

**SMALL EMPLOYER HEALTH INSURANCE SURVEY RESULTS**  
**TEXAS STATE PLANNING GRANT – 2001**  
**SUMMARY REPORT**

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The majority of people with health insurance in Texas and throughout the United States obtain coverage as a benefit provided by their employer. More than 60 percent of insured Texans are covered under employment-based plans. However, many working Texans are employed at firms that do not offer insurance. Many of these businesses are small firms with 50 or fewer employees. Small business employees and their families are about twice as likely to be uninsured as workers employed by large firms. Nearly one-half of uninsured working Texans are employed by firms with less than 25 workers according to Current Population Survey (CPS) data. An additional 14 percent are employed in firms with 25 to 99 workers.

Numerous studies have examined the reasons why small employers do not offer health insurance. Factors most often cited include: unaffordable premium costs; the presence of pre-existing health conditions which make the group uninsurable; a high number of low-income workers; high employee turnover; and lack of interest among employees. While some of these problems are inherent in the nature of a small business, Congress partially addressed these issues in the Health Insurance Portability and Accountability Act (HIPAA) enacted in 1996. The Texas Legislature also adopted insurance reforms for small employers in 1993 and 1995. Both the federal and state laws apply to small firms with 2-50 employees. Among other things, the more significant provisions included were:

- guarantee issue requirements for all groups, regardless of the health status of the group applicants;
- rating restrictions that limit the extent to which insurers can increase rates for small firms;
- authority to establish purchasing cooperatives that allow small firms to band together for the purpose of purchasing health insurance; and
- creation of standard benefit plans that provide reduced benefits with the expectation that premium costs would be significantly lower.

While these reforms have helped increase the number of small firms that offer health insurance, many small employers continue to find that the cost of health insurance is unaffordable. Insurance enrollment information filed with the Texas Department of Insurance (TDI) indicates that 97,793 small employers provided health insurance benefits for their employees in the year 2000. While this number is up significantly from 36,952 in 1993, it still represents only 25 percent of all small firms in Texas. Most small employers continue to not offer health insurance.

To better understand the reasons why small firms in Texas do not offer coverage, the TDI State Planning Grant program mailed surveys to 50,000 small employers throughout the state. The survey requested information on why employers do not provide insurance and what type of changes they would like to see implemented to make insurance more affordable and attractive to small business owners. This report provides an overview of the survey activities and results and is followed by an appendix that contains detailed statistical data for all survey questions.

## ***Survey Methodology***

In August 2001, approximately 50,000 surveys were mailed to small employers throughout the state. Surveyed employers were selected at random from a Texas Workforce Commission database that includes all businesses filing state unemployment tax information. Each packet included a cover letter from TDI that provided information on the purpose of the survey and instructions on how to complete the survey form. Also included was a copy of the survey questionnaire and a customized electronic Scantron answer sheet designed specifically for this survey. A postage-paid return envelope was provided for returning completed surveys.

Of the 50,000 mailed surveys, 11,861 completed forms were returned by the cut-off date, for a response rate of 23.72 percent. However, some surveys were incomplete or otherwise not usable, reducing the number of acceptable surveys to 10,968 (21.94 percent usable response rate).

Following a series of questions requesting basic demographic information on the firm's size, type of industry, financial data, and employee information, the survey asks employers to indicate whether they currently offer health insurance. The respondents are then directed to one of two series of questions based on whether they do or do not offer health insurance. Firms that do not offer coverage were asked to answer questions in the following areas:

- reasons why small firms do not offer health insurance;
- the extent to which employers are interested in providing insurance;
- how much employers are able to pay for coverage;
- the types of benefits they are most interested in; and
- whether the employer is aware of the legislative reforms designed to increase the affordability and availability of health insurance.

Employers who currently provide insurance answered a separate set of questions that address other areas, including:

- the extent to which employees participate in the group health plan;
- reasons why employees do not enroll in the benefit plan;
- cost information;
- employer and employee contribution rates; and
- whether the firm plans to continue offering health insurance.

All employers were asked at the end of the survey to indicate their level of support for various options for expanding health insurance.

