OHCA
OFFICE OF HEALTH CARE ACCESS
Planning tomorrow's health care system today.
November 2004

The Connecticut Office of Health Care Access 2004 Small Employer Health Insurance Survey — Focus on Results

This is the first in a series of issue briefs examining today's health insurance coverage in Connecticut. The Office of Health Care Access (OHCA) sponsored two telephone surveys, conducted by the University of Connecticut Center for Survey Research and Analysis (CSRA) in Spring and Summer 2004, that provide the information for these studies. The Small Employer Survey of 810 private sector Connecticut firms with between two and 300 employees examined employer sponsored insurance (ESI) including issues of eligibility, enrollment and premium expense.[1] The Household Survey of over 3,500 Connecticut households investigated the health insurance coverage of individuals, their access to the healthcare system, and their health-related costs. This series of issue briefs will describe the results of these surveys, examine their societal implications and assess potential policy alternatives for expanding access to coverage.

Why focus on ESI and the small employer?

OHCA's 2001 Household Survey found that nearly two-thirds of all Connecticut residents obtained health coverage through an employer. Both OHCA's 2001 Household and Employer surveys however, found small firms were significantly less likely to offer ESI. According to OHCA's 2001 Household Survey, the majority of Connecticut's approximately 185,000 uninsured residents were gainfully employed adults, almost half of whom worked in firms with 10 or fewer employees.[2] As most insured residents had coverage through an employer, why were these working adults uninsured? Some were not eligible because they were part-time, temporary, or seasonal workers, or had not been with their firm long enough. Yet the most common reason was that their employer did not offer coverage. In Connecticut as well as nationally, the availability of ESI was strongly related to firm size, as smaller employers were less likely to offer coverage.[3]

Most firms (86 percent) in the state have 20 or fewer employees with more than half of all employers having fewer than five employees.[4] This is another reason to focus on the ability of small employers to offer ESI.

OHCA's 2004 Employer and Household Surveys were funded by a State Planning Grant awarded in 2003 by the Health Services Resources Administration to assist the State in planning health insurance coverage expansion options.

These state-level surveys offer several advantages over national surveys and provide the greatest opportunity to customize questions and tailor survey design to obtain the most relevant, timely information regarding access to and utilization of Connecticut's health care system.

