

INSURANCE AT RISK:

Small Business Employees Risk Losing Coverage

The Decline in Employer-Based Coverage

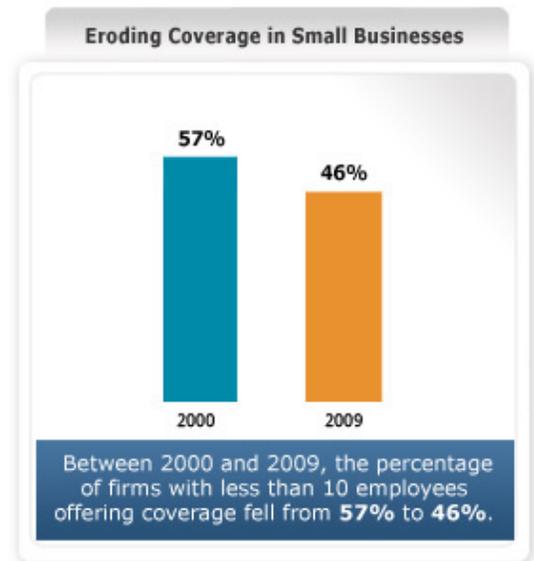
Across the country, America's businesses are struggling as the cost of health care continues to skyrocket. Premiums for employer-based health insurance have more than doubled since 2000, a rate three times faster than the growth of wages.¹ If trends continue, health care costs for large firms will increase 166% by 2019, resulting in a cost burden of \$28,530 per employee.² And by 2025, one in every four dollars in our nation's economy will be spent on health care³ – money that could have been invested in our nation's businesses. Rising health care costs cut into employee wages and impede hiring and business growth.

As a result of high health care costs, the percentage of firms offering health insurance coverage has declined. Between 2000 and 2009, the percentage of firms offering coverage fell from 69 to 60.⁴ Much of that drop occurred in the past year alone, from 63 to 60 percent.⁵ Small businesses in particular struggle under the current health care system.⁶ For firms employing less than 10 workers, the erosion in coverage is striking – from 57 percent offering coverage in 2000 to 46 percent offering coverage in 2009.⁷

A main reason for the precipitous decline among small businesses is the relatively higher financial burden they face in the health care market. In one national survey, nearly three-quarters of small businesses that did not offer benefits cited high premiums as the reason.⁸ On average, small businesses pay up to 18 percent more than large firms for the same health insurance policy.⁹ This is due in part to high broker fees (which can be up to 10 percent of premiums),¹⁰ and health plan administrative costs that are three to four times those in the large group market.¹¹

The Lack of Health Coverage

The erosion of employer-based coverage translates to a lack of insurance for millions of working Americans and their families, particularly for those who work in small businesses. Nearly one-quarter of the uninsured – 11 million people – are employees of firms with less than 25 workers, even though they only make up approximately one-tenth of the non-elderly population.¹²



Source ⁷



Source ⁹

Workers who are not offered coverage by their employers are unlikely to obtain coverage on the individual market or from another source. Half of workers in small firms that do not offer health benefits remain uninsured, and about a third of such workers in firms with fewer than 50 employees obtain insurance through a spouse.¹³

The health and financial consequences associated with being uninsured can be devastating. The uninsured are less likely to receive preventive care, more likely to be hospitalized for conditions that could have been prevented, and more likely to die in the hospital than those with insurance.¹⁴ Children without insurance have less access to well-child care, immunizations, basic dental services, and prescription medication.¹⁵ And uninsured families face greater financial burdens in their struggle to meet basic needs and pay for medical bills, problems that quickly lead to medical debt.¹⁶

Instability in the Insurance Market and Gaps in Coverage

Millions of Americans go uninsured each year – a problem that affects everyone, including working families. Indeed, 32 percent of working-age adults and their families had a gap in health insurance coverage for at least one month in 2006 and 2007.¹⁷