## ***Demographics***

To determine whether survey responses varied across geographic regions of the state, all respondents were asked to provide the zip code of the business mailing address. Unfortunately, only three-quarters of the respondents provided the requested zip code, limiting somewhat the ability to analyze the data set on a geographic basis. Of those employers who did provide zip codes, most are located in the state's major metropolitan areas, including Harris, Dallas, Tarrant, Travis, Lubbock, Nueces, and Bexar counties. More than a quarter of the surveys (28.2 percent) came from firms located in the Dallas-Ft. Worth Metroplex. Another 20.6 percent came from firms in the Houston/Gulf Coast area. Return rates were considerably lower for non-metropolitan areas, including the Upper Rio Grande area (0.14 percent), West Texas (3.43 percent), Southeast Texas (3.30 percent), and Northwest Texas (3.70 percent).

Most surveyed employers (69.1 percent) report they have been in business for at least ten years or more, with nearly 40 percent reporting 20 or more years. Nearly half (46 percent) are in some type of service-related industry, followed by retail (11 percent); construction (9 percent); manufacturing (7 percent); wholesale (4 percent); agriculture, forestry or fishing (3 percent); food service (3 percent); and other (16 percent).

### ***Survey Results: Employers Not Offering Insurance***

A total of 5,037 employers (46%) reported they do not currently offer health insurance. Most indicated they had not recently provided insurance and do not expect to offer it in the near future. Almost 85 percent of respondents (4,252) said they had not provided health insurance in the past five years. Only 41 percent had attempted to purchase health insurance during the same time.

**Table 1 - History of offering insurance and attempts to purchase insurance**

<b>Offered or attempted to purchase insurance</b>	<b>Number</b>	<b>Percentage</b>
Employers who offered insurance within past 5 years	761	15%
Employers who have not offered insurance within past 5 years	4,252	85%
Employers that attempted to purchase insurance within past 5 years	2,049	41%
Employers that did not attempt to purchase insurance within past 5 years	2,943	58%

A large majority (77 percent) of employers not offering insurance indicated that employees were interested in the benefits, with 31 percent showing a strong level of interest. Yet, despite the significant interest among employees, few employers expect to offer insurance within the next three years. Only four percent of the surveyed firms stated they will definitely offer insurance, while 75 percent indicated that they definitely will not or probably will not offer coverage.

**Table 2- Likelihood of Offering Insurance**

<b>Likelihood of offering insurance</b>	<b>Number</b>	<b>Percentage</b>
Company will definitely not offer health insurance in next 3 years	1,268	25%
Company probably will not offer health insurance in next 3 years	2,484	50%
Company probably will offer health insurance in next 3 years	1,028	20%
Company definitely will offer health insurance in next 3 years	186	4%

When asked to indicate the primary reason for not offering insurance, employers report that cost is clearly the most significant factor (Table 3). Sixty-two percent of the employers indicated that they tried to purchase coverage but found it too expensive, or they have not attempted to purchase coverage because they know it is unaffordable. Another seven percent are willing to offer the benefit, but have determined that the majority of their employees are unable to afford their share of the premium. Four percent of the employers report they were unable to obtain insurance because one or more employees have a pre-existing condition that makes the group uninsurable. It should be noted that under state insurance reforms enacted in 1993 and 1995, no small

employer group may be denied coverage due to the health status of the applicants. The question does not, however, provide information that would allow us to determine whether the employer was actually wrongly denied coverage when they attempted to purchase insurance or if they simply believe they are ineligible for insurance.

**Table 3 - Primary reason for not offering insurance**

<b>Reason insurance is not offered</b>	<b>Number</b>	<b>Percent</b>
We have not tried to purchase insurance because we know it is too expensive	1,349	27%
We tried to purchase insurance but it was too expensive	1,792	35%
The majority of employees don't want insurance because they already have coverage	762	15%
We could not obtain insurance because one or more of our employees has a pre-existing health condition	201	4%
The majority of employees do not want health insurance because they do not think it is necessary	45	1%
The majority of employees prefer higher wages to health insurance	236	5%
We are willing to offer coverage but the majority of employees are not able to afford their share of the premium	358	7%
Providing health insurance is too much of an administrative hassle	76	2%

To examine employers' perceptions regarding the cost of insurance and determine the amount of money they are able to pay for coverage, employers were asked two separate questions about the cost of health insurance. Employers were first asked to estimate how much money per employee they believe insurance would cost including both the company's and the employee's contribution. The estimates varied considerably, as shown in the table below. More than 21 percent believe the cost would be more than \$300 per-employee-per-month. Nearly 18 percent estimate the cost to be no more than \$100 a month.