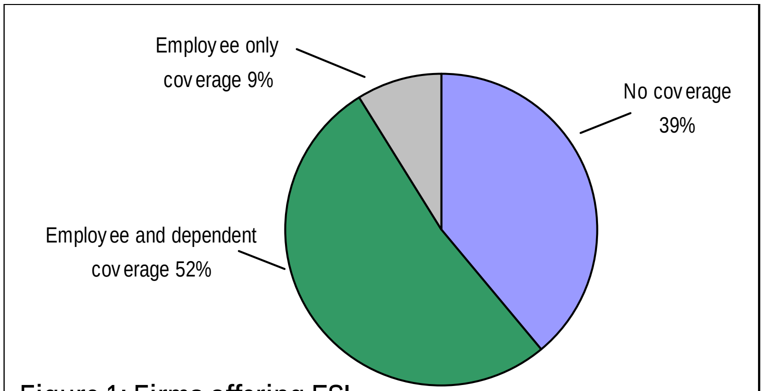


Figure 1: Firms offering ESI

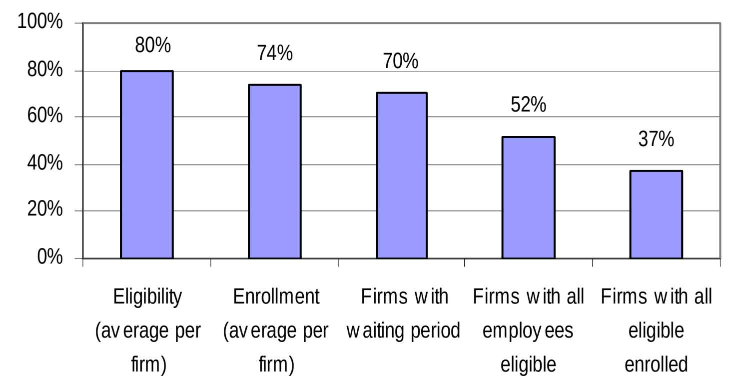


Figure 2: ESI characteristics

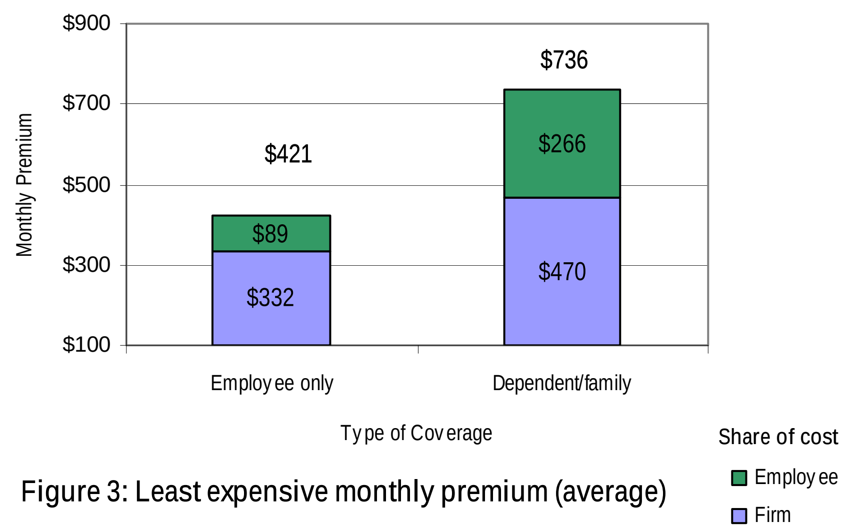


Figure 3: Least expensive monthly premium (average)

2004 Small Employer Survey results

Most smaller Connecticut firms offered health insurance benefits to at least some of their employees (Figure 1).[5] Just over half of all firms offered employee and dependent coverage (employee plus one or family) while a small share provided employee-only coverage. Nearly all firms that offered ESI (84 percent) provided both employee and dependent coverage.

Eligibility and enrollment

Four out of five employees of firms that offered ESI were eligible for these health benefits and three quarters enrolled (Figure 2).[6] Reflecting the pervasiveness of ESI in Connecticut, many employers reported that all eligible employees had enrolled in the coverage they offered.[7] Most firms offering coverage (75 percent) required 30 or more hours for employees to be eligible for health insurance, while almost one-third required 40 or more hours.

The cost of ESI: Employers paid larger share of premiums

Employers paid most of the premiums for employee-only (79 percent) and dependent coverage (64 percent) (Figure 3). In fact, many employers paid the entire employee-only and dependent premiums (43 percent and 37 percent, respectively, of firms offering coverage). Employee-only coverage was on average less expensive ($5,052 annually) than dependent coverage ($8,872 annually).[8]

Employer characteristics related to prevalence of ESI

Firm size, annual gross revenue, and the type of business influenced offer rates (the prevalence of employers providing health benefits) within Connecticut's private sector.

Firm size — smallest firms less likely to offer coverage

Confirming the results of the 2001 Employer and Household Surveys, OHCA's 2004 Employer Survey found that the smallest employers continued to be significantly less likely to offer health care benefits (Figure 4).[9] For example, the offer rate for firms with fewer than five employees was half that of firms with 20 or more workers. The majority of the smallest firms did not offer coverage (59 percent), and as a result they accounted for most (nearly 70 percent) of employers not providing health benefits.

Small firms paid higher premiums

Small firms may be less likely to offer ESI because they often pay higher premiums because they lack the purchasing power and administrative resources to effectively negotiate lower rates with insurance companies. According to the survey, firms with fewer than five employees had higher average monthly premiums than larger employers for both employee only (32 percent) and dependent coverage (8 percent). Furthermore, they reported paying a greater portion of these premiums than larger employers and were twice as likely to have paid the entire premiums for their employees.

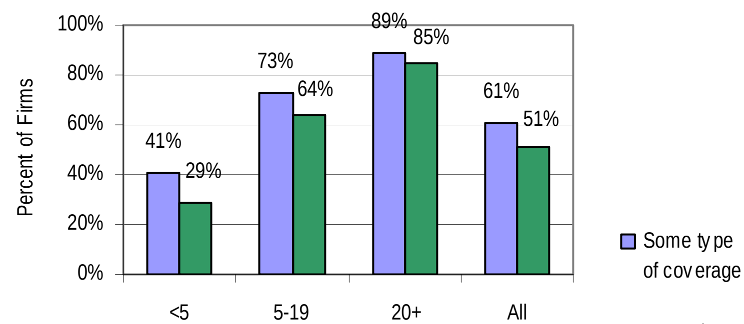


Figure 4: ESI offer rates by firm size (employees)

