

## Structural Factors Affecting the Health Insurance Coverage of Workers at Small Firms

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Small business owners cite the cost of employer-sponsored health insurance (ESI) as their most pressing problem; according to the National Federation of Independent Business, this issue is more important than taxes, labor quality, and government red tape. The Kaiser Family Foundation has reported significant increases in health insurance premiums for the past several years, and several studies have documented the struggles that many entrepreneurs face in offering health insurance coverage to their workers. For instance, prior research by the Office of Advocacy has shown that employees at small firms are less likely to have coverage than the employees of larger entities.\*

This report analyzes state and metropolitan statistical area (MSA) variations in the cost of employer healthcare and ESI coverage rates. Several important factors are investigated, including the impact of local market characteristics, the composition of the workforce, and the efficiency in delivering healthcare services. The goal of this research is to understand the complex interactions of the healthcare market and the cost of insurance and their impact on workers at small businesses.

### Overall Findings

The two most important factors associated with being uninsured are wages and firm size. Individuals who work for a small firm or who receive a lower wage are less likely to have health insurance coverage. Workers at firms of 100 to 249 employees spend

the most on healthcare expenses, suggesting that the largest firms may be more likely to self-insure and keep a closer watch on benefits and expenditures. This finding may also suggest that the employees of the medium-size firms with 100 to 249 employees have more generous benefits.

### Highlights

- African-American employees are as likely as their white counterparts to have health insurance; Hispanics are less likely to be covered.
- Workers in states with higher concentrations of Medicaid beneficiaries are more likely to lack private health insurance. Workers in states with higher per capita healthcare expenditures are less likely to lack private health insurance.
- Workers in MSAs with higher birth rates spend less on healthcare and are less likely to be insured.
- Individual union members have greater average healthcare expenditures than non-union members; they are also more likely to have ESI coverage. Workers in MSAs with greater manufacturing and white-collar industries are more likely to have ESI coverage than other workers.
- Workers in MSAs with a greater number of hospital beds have higher total healthcare expenditures, but there is no association with ESI coverage rates for those workers. Similarly, labor and capital costs (nurses and hospitals) are associated with higher individual expenditures, but not ESI coverage.
- MSAs with higher rates of specialty services are associated with higher total healthcare expenditures but not ESI coverage rates. The key specialty services examined are ambulatory surgical centers, advanced imaging centers, alcohol and drug rehabili-

\*Joel Popkin and Company. *Cost of Employee Benefits in Small and Large Businesses*. U.S. Small Business Administration, Office of Advocacy. August 2005. [www.sba.gov/advo/research/rs262tot.pdf](http://www.sba.gov/advo/research/rs262tot.pdf).

tation centers, and having a greater supply of emergency room physicians.

- The research suggests that MSAs with higher rates of health maintenance agreements (an indicator of health maintenance organization penetration) had more competition and lower healthcare costs. However, no direct link to ESI coverage rates could be discerned.

## Scope and Methodology

Micro-level data from the Medical Expenditure Panel Survey (MEPS) were used for the analysis. MEPS is a collection of large-scale surveys of families and individuals, their medical providers, and employers across the United States. The MEPS data were selected for this study because surveys are conducted more frequently than other sources over a greater number of metropolitan areas, and local access to small area identifiers is available through the MEPS data center.

The report uses basic logistic and hazard models to test the micro-level predictors on having private healthcare insurance and healthcare expenditures, respectively. The micro-level predictors included demographic, household, health status, and employment variables. Random effects models were used to test state- and MSA-level measures to test the various hypotheses of ESI coverage rates.

This report was peer reviewed consistent with the Office of Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at [advocacy@sba.gov](mailto:advocacy@sba.gov) or (202) 205-6533.

## Ordering Information

The full text of this report and summaries of other studies performed under contract with the U.S. Small Business Administration's Office of Advocacy are available on the Internet at [www.sba.gov/advo/research](http://www.sba.gov/advo/research).

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