**Table 4 – Employers' Estimated Insurance Costs**

<b>Amount of Money Employer Estimates Insurance Will Cost</b>	<b>Number</b>	<b>Percentage</b>
\$0-\$50 per-employee-per-month	317	6.3%
\$51-\$100 per-employee-per-month	591	11.7%
\$101-\$200 per-employee-per-month	1,321	26.2%
\$201-\$300 per-employee-per-month	1,169	23.2%
\$301-\$400 per-employee-per-month	627	12.4%
\$401-\$500 per-employee-per-month	299	5.9%
\$501-\$600 per-employee-per-month	124	2.5%
More than \$600 per-employee-per-month	143	2.8%

When asked how much the firm would be able to pay for each employee's coverage, most employers (64.9 percent) report that they could pay no more than \$100 a month. Nearly half (45.4 percent) could pay no more than \$50 per employee per month. This information is of particular importance as it confirms the fact that most small firms cannot afford premiums for even a relatively inexpensive benefit plan.

**Table 5 – Employers' Ability to Pay for Insurance**

<b>Maximum Premium Contribution Employer Can Afford Per-Employee-Per-Month</b>	<b>Number</b>	<b>Percentage</b>
Less than \$50 per-employee-per-month	1,176	23.3%
\$50 per-employee-per-month	1,111	22.1%
\$100 per-employee-per-month	981	19.5%
\$150 per-employee-per-month	402	8.8%
\$200 per-employee-per-month	232	4.6%
\$250 per-employee-per-month	87	1.7%
\$300 or more per-employee-per-month	86	1.7%
The company would not purchase insurance at any cost	691	13.7%

Several questions were included in the survey to determine the types of health care benefits employers would most prefer if they were purchasing health insurance. When asked to choose between a basic benefit plan with annual benefit levels of \$10,000, \$20,000 or \$50,000, or a catastrophic policy with limits of \$100,000, \$500,000 or no limit, employers were surprisingly evenly divided in their choices. Nearly 48 percent chose a basic benefit plan and 43 percent chose a catastrophic plan. But there was no consensus on policy limits as illustrated in the chart below. The disparity of the distribution highlights the difficulty of designing a benefit plan that appeals to a large number of employers with diverse preferences and expectations.

**Table 6 – Employers' Preference for Basic or Catastrophic Plans With Annual Limits**

<b>Type of Benefit Plan</b>	<b>Number</b>	<b>Percentage</b>
Preventive care, coverage for routine illnesses and minor injuries w/\$10,000 annual limit	722	14.3%
Preventive care, coverage for routine illnesses and minor injuries w/\$20,000 annual limit	630	12.5%
Preventive care, coverage for routine illnesses and minor injuries w/\$50,000 annual limit	1,063	21.1%
Catastrophic coverage that would not cover routine illnesses with \$100,000 annual limit	624	12.4%
Catastrophic coverage that would not cover routine illnesses with \$500,000 annual limit	726	14.4%
Catastrophic coverage that would not cover routine illnesses with no annual limit	837	16.6%

When asked about the importance of specific benefits, employers' responses varied considerably as illustrated in Table 7. A majority of respondents expressed strong support for primary care only when an individual is sick (72 percent), primary care when sick or for well-care (67 percent), specialist care (73 percent), in-patient hospital care (85 percent), laboratory services (71 percent), prescription drugs (71 percent), radiological care (73 percent), preventive screenings such as mammograms (66 percent) and well-child care (51 percent). Employers indicated the least amount of support for maternity care, mental health services, alcohol or drug abuse treatment, chiropractic care, vision and dental benefits.