Although the smallest firms were less likely to offer ESI, those that did offer it made it available to more of their employees.[10] Along with greater eligibility, the smallest firms that provided health benefits also had a slightly higher average "take-up" rate, i.e., the extent to which eligible employees enrolled in some type of coverage.[11] Broader eligibility and higher take-up rates are crucial to small firms' ability to purchase affordable health insurance. Premium cost is affected by enrollment, as insurers try to spread risk among larger, healthier pools of enrollees.[12]

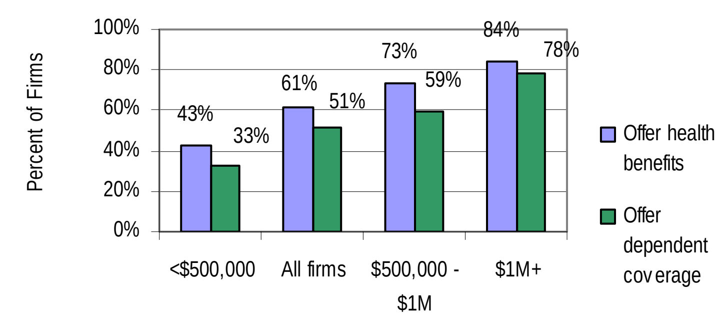


Figure 5: ESI offer rates by gross annual revenue

Annual gross revenue— lower revenue limited ESI

Annual gross revenue was linked to ESI offer rates as firms with limited financial resources were less likely to offer coverage (Figure 5).[13] As a result, firms with gross revenue below $500,000 (one-third of sample businesses) accounted for nearly half of the employers that did not offer health benefits.

Revenue and size reinforced each other

Revenue and size were highly related, as the majority of the smallest firms (<5 employees) realized gross revenues of less than $500,000, most medium sized firms (5-19 employees) grossed over $500,000 and the larger ones (20+ employees), for the most part, exceeded $1 million.[14] The influence of revenue was reinforced when its effects were considered together with size. Offer rates nearly doubled for the smallest firms (<5 employees) as their revenue increased from less than $500,000 to over $1 million. This effect of revenue was pronounced even for medium and larger sized firms which had high overall average offer rates.[15] Almost all larger firms earning over $1 million offered health benefits (98 percent).

Business type

Manufacturing, construction, wholesale, and financial services/insurance/real estate (FIRE) firms had higher than average offer rates (Figure 6). The pervasiveness of coverage among these types of employers may be related to high levels of full-time labor, their need to attract and retain skilled workers, and greater unionization.[16] Conversely, agricultural, retail, gas/sanitation, and service firms were less likely to offer ESI.[17] Firms in these economic sectors have a higher proportion of part-time, seasonal, unskilled, and non-unionized labor. Over two-thirds of firms that did not

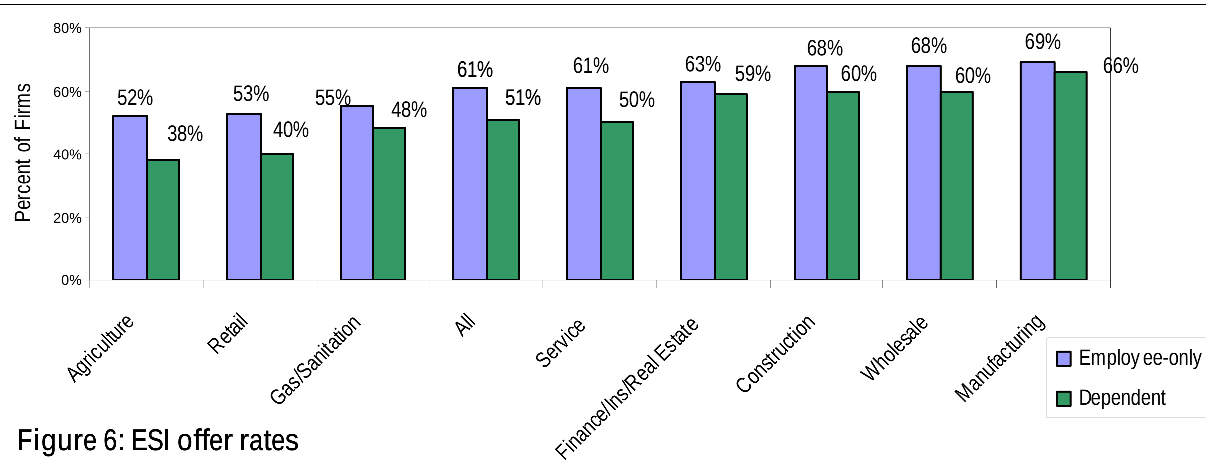


Figure 6: ESI offer rates

offer health benefits were either in the service or retail sectors.

