Special Report

Small Businesses, Information, And The Decision To Offer Health Insurance

What the California HealthCare Foundation has learned as it attempts to increase coverage among small firms.

by Marian R. Mulkey and Jill M. Yegian

Over the past decade the problem of the uninsured has worsened, and the small-business sector has consistently accounted for a disproportionate share of the uninsured.[1] Given the increasing severity of the problem and California's higher-than-average number of both small firms and uninsured persons, the California HealthCare Foundation (CHCF) in 1997 turned its attention to the following question: What can foundations do to expand health insurance coverage in the small-business market?[2]

In the 1980s the Robert Wood Johnson Foundation (RWJF) created a series of demonstration projects in partnership with state efforts to reduce the cost of coverage for small firms and their workers. Despite the emergence of a variety of innovative approaches that ranged from offering reduced benefit packages and limited provider networks to creating a statewide purchasing pool, the initiative had limited success in expanding coverage.[3]

A decade later the link between small firms and uninsured workers remains, and the role of foundations in addressing this problem merits renewed attention. This Special Report tracks the CHCF's progress and shares insights into the possibilities and limitations of focusing on small firms as a route to increasing the number of Californians with health insurance coverage.

In developing our strategy, we pursued three approaches. First, we supported a project that subsidizes premiums for small firms and their workers.[4] This approach directly benefits workers by bringing health insurance within their financial reach but cannot be sustained or implemented broadly using philanthropic resources. Second, we investigated the potential of purchasing alliances that aggregate small firms' buying power. This approach is promising, and we have invested in a number of projects in this area. But our research and that of others demonstrates that the strengths of pooled purchasing lie primarily in expanding choice of plans rather than in reducing premiums and thus expanding coverage.[5]

Given the limitations of these two approaches, we pursued a third: identifying and addressing information gaps that may contribute to low rates of offering insurance among small businesses. This paper focuses on our third approach. We hypothesized that a basic requirement of a well-functioning market—that participants be well informed about their options—had not been met in the small-business market. To assess the potential of using an information-based approach to expand coverage, we aimed to answer two related questions: (1) What evidence is there that small firms lack information about key factors that might affect their health insurance purchasing decision? How do businesses offering and not offering coverage differ in terms of their knowledge about health insurance, and on what specific topics do knowl-

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edge levels differ? (2) If small businesses were better informed about these topics, would they be more inclined to offer health insurance?

Information Gaps Identified

In 1998 we commissioned a survey of decisionmakers representing small California firms offering and not offering coverage.[6] The survey was conducted by telephone using a random sample of California firms having ten to forty-nine employees.[7] We explored several areas, including understanding of market protections, awareness of tax-deductibility of premiums, and knowledge of market prices.

We found that many small firms were not aware of the strong market protections available to them.[8] Despite the fact that guaranteed issue and other reforms went into effect in 1993, only 24 percent of employers not offering coverage and 57 percent of those offering it were aware in 1998 of regulatory protections guaranteeing access to group health insurance.[9] The results of a separate survey, conducted by University of California researchers in 1997, were equally dramatic: 62 percent of California firms with three to nine employees said that "not qualifying for group coverage" was an "important" or "very important" reason that they did not offer coverage.[10]

In our 1998 survey fully 42 percent of those not offering coverage (and 20 percent of those offering coverage) did not know that health insurance premiums paid on behalf of employees were tax-deductible.[11] A recent national survey supported these findings; it reported that many small businesses lack knowledge about tax-deductibility and marketplace rights.[12]

We had hoped to find that many small employers believed that insuring their workers was more costly than it actually was; since cost is generally recognized as a central issue for small firms, an information gap around the issue of affordability would have been a powerful finding. Instead, we found that small firms not offering health insurance tended either to estimate accurately or to underestimate the cost of coverage. In our 1998 survey 30 percent of respondents believed that covering one employee for a year would cost less than $1,000; 46 percent believed that the cost would be from $1,000 to $1,999; 13 percent thought that the cost would be from $2,000 to $2,999, and 10 percent estimated the cost at $3,000 or more annually. In 1998, small California firms actually contributed an average of $1,700 for employee-only coverage in a health maintenance organization and $2,200 for preferred provider organization coverage.[13]

