

SMALL BUSINESS RESEARCH SUMMARY

Small Business and Access to Health Insurers, Particularly HMOs

by Sandra H. Glover, Ph.D., Carleen Stoskopf, Sc.D., Thomas E. Brown, Dr. PH.,
Fran Wheeler, Dr. PH., Yang Kim, Ph.D., Sudha Xirasagar, MBBS.
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Purpose

Employees of small businesses are significantly less likely to have employer-provided health care coverage than are workers in large firms, despite a variety of state laws designed to make coverage available. This study was designed to uncover the types of state mandates and incentives that pertain to small-employer health plans, the actions of health maintenance organizations (HMOs) in offering products to small firms, and the reasons these firms do or do not choose to offer HMO coverage to employees. Such information can be helpful in documenting the present state of the market, how it is changing, whether current state (or federal) laws are effective or counterproductive, and what additional policies may be helpful for increasing coverage of workers in small firms.

Scope and Methodology

The study comprised four elements: a review of the literature, a compilation of state legislative and regulatory requirements regarding small employer health insurance in the District of Columbia and every state, a survey of health insurers in 10 selected states, and a series of focus groups of small employers in several geographical areas of one state (South Carolina).

The state-by-state analysis shows which states had rules affecting permissible rate differentials between large and small employers (ratings bands) and other ratings practices, guaranteed right to renew policies, requirements that health plans offer some insurance product to small employers (guaranteed issue), limits

on pre-existing conditions exclusions in policies, reinsurance limitations, mandated benefits, and requirements that plans pay out at least a certain percentage of premiums in claims (minimum loss ratio).

Surveys were sent to a total of 439 health insurers in 10 selected states; 69 responded. However, 37 of these were exiting the HMO business. Only 22 companies responded in detail, of which 16 offered an HMO, 10 a preferred provider organization (PPO—another type of managed care plan), and 14 a traditional point-of-service (indemnity) plan. (At least two types of coverage were offered by 16 companies.)

Focus groups and individual interviews were conducted with 67 small business owners or representatives in various sites in South Carolina.

Highlights

The comprehensive review of health insurance regulations across the states did not uncover any significant patterns that could be associated with the number of uninsured in each state. State-to-state variations in health care markets and economic, social, and political conditions mask any discernible relationships between state regulations and the number of uninsured.

- HMOs in 10 states were surveyed and asked about specific features and options of their three most popular plans offered to small firms. Respondents listed 50 HMO plans offered to small employers. Respondents were also asked a series of questions on their perspective of the issues concerning the small employer insurance market.

- As to why the 22 respondents believe small employers provide health insurance benefits, 21 listed the need to attract and retain employees, 17 said they do it to respond to employee demands for coverage, 14 thought it was only to provide coverage for the owner and family, and 10 mentioned the tight labor market.

- The most common reason that small employers do not offer coverage is cost, cited by 20 of the 22 insurance companies. High employee turnover was listed by 12.

- Of the 67 focus group participants, 51 offered health insurance to employees and eight said they were actively seeking health insurance. Just under half of the 51 companies offered HMO coverage, 16 offered PPO coverage, and 11 offered indemnity coverage.

- The most common split on premiums was for employers to pay 100 percent of employee-only coverage (35 companies) and for employees to pay 100 percent of dependent coverage (39 companies).

- Both the firms with health insurance and those without agreed that health insurance was a necessary benefit for recruitment and retention in today's tight labor market.

- No participant expressed a concern that their small business lacked access to health insurance or HMO coverage. Several respondents indicated that their companies had a choice of insurance products. Their primary concerns were the cost of premiums for employers and employees and a belief that insurance brokers and salespeople were biased against small accounts because they generate lower commissions and higher costs.

Conclusions

- The 22 insurance companies used a variety of definitions of "small business" and often were at

variance with states' definitions. The researcher noted that the nature of the discrepancy raised a question about both the states' rationale in defining small business and the HMOs' motivations in including larger employers in the small business sector, in contravention of prevailing regulations.

- HMOs appear to be complying with mandates related to maternity and mental health benefits, and with guaranteed renewal provisions.

- However, small employers in the focus groups reported they did not feel that insurers were complying with mandates to provide full information about insurance options. "This raises an important issue of how far regulation can really ensure the fair marketing of low-cost plans by insurance agents, which is the key to improving small business access to insurance."

Ordering Information

The full text of this report, along with summaries of other studies performed under contract with the U.S. Small Business Administration's Office of Advocacy, is available on the Internet at www.sba.gov/advo/research.

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