Health Benefits of Small Employers in 1998

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Introduction

Small employers are often seen as living proof that America is an authentic meritocracy. Small firms are the key to the "great American job machine," accounting for more than three-quarters of job expansion in most years.[1] Yet, this source of economic opportunity and growth is also the Achilles heel of America's employer-based health insurance system. Health insurance costs more for small employers than for large employers in the sense that they pay higher premiums for the benefits they receive. Administrative costs may consume as much as 40% of every premium dollar.[2] Less than half of firms with fewer than ten workers offered health benefits in 1998. The problems of the uninsured are closely tied to the availability and cost of health insurance in the small employer sector.

This report examines trends among small employers from 1996 to 1998. It compares the state of health insurance among firms with fewer than 200 workers, our definition of small employers, with firms with 200 or more workers. We present data on coverage, premium trends, employee cost sharing, plan offerings and enrollments, and other aspects of job-based health insurance. The paper also reports findings on employers' attitudes towards specific consumer protection provisions similar to those that have been proposed in the Clinton Administration's "Patient Bill of Rights".

Findings are based on a telephone survey of employee benefit managers at 1,581 randomly selected firms with 199 or fewer workers. As a basis of comparison, we use data from KPMG's annual survey of 1,583 randomly selected firms with 200 or more workers. KPMG conducted the survey of large employers from January to March of 1998, and the survey of small employers from June to August of 1998. As a basis of historical comparison, we compare 1998 data on health benefits with data from the 1996 KPMG survey of 1,965 firms, 854 of which employed fewer than 200 workers.

***Major findings include**:*

- Premiums for small employers increased by 5.2% from the summer of 1997 to the summer of 1998. Although substantially less than anecdotal reports in the nation's leading newspapers, premiums increased only 1.7% in 1996, with the expectation of higher premium increases to come during the next few years.

- Among all small firms in 1998 (including even those firms that do not provide health insurance to their employees), less than half of employees (47%) are covered by their employers' health plans, a decline of five percentage points from two years earlier.

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[1] www// sba.gov; December 4, 1998.

[2] K. Thorpe, "Inside the Black Box of Administrative Costs," *Health Affairs*, Summer, 1992, pp. 41-55.

- From 1996 to 1998, in the midst of the best economy in thirty years, the percentage of small firms offering health coverage to their workforce declined from 59 to 54 %; among small firms providing coverage, the percentage of workers covered by their firm's health insurance plan declined from 69%to 68%. Eligibility standards have become more restrictive over the past two years, also.

- Enrollments in HMOs and conventional plans fell sharply between 1996 and 1998. For small employers, HMO market share declined from 29 to 17% and conventional plans' market share decreased from 27% to 13%. Many small firms switched to POS coverage, as its market share grew from 7% to 30%.

- Compared to firms with 200 or more workers, the smallest firms (three to nine workers) receive far less value for their premium dollars. Average premiums among the smallest firms are about ten percent higher, fewer benefits are covered, and deductibles are commonly more than double those for larger firms.

- Smaller firms provide fewer consumer protections than large firms, yet are more supportive of legislation mandating patient bill of rights-type protections. For example, 68% of small firms internally mediate disputes, compared to 93% of employers with more than 200 employees. Yet, 45% of small firms would support legislation allowing patients to sue their health plan for malpractice, as opposed to 28% of large employers.

- Since the passage of the Health Insurance Portability and Accountability Act (HIPAA) in 1996, small and large employers' use of pre-existing condition clauses has fallen substantially. For example, the use of pre-existing clauses in conventional plans fell from 59% to 40% among small employers and 62% to 38% for large employers.

- The use of self-insurance has fallen considerably over the past two years among small firms. The decline may be linked to new regulatory requirements which HIPAA imposes on self-insured firms.

- Roughly one in ten small firms is familiar with NCQA accreditation. In selecting health plans, small employers consider NCQA accreditation and HEDIS minor factors relative to traditional determinants such as price and the quality and quantity of physicians in the network.

Survey Methods

In its survey of small employers, KPMG asked each participating company as many as 400 questions about its largest conventional or indemnity, health maintenance organization (HMO), preferred provider organization (PPO) and point-of-service (POS) health plans. The survey included questions on NCQA standards and accreditation, eligibility for benefits, and consumer protections.

KPMG retained National Research Incorporated (NRI), a Washington, D.C.-based survey research firm to conduct telephone interviews with human resource and benefits managers. NRI conducted interviews during the summer of 1998.

KPMG drew its sample from a Dun & Bradstreet list of the nation's private and public employers with less than 200 workers. To increase precision, KPMG stratified the sample by region, industry, and number of workers in the firm. KPMG attempted to repeat interviews with the firms interviewed in 1996 and replaced non-responding firms with another firm from the same industry and size group. As a result, 602 firms in this year's total sample of 1,581 firms participated in both the 1996 and 1998 surveys. Of the 1,581 firms responding to this year's survey, 1,176 completed the entire survey and 405 answered one question: "Does your company offer or contribute to a health insurance program as a benefit to the employee?" The overall response rate was 51%. To further analyze differences in employer-sponsored health plans, this report uses data from KPMG's *Health Benefits in 1998* which examines the benefits offerings of employers with 200 or more employees.

Throughout the report, tables and graphics categorize data by size of firm. Firm size definitions are as follows: 3-9 workers; 10-24 workers; 25-49 workers; 50-199 workers; and all small firms offering health benefits to their employees. In most tables we present data for large employers as well (200 or more workers), for purposes of comparison. Table 1 shows detailed characteristics of the small employer sample. Some figures and charts in this report do not sum up to 100% due to rounding effects. Throughout the report, while overall totals as well as totals for size are statistically valid, some breakdowns based on size may not be available due to limited sample sizes. In these instances, tables and graphics include the notation NSD (Not Sufficient Data).

Because KPMG selects firms randomly, it is possible through the use of statistical weights to extrapolate the results to national (as well as firm size) averages. These weights allow KPMG to present findings based on the number of employees enrolled in health plans. In addition, this method enables us to present findings from the perspective of the typical worker. On occasion, we present findings using employer-based weights. In these cases, our data show the perspective of the typical employer.

In presenting descriptive findings, we have noted in the tables cases of statistical significance through the use of asterisks and pluses. Our primary series of statistical tests examine whether differences are statistically significant when comparing figures for all small firms in 1996 vs.1998, and for all firms with 200 or more workers in 1996 vs.1998. We also test if differences between small and large employers in 1996 and differences between small and large employers in 1998 represent more than simply the random variation of numbers.

Table 1
Characteristics of Small Employers Sample, 1998

Characteristic	Sample Size
Industry	
Mining	59
Construction	63
Manufacturing	239
Transportation/Utilities/Communication	37
Wholesale	82
Retail	167
Finance	130
Service	405
State/Local Government	106
Health Care	198
High Tech	95
Total	**1581**
Firm Size	
3 to 9 Employees	421
10 to 24 Employees	314
25 to 49 Employees	264
50 to 199 Employees	582
Total	**1581**
Region	
Northeast	327
Midwest	413
South	541
West	300
Total	**1581**

Coverage and Eligibility

Fewer Firms Offering Health Insurance

The percentage of small businesses offering health insurance declined from 59% to 54% between 1996 and 1998 (Figure 1). Among firms with three to nine employees, just under half (49%) sponsored coverage in 1998, down from 53% in 1996. Firms with 10-24 employees and firms with 25-49 employees also showed declines in provision of health benefits, from 78% to 71% and from 90% to 84%, respectively. Larger sized firms (50 to 199 employees), however, were actually slightly more likely to offer coverage in 1998 than in 1996.

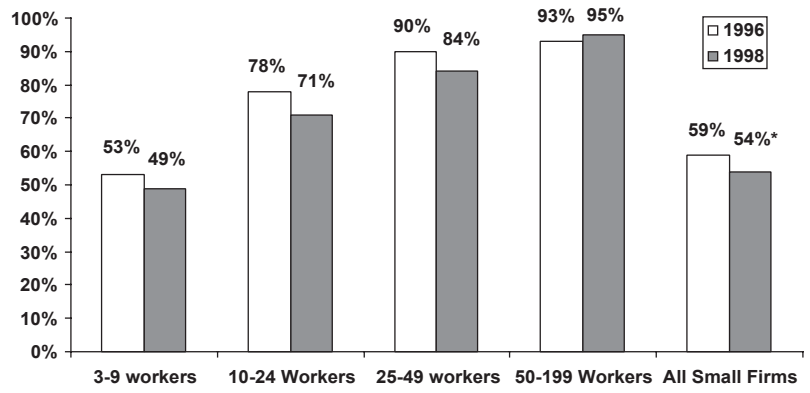
When small businesses that chose not to offer health insurance were asked why they did not, the number one reason cited in 1998 was that "premiums were too expensive." Over two-thirds of small firms not offering coverage told us this was a very important reason (Table 2).

It was also the most common reason reported in 1996. In 1993, when premium inflation was 9.5% among small firms, over three-fourths of small firms indicated that premiums were too expensive to offer health insurance.

The importance of other explanations, such as "the firm's profits were too low," "the administrative hassle was too high," "employee turnover was too high," or "the coverage wasn't needed to attract employees," pales in comparison. Fewer than a quarter of businesses not offering health benefits cited these other considerations as very important in their decisions not to sponsor health insurance.

Figure 1

Percentage of Small Firms Offering Health Benefits, 1996-1998, by Firm Size



* Differences between 1996 and 1998 are statistically significant (95% confidence level).

Eligibility and Coverage

From 1996 to 1998 the percentage of workers enrolled in their own employers' health plans declined from 52% to 47% among businesses with fewer than 200 employees. Decreases occurred across all sizes of small firms (Table 3). The erosion in coverage is most noticeable among firms with 25 to 49 workers. Within this group, 55% of all workers were covered by their own employers' plan in 1998, down from 66% in 1996.

The declining percentage of workers covered by their firm's health plan resulted principally from fewer firms offering health benefits (see previous discussion). The deterioration in coverage may also partly stem, however, from a tightening of firms' eligibility rules for coverage. Between 1996 and 1998, many small businesses increased workers' waiting period to enroll (Table 4). The survey found that between 1996 and 1998 the average imposed waiting period increased 16% for small firms and 25% for large firms. Thus, new hires had to spend more time waiting before their coverage began.

Firms also narrowed the categories of workers eligible to participate in the company's plan (after meeting their waiting period rules). In 1998, 27% of employees in small firms offering coverage were in firms where part-timers were also eligible for health benefits, a decline of four percentage points from 1996. Seven percent were in plans where temporary workers were eligible for health benefits, a decline of two percentage points from 1996 (Table 5). Thus, job-based health benefits in 1998 were less accessible to part-time and temporary workers.

Among small firms that offered coverage there was little change in the percentage of workers covered by health insurance between 1996 and 1998 (Table 6). The percentage of covered employees declined from 69% to 68% over the period, a statistically insignificant figure. Eighty-three percent of all small firm employees were eligible to participate in health plans that were offered in 1998, and among those who were eligible, 82% actually enrolled (Table 6).

