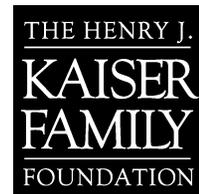

Highlights and Chartpack



The Kaiser Family Foundation

National Survey of Small Businesses

April 2002

Methodology:

The Kaiser Family Foundation's *National Survey of Small Businesses* reports findings from a random representative sample of 805 small business owners and top executives of United States companies and organizations with 3 to 24 employees. Both for-profit companies and non-profit organizations were included in the sample while government and public institutions were excluded. If the company or organization operated out of more than one location, the total number of employees across all locations was used to determine if the company was eligible for the sample.

Researchers at the Foundation designed and analyzed the survey. Fieldwork was conducted between May 17 and July 9, 2001 by Princeton Survey Research (PSRA). The margin of sampling error is +/- 4 percentage points for the total sample, +/- 4 percentage points for small organizations (3 to 9 employees), and +/- 6 percentage points for large organizations (10 to 24 employees). For results based on subsets of respondents the margin of error is higher. Note that in addition to sampling error there are other possible sources of measurement error.

NOTE: Percentages may not add to 100% due to rounding.

The Kaiser Family Foundation is an independent, national health care philanthropy dedicated to providing information and analysis on health issues to policymakers, the media, and the general public. The Foundation is not associated with Kaiser Permanente or Kaiser Industries.

Survey Highlights

Availability of Health Insurance Coverage in Small Businesses

Sixty percent of small businesses (with 3-24 workers) offer health insurance to their workers, but the availability of coverage varies substantially by size and other characteristics. [Charts 1-3]

- Fifty-six percent of small businesses with 3 to 9 workers offer coverage compared to 72% of businesses with 10-24 employees
- Forty-eight percent of firms with an average wage per employee of less than \$2,200 per month offer coverage, compared to 75% of firms with an average wage of \$2,200 or more per month. Similarly, 73% of firms with jobs that mostly require a college degree or more offer insurance, compared to 55% in companies with jobs that generally require a high school degree or less.
- Forty percent of firms with high employee turnover offer coverage, compared to 63% of firms with lower attrition.

Executives of small businesses that do not offer coverage to their workers say cost is the primary barrier. [Charts 4-6]

- Among small firms that do not offer coverage, almost three-quarters (72%) say cost is a very important reason. Far fewer say the availability of coverage through a family member (43%), administrative hassles (34%), or the ability to attract good employees without offering coverage (32%) are very important reasons.
- However, 29% of executives of small businesses that do not offer coverage say they do not know how much health insurance costs. Among those who report that they do know, on average they estimate that a premium for a single employee would cost \$264 per month, somewhat higher than the actual average cost of \$227 per month (Kaiser/HRET Employer Health Benefits Survey, 2001). They estimate that on average they could afford to pay \$110 per month towards the cost of health insurance, and that their employee could afford an average of \$89 monthly.

Among small firms that offer health insurance coverage, few provide employees with a choice of health plans. [Charts 7-8]

- Seven in ten (71%) small businesses that offer health insurance provide employees with just one health plan option (25% provide a choice of more than one plan, and 4% don't know).
- When asked why they don't offer more choices, small businesses most often cite the fact that the company gets a better deal by offering only one plan as a "major reason" (63%), followed by health plan rules requiring all or most employees to be in the same plan (52%), and the expense of offering more choice (48%).

Potential Approaches to Expanding Health Insurance Coverage

A majority of small business executives favor a range of approaches for expanding health insurance coverage. [Chart 9]

- Almost nine in ten small business executives (89%) favor offering tax credits to employers to help purchase private health insurance for their employees. Seventy-five percent of executives support tax credits or other financial assistance to help employees purchase insurance on their own, followed by 67% who favor expanding state government programs for low-income people to cover the uninsured.
- Fewer, but still a majority (54%), favor expanding Medicare to cover the uninsured, and four in ten support a national health plan.

Among employers who do not currently offer coverage, the share who say they would be a lot more likely to purchase coverage with a subsidy from the government increases rapidly with the size of subsidy. [Chart 10]

- For example, three in ten say they would be a lot more likely to offer coverage if the government paid 25% of the premium, while 69% say they would do so if the government paid 75% of the cost.

Most small business executives believe employer-based health insurance is preferable to individually-purchased coverage for their employees. [Charts 11-13]

- Six in ten (61%) executives say their employees are better off getting health insurance through their work, rather than purchasing coverage on their own (24%).
- Among those who offer insurance, almost seven in ten (68%) believe their employees would prefer that the company contribute directly to their health coverage as opposed to giving them cash to buy coverage on their own (22%).
- On a range of measures, more than six in ten executives of small businesses that offer insurance say it would be harder for their employees to buy coverage on their own. For example, 74% say it would be harder for employees to find or keep insurance if they are sick, and 71% say it would be harder for their employees to get a good price for insurance.

Rising Health Care Costs

Small business executives express substantial dissatisfaction with the cost of health insurance, and suggest rising costs could lead to potential disruptions in coverage. [Charts 14-15]

- Two-thirds (67%) of small business executives say they are very or somewhat dissatisfied the cost of health care and health insurance, compared to small minorities who express dissatisfaction with the quality of health care (25%) or the administrative ease of the health insurance system (32%).
- Among small businesses that offer coverage, 28% say they have switched health plans in the last two years, with cost being by far the most important reason cited (half of the 28%).

A significant minority of small businesses that offer coverage say they are likely to shift a greater share of health insurance costs to workers or pursue alternative approaches for providing insurance. [Chart 16]

- About one-third of small businesses that now offer insurance (35%) say they are likely to increase the share of costs borne by employees in the next year.
- Thirty-seven percent also say they are likely to switch to a defined contribution approach of providing insurance in the next five years.