Manufacturing, construction, FIRE, and wholesale firms were not only more likely to offer health benefits, they also had broader employee eligibility and elevated take-up rates. Due to these factors, more employees in these sectors had health insurance coverage through their own employer (Figure 7).[18]

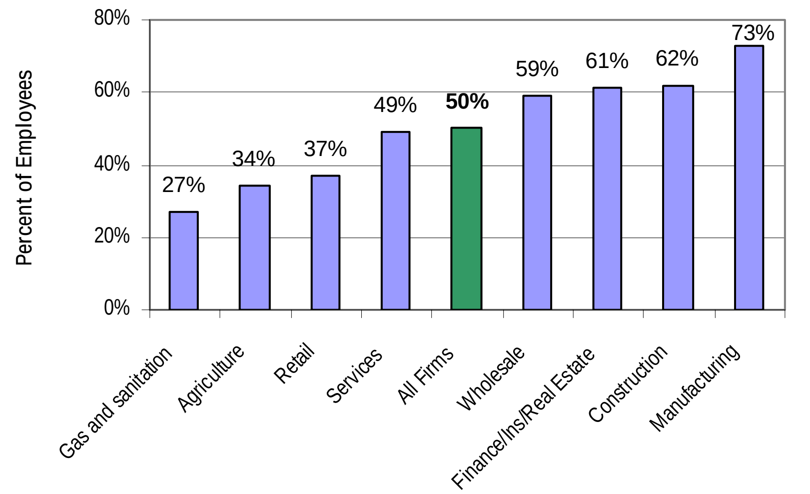


Figure 7: Share of employees with ESI through their employer

For all business types, firm size mattered

Regardless of the type of business, offer rates were dramatically higher for larger firms.[19] This was true even for sectors that had higher than average offer rates. For example, manufacturing's offer rate ranged from under half (firms with <5 employees) to three quarters (firms with 5-19 employees) to all (firms with 20+ employees). Offer rates also grew in business sectors with lower than average offer rates, such as retail, as employer size increased from the smallest firms (39 percent) to medium (60 percent) and larger ones (80 percent). For the larger businesses (20+ employees), all construction, manufacturing, FIRE, and wholesale employers in the sample reported offering ESI. Although size was a more powerful predictor of whether a firm offered coverage, small, medium, and larger firms in the latter four sectors generally had higher offer rates than comparably sized businesses in the other economic sectors.

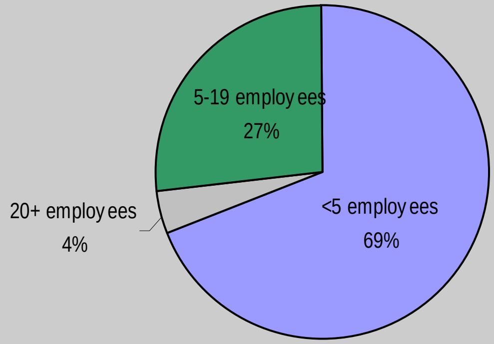
Combining business characteristics (size, revenue and type) revealed that nearly one of every five firms not offering coverage was a small service firm with lower gross revenue (Table 1).

Table 1: Share of firms not offering coverage

Size (# of employees)	Annual Gross Revenue	Business Type	Share of Firms Not Offering Coverage (percent)
<5	<$500,000	Services	19
<5	Not available*	Services	11
<5	Not available*	Retail	7
<5	<$500,000	Retail	6
5-19	Not available*	Services	5
<5	<$500,000	Construction	4
<5	<$500,000	Manufacturing	3
<5	<$500,000	FIRE	3
5-19	<$500,000	Retail	3
5-19	<$500,000	Services	2
All other firms not offering coverage			37

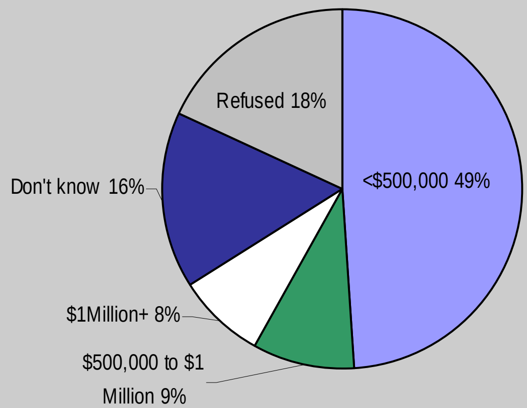
*"Not available" refers to firms responding "Don't Know" or refusing to characterize their annual gross revenue.