**Table 7 – Employers' Opinions on the Importance of Various Health Insurance Benefits**

A= Extremely Important  
 B= Very Important  
 C= Somewhat Important  
 D= Not Very Important  
 E= Not At All Important  
 NR= Not Reported

Type of Health Insurance Benefit	A	B	C	D	E	NR
Visits to a primary care physician, such as a pediatrician or family doctor, but only when sick	41%	31%	15%	4%	3%	6%
Visits to a primary care physician when sick <u>and</u> for annual well-person check-ups	37%	30%	19%	6%	3%	5%
Visits to a specialist physician, such as a cardiologist or surgeon	40%	33%	16%	4%	2%	5%
In-patient hospital care (for surgery, illness, emergencies, etc.)	57%	28%	7%	1%	2%	5%
Maternity care for pregnant women	20%	21%	23%	14%	16%	6%
Laboratory services (such as getting blood work or having a biopsy analyzed).	35%	36%	18%	4%	2%	5%
Mental health services	12%	17%	29%	22%	15%	5%
Prescription drugs	41%	30%	17%	4%	3%	5%
X-Rays or MRI's	36%	37%	17%	3%	2%	5%
Alcohol or drug abuse treatment	7%	11%	27%	26%	23%	6%
Well-child care, including coverage for immunizations and routine check-ups	26%	25%	23%	10%	10%	6%
Chiropractic services	8%	14%	29%	22%	21%	6%
Preventive screenings (such as mammograms or prostate cancer testing)	35%	31%	19%	6%	3%	6%
Vision care (visits to the eye doctor, glasses, contacts)	14%	24%	30%	15%	11%	6%
Dental benefits	15%	23%	30%	14%	12%	6%

As discussed earlier, the Texas Legislature enacted several reforms intended to increase the affordability and availability of health insurance. Anecdotal information indicates that many small employers are unaware of the reforms, but little statistical information has been available until now. However, the survey clearly confirms that few small employers are aware of the earlier reforms. As shown in the table below, 70 percent of the respondents indicated they are not familiar with guarantee-issue requirements that prohibit insurers from denying coverage based on an individual’s health status and 72 percent of the small employers did not know that Texas allows small employers to create purchasing alliances. Only 18 percent of the respondents are familiar with the two standard benefit plans designed to lower the cost of health insurance and which are required to be offered by insurers to all small employers; 80 percent of the employers indicated they were not familiar with this requirement.

**Table 8 – Employers’ Knowledge of Small Employer Health Insurance Reforms**

Description of Reform	Yes, I am familiar	No, I am not familiar
Small employers cannot be denied health insurance coverage based on the health status of their employees.	28%	70%
Small employers can purchase one of two standard benefit plans (the Basic and Catastrophic health plans) that offer more limited benefits at a lower cost.	18%	80%
Small employers can join together to form purchasing alliances for the purpose of buying health insurance.	26%	72%

Employers were asked to indicate who they think is primarily responsible for assuring people have health insurance. Forty-one percent of the employers believe the government is responsible, but an almost equal number believe individuals are responsible for obtaining their own coverage. Only ten percent believe employers should be responsible for providing insurance.

**Table 9 – Entity Primarily Responsible for Assuring Individuals are Insured**

Entity Employer Believes is Responsible for Assuring Individuals Are Insured	Number	Percentage
Federal Government	1,373	27.3%
State Government	639	12.7%
Local Government	48	1.0%
Employers	520	10.3%
Individuals	2,092	41.5%
None of the Above – Insurance is not important	22	0.4%
Other	112	2.2%

## ***Survey Results: Employers That Do Offer Insurance***

Surveyed employers that currently offer health insurance were asked a separate series of questions about the premium rates, employees' participation, and the company's plans for the future. Of the surveyed employers, 5,918 (54 percent) reported they do offer insurance. More than 80 percent of those have done so for at least three years and more than half (59 percent) have provided coverage for more than five years. Nearly 1700 have offered insurance for more than 15 years.