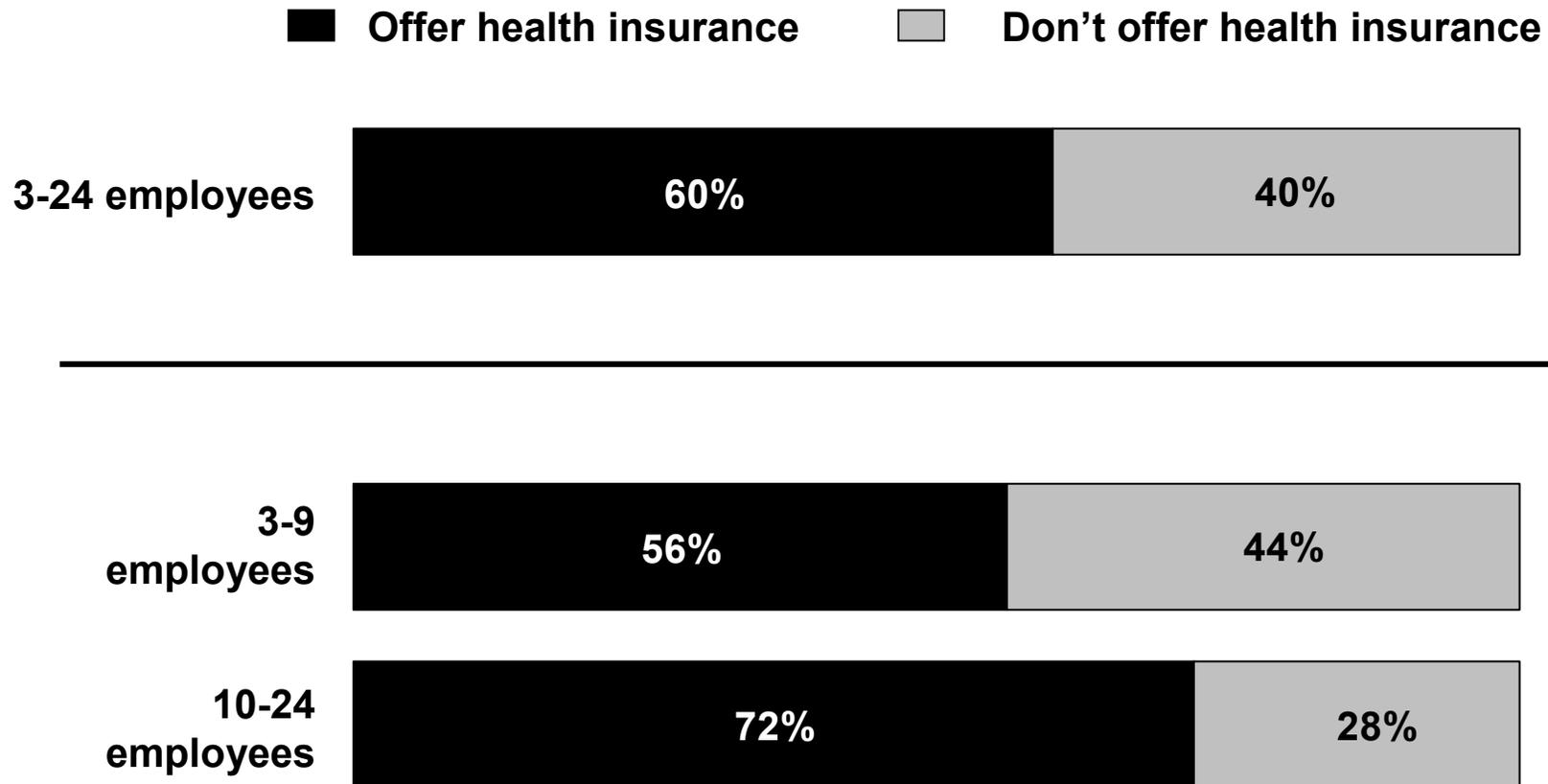
Future cost increases could lead to further changes in coverage offered by small businesses. [Chart 17]

- If the cost of health insurance increased by 10%, employers who offer coverage say they are most likely to absorb the expense (63% say it's very or somewhat likely), though half also say they would be likely to increase what employees pay. Fewer say they would be likely to reduce the scope of benefits offered (36%) or drop coverage entirely (17%).
- However, if costs increased by 25%, employers say they are equally likely to absorb the cost and increase what employees pay (60% say each are likely), and almost half (48%) say they would be likely to reduce benefits. About one-quarter (27%) say they would be likely to drop coverage.

Availability of Health Insurance Coverage in Small Businesses

Chart 1

Percent of Small Businesses Offering Health Benefits, by Number of Employees



Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 2

Small Businesses that Offer Health Insurance Coverage

	<u>Percent of firms that offer coverage in each category</u>
• Average wage level	
– Higher Wage (\$2,200 or more a month)	75%
– Lower Wage (Less than \$2200 a month)	48%
• Run or owned by:	
– Family run or owned	48%
– Woman run or owned	46%
– Minority run or owned	61%
• Race of most employees:	
– White	61%
– Mixed	60%
– Minority	43%
• Level of education required for most jobs in the company:	
– College graduate or more	73%
– Some college	68%
– High school graduate or less	55%
• Annual gross revenue:	
– 1 million and over	74%
– \$500,000-\$999,999	68%
– Under \$500,000	42%
• Turnover:	
– High turnover	40%
– Low turnover	63%

Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

Note: Low turnover is defined as “employees rarely leave” and “most employees stay a few years”. High turnover is defined as “many employees leave after a few months, but a core of employees stay” and “most employees stay only a few months”.

Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 3

Demographic Characteristics That Influence Whether or Not a Small Business Offers Coverage

Even after accounting for the influence of other characteristics, the following characteristics influence whether or not a small business offers health insurance coverage to workers.

Characteristic	Impact on Whether a Business Offers Coverage
Firm Size	Larger businesses with 10-24 workers are more likely to offer coverage.
Wage Level per Employee	Higher wage businesses where workers make more than \$2,200 a month on average are more likely to offer coverage.
Attrition (Employee Turnover)	Firms with low turnover, where most employees stay more than a few months tend to offer coverage more often.
Higher Education Level	If most jobs in a firm require more than a high school education, firm is more likely to offer coverage.

Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

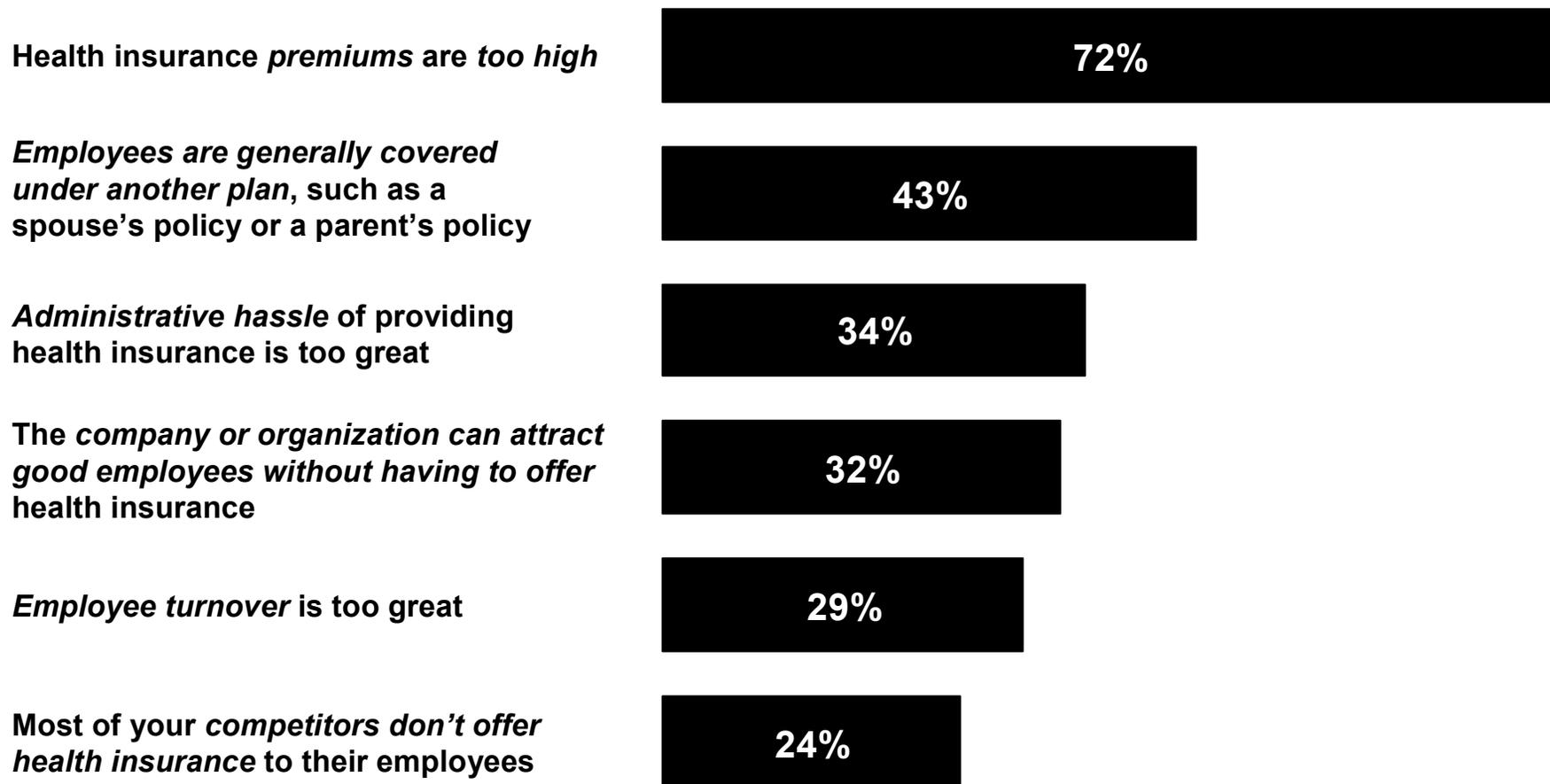
Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 4