The take-up rate (the proportion of employees who enroll among those who are eligible for health benefits) was fairly uniform across all sizes of firms (ranging only from 80% to 83%). What is remarkable about this fact is that small firms employ many more low-income workers, and require far greater monthly contributions for coverage; 21% of workers in small firms which offer health benefits make less than $20,000 per year, whereas only 8% of employees in large firms do so. In a subsequent section, moreover, we show that monthly contributions for single and family coverage are respectively 34% and 57% greater in small than large firms; yet, take-up rates are essentially the same in small and large firms. The implication of these similar take-up rates is that workers in small firms who are offered coverage place great value on the benefit. (*Note:* In 1996, the survey did not ask about the number of employees eligible for coverage, so it is unclear whether these eligibility and take-up rates represent a change from their earlier levels).

The use of pre-existing condition clauses has declined among large and small firms alike across all plan types. These clauses were still present in about half of all plans offered by the smallest firms in 1998,

similar to 1996 (Table 7). While firms with three to nine employees were the most likely to use such clauses, variation in their prevalence by type of coverage declined over the period. The clauses were less common among the smallest firms' conventional plans in 1998, but more common among their PPO plans. (With rare exceptions, HMOs do not use pre-existing condition clauses.) Thus, at least among the smallest firms (3-9 employees), different types of insurance products became more similar over the period in their use of such clauses.

Why should fewer conventional and PPO products impose preexisting condition clauses on new employees? State small insurance reforms and the HIPAA are certainly major factors. Such convergence, where conventional and PPO plans look increasingly like HMO and POS plans in product attributes, however, is not unexpected in competitive markets. As insurers compete, they have an incentive to adopt plan provisions that they believe "work" for their competitors. Over the last few years, conventional plans have certainly lost market share to HMOs and POS plans, where pre-existing condition clauses are typically absent. Some POS plans, on the other hand, may have begun using such clauses as a cost containment device. Between 1993 and 1995, similar patterns of convergence across plan types were observed for other aspects of coverage, such as plans' cost-sharing provisions.[3] Thus, these changes in pre-existing condition clauses may reflect a more long-run trend toward increasing plan similarity.

Commentary

During a period of robust economic expansion, why should fewer small firms offer coverage and large firms cover fewer workers? We offer a number of alternative explanations. One hypothesis is that more part-time and temporary workers have entered the workforce, as the supply of more trained and educated workers is depleted. In fact, the U.S. Bureau of Labor Statistics reports virtually no change in the percentage of workers who are part-time employees over the period we are examining, 1996-1998.[4] No data are available on trends in temporary workers.

Another possibility is that there were many new business start-ups over the period, indeed, more than usual, and new firms are certainly less likely to offer coverage[5]. This explanation, however, is probably less plausible for firms with 10-49 employees, which also showed declines.

Fewer firms may offer coverage due to rising premiums. As we will show later, small firm premiums increased at a higher rate in 1997-1998 than in the previous few years. Given, however, that fewer small firms are citing premiums and other factors as barriers to offering health insurance than in 1993, why are offer rates still decreasing?

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[3] G. Jensen, M. Morrisey, S. Gaffney and D. Liston, "The New Dominance of Managed Care: Insurance Trends in the 1990s," *Health Affairs*, January/February 1997, Vol. 16, No. 1,

[4] http//146.142.4.24?cgi-bin/dsrv, Dec 12, 1998 .

[5] See G. Jensen and J. Gabel, "State Mandated Benefits and Small Firm's Decision to Offer Insurance," Journal of Regulatory Economics, 1992, Volume 4, pp. 379-404.

Another explanation is that recent federal and state legislation inadvertently encouraged employers and employees to decline to purchase coverage. For example, employers and employees may have viewed expansions in Medicaid and the new Children Health Insurance Program as a safety net for the uninsured which costs both the employer and/or employee less than employer-based purchased coverage. This is an area of considerable research, and this report can add little to the subject.

Yet another possibility is that small group market reforms, such as guaranteed issuance, community rating, etc., are now adversely effecting coverage, and reached fruition during the study years. Some have argued that small group reforms raised the cost for a typical small firm whose employees do not have serious health problems.[6] Yet, among small firms not offering health coverage, fewer today (68%) indicate that they don't offer health benefits because "premiums are too high," than did so in 1993 (77%), a time when most states had not implemented small group reforms. Previous research, moreover, would suggest small group reforms had little impact on small employers' decision to offer health benefits. If reforms had any effect, it was a small but slightly positive effect on coverage.[7]

In summary, there are a host of explanations, few of which we can identify as the culprits at this time. These findings, however, raise disturbing questions. If offer rates are declining and eligibility requirements are tightening in these times of comparatively low rates of premium increases, the implications are worrisome. Should substantial inflation in health insurance premiums reoccur, the willingness of small employers to offer health benefits could really suffer.

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[6] William S. Custer, "Health Insurance Coverage and the Uninsured," December 10, 1998, Health Insurance Association of America, 555 13th Street, N.W., Washington, D.C. 20004,

[7] G. Jensen and M. Morissey, Small Group Reform and Insurance Provisions by Small Firms," Inquiry, Summer, 1999 (in press); F. Sloan and C. Conover, "Effects of State Reforms on Health Insurance Coverage of Adults," Inquiry, Fall, 1998, M.. Morrisey and G. Jensen, "State Small Group Insurance Reform." in Robert F. Rich and William D. White (eds.), *Health Policy, Federalism and the American States.* Washington, DC: Urban Institute Press, 1996. M. Morrisey and G. Jensen, "Small Group Insurance Reform: How Are State Programs Measuring Up?" *Spectrum, The Journal of State Government,* Winter 1997, 70(1), pp. 22-25.

Table 2
Small Employers' Reasons for Not Offering Health Insurance: Percentage of Small Employers Indicating Factor is "Very Important," by Firm Size, 1993, 1996, and 1998

		1993				
		3 - 9	10 - 24	25 - 49	50 - 199	All Small Firms
Premiums too expensive		86%	81%	81%	NSD	77%
Firm's Profits won't cover cost		56	64	51	NSD	61
Administrative hassle		25	30	17	NSD	30
Employee turnover is too high		23	21	25	NSD	16
Coverage is not necessary to attract employees		30	32	23	NSD	36
		1996				
		3 - 9	10 - 24	25 - 49	50 - 199	All Small Firms
Premiums too expensive		63%	70%	83%	75%	64%
Firm's Profits won't cover cost		45	NSD	NSD	NSD	45
Administrative hassle		25	NSD	NSD	NSD	23
Employee turnover is too high		16	NSD	NSD	NSD	18
Coverage is not necessary to attract employees		N/A	N/A	N/A	N/A	N/A
		1998				
		3 - 9	10 - 24	25 - 49	50 - 199	All Small Firms
Premiums too expensive		69%	68%	NSD	NSD	68%
Firm's Profits won't cover cost		24	12	NSD	NSD	23
Administrative hassle		17	16	NSD	NSD	17
Employee turnover is too high		15	32	NSD	NSD	18
Coverage is not necessary to attract employees		21	12	NSD	NSD	20

N/A -- Question was not asked in that year.

Table 3
Percentage of Employees Enrolled in Their Own Employers' Health Plan (Includes both firms offering and not offering health plans) by Firm Size, 1996 and 1998

		1996*	1998*
All Small Firms (<200) +		52%	47%
Large Firms (200+)[1] +		67%	64%
3 to 9 Employees		36%	31%
10 to 24 Employees +		52%	43%
25 to 49 Employees +		66%	55%
50 to 199 Employees		64%	63%

[1] For firms with 200 or more employees, only firms offering health benefits were surveyed.
* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at least 95% confidence level.
+ Statistical difference between 1996 and 1998; at least 95% confidence level.

Table 4
Average Employee Waiting Periods for Health Insurance (in Months), by Firm Size, 1996 and 1998

		1996*	1998*
Firm Size			
All Small Firms +		2.4	2.8
200 or more Employees+		1.5	1.9
3 to 9 Employees +		3.1	3.7
10 to 24 Employees +		2.3	2.8
25 to 49 Employees		2.8	2.6
50 to 199 Employees +		2.0	2.6

*Statistical difference between small firms (<200 employees) and large firms (200 employees): at least 95% confidence level.
+Statistical difference between 1996 and 1998; at least 95% confidence level.

Table 5
Percentage of Employees in Firms (Offering Health Benefits) in Which Part-time and Temporary Employees are Eligible for Health Coverage

		1996*		1998*	
Firm Size		P/T	Temp	P/T	Temp
All Small Firms (<200)		31%	9%	27%+	7%
Large Firms (200+)		40%	11%	47%+	5%
3 to 9 Employees		29	3	22	5
10 to 24 Employees		18	9	24	7
25 to 49 Employees		44	15	23	5
50 to 199 Employees		32	8	32	8

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at least 95% confidence level.
+ Statistical difference between 1996 and 1998; at least 95% confidence level.

Table 6
Coverage, Eligibility, and Take-Up Rates, by Firm Size, 1996 and 1998, among Firms That Offer Health Insurance

		1996	1998		
Firm Size		**Coverage (Covered Employees/ Total Employees)**	**Coverage (Covered Employees/ Total Employees)**	**Eligibility (Eligible Employees/ Total Employees)**	**Take-up (Covered Employees/ Eligible Employees)**
All Small Firms (<200)		69%	68%	83%	82%
Large Firms (200+)		66	64+	76	83
3 to 9 Employees		72	70	87	81
10 to 24 Employees		67	67	85	80
25 to 49 Employees		73	68	83	82
50 to 199 Employees		68	67	80	83

[1] In 1996, KPMG did not ask for the number of eligible employees.
+ Statistical difference between 1996 and 1998; at least 95% confidence level.

Table 7
Percentage of Plans Using Pre-Existing Condition Clauses, by Firm Size, 1996 and 1998

		1996			1998		
Firm Size		**Conventional***	**PPO***	**POS**	**Conventional***	**PPO***	**POS**
All Small Firms (<200)		59%	51%	32%	40%+	45%	26%
Large Firms (200+)		62	70	49	38+	46+	23+
3 to 9 Employees		62	32	NSD	55	51	34
10 to 24 Employees		75	33	NSD	NSD	36	28
25 to 49 Employees		49	46	NSD	24	39	24
50 to 199 Employees		54	67	24	36	47	21

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at least 95% confidence level.

\+ Statistical difference between 1996 and 1998; at least 95% confidence level.

Cost of Health Insurance

Premiums for small employers increased 5.2% overall between 1997 and 1998 (Figure 2). This increase substantially exceeds premium increases of 1.8% from 1995 to 1996, and significantly surpasses the 3.3% increase experienced by large employers (200 or more workers) from winter 1997 to winter 1998. Small employers historically have encountered higher annual increases in their premiums than larger employers by one to two percentage points per year.

Overall premium increases were higher for all employer size categories in 1998 compared to 1996 (Table 8). Most striking was the experience of the smallest employers (three to nine workers), where premiums increased 8% in 1998 compared to 3% in 1996.