Which firms did not offer coverage?[20]



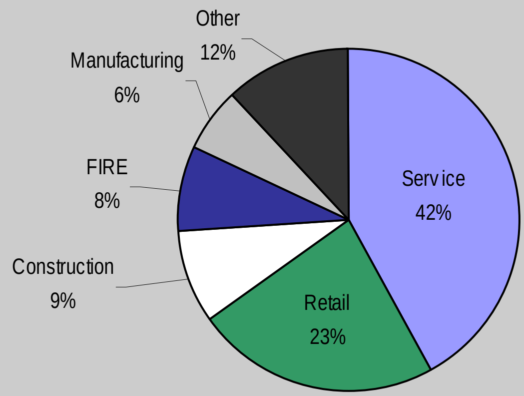
. . . .the smallest firms

Share of employers not offering ESI by firm size (employees)



. . . with lower revenue

Share of firms not offering ESI by annual gross revenue



. . . in service and retail

Share of firms not offering ESI by business type

Premium cost main reason firms did not offer coverage

Cost was cited as the main reason that firms elected not to provide ESI (Figure 8).[21] Relating firm characteristics to the reason for not offering ESI, cost was the primary reason mentioned by medium sized businesses (5-19 employees), by businesses in all economic sectors except agriculture, and by those at all revenue levels, including firms that reported earning over $1 million annually.[22] Larger firms (20+ employees) principally cited the part-time or seasonal nature of their labor force and the smallest employers (<5 employees) most often indicated their employees did not need health insurance.

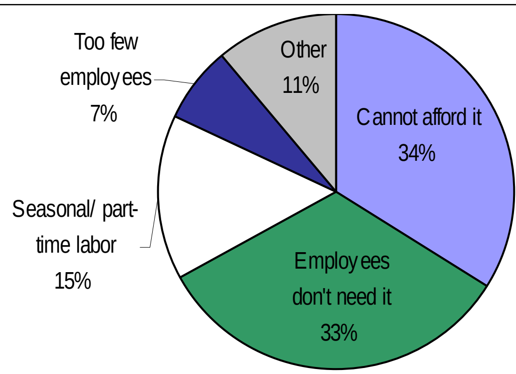


Figure 8: Main reason for not offering ESI

Conclusions

Connecticut's OHCA 2004 Small Employer Survey found:

- ***Nearly two-thirds of all small employers offered ESI (61 percent)***
- ***Four of five of small firm employees were eligible for their employer's coverage and three-quarters enrolled***
- ***Employers paid nearly the entire premium for employee only coverage and two-thirds of the cost of dependent coverage (per firm average)***
- ***Offer rates of ESI were related to firm characteristics:***
  - ⇒ ***Size: Firms with five or more employees were twice as likely to offer ESI as the smallest employers***
  - ⇒ ***Annual Gross Revenue: Firms earning over $500,000 were nearly twice as likely to offer ESI as those that earned less***
  - ⇒ ***Business Type: Construction, manufacturing, wholesale, and financial insurance and real estate (FIRE) firms had higher than average offer rates.***
- ***Employers that did not offer coverage were predominantly firms with:***
  - ⇒ ***Fewer than five employees***
  - ⇒ ***Annual gross revenue less than $500,000***
  - ⇒ ***In service or retail trades***
- ***Employers cited cost as the main reason for not offering ESI***

The Effects of Uninsurance[23]

While the lack of insurance coverage most personally affects the uninsured, it also has serious consequences for health care system as a whole. For example:

Individual Effects

- Delayed care, leading to poor outcomes
- Untreated chronic illnesses
- High out-of-pocket health care costs
- Restricted access to expensive diagnostics and therapies
- Reduced lifespan

Health Care Provider Effects

- Higher costs due to uncompensated care
- Hospital emergency departments and urgent care clinics congested by patients with non-emergency health conditions or those patients whose illnesses have progressed in severity but could have been treated earlier in primary care settings
- "Difficult choices" as individual providers and practices must decide whether to restrict their care on the basis of patient insurance status or ability to pay

Societal Effects

- Higher health care costs as providers shift some of the burden of free or reduced care to the insured
- Higher taxes to fund the state's uncompensated care subsidies to providers
- Overcrowded public health facilities with increased waiting periods for care
- Lost productivity (nationally estimated at a minimum of $65 billion annually)

Notes

[1]CSRA generated its sample of Connecticut private sector employers with two to 300 employees using the Dun and Bradstreet database of Connecticut firms as of February 2003. Data were weighted to approximate the current actual distribution of Connecticut firms by economic sector.