Reasons that Influence Small Business Owners Decision Not to Offer Health Insurance

(Among Small Businesses Who Do Not Offer Health Insurance)

Percent who say each of the following reasons are “very important” in deciding not to offer health insurance...



Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 5

Monthly Cost of Single Health Insurance Premiums

	Estimated cost of Health Insurance (among firms that do not offer coverage)	Observed Cost of Health Insurance faces by small businesses
\$150 or less	28%	20%
\$151-200	10%	28%
\$201-300	15%	36%
More than \$300	19%	16%
Don't know/refused	29%	N/A

*On average Small business owners who do not offer coverage estimate the cost of single premiums is \$264 per month.

Data from the Kaiser/HRET Employer Health Benefits Survey show that in 2001, the average cost of single premiums in firms with 3-24 workers was \$227 per month (\$221 a month for all firms).

Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

Source: The Kaiser Family Foundation *National Survey of Small Businesses, April 2002* (conducted May-July 2001)

Chart 6

Small Business Owners Estimate the Amount that They and their Employees Could Afford to Pay for Health Insurance

(Among Small Businesses Who Do Not Offer Health Insurance)

	Estimated Amount Company Could Afford to pay for Health Insurance	Estimated Amount Employees Could Afford to pay for Health Insurance
\$0	14%	8%
<=\$50	22%	23%
\$51-100	16%	25%
\$101-200	13%	20%
More than \$200	8%	7%
Don't know/refused	27%	17%

The average amount small businesses who do not offer coverage estimate they could pay for an employee's health insurance is \$110 per month. The average amount they estimate that their employees could pay for health insurance is \$89 per month.

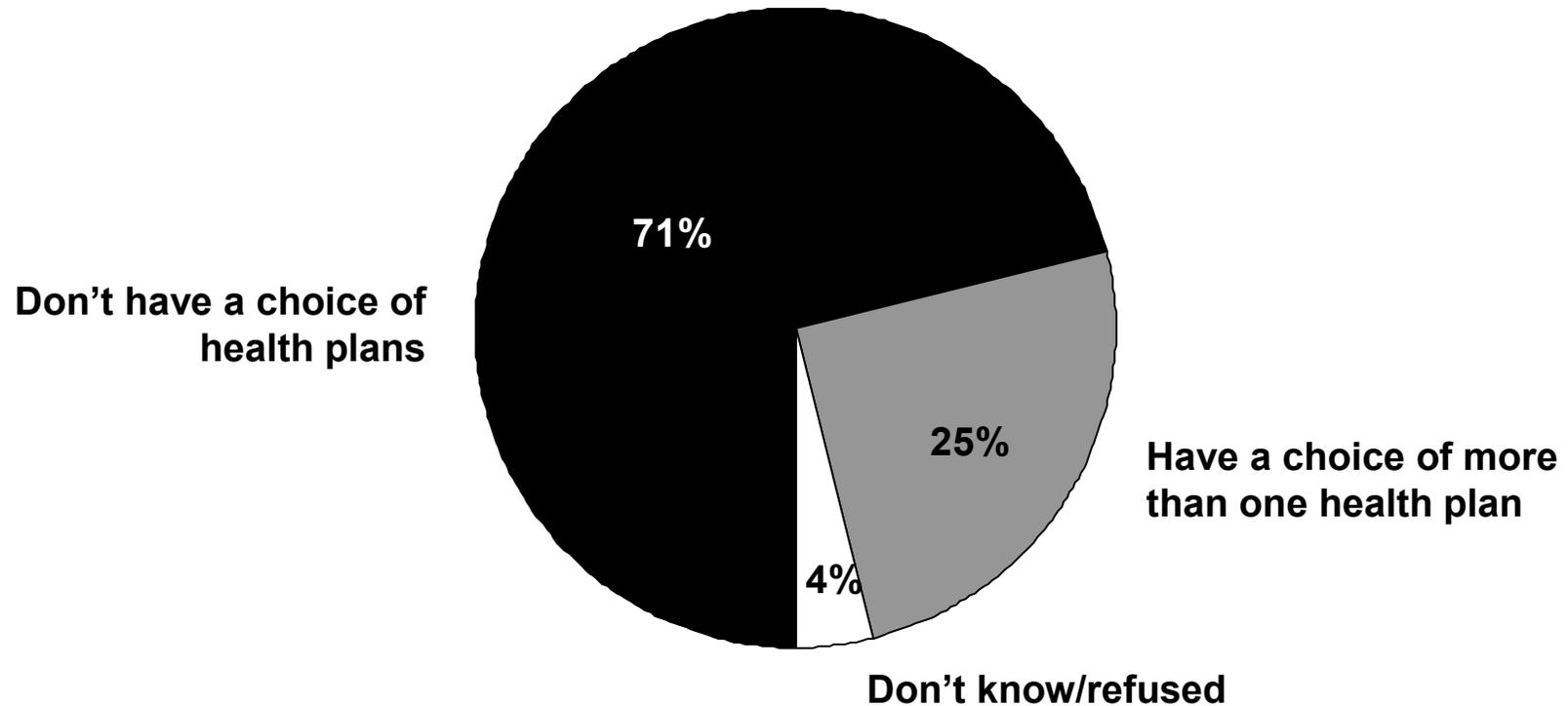
Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 7

Choice of Health Plans Offered By Small Businesses

(Among Small Businesses Offering Health Insurance)



Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

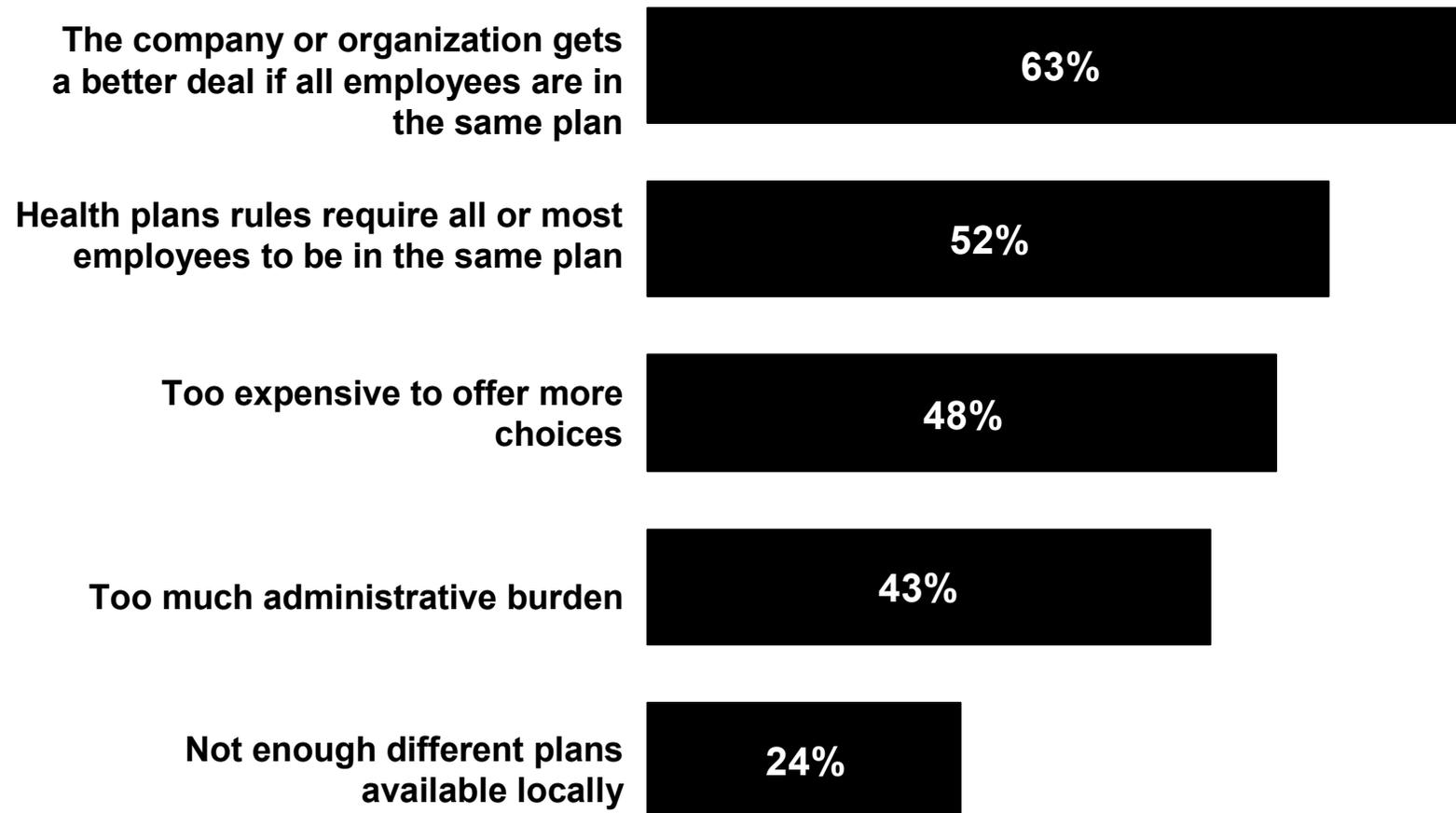
Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 8

Reasons Small Businesses Do Not Offer More Choices

(Among Small Businesses Offering Health Insurance and who offer only one choice of plan)

Percent who say each of the following is a “major reason” why they don’t offer more choices...



Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

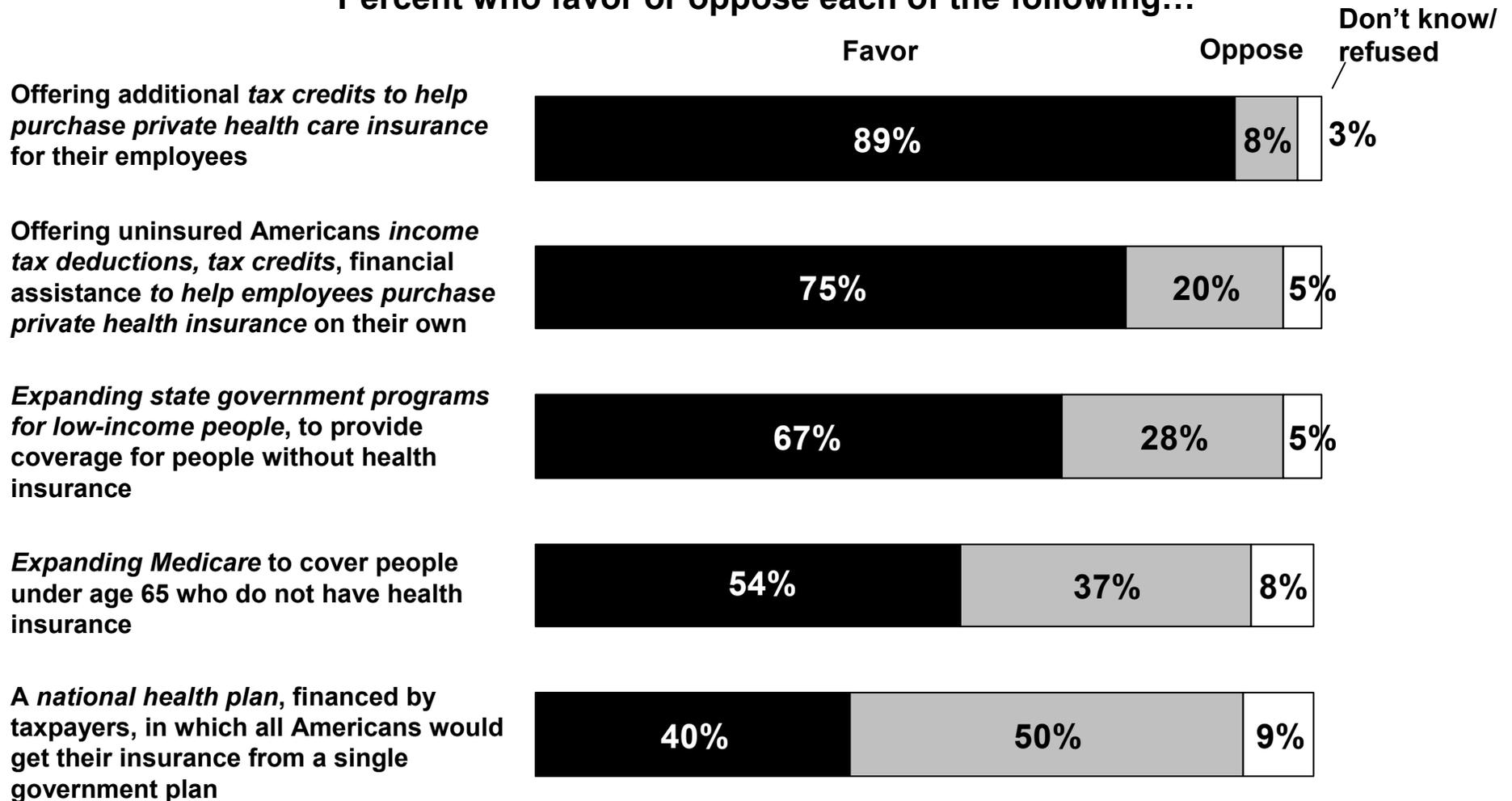
Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Potential Approaches to Expanding Health Insurance Coverage

Chart 9

Views on Different Ways to Guarantee Health Insurance for More Americans

Percent who favor or oppose each of the following...