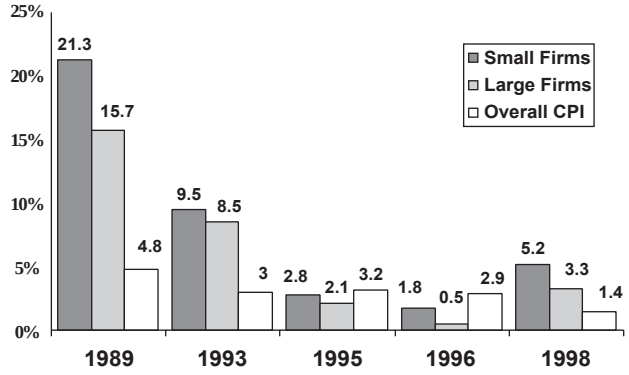
Indemnity plans experienced the highest rate of increase among small employers, averaging 7%, compared to 5.9% for PPO plans, 4.7% for HMOs, and 3.5% for POS plans. Relative to premium increases in 1996, virtually every type of plan and every employer size had larger premium increases in 1998 than in 1996.

In 1998, the average cost of single monthly coverage in small firms was $183 compared to $173 for firms with 200 or more workers (Table 9). The average cost of family coverage in small and large firms was almost identical, at $458 and $462 respectively (Table 9A). HMO coverage was substantially less than other types of coverage among small firms for both single and family coverage.

Premiums for firms with three to nine workers are substantially more for single and family coverage than for larger firms. For example, single coverage costs at a minimum 10% more than what other firms pay on average. The absolute cost of single and family coverage for firms with three to nine workers increased more than 20% between 1996 and 1998.

Figure 2

Premium Increases in Small and Large Firms, 1989 to 1998, Compared to Overall Rate of Inflation



Commentary

The 5.2% increase in premiums for small employers between the summers of 1997 and 1998 suggest a pattern of pricing and insurer profitability consistent with the historic underwriting cycle.[8] Nearly two-thirds of insurers and managed care organizations suffered underwriting losses in 1996 and 1997,[9] as they competed for market share through fierce price competition. Now restoring profitability may take priority over increasing market share. Due to the grim financial picture, some insurers and HMOs have exited local markets, making it easier for the remaining health plans to increase premiums.

Nonetheless, the increase in premiums for large employers (3.3%) and small employers (5.2%) is modest by historic standards, and nowhere near the double-digit inflation reported anecdotally in the nation's leading newspapers.[10] The encouraging news on the inflation front is that the underlying rate of inflation remains low; wages in the health care industry are advancing more slowly than in other sectors of the economy, which represents a reversal of the historic pattern.[11] The bad news is that the medical care component of the Consumer Price Index rose in the first six months of 1998 by 4.2% per annum compared to 2.8% in 1997.[12] The most rapidly increasing component of health care costs is in the area of prescription drugs, where expenses, driven by new products, are increasing by more than 10% per year.[13]

To temper premium increases, small employers have moved in recent years from more expensive conventional plans to less expensive managed care plans. However, from 1996 to 1998, small firms not only dropped conventional coverage, but they also dropped HMO coverage, the lowest cost type of plan. Firms dropping conventional coverage tend to move to PPO plans, while employers dropping HMO coverage opt for POS coverage.

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[8] The underwriting cycle is the historic pattern of the health insurance industry where periods of underwriting profits (profits before investment income) are followed by equally long periods of underwriting losses. When the industry enjoys profitability, premium increases two years hence are modest; when the industry suffers underwriting losses, two years later premiums increase dramatically.

[9] Interstudy reported that 68 % of HMOs suffered underwriting losses in 1997. HCIA reported that 56 % of HMOs were unprofitable in 1996.

[10] M. Freudenheim, "Employees Face Steep Increases in Cost," *New York Times*, November 27, 1998, P. A-1; P. Kilborn, "Premiums Rising for Individuals," *New York Times*, December 4, 1998, P. A-7; J. Steinhauer, "Sharpest Health Insurance Increases in a Decade Hit Small Employers the Hardest," *New York Times*, January 19, 1999.

[11] P. Ginsburg and J. Gabel, "Tracking Health Care Costs: What's New in 1998," *Health Affairs*, September/October 1998, Vol. 17, No. 5, 141-146.

[12] http://stats.bls.gov/news.release/cpi.t04.htm

[13] http://www.hcfa.gov/states/nhe-oact/tables/tablist.htm

Table 8
Percentage Increase in Premiums, 1996 and 1998, by Firm Size and Plan Type

	1996				
	Conventional*	**HMO***	**PPO**	**POS**	**OVERALL**
All Small Firms (<200)	4.1%	0.7%	1.8%	0.6%	1.8%
Large Firms (200+)	1.2	-0.4	0.6	1.2	0.5
All Firms	1.9	-0.2	1.0	1.1	0.8
3 to 9 Employees	6.0	4.8	1.5	0.3	3.0
10 to 24 Employees	5.3	-1.5	2.6	-2.4	2.2
25 to 49 Employees	4.1	-0.6	4.7	2.7	2.6
50 to 199 Employees	2.5	0.1	0.5	-0.1	0.7
	1998				
	Conventional*	**HMO***	**PPO**	**POS**	**OVERALL**
All Small Firms (<200)	7.0%	4.7%	5.9%	3.5%	5.2%+
Large Firms (200+)	3.5+	2.9+	3.7+	2.9+	3.3+
All Firms	4.3+	3.2+	4.3+	3.1+	3.7+
3 to 9 Employees	9.6	3.4	11.5	4.2	8.0+
10 to 24 Employees	6.1	9.2	5.1	1.4	4.6+
25 to 49 Employees	6.8	5.6	5.4	7.0	6.1+
50 to 199 Employees	4.8	3.3	4.0	2.7	3.7+

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at least 95% confidence level.

+ Statistical difference between 1996 and 1998; at 99% confidence level.

Table 9
Monthly Premiums in Conventional, HMO, PPO, and POS for Single Coverage

1996

Firm Size		Conventional	HMO	PPO	POS	Overall
All Firms		$174	$158	$181	$171	$170
Small Firms (<200)		173	164	179	164	172
Large Firms (200+)		174	157	181	171	170
3 to 9 Employees		160	NSD	NSD	NSD	168
10 to 24 Employees		176	NSD	200	NSD	182
25 to 49 Employees		183	172	187	NSD	182
50 to 199 Employees		175	161	166	155	166

1998

Firm Size		Conventional	HMO	PPO	POS	Overall
All Firms		$191	$158	$180*	$180*	$175*+
Small Firms (<200)		193+	147+	191+	190+	183+
Large Firms (200+)		190+	160	175+	176	173
3 to 9 Employees		207	NSD	220	210	204+
10 to 24 Employees		NSD	140	181	155	165
25 to 49 Employees		173	158	193	193	184
50 to 199 Employees		194	148	182	193	180+

*Statistical difference between small firms (<200 employees) and large firms (200+ employees); at least 95% confidence level.

+Statistical difference between 1996 and 1998; at least 95% confidence level.

Table 9A

Monthly Premiums in Conventional, HMO, PPO, and POS for Family Coverage

1996

Firm Size		Conventional	HMO	PPO	POS	Overall
All Firms		$434*	$415*	$444	$453*	$433*
Small Firms (<200)		382	384	431	418	404
Large Firms (200+)		449	423	448	456	441
3 to 9 Employees		338	NSD	NSD	NSD	397
10 to 24 Employees		373	NSD	431	NSD	396
25 to 49 Employees		392	375	419	NSD	397
50 to 199 Employees		407	400	417	$437	411

1998

Firm Size		Conventional	HMO	PPO	POS	Overall
All Firms		$486	$432*	$469	$469	$461+
Small Firms (<200)		483+	388	474+	464+	458+
Large Firms (200+)		486+	440+	467+	471+	462+
3 to 9 Employees		584	NSD	530	512	520+
10 to 24 Employees		NSD	374	460	387	409
25 to 49 Employees		422	373	466	489	449+
50 to 199 Employees		459	393	458	460	446

*Statistical difference between small firms (<200 employees) and large firstm (200+ employees); at least 95% confidence level.

+Statistical difference between 1996 and 1998; at least 95% confidence level.

Health Insurance Choices

The percentage of employers offering a choice of health plans changed little between 1996 and 1998. Among all small firms, the percentage of employers offering only one health plan was 91% in 1996 and 92% in 1998 (Table 10). Firms with 10 to 24 workers experienced the largest decline in choice -- the percentage offering only one plan increased from 88% to 92% over the two-year period. Among firms with 200 or more workers, in contrast, 44% offered only one health plan in 1998, down from 47% in 1996.

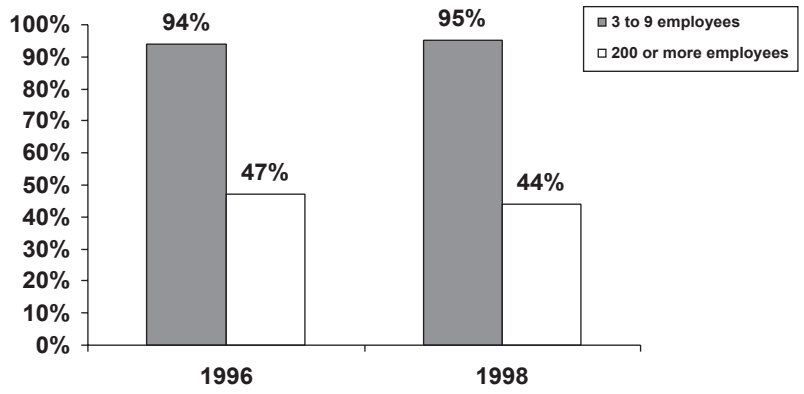
Firm size is strongly associated with the probability of offering a choice of health plans. Virtually none of the smallest firms offers a choice of plan (Figure 3). In comparison, 44% of firms with 200 or more employees restricted their workers to just one health plan in 1998 (Table 10). The trends in plan choice over the two-year period appear to differ slightly for small and large employers, with the small firms somewhat less likely in 1998 to offer more than one health plan, and the large firms somewhat more likely to offer two or more plans. These differences are quite small and statistically insignificant, however.

Fewer workers in small firms can choose an HMO or conventional plan than two years ago. The percentage of workers in small firms who can choose an HMO plan declined from 34% to 21%, and the percentage who can choose a conventional plan decreased from 31% to 16% (Table 11).

Among firms with 200 or more workers, the percentage of employees with a conventional plan option decreased from 57% in 1996 to only 38% in 1998. In contrast, the percentage of employees with a PPO or POS option has increased greatly across all firm sizes. Among the smallest firms, for example, the percentage of workers with a POS option increased from only 9% in 1996 to 33% in 1998.

Figure 3

Percentage of Employers Offering Only One Health Plan



Commentary

While the number of plans offered by employers has not changed much over the past few years, the percentage of employees able to choose certain types of health plans, particularly conventional coverage, has dramatically changed. Employees in large firms are considerably more likely to have a conventional plan option than employees in smaller firms, but the decline for all employees has been rather substantial. Should these trends continue, conventional coverage is well on its way to becoming a rarity.

Along with the drop in conventional coverage has come a commensurate leap in the percentage of employees offered PPOs and POS plans. Although cost sharing for out-of-network care can be considerable, employees nonetheless retain the ability to see any physician they wish. As shown in a subsequent section of this report, deductibles in PPO and POS plans when using non-network physicians average $404 and $346 respectively for small firms, as opposed to deductibles of $285 for single conventional plans. Hence, for employees in small firms, it would appear that PPO and POS plans increase financial burdens on employees when they use non-network providers in place of their previous situation with conventional plans.