We concluded that small California firms lack information about market protections and tax-deductibility of premiums, two factors that might influence their health insurance purchase decisions. Of course, these findings do not establish a causal relationship between lack of information and the decision not to offer health insurance. Although it may be that better-informed businesses are more likely to offer coverage, some small firms may be ill informed precisely because they have no interest in offering coverage. Nevertheless, the information gap suggested that better information has the potential to persuade at least some small firms to offer health insurance.

Developing An Intervention

We next set out to develop a large-scale, multimillion-dollar media and grassroots campaign to close the information gap. We envisioned nothing less than saturating the small-business community within a targeted geographic area and developing a rigorous evaluation to test the effect of information on small firms' purchasing. However, before we had traveled far down this path, we obtained advice that changed our direction.

Our first step was to convene a group of health plan representatives, brokers, small-business representatives, leaders of ethnic communities, advocates for the uninsured, and researchers to explore our hypothesis that better-informed small businesses would be more likely to offer insurance. There was general agreement that an information-based approach held promise. However, there was also consensus that business owners would be most responsive to messages emphasizing the impact of health insurance on the financial

health of their businesses (the "business case" for offering health insurance).

We responded in 1999 by commissioning a literature review on the link between offering health insurance and a firm's financial performance.[14] The review uncovered little evidence of a link between health insurance and improved business outcomes such as increased productivity or reduced employee turnover, absenteeism, or workers' compensation costs. The review pointed out the complexity of these issues and the fact that only limited efforts have been made to establish these links. But the absence of evidence supporting such links ruled out potentially powerful messages for our proposed campaign such as, "Offering health insurance is good for your business."

"Many small businesses are not well informed about health insurance and would be receptive to an unbiased information source."

Our second step was to conduct exploratory conversations with organizations that serve small businesses, including the California Chamber of Commerce, the Greater Los Angeles Chamber of Commerce, and the California chapter of the National Federation of Independent Business. In our planned community campaign, we hoped that these groups would play an important role in publicizing the coverage issue and educating their members. In our discussions they expressed interest in participating and were generally positive about the anticipated response from their constituents. Not surprisingly, however, competing priorities limited their interest in taking a leadership role in an effort focused on health insurance information dissemination and outreach. Furthermore, some of these organizations felt that they were not the best target for the proposed campaign, since their members tend to be older, larger, more well-established firms that may already offer health insurance.

Finally, we commissioned focus groups with persons responsible for making health insurance purchasing decisions at California businesses with two to fifty employees.[15] The qualitative nature of this August 2000 research limits the degree to which we can draw definitive conclusions. The findings indicated that decisionmakers who do and do not offer health insurance share similar beliefs about its benefits (such as enhanced ability to attract and retain workers and higher productivity) and drawbacks (such as financial cost and administrative burden).

Focus-group findings also supported the notion that many small businesses are not well informed about health insurance and would be receptive to an information source that they perceive as unbiased. Specifically, small firms' decisionmakers have limited knowledge about their rights in the health insurance market and about the range of options (plans, products, and purchasing channels) available. Also, although businesses regularly receive information about health insurance from insurance brokers and health plans, they do not always trust these sources. Finally, decisionmakers respond favorably to messages that affirm their rights to coverage regardless of employees' health status.

These promising indications were balanced by other findings. From the focus groups, we learned that to be compelling to a wide audience, messages about health insurance must mention affordability, a message that is increasingly difficult to deliver when California purchasers are experiencing annual double-digit premium increases. We also learned that such factors as the cost of health insurance and employee demand for coverage are at least as important as information in the offer decision.