**Table 10 – Length of Time Insurance Has Been Provided**

<b>Number of Years Insurance has been Provided</b>	<b>Number</b>	<b>Percentage</b>
Less than One Year	254	4.3%
1-2 Years	608	10.3%
3-5 Years	1,334	22.5%
6-10 Years	1,189	20.1%
11-15 Years	655	11.1%
More than 15 Years	1,680	28.4%

Typical of employment-based insurance plans, the surveyed small employers report that insurance is generally not available to part-time workers. Most employers (64.8 percent) report that only full-time employees working 36 to 40 hours a week are eligible for the company's health plan. An additional 17 percent of the employers offer coverage for employees working at least 30 hours a week. Only 5.2 percent provide coverage for employees working as few as 20 hours a week.

**Table 11 – Availability of Coverage Based on Number of Hours Worked**

<b>Number of Working Hours Required to Be Eligible for Insurance</b>	<b>Number</b>	<b>Percentage</b>
At least 20 hours per week	309	5.2%
At least 25 hours per week	68	1.1%
At least 30 hours per week	1,006	17.0%
At least 35 hours per week	381	6.4%
At least 36-40 hours per week	3,832	64.8%
Other	148	2.5%

Insurance appears to be a popular benefit among employees. More than half the employers (54.7 percent) reported that 90 percent or more of their employees accept health insurance when offered, with less than 10 percent of the employees declining coverage. However, another 10 percent report that more than half of their eligible employees decline insurance.



**Table 12 – Percentage of Employees who Decline Coverage When Offered**

<b>Percentage of Employees Declining Coverage</b>	<b>Number</b>	<b>Percentage</b>
Less than 10%	3,240	54.7%
Between 10% and 20%	570	9.6%
Between 21% and 30%	355	6.0%
Between 31% and 40%	239	4.0%
Between 41% and 50%	333	5.6%
More than 50%	590	10.0%

Of those employees who do not enroll in the employers' insurance plan, employers were asked to indicate the primary reason why most employees decline coverage. More than half the employers report employees are already covered under another plan. Another 16.4 percent indicate that employees refuse coverage because they cannot afford their portion of the premium contribution and 6.3 percent report the primary reason is because employees do not want coverage.

**Table 13 – Reasons Employees Decline Coverage When Offered**

<b>Reason for Declining Coverage</b>	<b>Number</b>	<b>Percent</b>
Already covered under spouse or parent's plan	3,124	52.8%
Already covered under another employer's plan	245	4.1%
Cannot afford employee premium contribution	969	16.4%
Does not want insurance	375	6.3%

Because cost plays a significant role in most employees' decision to accept or decline insurance when offered by the employer, premium contribution payments are an important indicator of take-up rates among employees. Of the surveyed employers who provide insurance, most employers report they pay a significant portion of the employee's premium, with more than half (59.8 percent) paying the full cost of coverage for employee-only benefits. Of those employers that require the employee to share the cost of their own coverage, 13 percent of the employers report their employees generally pay less than \$50 a month; 8.8 percent report payments generally fall between \$50 and \$75 a month; 6 percent report payments of \$76 - \$100 a month; and 7.4 percent indicate employees generally pay more than \$100 a month.

Employers are significantly less likely to pay substantial portions of dependents' insurance costs. Only 12.4 percent of surveyed employers pay the full cost of coverage for the employees' spouse and 13 percent pay the full premium the employees' children (table 14). More than two thirds pay nothing towards the premium for children or spouse.

**Table 14 – Employers’ Contributions for Dependents’ Health Insurance Benefits**

<b>Percentage of Premium Paid by the Employer</b>	<b>Spouse’s Coverage - #</b>	<b>Spouse’s Coverage - %</b>	<b>Children’s Coverage - #</b>	<b>Children’s Coverage - %</b>
10% of premium cost	50	0.8%	39	0.7%
15% of premium cost	16	0.3%	18	0.3%
20% of premium cost	37	0.6%	35	0.6%
25% of premium cost	84	1.4%	92	1.6%
50% of premium cost	319	5.4%	304	5.1%
More than half of premium cost	279	4.7%	268	4.5%
100% of premium cost	733	12.4%	778	13.1%
Company does not pay any portion	4,131	69.8%	4117	69.6%

Employers were also asked to indicate how much the cost of insurance has increased since 1999. Approximately one-quarter report increases of more than 50 percent with 6 percent reporting their costs have more than doubled (table 15). The majority of insurers report significantly lower increases. Nearly one-fourth (22.3 percent) report their insurance has increased between 10 and 25 percent. The remaining experienced increases between 26 and 50 percent.