Table 10

Percentage of Employers Providing a Choice of Health Plans, by Firm Size, 1996 and 1998

		1996*			1998*		
Firm Size		One Plan	Two Plans	Three or More Plans	One Plan	Two Plans	Three or More Plans
Small Firms (<200)		91%	5%	4%	92%	6%	2%
Large Firms (200+)		47	24	30	44	24	32
3 to 9 Employees		94	2	4	95	3	2
10 to 24 Employees		88	10	2	92	6	2
25 to 49 Employees		85	13	3	84	10	6
50 to 199 Employees		72	22	7	72	20	9

Columns represent the number of plans offered.

* Statistical difference between small firms (<200 employees) and large firms (200+ employees) for one, two, and three or more plans; at 99% confidence level.

Table 11

Percentage of Covered Employees Who Can Choose Various Types of Health Plans, by Firm Size, 1996 and 1998

		1996*				1998*			
Firm Size		Conv	HMO	PPO	POS	Conv	HMO	PPO	POS
Small Firms (<200)		31%	34%	44%	8%	16%+	21%+	46%	34%+
Large Firms (200+)		57	73	46	35	38+	65+	61+	54+
3 to 9 Employees		32	28	34	9	19	13	37	33
10 to 24 Employees		34	28	48	2	13	21	34	38
25 to 49 Employees		31	36	38	9	19	20	42	31
50 to 199 Employees		29	38	49	11	13	27	57	33

* Statistical difference between small firms (<200 employees) and large firms (200+ employees) for all plan types; at 99% confidence level.

\+ Statistical difference between 1996 and 1998; at 99% confidence level.

Plan Enrollments/Market Share

Conventional and HMO plans suffered substantial declines in enrollment among small firms while POS and PPO enrollment grew dramatically from 1996 to 1998 (Figure 4). Among small firms, conventional enrollment fell from 27% in 1996 to only 13% in 1998.

HMO enrollment also declined, while PPO and POS enrollments generally increased. POS enrollment increased the most, growing from only two 2% to 37% among firms with 10 to 24 employees in just two years (Table 12). The drop in HMO enrollment is also noteworthy, given steady increases in recent years in the percentage of employees choosing this option.

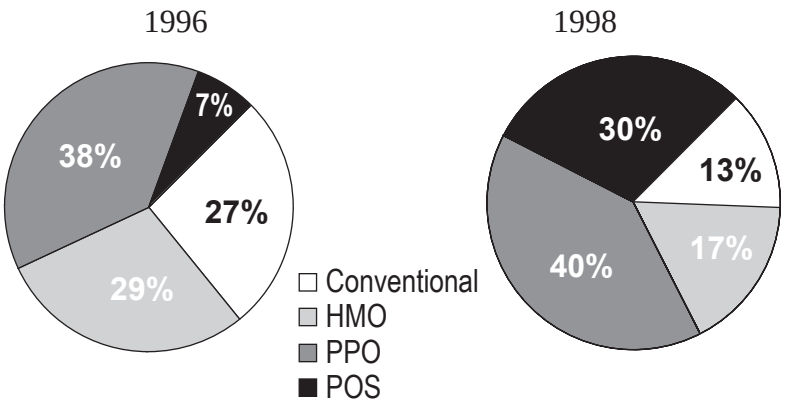
Employees of the smallest firms remain more likely to enroll in conventional plans than employees of larger firms. In 1998, 19% of employees in the smallest firms enrolled in conventional plans, compared with 16% in firms with 25 to 49 employees, and 10% of employees in firms with 50 to 199 employees. HMO enrollment, in contrast, is greater in larger firms -- 30% of workers in the largest firms and only 12% in firms with three to nine workers. Smaller firms also have greater percentages of employees enrolling in PPO and POS plans.

Commentary

In contrast to the ascending HMO enrollment of just a short time ago, employees are now opting for managed care plans that offer more provider choice -- PPOs and POS plans -- while enrollment in traditional HMOs has dropped off considerably. These declines in HMO enrollment have occurred in the midst of widespread media coverage of various HMO industry woes.

Figure 4

Market Share of Health Plans Among All Small Firms, 1996-1998



Numerous patient protection legislative proposals have circulated on Capital Hill, and the prominence of the issue remains high. Negative publicity, warranted or not, may be influencing workers' enrollment decisions. Employers, moreover, have substantially reduced their willingness to offer HMO coverage, and negative publicity has undoubtedly played a roll in this decline.

The decline in conventional plan enrollment is the continuation of a trend that has been underway for many years. Not only are firms less likely to offer conventional plans than in the past, but employees are also less likely to enroll in them even when they are offered. HMO enrollments declined for all firm sizes, but the most dramatic declines occurred for firms with three to nine workers. The converse of the declines in conventional and HMO enrollment is the rapidly growing popularity of PPOs and POS plans with both employers and employees. Many employers have substituted POS plans for HMO plans. These plans offer considerably more choice than HMOs, since employees may go out of network, yet retain many of the cost-saving features of HMOs when employees remain in the network. While POS plans were once considered by many in the managed care industry to be an interim step in the transition from conventional to HMO coverage, they now seem likely to be a more permanent fixture on the landscape.

Table 12
Market Shares of Health Plans, By Firm Size

		1996				1998			
Firm Size		Conv	HMO	PPO*	POS*	Conv	HMO*	PPO*	POS*
Small Firms (<200)		27%	29%	38%	7%	13%+	17%+	40%	30%+
Large Firms (200+)		26	33	25	16	14+	30+	34+	22+
3 to 9 Employees		31	27	34	9	19	12	35	33
10 to 24 Employees		32	26	40	2	11	20	32	37
25 to 49 Employees		26	30	36	8	16	17	38	29
50 to 199 Employees		23	30	40	7	10	19	46	26

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

\+ Statistical difference between 1996 and 1998; at 99% confidence level.

Employee Cost-Sharing

Employee Contributions for Coverage

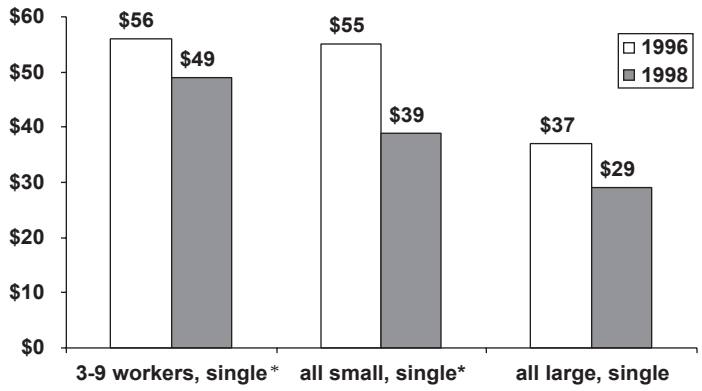
Employees in small firms contributed $39 a month on average for single coverage in 1998, a 29% decrease over 1996 (Figure 5). Contributions for family coverage rose 9% to $194 a month for family coverage (Figure 6).

Workers in firms with three to nine workers contribute more than their peers for health insurance premiums in absolute dollars, $49 per month for single coverage and $223 per month for family coverage (Tables 13 and 13A). In contrast, the average monthly contribution for single coverage by employees in large firms in 1998 was $29 for single and $123 for family coverage.

In small firms, employee contributions for their health insurance constituted 22% of the cost of single coverage in 1998, and 44% of the cost of family coverage (Tables 14 and 14A). Since 1996, single coverage contributions as a percentage of monthly premium costs have decreased ten percentage points, and contributions for the cost of family coverage have not changed. Among large employers, contributions for single coverage declined from 23% to 17% of total premium costs between 1996 and 1998, and from 31% to 28% for family coverage. Workers in small firms bear a much larger share of the financial burden for health benefits than employees of larger firms.

Figure 5

Change in Monthly Employee Contributions for Single Coverage, 1996-1998, by Firm Size



* Differences between 1996 and 1998 are statistically significant at the 99% confidence level.

Deductibles

Average single deductibles for conventional coverage increased 6% among small employers to $285 in 1998 (Table 15). Family deductibles rose 7% to $668. The average deductible for employees in firms with three to nine workers was substantially higher than for employees of larger firms, averaging $360 for individuals and $948 for families (Figure 7). In contrast, among large employers the average individual deductible was $229 and the average family deductible was $574.

In PPO plans, deductibles also rose when using both in-network and out-of-network providers among small firms (Table 15A). In-network deductibles rose 9% to $246 and out-of-network deductibles rose 12% to $404. In contrast, for firms with 200 or more workers deductibles were $163 for in-network use of services and $321 for out-of-network use. This represented little change in deductibles for network providers, but an 11% increase in deductibles when using non-network providers from two years earlier. Employees in small firms faced substantially higher deductibles than those in larger firms.

In small firms, POS deductibles when using in-network providers decreased from $144 to $94, while deductibles for non-network use rose from $327 to $346. For the smallest firms employing three to nine workers, deductibles when using in-network providers were slightly higher at $114 than for workers in larger firms, but slightly lower when using non-network providers ($313). For the nation's largest firms, the average deductible when using in-network providers was only $21 in 1998. About three-fourths of employees enrolled in POS plans face no deductibles when using preferred providers (not shown). The majority of POS plans are former HMO plans which imposed no deductibles when an HMO plan.

Figure 6

Change in Monthly Employee Contributions for Family Coverage, 1996-1998, by Firm Size

* Difference between 1996 and 1998 are statistically significant at the 99% confidence level.

Co-Payments in HMO Plans

About 70% of HMO enrollees from small firms faced co-payments of $10 or more in 1998, a figure almost identical for large firms (Table 16). In small firms there was relatively little change in the level of co-payments between 1996 and 1998. Large firms experienced a slight increase. Eight percent of HMO enrollees in small firms faced no co-payments for the use of ambulatory physician services.

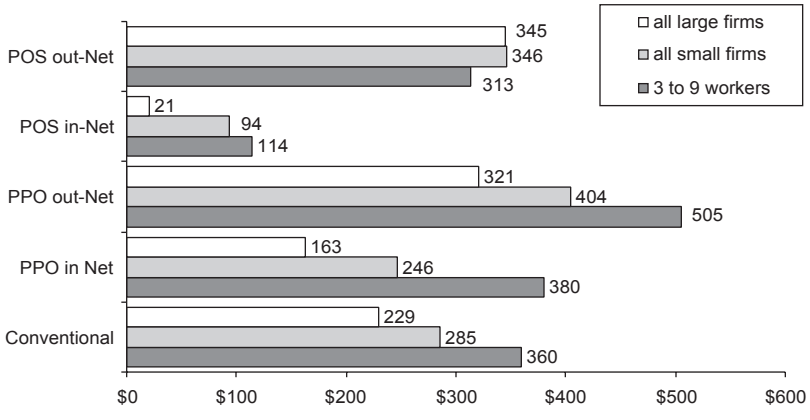
Covered Benefits

By analyzing health plans for 13 core benefits, the richness of health benefit packages can be compared by firm size. For conventional and PPO plans, smaller firms cover fewer benefits than larger firms (Table 17). However, there are fewer differences in covered benefits in HMO and POS plans between small and large firms.

For example, in conventional plans in 1998, firms with three to nine workers on average offered 63% of core benefits. Firms with 200 or more workers offered 74% of these same benefits. In PPO plans, firms with three to nine workers offered 66% of core benefits, whereas firms with 200 or more workers on average covered 81% of these benefits. In contrast, in HMO plans, firms with three to nine workers covered an average of 80% of the core benefits, whereas large firms covered an average of 84% of benefits. The pattern of coverage among POS plans was almost identical to that for HMO plans.