Based on lack of success in developing a business case for offering health insurance, the modest level of interest expressed by business organizations, and focus-group findings, we reached two conclusions that redirected and narrowed the scope of our efforts: (1) A

broad-based media campaign attempting to reach all noninsuring small businesses in a community with messages related to market protections, tax-deductibility, and available health insurance options is likely to have limited impact that would fall short of justifying its high cost. (2) For some businesses, such as those actively considering offering or dropping health insurance, an information-based approach has the potential to make a positive impact and is worth pursuing at a moderate level of investment.

Next Steps

Building on these conclusions, and relying on an additional focus-group finding that small firms perceive the Internet as a desirable channel for receiving information, the CHCF is in the process of developing a Web-based Small Business Health Insurance Resource Center. As currently envisioned, the resource center will offer authoritative information about rights and regulations in the California small-group market and information on tax-deductibility. It will provide a resource list of health plans, purchasing alliances, broker organizations, and online health insurance sites that provide information about insurance options for small businesses. We anticipate that such information may be important in supporting both small firms that are considering offering coverage for the first time and—especially if the economy continues to cool—those facing a decision about whether to maintain or drop coverage.

A primary dissemination route for the resource center will be partnerships with small-business groups and governmental agencies. For example, business organizations might include a link to the resource center on their Web sites and publicize the center in newsletters and other printed materials. Local efforts to increase health coverage, such as those in San Diego, San Francisco, and Santa Clara County, are also possible partners.[16]

We plan to design a tracking system to monitor how small businesses use the resource center and whether its information influences the decision to purchase health insurance. Although our ability to quantify the impact of information will be limited, we will pursue ways to track what information is used, how it is used, and by what types of small businesses. We expect that implementation and evaluation of the resource center will bring us closer to answering our original question: If small businesses were better informed, would they be more inclined to offer health insurance? We hope to be able to report back in the affirmative over the next few years.

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NOTES

1. Nationally, the proportion of the nonelderly population without insurance rose from 14.8 percent in 1987 to 18.4 percent in 1998, declining slightly to 17.5 percent in 1999. P. Fronstin, *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2000 Current Population Survey*, EBRI Issue Brief no. 228 (Washington: Employee Benefit Research Institute, 2000). The self-employed and workers in firms of fewer than 100 accounted for 40 percent of the workforce nationally but 59 percent of the uninsured in 1998. P. Fronstin, *Health Insurance Coverage and the Job Market in California*, EBRI Special Report SR 36 (Washington: EBRI, 2000). The corresponding numbers for 1991 were 42 percent of the workforce but 63 percent of the uninsured. Authors' calculations based on K. McDonnell and P. Fronstin, *EBRI Health Benefits Databook* (Washington: EBRI, 1999), Table 7.1.
2. In California in 1998 the self-employed and workers in firms of fewer than 100 accounted for 44 percent of the workforce but 64 percent of the uninsured. Fronstin, *Health Insurance Coverage.* In 1998, 24.4 percent and in 1999, 22.4 percent of California's nonelderly population was uninsured. E.R. Brown et al., *The State of Health Insurance in California: Recent Trends, Future Prospects* (Los Angeles: Regents of the University of California, 2001).
3. W.D. Helms, A.K. Gauthier, and D.M. Campion, "Mending the Flaws in the Small-Group Market," *Health Affairs* (Summer 1992): 7–27; and C.G. McLaughlin and W.K. Zellers, "The Shortcomings of Voluntarism in the Small-Group Insurance Market," *Health Affairs* (Summer 1992): 28–40.
4. The CHCF is funding research to evaluate Sharp Health Plan's Financially Obtainable Coverage for Uninsured San Diegans (FOCUS) product.

Low-wage employees of small firms not offering health insurance are eligible for FOCUS coverage, which is available at below-market cost through premium subsidies funded by the Alliance Healthcare Foundation, the California Endowment, and the CHCF. Other efforts to expand health insurance among the working uninsured (many of which target small businesses and some of which involve premium subsidies) are under way around the country. See S. Silow-Carroll, S.E. Anthony, and J.A. Meyer, *State and Local Initiatives to Enhance Health Coverage for the Working Uninsured* (New York: Commonwealth Fund, November 2000); and S. Silow-Carroll, E.K. Waldman, and J.A. Meyer, *Expanding Employment-Based Health Coverage: Lessons from Six State and Local Programs* (New York: Commonwealth Fund, February 2001).