[2]According to the U. S. Census Bureau, only 11 percent of Connecticut's labor force work in firms with fewer than 10 employees.

[3]U.S. Census Bureau, "Health Insurance Coverage in the United States: 2002," (September 2003).

[4]According to the U.S. Census Bureau, firms with fewer than 20 workers employ 18 percent of Connecticut's total labor force. OHCA's 2004 Small Employer Survey sample was primarily composed of businesses having fewer than 20 employees (85 percent).

[5]The margin of error is $\pm$3.3 percent at the 95 percent confidence interval. That is, with 60.8 percent of firms in this survey offering coverage, if the survey were repeated 100 times, 95 out of 100 times the percentage of firms offering ESI would range between 57.5 percent and 64.1 percent.

[6]Reporting per firm averages based upon those offering a valid answer other than "Don't Know" or "Refused."

[7]38 percent of firms that offered coverage reported all eligible employees took coverage.

[8]One-third of employers offering employee-only coverage and 40 percent of those offering dependent coverage did not provide monthly premium figures. For employee-only monthly premiums, employer responses of $150 or less (6 percent of all responses) and those for dependent coverage premiums of $250 or less (9 percent) were excluded from analysis. Respondents were allowed to select any amount between $0 and $996; any response greater was recorded as "$997 or more." The share of employers that selected $997 or more was 6 percent for employee-only and 13 percent for dependent coverage.

[9]Chi-square significant at .001 level.

[10]Average employee eligibility per firm was 86 percent for employers with fewer than five employees and 77 percent for all others. Three-quarters of these smallest firms reported all employees were eligible compared to only 43 percent of all other firms.

[11]Eligible employee take-up rates		
	Number of	
	<5	> 5
Take-up rate — any type of coverage (per firm average)	81	71
Percent of firms reporting all eligible employees enrolled	66	25
Take-up rate — dependent coverage (per firm average)	66	46
Percent of firms reporting all employees eligible for dependent coverage	43	14

[12]Insurers are concerned with "adverse selection" or that only the sickest will enroll. When fewer employees enroll, risk is shared among a smaller pool, resulting in higher premiums.

[13]One-third of surveyed firms did not provide information regarding their gross annual revenue. Relationship of revenue and offer rates had a Chi-square significant at .001 level.

[14]Somers' d significant at .001 level.

[15]Offer rates increased for medium sized businesses by one-third and for larger firms by one-half.

[16]Glied, et. al., "The Growing Share of Uninsured Workers Employed by Large Firms," (The Commonwealth Fund: 2003) found that, for example, unionization increased the likelihood of ESI by 1.4 times and high wage/skilled labor increased it between two and three times.

[17]Gas/sanitation also includes transportation and communications, and electric service firms.

[18]These sectors had per firm average eligibility rates of approximately 90 percent and take-up rates of 80 percent or greater.

[19]Size remained significantly correlated with offer of coverage within all economic strata (Chi-Square p = .01 – for wholesale it was .05) except agriculture, due to absence of large firms. Conversely, economic strata were not significantly related to offer rates when size was controlled for.

[20]Selected firm types' share of total sample (percent and N, weighted)		
Firm type	Share of all firms	
Size (number of employees)	%	N
<5	45	368
5 – 19	40	321
20+	15	121
Revenue		
<$500,000	33	270
$500,000 - $1 million	14	110
$1 million+	20	165
Don't Know	17	133
Refused	16	132
Economic Sector		
Service	42	344
Retail	19	152
Construction	10	84
FIRE	9	73
Manufacturing	7	61
Wholesale	6	47
Gas/Sanitation/ Transportation/ Communication	4	29
Agriculture	3	21

[21]Number of sample firms citing cost=109.

[22]For agricultural employers, the main reason for not offering coverage was the part-time or seasonal nature of their labor.

[23]Institute of Medicine (2003). "Hidden Costs, Value Lost: Uninsurance in America," Washington: National Academies Press.