Figure 7

Workers in Smallest Firms Face Largest Deductibles, 1998



Commentary

Among small firms there was a perplexing decline in employee contributions for single coverage. In contrast, contributions for family coverage remained unchanged in percentage terms, and rose in absolute dollars. This state of affairs may manifest an emerging philosophy among many small employers -- more generosity with regards to their workforce, and less generosity toward workers' dependents. Small employers sharply reduced their offerings of indemnity and HMO plans between 1996 and 1998 while increasing their offerings of PPO and POS plans. Many of the employers which previously required employee contributions when they offered only an indemnity plan to their workers, switched to PPO coverage where workers were not required to contribute for single coverage.

For five of six measures, deductibles increased for workers in small firms. The one exception was for using in-network providers in POS plans, which fell substantially. POS enrollment increased strikingly in small firms between 1996 and 1998, and much of this growth came from firms which formerly offered HMO plans. In effect, many no-deductible HMO plans became no-deductible POS plans.

The results reveal a noticeable contrast in cost-sharing requirements between workers in the smallest firms (three to nine workers) and larger firms. Although premiums in the smallest firms average 18% more than in larger firms, deductibles for conventional coverage are 57% higher, and PPO and POS deductibles (with the exception of POS out-of-network coverage) are more than double those of large employers. In addition, employees of small firms generally have to pay a much larger percentage of the total premium than workers in large firms -- for example, 26% for conventional coverage for workers in the smallest firms, compared with 13% for workers in the largest firms. In effect, workers in small firms get much worse value -- they pay more and get less.

Table 13
Average Monthly Employee Premium Contributions for Single Coverage

1996

Firm Size		Conventional	HMO*	PPO*	POS*	Overall*
Small Firms (<200)		$38	$59	$64	$51	$55
Large Firms (200+)		32	42	34	38	37
All Firms		34	46	43	40	41
3 to 9 Employees		21	NSD	NSD	NSD	56
10 to 24 Employees		41	NSD	84	NSD	61
25 to 49 Employees		54	60	67	NSD	57
50 to 199 Employees		39	55	51	74	51

1998

Firm Size		Conventional	HMO*	PPO*	POS*	Overall*
Small Firms (<200)		$42	$34+	$32	$48	$39+
Large Firms (200+)		25+	29+	32	30	29
All Firms		29	30	32	35	32+
3 to 9 Employees		60	NSD	16	85	49
10 to 24 Employees		NSD	27	36	38	37
25 to 49 Employees		37	36	45	32	39
50 to 199 Employees		23	36	33	36	34+

*Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

+Statistical difference between 1996 and 1998; at least 95% confidence level.

Table 13A

Average Monthly Employee Premium Contributions for Family Coverage

1996

Firm Size		Conventional	HMO*	PPO*	POS	Overall*
Small Firms (<200)		$117	$181	$212	$203	$178
Large Firms (200+)		116	144	118	119	128
All Firms		117	151	146	129	140
3 to 9 Employees		69	NSD	NSD	NSD	150
10 to 24 Employees		102	NSD	277	NSD	199
25 to 49 Employees		112	209	218	NSD	189
50 to 199 Employees		156	168	182	245	176

1998

Firm Size		Conventional*	HMO*	PPO	POS*	Overall*
Small Firms (<200)		$188+	$203	$196+	$190	$194+
Large Firms (200+)		136	121	118	124	123
All Firms		145	134	140	144	141+
3 to 9 Employees		259	NSD	205	217	223+
10 to 24 Employees		NSD	230	201	171	195
25 to 49 Employees		122	180	224	198	192+
50 to 199 Employees		158	188	180	181	180

*Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

+Statistical difference between 1996 and 1998; at least 95% confidence level.

Table 14

Percentage of Premium Paid By Employee for Single Coverage

1996

Firm Size		Conventional	HMO	PPO	POS	Overall
Small Firms		21%	36%	35%	34%	32%
Large Firms (200+)		17	27	20	23	23
All Firms		19	29*	25*	24*	25*
3 to 9 Employees		12	NSD	NSD	NSD	32
10 to 24 Employees		21	NSD	42	NSD	33
25 to 49 Employees		28	34	35	NSD	31
50 to 199 Employees		24	32	31	49	31

1998

Firm Size		Conventional	HMO	PPO	POS	Overall
Small Firms		21%	22+	18+	26	22+
Large Firms (200+)		13+	19+	19	17+	17+
All Firms		15*	19*	19*	20*	19*
3 to 9 Employees		26	NSD	7	40	23
10 to 24 Employees		NSD	21	23	28	25+
25 to 49 Employees		23	23	25	17	22+
50 to 199 Employees		12	23	19	20	20+

*Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

+Statistical difference between 1996 and 1998; at least 95% confidence level.

Table 14A

Percentage of Premium Paid By Employee for Family Coverage

1996						
Firm Size		Conventional	HMO	PPO	POS	Overall
Small Firms (<200)		31%	49%	51%	51%	45%
Large Firms (200+)		28	35	28	27	31
All Firms		29	38*	35*	30	35*
3 to 9 Employees		21	NSD	NSD	NSD	37
10 to 24 Employees		27	NSD	68	NSD	52
25 to 49 Employees		30	55	51	NSD	49
50 to 199 Employees		39	42	46	58	44
1998						
Firm Size		Conventional	HMO	PPO	POS	Overall
Small Firms (<200)		44%+	53%	42%+	44%	44%
Large Firms (200+)		31	28+	27	27	28+
All Firms		33*	32*	31	32*	32*+
3 to 9 Employees		44	NSD	44	47	46
10 to 24 Employees		NSD	61	39	46	48
25 to 49 Employees		31	50	47	43	44
50 to 199 Employees		35	50	41	42	42

*Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

+Statistical difference between 1996 and 1998; at least 95% confidence level.

Table 15
Average Annual Deductibles for Conventional Plans

		1996		1998	
		Single	Family	Single*	Family*
Firm Size					
All Small Firms		$269	$627	$285+	$668+
200 or more Employees		259	579	229+	574+
All Firms		264	594	243	596
3 to 9 Employees		351	761	360	948
10 to 24 Employees		245	442	NSD	NSD
25 to 49 Employees		249	828	225	464
50 to 199 Employees		246	556	206	487

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

+ Statistical difference between 1996 and 1998; at least 95% confidence level.

Table 15A
Average Annual Deductibles for PPO and POS Plans

	1996			
	PPO-single		*POS-single*	
Firm Size	Pref*	Non-P*	Pref	Non-P
All Small Firms	$225	$360	$144	$327
200 or more Employees	161	290	61	323
All Firms	180	313	71	324
3 to 9 Employees	NSD	NSD	NSD	NSD
10 to 24 Employees	288	350	NSD	NSD
25 to 49 Employees	235	418	NSD	NSD
50 to 199 Employees	195	318	52	221
	1998			
	PPO-single		*POS-single*	
Firm Size	Pref*	Non-P*	Pref*	Non-P
All Small Firms	$246+	$404+	$94+	$346+
200 or more Employees	163+	321+	21+	345+
All Firms	186	344+	43+	345
3 to 9 Employees	380	505	114	313
10 to 24 Employees	241	460	96	262
25 to 49 Employees	242	425	81	366
50 to 199 Employees	192	338	84	401

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

\+ Statistical difference between 1996 and 1998; at least 95% confidence level.

Table 16
Average HMO Co-pays by Firm Size, 1996 and 1998

	1996						
(Number of Employees)	**3-9**	**10-24**	**25-49**	**50-199**	**200+**	**All Small**	**Overall Firms**
None	NSD	NSD	7%	6%	11%	7%	10%*
$2 per visit	NSD	NSD	0	3	1	1	1*
$5 per visit	NSD	NSD	26	21	22	26	23*
$10 per visit	NSD	NSD	52	59	54	54	54*
$15 per visit	NSD	NSD	13	9	10	9	10*
$20 per visit	NSD	NSD	0	3	1	2	1*
Other	NSD	NSD	1	0	2	2	2*
	1998						
(Number of Employees)	**3-9**	**10-24**	**25-49**	**50-199**	**200+**	**All Small**	**Overall Firms**
None	NSD	10%	12%	4%	6%	8%	7%*
$2 per visit	NSD	0	0	3	2	1	2*
$5 per visit	NSD	22	18	15	20	20	20*
$10 per visit	NSD	48	56	60	62++	54	61*
$15 per visit	NSD	15	12	13	8	11	9*
$20 per visit	NSD	2	1	2	1	2	1*
Other	NSD	3	1	5	1	4	2*

*Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

+Statistical difference between 1996 and 1998; at 99% confidence level.

Table 17

Percentage of Thirteen Core Benefits Offered, 1998

		Conventional*	HMO*	PPO*	POS
Firm Size					
Small Firms (<200)		70%	81%	79%	83%
Large Firms (200+)		74	84	81	84
All Firms		74	84	80	84
3 to 9 Employees		63	80	66	79
10 to 24 Employees		66	80	75	78
25 to 49 Employees		73	84	81	90
50 to 199 Employees		75	80	80	86

Benefits include: adult periodic physical exams, well-baby care, childhood immunizations, prenatal care, mammography screening, hearing benefits, occupational therapy, outpatient mental health benefits, inpatient mental health benefits, chiropractic care, prescription drugs, vision, and dental benefits

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at least 95% confidence level.

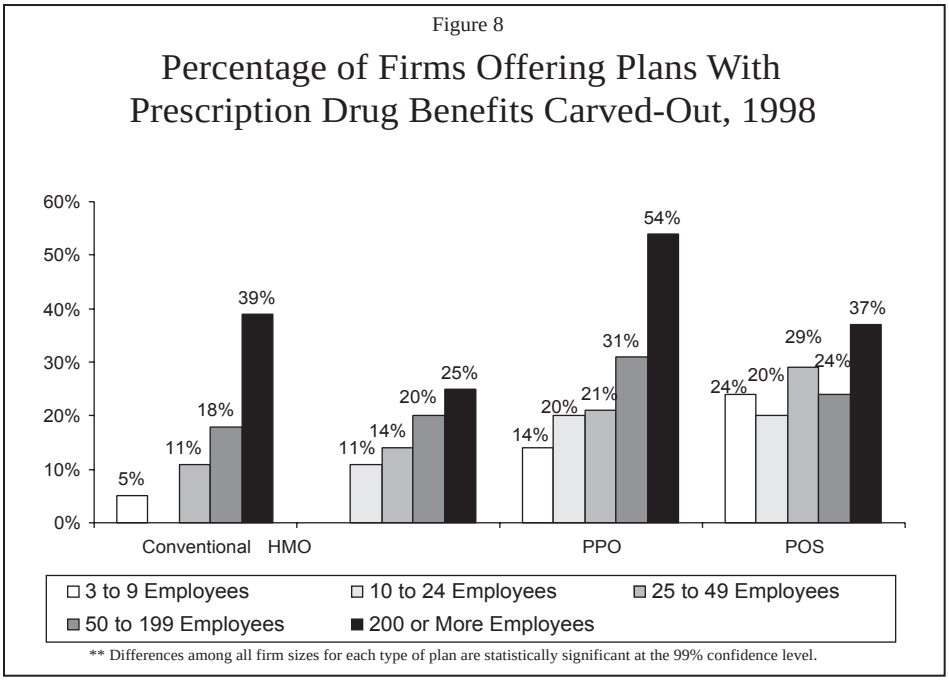
Carve-Out Plans

Carve-out plans have become increasingly popular vehicles for managing highly specialized and costly benefits such as mental health and prescription drug benefits. Typically the care provided through a carve-out plan is managed by an organization other than the primary insurer or managed care organization. Some argue that carve-out plans "can be used to reduce risk selection and that they offer a specialized network of providers to manage particular problems."[14] Others contend that carve-out plans "may be more expensive to administer and require more coordination among health care providers."[15]

Employers with 200 or more employees are the most likely to offer conventional, HMO, PPO, and POS plans that carve out mental health benefits (Table 18) than small employers. In general, mental health carve-outs are most common in POS plans, with 30% of the largest employers and 12% of the smallest employers offering POS plans that carve-out mental health benefits.

