



In the Literature

Highlights from Commonwealth Fund-Supported Studies in Professional Journals

Access to Health Insurance at Small Establishments: What Can We Learn from Analyzing Other Fringe Benefits?

November 9, 2009

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Journal: *Inquiry*, Fall 2009 46(3):253–73

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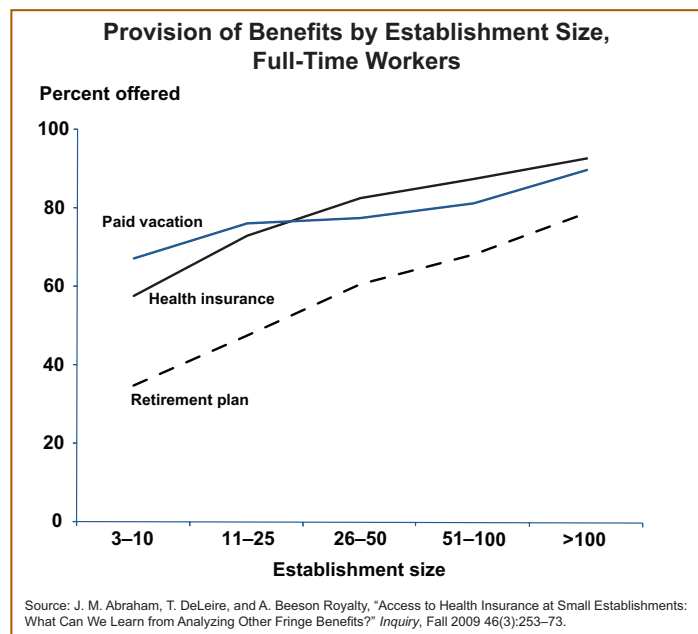
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Synopsis

Just as workers employed by small businesses are less likely than those in large ones to be offered fringe benefits like pension plans, paid sick leave, and paid vacations, they are also less likely to be offered health insurance. Administrative costs—and not insurance market flaws—are likely the major reason why so many smaller firms do not offer health benefits to their employees.

The Issue

The low rate of employer-sponsored health insurance coverage among workers in small businesses has created a serious health coverage gap. Although flaws in small-group insurance markets such as adverse selection (the disproportionately large enrollment of high-cost individuals) are commonly blamed for this problem, state policies that have addressed such flaws have met with limited success. To determine other possible causes, researchers analyzed federal survey data from 1997 to 2003 to investigate the relationship between health insurance and other components of workers' compensation.



Key Findings

- Fifty-five percent of full-time workers at very small firms (employing three to 10 workers) were offered health insurance over the study period, compared with 90 percent of employees in firms of 100 or more workers. These workers were also less likely to be offered a retirement plan or paid vacation.

- Low-wage earners were less likely to be offered health insurance than high-wage earners, regardless of establishment size.
- The percentage of workers in firms offering health insurance and retirement benefits grew at similar rates as establishment size increased. The offer rate increased less for paid vacation as the size of the firm increased.
- Because of the relationship between offer rates of health insurance, retirement benefits, and paid vacation, it is unlikely that insurance market failure is the main reason smaller establishments are less likely to offer health insurance. The administrative costs of setting up and running a health insurance plan may be an important reason why workers at smaller establishments are less likely to be offered health benefits.

Addressing the Problem

Policies that serve to lower administrative costs so that small employers find it more feasible to offer health insurance to workers should be explored. For example, a state-level exchange similar to the Commonwealth Connector in Massachusetts, or a national exchange like those included in recent congressional reform proposals, could provide plan options for employers and employees, generate price and quality information, process paperwork, and administer enrollment.

“Lowering administrative costs should be considered as a way to increase the rate at which workers in smaller establishments are offered health insurance.”

About the Study

The authors analyzed data from the Household Component of the 1997–2003 Medical Expenditure Panel Surveys. Looking at a sample of 23,294 full-time workers, they sought to determine: 1) whether workers in small establishments are less likely than those at larger establishments to be offered health insurance, retirement plans, and paid vacation benefits; 2) the percentage of workers offered health insurance by establishment size and wage levels; and 3) the probability that workers will be offered health insurance conditional on their being offered other non-insurance-related benefits. They then considered leading explanations present in the literature for why provision of health benefits might vary with establishment size and explored which best explain the patterns in the data.

The Bottom Line

Workers in small establishments are less likely to be offered health insurance than their counterparts in larger firms. Administrative costs likely pose a major obstacle to health insurance offers at smaller establishments, with the insurance market playing a smaller role in explaining the gap.

Citation

J. M. Abraham, T. DeLeire, and A. Beeson Royalty, “Access to Health Insurance at Small Establishments: What Can We Learn from Analyzing Other Fringe Benefits?” *Inquiry*, Fall 2009 46(3): 253–73.