Even among those with insurance, continuation of that coverage is far from guaranteed. Among people with employer-based coverage in January of 2006, one in six lost that coverage by 2008.¹⁸

While the risk of losing coverage is real for all Americans – regardless of age, health status, gender, employment status, or income – workers in small businesses and their families are particularly at risk, for the reasons discussed above. Employees of small businesses are 50 percent more likely to lose coverage as a worker in a large business.¹⁹

The problem is even more pronounced for young adults, who are more likely to work for small businesses than older adults.²⁰ A full one in four young adults with employer-based insurance through a small business with less than 50 employees lost coverage within two years.²¹

Lack of Affordable Alternatives

The loss of employer-sponsored insurance coverage would not be so harmful to American families if quality, affordable options were available outside the employer market. Unfortunately, coverage outside the employer-sponsored market is unaffordable or does not provide adequate coverage for most Americans. A recent study found that almost 75 percent of individuals looking for coverage in the individual market never bought a plan, with 61 percent of those who did not purchase insurance citing the cost of premiums as the primary reason.²² And health plans in the individual market routinely exclude basic services such as maternity care.

People applying for coverage in the individual market can also be discriminated against. In 33 states, insurance companies are permitted to charge higher premiums based on age, gender, and



Source ¹⁹

health status without any restrictions whatsoever, and in 45 states, insurance companies can discriminate against people based on their pre-existing conditions when they try to purchase health insurance in the individual insurance market.²³ Insurers can deny them coverage, charge higher premiums, and/or refuse to cover a particular medical condition.

Perhaps as a result, of those Americans who lost employer-sponsored insurance through a small business in 2006 and 2007, 80 percent went uninsured for at least one month.²⁴

How Health Insurance Reform will Help Stabilize Insurance Coverage for Americans in Small Businesses

Strengthen employer-based insurance.

In order to stem the decline in employer-based coverage among small businesses and protect employees from losing coverage, health care premiums must be reined in. Premiums are high, in part, because of a “hidden insurance tax” of more than \$1,000 added onto every family policy that covers the cost of care for those without insurance. Health insurance reform will address this burden by expanding health care coverage to all Americans, enabling streamlined, less costly, and more efficient care.

Health insurance reform will also provide small businesses with tax credits to help them provide health insurance for their employees. This will make health care more affordable for small businesses and their workers, solidifying and strengthening employer-based coverage for years to come.

Make health care coverage portable, affordable, and accessible.

Consumer protections in health insurance reform will guarantee that families have quality, affordable health insurance choices if a family member loses a job, switches jobs, retires, moves, or gets sick. Families will no longer have to make life decisions – like whether to retire, work fewer hours, or switch jobs – based on the lack of affordable and meaningful coverage outside of their current employer-sponsored plan.

Health insurance reform will create a health insurance exchange so Americans without access to affordable insurance on the job can compare prices and health plans and decide which quality affordable option is right for them. The exchange will also significantly reduce administrative costs for small businesses by enabling them to easily and simply compare the prices, benefits, and performance of health plans.

Health insurance reform will also prevent any insurance company from denying coverage based on underlying health status, and it will prohibit insurance companies from charging more if someone is sick, older, or a woman.

For the millions of young adults who work in small businesses, health insurance reform will also allow them to stay on their parents’ employer-based insurance until the age of 26, providing an essential option for coverage.

Prepared by

- Meena Seshamani, MD, PhD, Director of Policy Analysis, HHS Office of Health Reform
- Ellen Montz, MPA, HHS Office of Health Reform
- Data analysis provided by Center for Financing, Access and Cost Trends, Agency for Healthcare Research and Quality and the HHS Office of the Assistant Secretary for Planning and Evaluation
- Report production by the HHS Web Communications and New Media Division.