5. J.M. Yegian et al., "The Health Insurance Plan of California: The First Five Years," *Health Affairs* (Sep/Oct 2000): 158–165; E.K. Wicks and M.A. Hall, "Purchasing Cooperatives for Small Employers: Performance and Prospects," *Milbank Quarterly* 78, no. 4 (2000): 511–546; and S.H. Long and M.S. Marquis, "Have Small-Group Health Insurance Purchasing Alliances Increased Coverage?" *Health Affairs* (Jan/Feb 2001): 154–163.
6. William M. Mercer Inc., *Employer-Sponsored Health Insurance: A Survey of Small Employers in California* (Oakland: CHCF, 1999). Respondents were owners/chief executive officers, human resource directors, or general managers of firms.
7. The sample was drawn from Dun and Bradstreet listings and was stratified by geographic area. The overall response rate was 41 percent.
8. Current California law provides the following guarantees to small groups (2–50 workers): (1) Guaranteed issue: Health plans in the small-group market must offer all of their small-group products to any group meeting the size criteria. Groups may not be turned down based on workers' health status or risk profile. (2) Guaranteed renewal: Health plans may not cancel coverage based on employees' health status or use of services. (3) Rating restrictions: Health plans are limited in the range of prices they may charge based on the risk profile of different small groups. Prices for each small group must be within ±10 percent of the health plan's standard rates for all small groups. (Standard rates may vary by age, family composition, and geography.) (4) Preexisting condition exclusions: Exclusions are limited to a six-month look-back period (only conditions for which care was recommended or received over the six months prior to the start date of the policy may be excluded) and a six-month exclusion period (limited to six months beginning with the start date of the policy). Exclusions are waived for persons who have had continuous coverage. California Department of Insurance, *Assembly Bill No. 1672, as Amended*, Bulletin no. 93-3A (Sacramento: CDI, November 1993); and Association of California Life and Health Insurance Companies, *California Small Employer Group Health Coverage Reform Act of 1992: Final Edition of 1997–98 Amendments* (Sacramento: ACLHIC, 1998).
9. Mercer, *Employer-Sponsored Health Insurance*. The survey question read: "Did you know that by law an employer with 2–50 employees cannot be turned down for coverage and that the premiums can only be a little higher than average even if some of the employees have health problems?"
10. H.H. Schauffler and E.R. Brown, *The State of Health Insurance in California, 1997* (Berkeley: Regents of the University of California, 1998), 37.
11. Mercer, *Employer-Sponsored Health Insurance*. The survey question read: "Did you know that the health insurance premiums an employer pays are 100 percent tax deductible?"
12. P. Fronstin and R. Helman, *Small Employers and Health Benefits: Findings from the 2000 Small Employer Health Benefits Survey*, EBRI Issue Brief no. 226 and Special Report SR 35 (Washington: EBRI, 2000).
13. Mercer, *Employer-Sponsored Health Insurance*. The survey question read: "About how much do you think it would cost your company to cover one employee with employee-only health insurance coverage for one year?"
14. T.C. Buchmueller, *The Business Case for Employer-Provided Health Benefits: A Review of the Relevant Literature*, March 2000, <www.chcf.org/uninsured> (11 July 2001).
15. King, Brown, and Partners, *Small Business Employer Sponsored Health Coverage*, September 2000, <www.chcf.org/uninsured> (13 July 2001).
16. In San Diego the Alliance Healthcare Foundation and the Greater San Diego Chamber of Commerce are engaged in an effort to educate small businesses about the importance of health insurance. San Francisco is pursuing a combination of approaches, including a proposal requiring businesses that contract with the city to offer insurance. In Santa Clara County, efforts primarily target children but also seek generally to increase public awareness about the need for health insurance; in that context, a role for information targeting small business may emerge.