**Table 15 – Health Insurance Rate Increases Since 1999**

<b>Size of Rate Increase Since 1999</b>	<b>Number</b>	<b>Percentage</b>
Less than 10%	153	2.6%
10% to 25%	1,318	22.3%
26% to 50%	2,128	36%
51% to 75%	869	14.7%
76% to 100%	386	6.5%
101% to 150%	179	3%
More than 150%	176	3%

Most small employers report that, despite rising insurance premiums, they most likely will continue to offer health insurance. Nearly a fourth of the employers (22.9 percent) responded that they “absolutely” will not discontinue offering coverage and another 38 percent reported it is “very unlikely” they will discontinue the benefit (table 16). However, many employers also indicate there is a reasonable chance that they will stop offering insurance coverage. More than 2000 employers (35.8 percent) reported they are “almost certain,” “very likely” or “somewhat likely” to discontinue offering insurance.

**Table 16 – Likelihood of Employers’ Discontinuing Health Insurance Offering**

<b>Likelihood of discontinuing health insurance benefits</b>	<b>Number</b>	<b>Percentage</b>
Almost certain to discontinue coverage	329	5.6%
Very likely to discontinue coverage	536	9.1%
Somewhat likely to discontinue coverage	1,247	21.1%
Very unlikely to discontinue coverage	2,251	38.0%
Absolutely not likely to discontinue coverage	1,353	22.9%

All employers – including both those that do and those that do not offer health insurance – were asked to indicate their level of support for 11 health insurance expansion options. As shown in Table 17 below, the surveyed employers overwhelmingly support the formation of purchasing alliances; the ability to purchase insurance through a large existing health insurance plan such as those plans for state and federal employees; and providing a financial incentive for small employers who offer health insurance. Employers also favor allowing children not eligible for CHIP to “buy-in” to the program or expanding the CHIP program to include more children. Options receiving the least amount of support are reducing the mandated benefits without requiring a reduction in premium costs and expanding Medicaid to include low-income parents of children already enrolled in Medicaid.

**Table 17 – Level of Support for Health Insurance Expansion Options**

A = Strongly Support  
 B = Generally Support  
 C = Generally Oppose  
 D = Strongly Oppose  
 NR = No Response

Description of Policy Option	A	B	C	D	NR
Allowing small businesses to join with other small businesses for the purpose of purchasing health insurance at rates similar to those experienced by large employers (known as “purchasing alliances”)	77%	18%	1%	3%	1%
Allowing small businesses to purchase insurance through a large existing health insurance plan, such as the Texas state employees’ health plan or the health plan for federal government employees	65%	24%	5%	3%	3%
Reducing the mandated benefits insurers must include in their policies (such as coverage of immunizations, mammograms, chiropractic care, chemical/drug abuse, etc.) as long as insurers are also required to reduce their premium costs	22%	26%	25%	23%	4%
Reducing the mandated benefits insurers must include in their policies but not requiring a reduction in premium costs	6%	7%	15%	67%	5%
Providing a financial incentive to encourage small employers to provide health insurance for their employees	55%	30%	7%	4%	4%
Allowing children who are not eligible for the state’s CHIP program to “buy-in” to the program by paying the required premium	34%	44%	10%	5%	7%
Expanding the state’s CHIP program to include the parents of children who are already enrolled in CHIP	22%	34%	21%	14%	9%
Expanding the state’s CHIP program to include more children	32%	39%	13%	7%	9%
Providing a government subsidy to lower-income employees to help them pay their share of the cost of health insurance	20%	29%	25%	20%	6%
Expanding the state’s Medicaid program to include the low-income parents of children who are already enrolled in Medicaid	14%	30%	29%	20%	7%
Expanding the state’s Medicaid program to include more children	21%	34%	22%	14%	8%

Finally, surveyed employers were provided a form for submitting additional comments. Many took advantage of the opportunity to express their concerns, offer suggestions or plead for help. Attached to this report are only a few of the many comments received.