Large employers are similarly much more likely than small employers to offer health plans that carve out prescription drug benefits (Figure 8 and Table 19).

Figure 8



** Differences among all firm sizes for each type of plan are statistically significant at the 99% confidence level.

[14] Mechanic, David, "Emerging Trends in Mental Health Policy and Practice," *Health Affairs*, November/December 1998, Volume 17, Number 6, pp. 82 - 98.

[15] Kihlstrom, Lucy C., "Characteristics and Growth of Managed Behavioral Health Care Firms," *Health Affairs*, July/ August, 1997, Volume 16, Number 4, 1997, pp. 127 - 130.

In addition, among employers of all sizes, pharmacy benefit carve-outs are more widespread than mental health carve-out plans. Prescription drug benefits are most likely to be carved out of PPO plans. However, among the smallest firms (three to nine employees) POS plans were most likely to have a prescription drug benefit carve-out of all the plan types (24%).

Commentary

Carve-out plans are primarily used to control the costs of benefits that tend to be less understood and have less consistent standards of practice among providers. The KPMG survey data indicate that, in general, carve-out plans tend to employ more cost control provisions such as the use of mail order discount plans and mandatory use of generic drugs for prescription drug benefits (Table 20). This trend holds in conventional, PPO, and POS plans offered by both small and large employers. There is, however, no consistent trend with respect to the coverage of experimental therapies in carve-out and integrated plans.

Table 18
Mental Health Drug Carve Out Plans, 1998

Conventional	Yes	No	Don't Know
3 to 9 Employees	NSD	NSD	NSD
10 to 24 Employees	NSD	NSD	NSD
25 to 49 Employees	0%	98%	2%
50 to 199 Employees	8	89	3
Small Firms (<200)	6	90	4
Large Firms (200+)	11*	88*	1*
HMO	Yes	No	Don't Know
3 to 9 Employees	NSD	NSD	NSD
10 to 24 Employees	NSD	NSD	NSD
25 to 49 Employees	NSD	NSD	NSD
50 to 199 Employees	8%	85%	7%
Small Firms (<200)	8	89	3
Large Firms (200+)	16*	83*	2*
PPO	Yes	No	Don't Know
3 to 9 Employees	8%	92%	0%
10 to 24 Employees	18	80	2
25 to 49 Employees	12	86	2
50 to 199 Employees	10	89	1
Small Firms (<200)	11	88	1
Large Firms (200+)	26*	73*	1*
POS	Yes	No	Don't Know
3 to 9 Employees	12%	86%	2%
10 to 24 Employees	16	74	10
25 to 49 Employees	22	75	3
50 to 199 Employees	9	84	7
Small Firms (<200)	13	81	6
Large Firms (200+)	30*	70*	0*

*Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

Table 19
Pharmacy Drug Carve Out Plans, 1998

Conventional	**Yes**	**No**	**Don't Know**
3 to 9 Employees	5%	95%	0%
10 to 24 Employees	NSD	NSD	NSD
25 to 49 Employees	11	88	1
50 to 199 Employees	18	63	19
Small Firms (<200)	12	80	8
Large Firms (200+)	39*	63*	19*
HMO	Yes	No	Don't Know
3 to 9 Employees	NSD	NSD	NSD
10 to 24 Employees	11	89	0
25 to 49 Employees	14	81	5
50 to 199 Employees	20	80	0
All Small Firms	16	83	1
200 or More Employees	25*	73*	2*
PPO	Yes	No	Don't Know
3 to 9 Employees	14%	84%	2%
10 to 24 Employees	20	76	4
25 to 49 Employees	21	79	1
50 to 199 Employees	31	68	0
All Small Firms	25	74	1
200 or More Employees	54*	45*	1*
POS	Yes	No	Don't Know
Firm Size			
3 to 9 Employees	24%	73%	3%
10 to 24 Employees	20	76	4
25 to 49 Employees	29	66	6
50 to 199 Employees	24	75	2
All Small Firms	24	73	3
200 or More Employees	37*	62*	2*

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

Table 20
Pharmacy Drug Carve Out Benefits, 1998

Conventional	Mandatory use of generic drugs	Mail order discount plans	Experimental therapies
Pharmacy Benefits Are Carved Out			
All Small Firms (<200)	NSD*	NSD	NSD
Large Firms (200+)	28.3%	80.5%	10.2%
Pharmacy Benefits Are Not Carved Out			
All Small Firms (<200)	7.8%	34.3%	1.5%
Large Firms (200+)	13.4%	36.4%*	5.9%
HMO	Mandatory use of generic drugs	Mail order discount plans	Experimental therapies
Pharmacy Benefits Are Carved Out			
All Small Firms (<200)	20.9%	61.1%	0.0%
Large Firms (200+)	37.7%	56.0%	10.0%
Pharmacy Benefits Are Not Carved Out			
All Small Firms (<200)	32.0%	39.9%	5.5%
Large Firms (200+)	38.4%*	62.2%	3.8%*
PPO	Mandatory use of generic drugs	Mail order discount plans	Experimental therapies
Pharmacy Benefits Are Carved Out			
All Small Firms (<200)	23.6%	55.5%	1.4%
Large Firms (200+)	31.6%	90.4%	9.5%
Pharmacy Benefits Are Not Carved Out			
All Small Firms (<200)	20.6%	51.4%	7.1%
Large Firms (200+)	18.3%	62.3%*	5.7%
POS	Mandatory use of generic drugs	Mail order discount plans	Experimental therapies
Pharmacy Benefits Are Carved Out			
All Small Firms (<200)	37.8%	53.6%	2.0%
Large Firms (200+)	32.9%	82.4%*	6.0%*
Pharmacy Benefits Are Not Carved Out			
All Small Firms (<200)	30.3%	47.6%	10.6%
Large Firms (200+)	32.3%	68.3%*	2.8%*

* Statistical difference between small firms and large firms; at least 95% confidence level.

Self Insurance

From 1996 to 1998 the percentage of employees covered by a self-insured health plan decreased among both small and large firms (Figures 9 and 10). Among small firms there was declining use of self-insurance for conventional, HMO, PPO and POS plans. The percentage of employees in self-insured conventional health plans decreased from 25% to 16% among small employers and from 90 % in 1996 to 86% in 1998 for large employers (Table 21).

For workers in POS plans, self-insurance decreased for both small and large firms. For employees in HMOs and PPOs, self-insurance declined among small firms, while for workers in large firms it changed little.

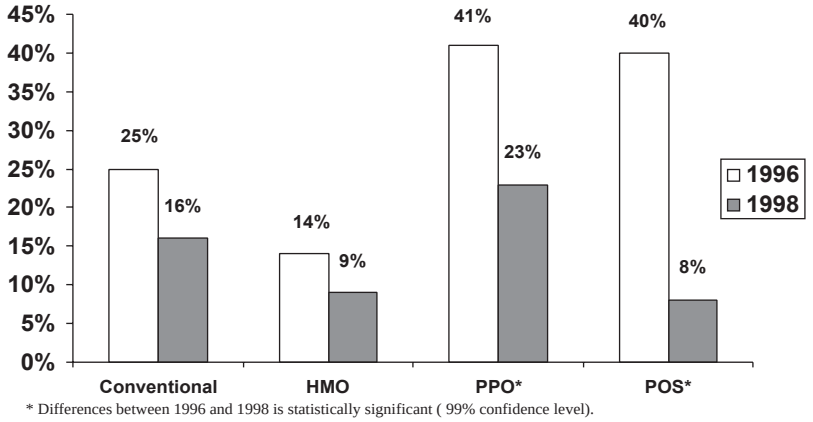
The likelihood of a worker's health plan self-insuring generally increases with firm size. In 1998, only 3% of employees in conventional plans among firms with three to nine workers were covered by a self-insured plan, compared with 16% of employees in firms with 25 to 49 workers, 33% of employees in firms with 50 to 199 workers, and 86% of employees in firms with 200 or more workers. Employees enrolled in PPOs and POS plans followed a similar pattern.

Commentary

Why the decline in the use of self-insurance? There remain distinct advantages to self-insuring. Firms which self-insure are not subject to state laws with regard to mandated benefits, consumer protections, reserve requirements, and premium taxes. One possible explanation for the decline in self-insurance may lie with the passage of the Health Insurance Portability and Accountability Act (HIPAA).

Figure 9

Percentage of Employees in Firms with Less Than 200 Workers Covered by a Self-Insured Health Plan, by Plan Type

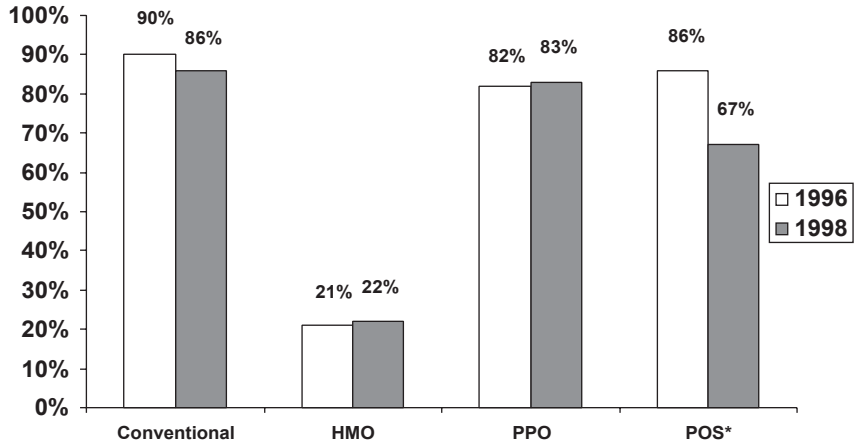


* Differences between 1996 and 1998 is statistically significant (99% confidence level).

This legislation mandated a variety of new regulations for health plans, including self-insured plans, particularly with regards to the use of waiting periods or exclusions for pre-existing conditions. As a result, the flexibility and potential cost savings that self-insured plans once offered employers have diminished. The shift from conventional to other forms of coverage may also play a role, since a large percentage of conventional plans has historically been self-insured. As employers gain more experience with other types of health plans, the trend away from self-insurance may change.