Sources

- 1 Kaiser Family Foundation, *2008 Employer Health Benefits Survey*.
- 2 Business Roundtable. *Health Care Reform: The Perils of Inaction and the Promise of Effective Action*. http://www.businessroundtable.org/sites/default/files/BRT_Hewitt_HC%20Reform%20Report_Sept2009_FinalONLINE.pdf
- 3 P.R. Orszag, Growth in Health Care Costs: Statement Before the Committee on the Budget, United States Senate, (Washington, DC: Congressional Budget Office, Jan 31 2008), available at <http://www.cbo.gov/doc.cfm?index=8948>
- 4 Kaiser Family Foundation, *Employer Health Benefit Survey*, (Menlo Park, CA: Kaiser Family Foundation, 2009).
- 5 Kaiser Family Foundation, *Employer Health Benefit Survey*, (Menlo Park, CA: Kaiser Family Foundation, 2009).
- 6 For additional info on Small Businesses and Health Reform, please see Council of Economic Advisers. *The Economic Effects of Health Care Reform on Small Businesses and Their Employees*. <http://www.whitehouse.gov/administration/eop/cea/Health-Care-Reform-and-Small-Businesses>. July 25, 2009.
- 7 Kaiser Family Foundation, *Employer Health Benefit Survey*, (Menlo Park, CA: Kaiser Family Foundation, 2009).
- 8 Holve E, Brodie M, Levitt L. Small business executives and health insurance: Findings from a national survey of very small firms. *Managed Care Interface*. 2003;16(9):19–24.
- 9 Council of Economic Advisers. *The Economic Effects of Health Care Reform on Small Businesses and Their Employees*. <http://www.whitehouse.gov/administration/eop/cea/Health-Care-Reform-and-Small-Businesses>. July 25, 2009.
- 10 Conwell, Leslie J. “The Role of Health Insurance Brokers: Providing Small Employers with a Helping Hand.” Health System Change Issue Brief No. 57, October 2002.
- 11 Congressional Budget Office (CBO). 2008. Key Issues in Analyzing Major Health Insurance Proposals. Washington, DC (December).
- 12 U.S. Census Bureau. *Current Population Survey*, March 2008.
- 13 Center for Financing, Access and Cost Trends, Agency for Healthcare Research and Quality. *Medical Expenditure Panel Survey 2006*.
- 14 Kaiser Family Foundation, *The Uninsured: A Primer, Key Facts about Americans without Health Insurance*, (Menlo Park, CA: Kaiser Family Foundation, 2008).
- 15 Institute of Medicine, *America’s Uninsured Crisis: Consequences for Health and Health Care*. (Washington, DC: National Academies Press, February 2009).
- 16 Kaiser Family Foundation, *The Uninsured: A Primer, Key Facts about Americans without Health Insurance*, (Menlo Park, CA: Kaiser Family Foundation, 2008).
- 17 Rhoades JA, Cohen SB. *The Long-Term Uninsured in America, 2004–2007: Estimates for the U.S. Civilian Noninstitutionalized Population under Age 65*. Agency for Healthcare Research and Quality Statistical Brief #258. August 2009.
- 18 Center for Financing, Access and Cost Trends, Agency for Healthcare Research and Quality. *Medical Expenditure Panel Survey 2006-2007*.
- 19 Center for Financing, Access and Cost Trends, Agency for Healthcare Research and Quality. *Medical Expenditure Panel Survey 2006-2007*.

- 20 U.S. Census Bureau. Current Population Survey, March 2008.
- 21 Center for Financing, Access and Cost Trends, Agency for Healthcare Research and Quality. Medical Expenditure Panel Survey 2006-2007.
- 22 M. Doty, S. Collins, J. Nicholson, and S. Rustgi. Failure to Protect: Why the Individual Insurance Market is Not a Viable Option for Most US Families. (The Commonwealth Fund, July 2009).
- 23 Kaiser State Health Facts. <http://statehealthfacts.org/comparetable.jsp?ind=353&cat=7>
- 24 Center for Financing, Access and Cost Trends, Agency for Healthcare Research and Quality. Medical Expenditure Panel Survey 2006-2007.