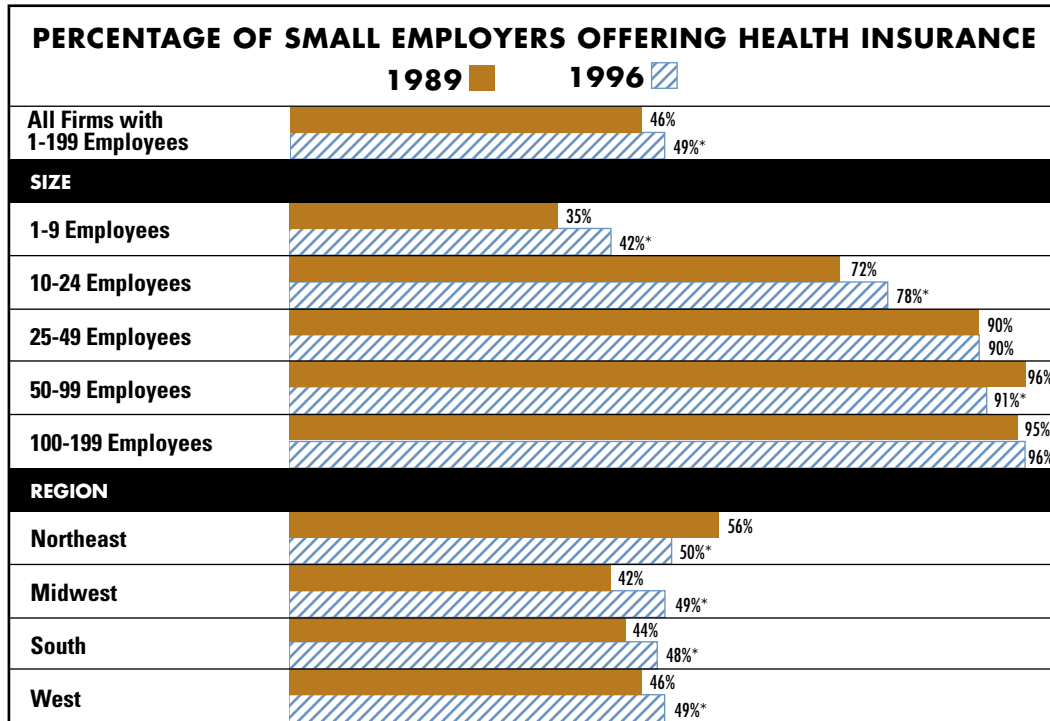


*MORE SMALL FIRMS
OFFER HEALTH
INSURANCE BUT
FEWER EMPLOYEES
ENROLL*



Sources: Health Insurance Association of America, 1989; KPMG Peat Marwick, 1996.
* Difference from 1989 level is statistically significant at 95 percent level.

Concerns about the ability of employment-based insurance to play a key role in covering the population have focused on the willingness and ability of small firms to offer health insurance. The good news is that in the 1990s, small firms became more likely to offer health insurance to their employees. (Small firms are defined here as those with fewer than 200 employees.) According to an employer survey, the proportion of small firms with coverage for workers grew from 46 percent in 1989 to 49 percent in 1996. This increase was most pronounced among the smallest firms—those with fewer than 10 employees. Overall, health insurance became more uniformly available in small firms in regions across the country; in 1989, there were greater disparities, with coverage more likely to be offered in the northeast than any other region.

This accomplishment was more than offset, however, by the decline in the proportion of employees enrolling in employer-based coverage. The result: a net decline in the rate of employment-based health coverage. This is true for persons working in large firms as well. Findings from a household survey using data from 1987 and 1996 confirm this trend.¹

ENROLLMENT TRENDS

The percentage of employees in small firms enrolled in their firms' plans decreased from 72 percent in 1989 to 66 percent in 1996. (See chart on page 2.) This decline occurred relatively uniformly across all small firms and among large firms as well.

Another measure of employees' lack of interest in coverage comes from the perspective

This Data Bulletin is based on data from KPMG Peat Marwick's national survey of all employers of all sizes, Health Benefits in 1993 and Health Benefits in 1996, and from the Health Insurance Association of America in 1989. The KPMG and HIAA surveys used a similar questionnaire, sample design and set of statistical weights. Survey interviews were conducted by telephone.

