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Changes in Family Health Insurance Coverage for Small and Large Firm Workers and Dependents: Evidence from 1995 to 2005

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Introduction

Access to and affordability of health insurance offered by business owners to employees continue to be of great concern. According to the National Federation of Independent Business, the cost of employer-sponsored health insurance is the most pressing problem affecting the provision of health insurance for small business owners. The objective of this study is to determine whether the decline in family health insurance coverage at large firms has increased financial pressure on plans sponsored by small firms. The study addresses family health insurance coverage from the worker's perspective.

Overall Findings

This study finds that family health insurance coverage for workers in both small and large firms is decreasing, and that firm size plays a role in the type of dependent coverage children have. Access to coverage through a large firm as a dependent remains very important to small firm employees.

Highlights

- Small firm workers married to large firm workers are more likely to be covered as dependents at large firms than if their spouses work at small firms. Specifically, in 2005 an estimated 47 percent of small firm workers with a spouse working in a large firm were covered as dependents, compared with 23.5 percent of small firm workers with a spouse working in a small firm.
- The study also finds that few large firm employees are shifting their coverage from their large firm to dependent coverage under their small firm spouse's plan. Large firm workers married

to small firm workers experienced a decline in coverage from work of almost 3 percentage points compared with an increase of about 0.8 percentage point in coverage through their small firm spouses.

- Small firms do face more financial pressure from the decline in large firm dependent coverage of children; however, the effect is quite small, with an increase of less than one percentage point in the share of children covered as dependents by small businesses when their parents work at different-sized firms.

- The findings show that children are more likely to have dependent coverage if they have a parent working in a large firm. In 2005, 63.7 percent of children with both parents working at a small firm had dependent coverage, compared with 78 percent if one parent worked at a large firm and the other at a small one, and 81 percent if both parents worked at a large firm.

- Nonemployer coverage of children is especially important for families where both spouses work in small businesses. This "other" coverage has reduced the share of small firm worker parents with uninsured children from 16.4 percent to 11.0 percent.

- Over the study period 1995 to 2005, dependent coverage for married workers increased slightly for large firm workers with a spouse working in a small firm. Also, there has been an increase in dependent coverage of small firm employees by their large firm spouses, which should decrease the financial pressure on small firms.

Scope and Methodology

The researchers use data from the Annual March Demographic Survey of the Current Population

Survey (CPS) for 1996, 2001, and 2006. The March CPS is collected by the U.S. Census Bureau on behalf of the Bureau of Labor Statistics. From 1996 to 2001, the survey sampled approximately 60,000 households annually. The March CPS surveys are an extensive collection of information on the work experience, income, and demographics of the U.S. noninstitutionalized population, and are also primary sources of information on health insurance coverage. The CPS does not contain any information on health insurance costs.

To control for differences in health insurance costs across different locations and across time, the authors use premium data from the Federal Employees Health Benefits Program (FEHBP). Therefore, FEHBP premiums can serve as a proxy for local health insurance costs. The FEHBP data were merged with the CPS data by calculating the mean FEHBP managed-care plan premium for each metropolitan statistical area (MSA) in the United States, and then matching this mean premium with each respondent's MSA code in the CPS data. Respondents who did not live in an MSA were assigned the mean premium for all of the MSAs in their state. If their state did not have an FEHBP plan, they were assigned the premium for the Blue Cross Blue Shield FEHBP plan for that year.

This study uses a series of four multinomial logit models to test whether spouses working for large firms and children previously covered through large firms have shifted to dependent coverage in group plans sponsored by small businesses. For a shift in coverage from large firm to small firm employers to occur, a family must have a mix (a spouse working at a large and small firm) of workers who can potentially cover dependents through their job. For this reason, employer-based health insurance for two-earner married couples and their children is analyzed. One major limitation of this study is that the data did not make it possible to determine if workers or employers were dropping health insurance coverage.

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

Ordering Information

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