Figure 10

Percentage of Employees in Firms with 200 or more Workers Covered by a Self-Insured Health Plan, by Plan Type



** Difference between 1996 and 1998 is statistically significant (99% confidence level).

Table 21
Percentage of Employees Covered by a Self-Insured Plan, By Plan Type and Firm Size, 1996 and 1998

1996

	Conv*	HMO*	PPO*	POS*
Small Firms (<200)	25%	14%	41%	40%
Large Firms (200+)	90	21	82	86
3 to 9 Employees	4	NSD	NSD	NSD
10 to 24 Employees	16	NSD	10	NSD
25 to 49 Employees	18	11	NSD	NSD
50 to 199 Employees	47	19	44	40

1998

	Conv*	HMO*	PPO*	POS*
Small Firms (<200)	16%	9%	23%+	8%+
Large Firms (200+)	86	22	83	67+
3 to 9 Employees	3	NSD	2	2
10 to 24 Employees	NSD	11	16	13
25 to 49 Employees	16	2	20	6
50 to 199 Employees	33	9	36	11

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

+ Statistical difference between 1996 and 1998; at 99% confidence level.

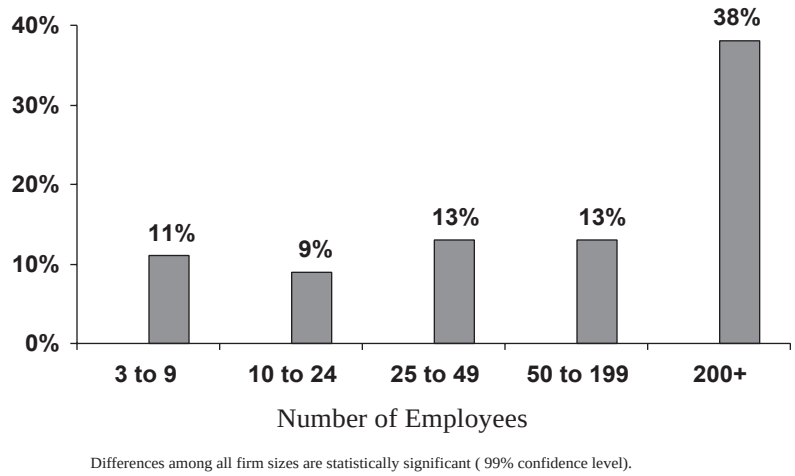
Role of NCQA Accreditation Status and HEDIS Data

In an effort to establish standardized measures of quality care, the National Committee for Quality Assurance (NCQA), a private non-profit organization, evaluates how well HMO and POS plans are managing their delivery systems. NCQA examines health plans' clinical and administrative systems, members' rights, physician credentials, utilization management, medical records, quality improvement programs, and other aspects of a health plan's operations. NCQA also collects data from health plans on 70 measures of performance, termed the Health Plan Employer Data and Information Set (HEDIS).

NCQA and HEDIS play a minor role in small employers' selection of health plans -- a smaller role than among larger employers (Table 22 and Figure 11). When asked, "Are you familiar with NCQA accreditation?" only 11% of small employers responded "yes." In contrast, 38% of employers with 200 or more workers responded "yes," and more than 80% of employers with 5,000 or more workers indicated familiarity with NCQA accreditation (not shown).

With so few employers familiar with NCQA accreditation, relatively few require the health plans with which they contract to be accredited by NCQA (Figure 12). Among firms which offer HMO and/or POS plans and are familiar with NCQA accreditation, only 11% of small firms required their health plans to be accredited. In contrast, 20% of firms with 200 or more workers will contract only with an NCQA accredited plan.

Figure 11



Differences among all firm sizes are statistically significant (99% confidence level).

KPMG asked employers how important ("very important," "somewhat important," "not very important," or "not at all important") various factors were in selecting health plans for their workforce. Table 23 shows that both small and large employers regard NCQA accreditation and HEDIS data as far less important than traditional factors.

Among employers familiar with NCQA, fewer than 30% identified NCQA accreditation as "very important". Fewer than 10% of all firms regarded HEDIS data as "very important." In contrast, about 70% of all employers considered the cost of the plan "very important," and nearly 70% viewed the number of physicians in the network as well as the reputations and credentials of the physicians in the network as "very important." Responses of small and large employers were surprisingly similar with regard to the factors that were very important in their decision to contract with health plans.

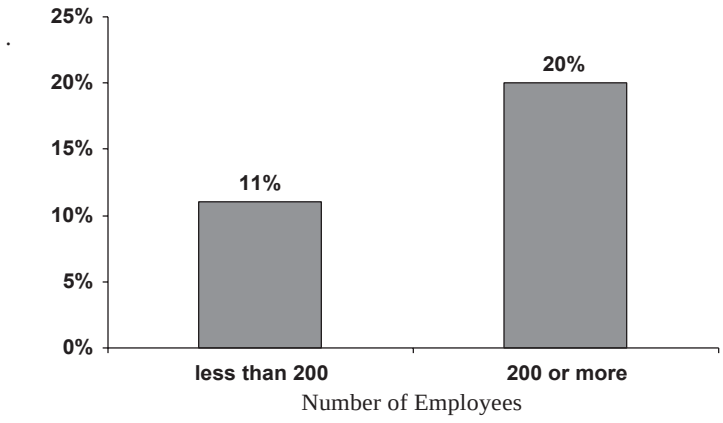
Commentary

How employers purchase their health plans will greatly shape the nature of the American health care system. NCQA accreditation and HEDIS scores represent an attempt to have the marketplace reward health plans which meet standardized, science-based measures of quality, rather than viewing quality as an amorphous and elusive concept. The nation's largest employers, firms with more than 5,000 workers, are far more familiar and far more engaged with scientific measures of quality than the remainder of the nation's employers.

Surprisingly, the smallest employers (three to nine workers) were less likely to identify the cost of the plan as a "very important" factor in the choice of plan. Conventional wisdom holds these are the most price sensitive group of employers. Perhaps those that rank cost as very important elect not to offer health insurance.

Figure 12

Percentage of Employers Contracting Only with NCQA Accredited Plans, by Firm Size, 1998 (Among Firms Which Offer Either an HMO or POS Plan)



Differences between all small and all large firm sizes are statistically significant at the 99% confidence level.

If the marketplace does not provide financial rewards for firms which meet NCQA accreditation standards and which score highly on HEDIS measures, then the movement to scientifically measured quality will retreat. A more likely scenario is that one set of health plans will be attractive to the largest employers, who regard NCQA and HEDIS as important quality assurance measures, while another set of employers (smaller employers who already face consistently higher premiums) will contract with non-accredited health plans.

Table 22
Percentage of Employers Familiar with NCQA Accreditation, by Firm Size, 1998

	Yes	No	Don't Know
Small Firms (<200)	11%	89%	0%
Large Firms (200+)	38*	62*	0*
3 to 9 Employees	11	89	0
10 to 24 Employees	9	91	0
25 to 49 Employees	13	86	1
50 to 199 Employees	13	87	0

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

Table 23

How Firms Select Health Plans: Percentage of Firms Indicating Selected Factor Is "Very Important," Among Firms Offering Health Benefits in 1998, by Firm Size

	3 to 9	10 to 24	25 to 49	50 to 199	All Small	200 or More
Number of Physicians in the Network	65%	66%	65%	63%	65%	68%*
Reputations/Credentials of Network Physicians	69	70	64	67	69	65*
Cost of the Plan	64	76	82	76	68	73*
Ease of Making Appointments with Physicians	53	44	45	39	50	36*
Ease of Access to Specialists	67	50	56	51	62	46*
Accuracy and Speed of Claims Payments	59	55	57	66	58	61*
NCQA Accreditation[1]	22	0	66	31	24	27*
HEDIS Information	9	0	6	12	7	8*

* Statistical difference between small firms (<200) and large firms (200+); at 99% confidence level.

[1] Item asked only of firms who said they were familiar with NCQA accreditation.

Purchasing Cooperatives

Over the last several years, more than a dozen states have passed legislation enabling the establishment of health care purchasing cooperatives for small employers. The state of California was the first state to do so when it established the Health Insurance Plan of California (HIPC) in 1993. Other private group purchasing arrangements, such as multiple employer welfare associations (MEWAs), have a long, and not always successful history.

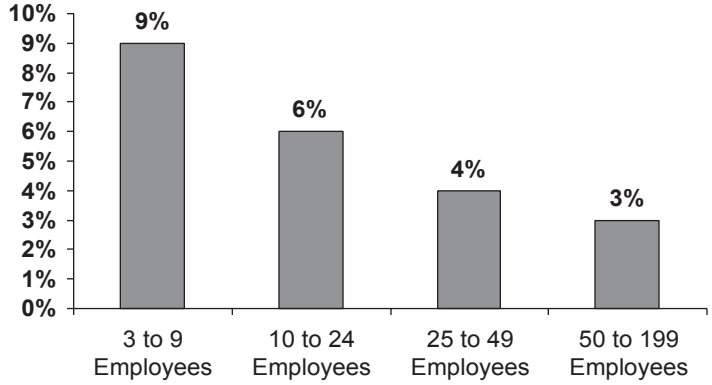
Purchasing cooperatives allow small employers to achieve some of the economies of scale from which large employers benefit. However, they do not always solve the problem of risk selection. The California HIPC discovered that, while they were able to establish some price competition among plans, they were unable to prevent the migration of a disproportionate share of high-cost enrollees to certain plans.

Purchasing cooperatives are still relatively new and unknown among small employers. Only three of every ten small employers responded "yes" when asked, "Are you familiar with health insurance purchasing cooperatives (co-ops)?" The smallest firms (3-9 workers) were slightly more likely to respond "yes" than other size categories. Firms with 25-49 workers were least familiar with purchasing co-ops (21%). For those firms indicating their familiarity with purchasing co-ops, many associate cooperatives with traditional multiple employer welfare associations (MEWAs). Hence, the greatest number of respondents indicated participating in industry-based cooperatives, which in many cases may be a MEWA.

Results from the 1998 KPMG survey of small employers demonstrate an inverse relationship between firms' participation in purchasing cooperatives and the number of employees -- participation is the highest among the smallest employers (Figure 13 and Table 24).

Figure 13

Percentage of Small Firms Participating in Purchasing Cooperatives



Differences among firm sizes are statistically significant (99% confidence level).

Participation among firms with three to nine employees is relatively high, with nearly 10% of employers using a purchasing cooperative. Conversely, among employers with 50 to 199 employees, only 3% participate in a purchasing cooperative. (Firms with 200 or more employees were not asked about use of purchasing cooperatives).

Small firms participate in a variety of different types of cooperatives. Among small businesses who use a purchasing cooperative, 35% report participating in an industry-based cooperative (Table 25). Regional cooperatives are also more common (24%), followed by trade association cooperatives (14%).

Commentary

With small employers continuing to face disproportionately higher premiums and deductibles, purchasing cooperatives are likely to remain a long-term presence in the health care market. In fact, purchasing cooperatives are likely to become more prevalent as small employers build on and learn from the experiences of such pioneers as the HIPC. Republican members of Congress proposed legislation that would promote participation in voluntary purchasing cooperatives. However, in President Clinton's ill-fated Health Security Act, the *mandatory* nature of HIPCs for small employers was one of the most heavily criticized component of the plan by the small business community and Republicans.