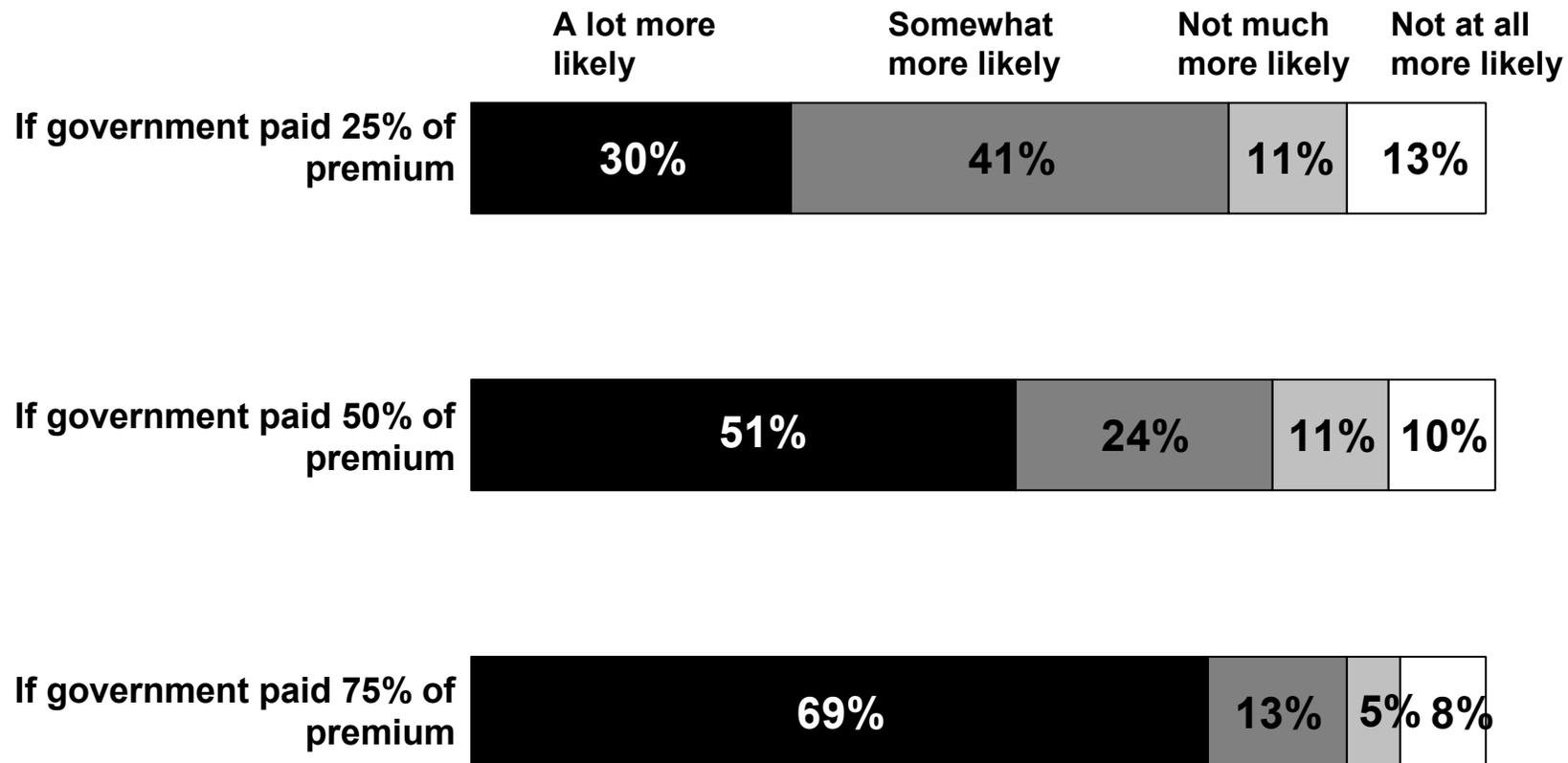
Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 10

Likelihood of Offering a Health Plan If the Business Received Cash from the Government to Cover a Percent of Health Insurance Premiums

(Among Small Businesses Who Do Not Offer Health Insurance)



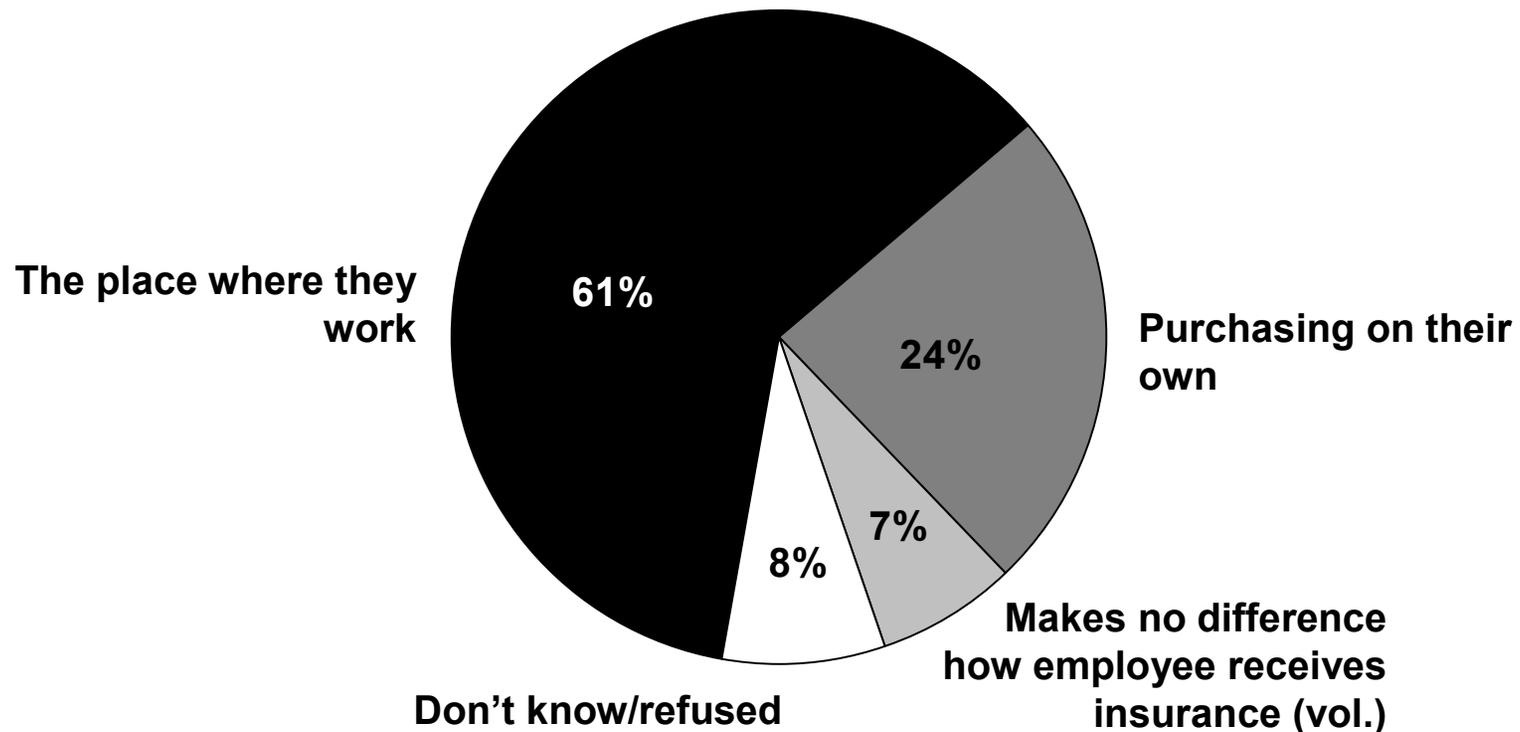
Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

Note: Don't know not shown

Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 11

Percent of Small Business Owners Who Believe Most People Would Be Better Off If They Got Their Health Insurance Policy Through...



Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

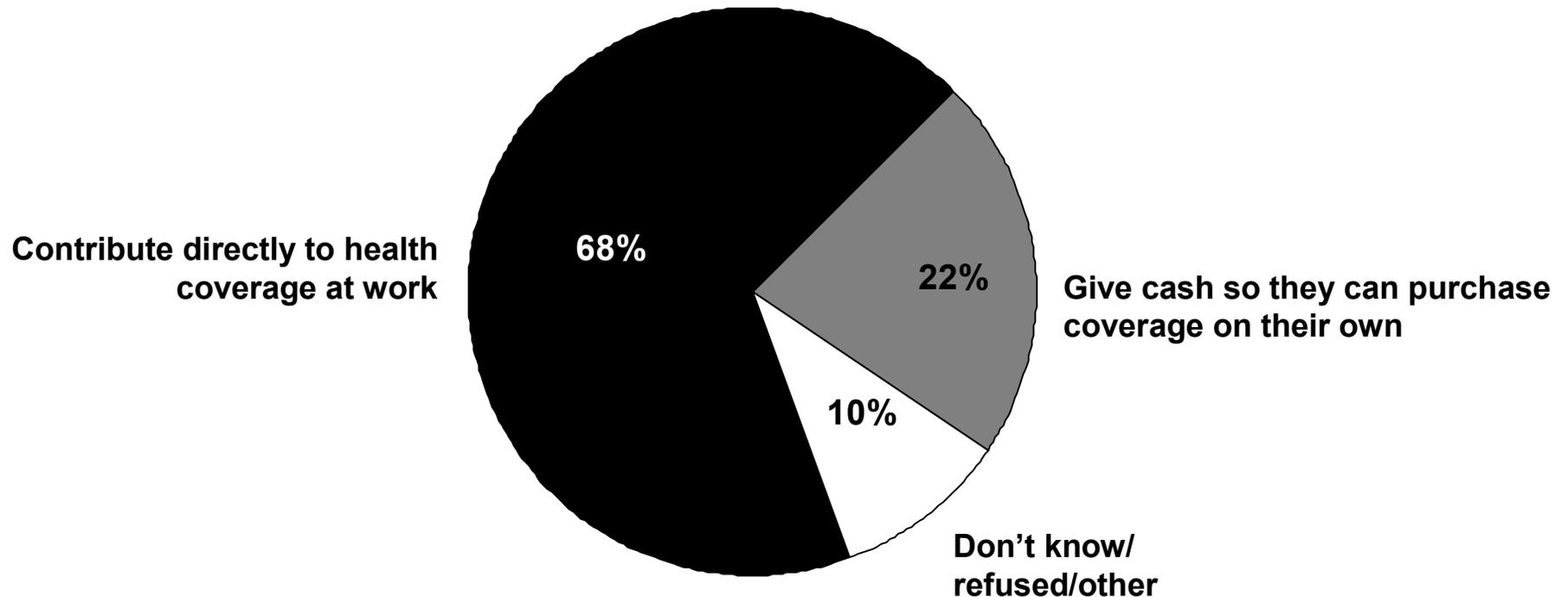
Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 12

Small Businesses' Predictions About Employees' Preferences Regarding Contribution Policies

(Among Small Businesses Offering Health Insurance)

Do you think most of your employees would prefer that your company or organization contribute directly to health coverage at work or give cash so they can purchase coverage on their own?



Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

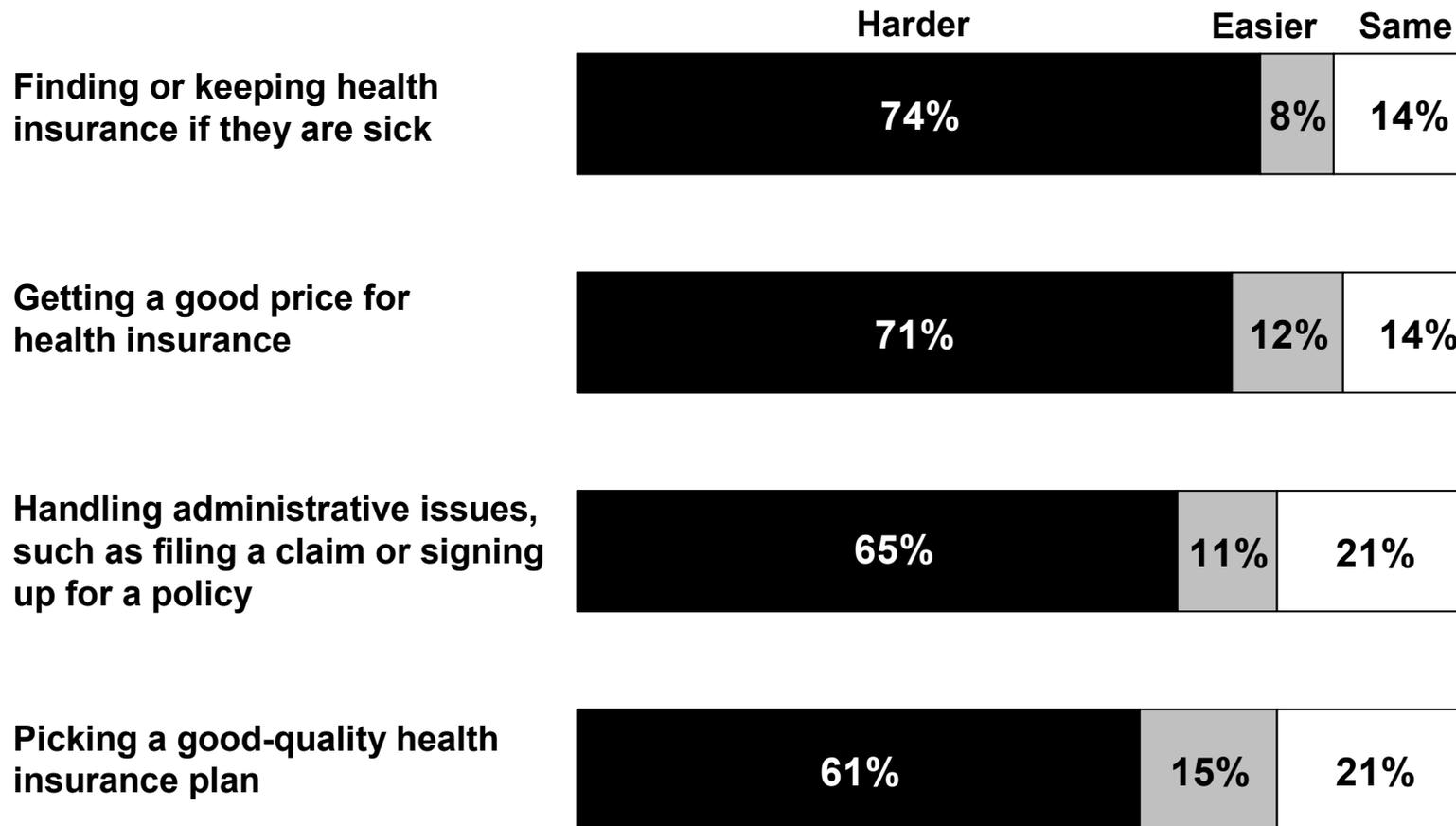
Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 13

Small Businesses' Views on Individual Health Insurance

(Among Small Businesses Who Offer Health Insurance)

Percent who say each would be easier or harder for their employees if they gave employees cash to buy health insurance on their own ...



