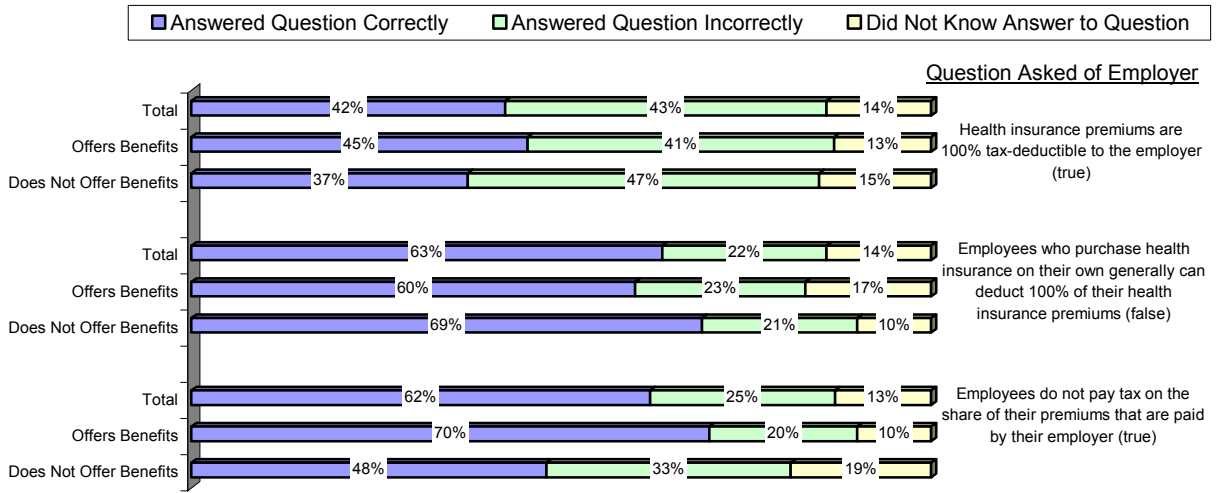
Source: EBRI/CHEC/BCBSA 2000 & 2002 Small Employer Health Benefits Survey.

Figure 22
Likelihood of Offering Health Benefits if Government Provided Various Tax Breaks to Reduce Health Insurance Costs, Among Employers Not Offering Health Benefits, 2002

	Tax credits to employers to reduce health insurance costs of low-wage workers	Tax credits to workers to reduce their cost for health insurance
Much more likely	30%	26%
Somewhat more likely	47	49
No more likely	22	24
Don't know/Refused	1	2

Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits Survey.

Figure 23
Small Employer Knowledge of the Tax Treatment of Health Benefits, 2002



Source: EBRI/CHEC/BCBSA 2002 Small Employer Health Benefits Survey.