Data Bulletin

This Data Bulletin is adapted from "Tracking Small-Firm Coverage, 1989-1996," by Paul B. Ginsburg, John R. Gabel and Kelly A. Hunt, which appeared in the January/February 1998 issue of *Health Affairs*.

of their employers. When employers that do not offer health insurance coverage were asked the major reasons for not doing so, 33 percent of the small firms responding to a 1996 survey said it was because employees are not interested—an increase over 1989, when 29 percent responded this way.

Why are employees declining health coverage? Perhaps the major reason is the sharp increase in the size of the contribution required from employees. This increase is driven by two factors: increases in premiums and the proportion of premiums paid by employees. Overall, the average monthly contribution for family coverage for workers in small firms increased from \$34 in 1988 to \$175 in 1996. This represents a 23 percent increase per year on average.

These contributions have been rising faster than wages. The problem is exacerbated because employees who are most sensitive to these increases are those with the lowest wage; they also have experienced the smallest gains in earnings in recent years. Simply put: they cannot afford health insurance.

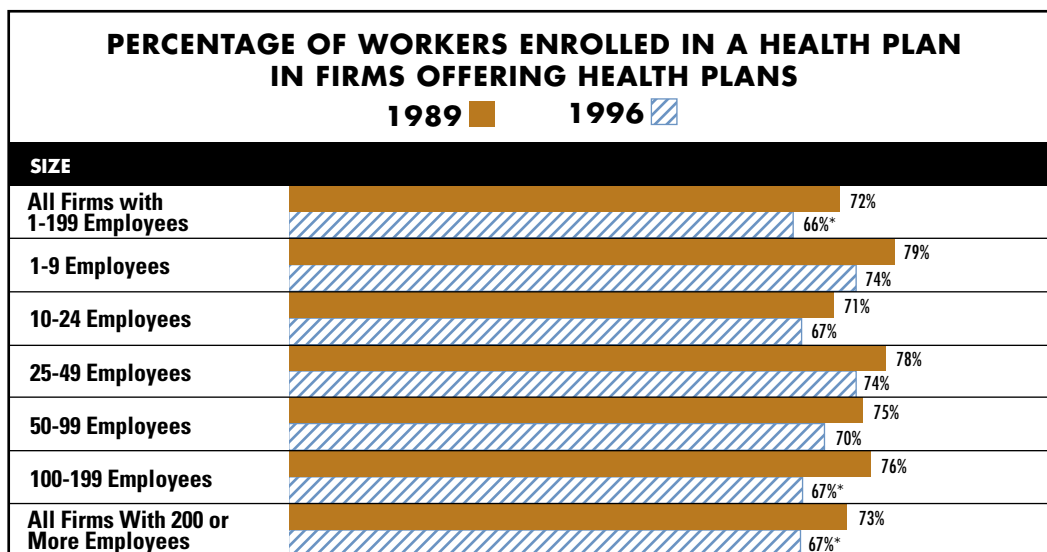
IMPLICATIONS FOR POLICY MAKERS

Based on these survey findings, health policy makers may have to take a new look at how to deal with the problem of uninsurance. Many of their efforts to date have been associated with ways to encourage small firms to offer health insurance coverage; there has been some progress on that front. At the same time, the fact that the cost of health insurance has been rising more rapidly than earnings has taken an important toll on health insurance coverage.

Given that most forecasts show a resumption of the trend of health insurance premiums to grow faster than incomes, this relationship is worrisome and is likely to get worse. Making progress in containing health care costs is probably more important to expanding or preserving the rate of health insurance coverage than previously believed.

Note

1. Cooper, P. F., and B. S. Schone. "More Offers, Fewer Takers for Employment-Based Health Insurance: 1987 and 1996." *Health Affairs* (November/December 1997): 103-110.



Source: Health Insurance Association of America, 1989; KPMG Peat Marwick, 1996.

Note: All figures weighted by number of employees.

* Difference from 1989 level is statistically significant at 95 percent level.

Data Bulletins are published by the Center for Studying Health System Change

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Editor: The Stein Group
Design: Levine & Associates

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