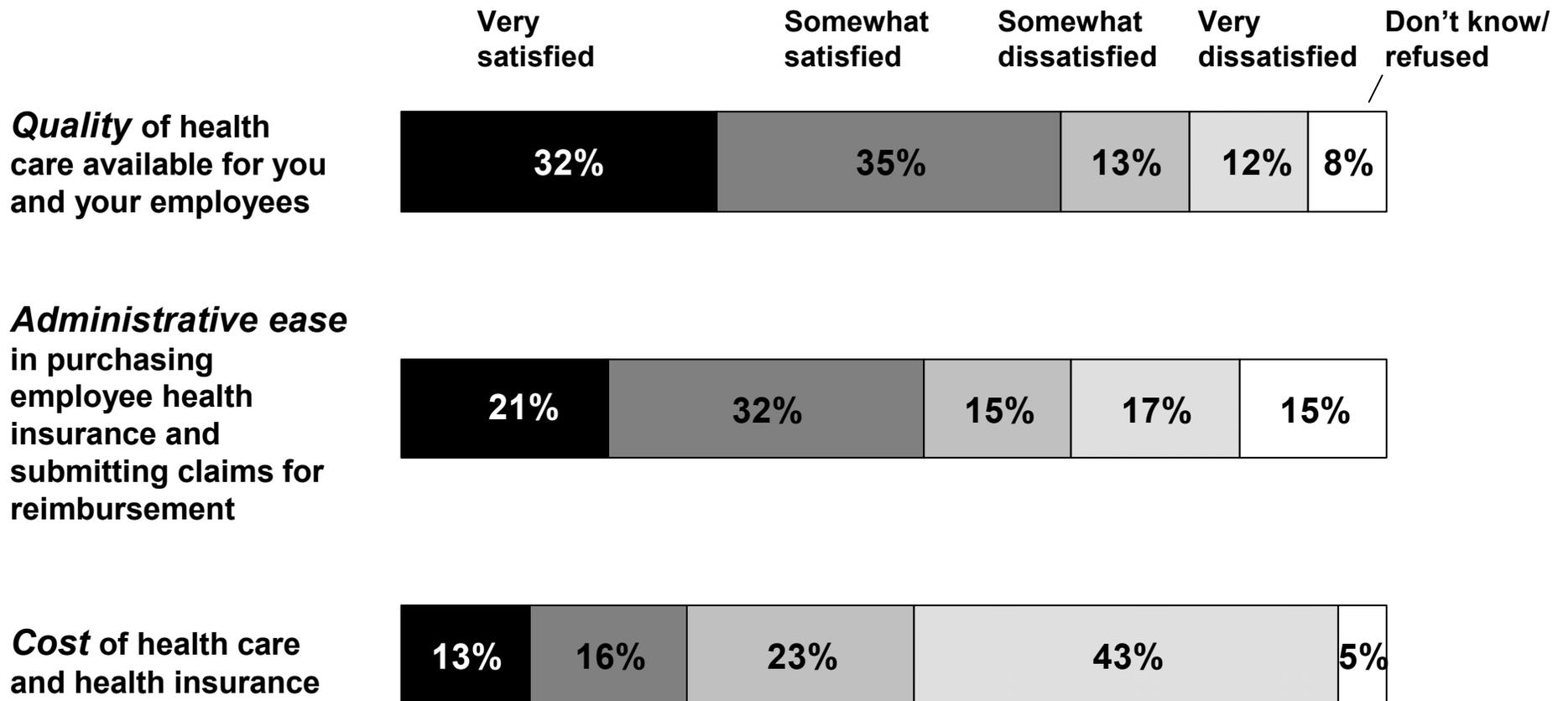
Note: Don't know not shown; Note: Small businesses represent United States companies and organizations with 3 to 24 employees.
Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Rising Health Care Costs

Chart 14

Small Business Owners Views on America's Health Care System

Percent who are satisfied or dissatisfied with each of the following...



Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

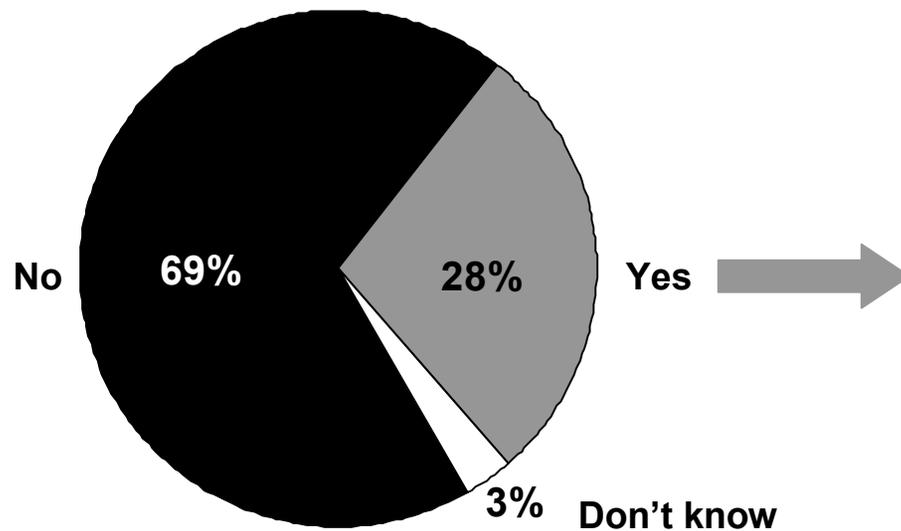
Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 15

Most Important Reasons Employers Switched Health Plans

Has your company or organization switched the health plans offered to employees in the past two years?

(Asked of the 28% who switched plans in the past two years) Which one of the following is the most important reason why you switched health plans?



- 14% Cost or price considerations
- 4% Dissatisfied with plan you had been using
- 4% Plan you had been using was no longer available
- 4% Plan raised rates or dropped coverage because of one or more sick employees
- 2% Complaints from employees
- 1% Don't know/refused

Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

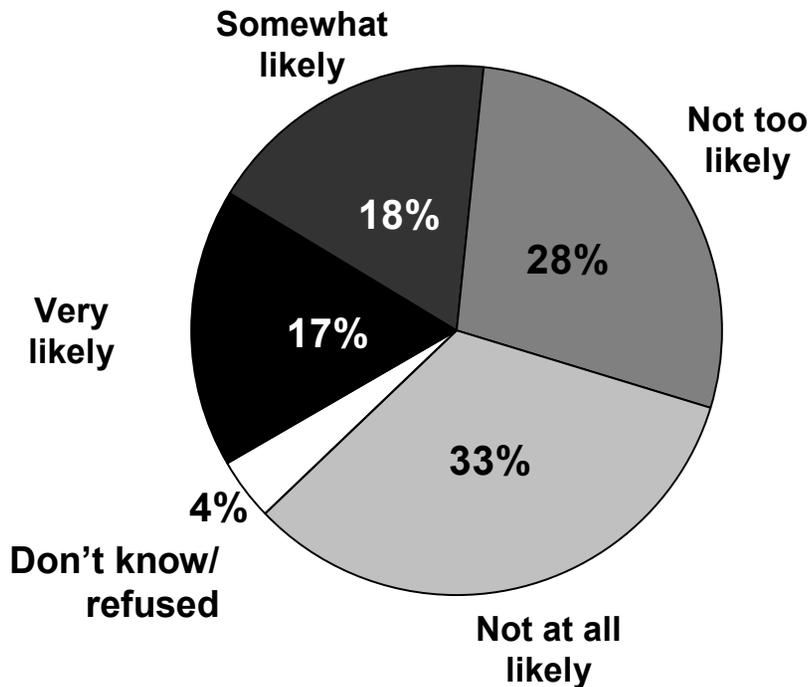
Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 16

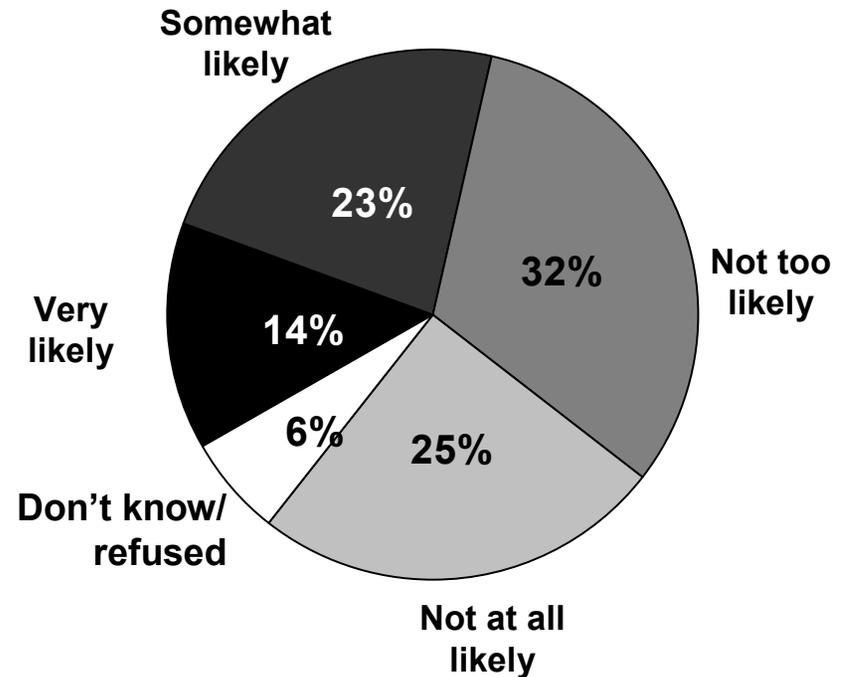
Likelihood of Small Businesses Increasing Employee Share of Cost or Switching to Defined Contribution

(Among Small Businesses Offering Health Insurance)

**Increase Employees Share of Cost
In the Next Year**



**Switch to Defined Contribution
In the Next Five Years**



Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

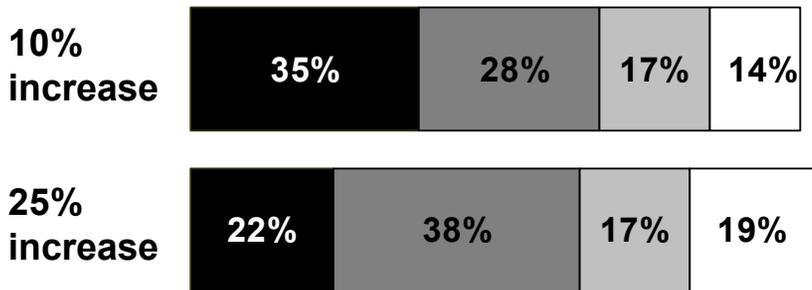
Source: The Kaiser Family Foundation *National Survey of Small Businesses*, April 2002 (conducted May-July 2001)

Chart 17

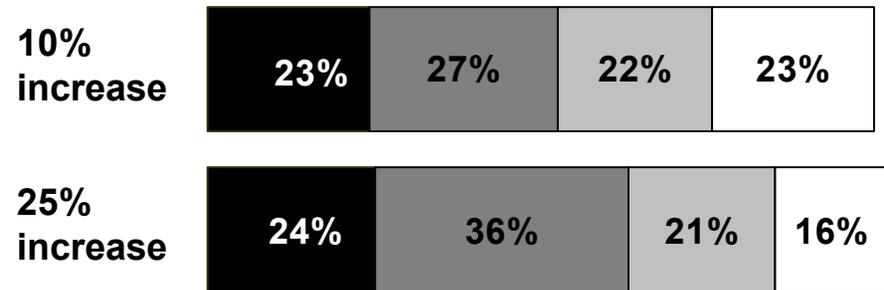
Likelihood the Business Will Make the Following Changes If Costs of Health Insurance Coverage Increases 10% or 25% (Among those who currently offer Health Insurance)

Very likely
 Somewhat likely
 Not too likely
 Not at all likely

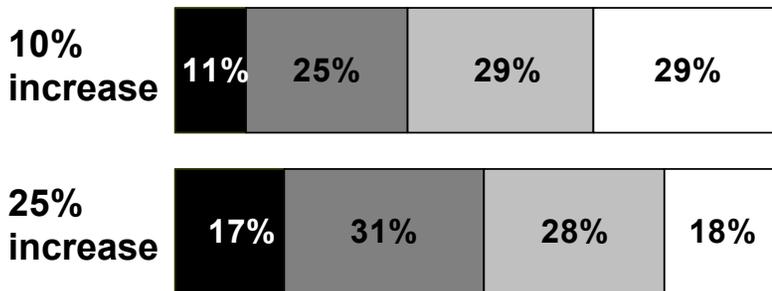
Absorb the costs



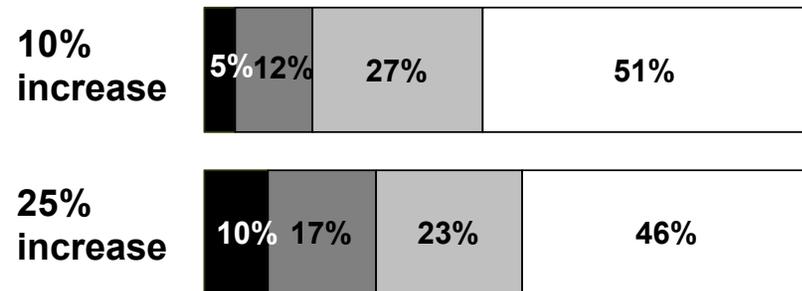
Increase the amount employees have to pay for insurance



Reduce the scope of benefits offered



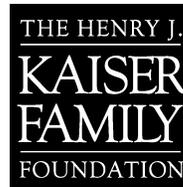
Drop coverage



Note: Small businesses represent United States companies and organizations with 3 to 24 employees.

Note: Don't know/refused not shown

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The Henry J. Kaiser Family Foundation

Headquarters:

2400 Sand Hill Road

Menlo Park, CA 94025

Phone: 650-854-9400 Fax: 650-854-4800

Washington Office:

1450 G Street N.W., Suite 250

Washington, DC 20005

<http://www.kff.org>

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