Table 24
Percentage of Employers Who Use Purchasing Cooperative to Obtain Health Insurance, by Firm Size, 1998

	Yes	No
All Small Firms	8%	92%
3 to 9 Employees	9	91
10 to 24 Employees	6	94
25 to 49 Employees	4	97
50 to 199 Employees	3	92

Differences among all small firms are statistically significant (99% confidence level).

Table 25
Types of Purchasing Cooperatives Used by Employers, by Firm Size, 1998

	3-9 Employees	10-24 Employees	25-49 Employees	50-199 Employees	All Small Firms
Types:					
Industry Based	40%	15.6	23.3	10	35%*
Employer Based	0	28	0	2	5*
Statewide Coop	4	1	39	38	6*
National Coop	2	7	0	0	3*
Trade Association Coop	17	9	0	2	14*
Regional Coop	26	15	21	31	24*
Other	11	8	16	19	11*
Don't Know	0	16	0	0	3*
Total	100	99.6	99.3	102	101

Due to rounding, the total column may not sum to 100.

* Differences among all small firms are statistically significant (99% confidence level).

Patient Bill of Rights

Stimulated by public concern over perceived abuses by managed care organizations, the President's Advisory Commission on Consumer Protection in the Health Care Industry released in 1997 a proposed *Consumer Bill of Rights and Responsibilities.* Among the Commissions recommendations were:

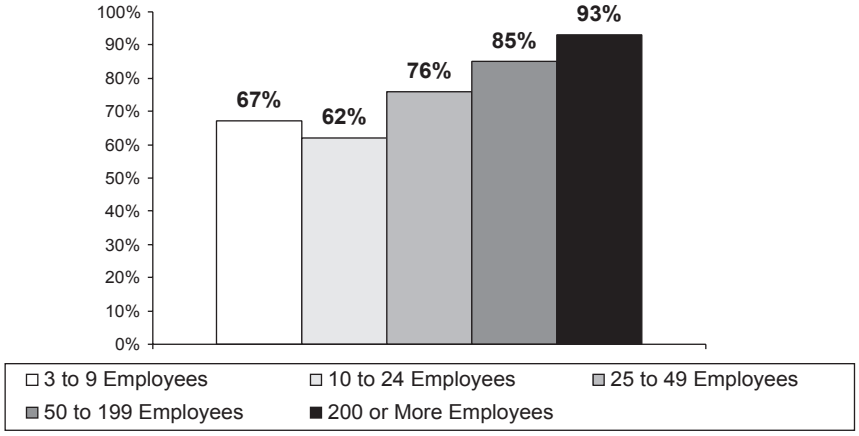
- the right to access emergency services when and where the need arises;
- the right to communicate with health care providers in confidence and to have the confidentiality of the individually identifiable health care information protected;
- the right to a fair and efficient process for resolving differences with their health plans, health care providers, and the institutions that serve them; and
- the right to receive accurate, easily understood information.

Establishing a Patient Bill of Rights has remained a prominent political issue throughout 1998. However, political interest does not always mirror employers' interests. Therefore, KPMG in 1998 asked employers a series of questions about legislation designed to protect consumers' rights.

The major survey finding was that large employers provide more consumer protections than small employers to their workforce, but small employers express stronger support for statutory consumer protections through legislation. Thus, the majority of employers with more than 200 workers support two of the key provisions of the proposed Patient Bill of Rights: (1) requiring health plans to pay for an emergency room visit when someone might reasonably believe they need immediate medical attention; and (2) allowing people to appeal a health plan's decision to an independent reviewer if they are denied coverage for a particular medical treatment. Concurrence with these provisions is stronger among small employers (Table 26). Support for requiring health plans to pay for emergency care drops from 80% among employers with three to nine employees to 65% among firms with 200 or more employees.

Figure 14

Percentage of Employers Who Mediate Employees' Complaints With Health Plans



Differences among firm sizes are statistically significant at the 99% confidence level.

In addition, support for appeals to an independent reviewer falls from 87% of firms with three to nine employees to 77% among firms with 200 or more employees. Small employers are also more well-disposed to allowing patients to sue a health plan for malpractice than large employers, with 45% of employers with three to nine employees and only 28% of employers with 200 or more employees supporting this provision.

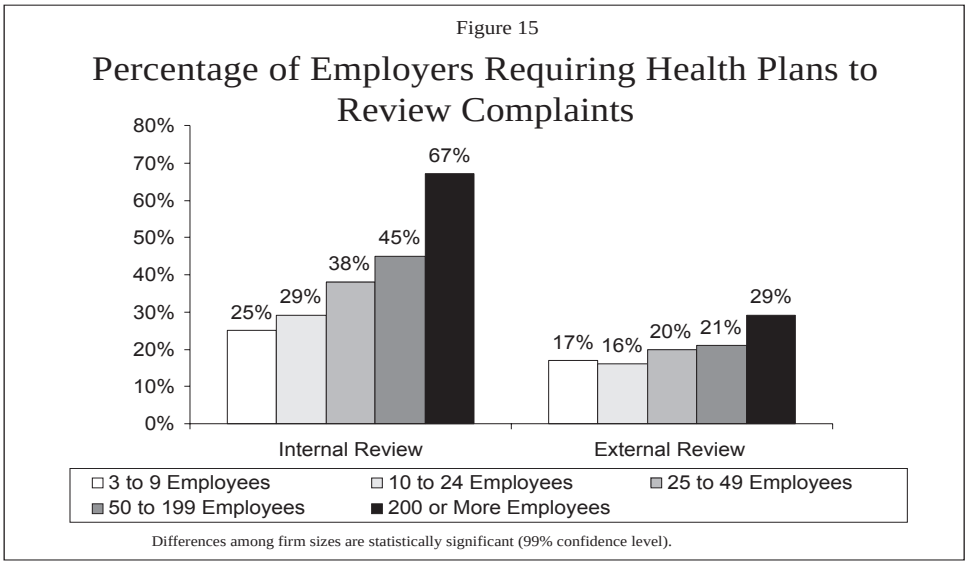
Small employers are significantly less likely to internally mediate disputes that employees have with their health plans - 68% of small firms internally mediate disputes compared to 93% of employers with more than 200 employees (Table 27). Sixty-seven percent of employers with three to nine employees internally mediate disputes, while 93% of employers with 200 or more employees do the same (Figure 14).

While fully two-thirds of employers with more than 200 employees require the health plans with which they contract to have an internal appeals process, this requirement drops significantly to just 29% for small firms. Additionally, small firms are less likely to require external review provisions in their contracts with health plans than large employers (Table 28).

Commentary

Why should small employers support key provisions of the Patient Bill of Rights more than large employers? One likely explanation is that small employers typically purchase health insurance as an off-the-shelf product and have little leverage with plans, so they are less likely than larger firms to request or require specific provisions in health plan contracts. Larger employers see themselves as suppliers as well as purchasers of health insurance and may view themselves as tailoring and administering the health plans. Small employers tend to be less aware of the expenses associated with offering health insurance while large employers who are more likely to self-fund health plans are more sensitive to the potential cost effect of placing additional requirements on health plans. Moreover, large employers are more like to have already placed protections, such as requirements for internal and external reviews, in their contracts with health plans, so they see less need for consumer protections (Figure 15).

Figure 15



Differences among firm sizes are statistically significant (99% confidence level).

Table 26
Percentage of Firms That Would Favor or Oppose a Law Requiring Health Plans To:
(By Firm Size, 1998)

	Favor	Oppose	Don't Know
Pay for Emergency Room Visits			
Small Firms (<200)	80%*	15%*	5%*
Large Firms (200+)	65	26	10
3 to 9 Employees	80	14	6
10 to 24 Employees	80	17	3
25 to 49 Employees	78	17	5
50 to 199 Employees	74	20	7
Appeal Health Plan Decision to Independent Reviewer			
Small Firms (<200)	88%*	9%*	3%*
Large Firms (200+)	77	16	7
3 to 9 Employees	87	10	3
10 to 24 Employees	95	3	2
25 to 49 Employees	87	9	3
50 to 199 Employees	86	8	5
Sue Health Plan for Malpractice			
All Small Firms	47%*	33%*	21%*
200 or More Employees	28	53	19
3 to 9 Employees	45	34	22
10 to 24 Employees	55	27	19
25 to 49 Employees	47	37	16
50 to 199 Employees	48	32	20

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

Table 27
Does Company Internally Mediate Employee Complaints With Their Health Plan?, by Firm Size, 1998

		Yes	No	Don't Know
Small Firms (<200)		68%	30%	2%
Large Firms (200+)		93*	7*	0*
3 to 9 Employees		67	30	3
10 to 24 Employees		62	35	3
25 to 49 Employees		76	24	0
50 to 199 Employees		85	15	0

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

Table 28
Percentage of Firms That Require Internal and External Appeals Systems in Their Contracts With Health Plans, by Firm Size, 1998

		Yes	No	Don't Know
Internal				
Small Firms (<200)		29%	61%	11%
Large Firms (200+)		67*	26*	8*
3 to 9 Employees		25	65	10
10 to 24 Employees		29	59	12
25 to 49 Employees		38	51	10
50 to 199 Employees		45	43	12
		Yes	No	Don't Know
External				
Small Firms (<200)		18%	72%	10%
Large Firms (200+)		29*	61*	10*
3 to 9 Employees		17	73	9
10 to 24 Employees		16	71	13
25 to 49 Employees		20	70	11
50 to 199 Employees		21	67	13

* Statistical difference between small firms (<200 employees) and large firms (200+ employees); at 99% confidence level.

Conclusion

The 1998 KPMG survey of small employers discloses reversals of many favorable trends of the 1990s. In the midst of the best economy in three decades, many indicators of coverage have deteriorated. Fewer small firms are offering coverage, fewer employees in small firms are covered by their employer's health plan, and employers have made eligibility requirements more restrictive. More stringent eligibility requirements include longer waiting periods for new hires, and a slight decrease in the percentage of firms covering part-time and temporary workers.

During the 1990s health care inflation has declined to levels unimaginable at the turn of the decade. Although nowhere near the anecdote-based double-digit inflation reported in the media, the 5.2% increase in premiums from 1997 to 1998 indicates a heating-up of inflation for the future. Higher inflation would be consistent with the historic underwriting cycle, where insurer underwriting losses are followed two years later by increased inflation. About two-thirds of insurers and managed care organizations suffered underwriting losses in 1996 and 1997, prompting an exit from the market for many insurers and MCOs, and a need to raise premiums in 1998.

Following years of strong growth in enrollment, HMO market share declined from 29% to 17% in the small employer market. Conventional plans' long-term decline accelerated so that now only 13% of the employees in small firms are enrolled in a conventional plan. POS plans, and to a lesser extent PPO plans, have been the big gainers. The decline in HMO enrollment reflects a desire on the part of employers to expand employees' opportunity to select non-network providers.

There are some positive trends worth noting. Employees' contributions for single coverage have ebbed in small firms, although contributions for family coverage increased. Following the passage of HIPAA in 1996, the use of pre-existing condition clauses has declined substantially. More employees are enrolled in fully-insured plans than two years ago, so that more employees have the consumer protections afforded by state regulation of the health insurance industry.

The most alarming trend uncovered by the survey is the decline in the percentage of employees in small firms covered by their employer's health plan. Offer rates are declining and eligibility requirements are tightening even in these economic "good times." This trend is consistent with data from household surveys, such as the Census Bureau's Current Population Survey, which found the number of uninsured Americans from 1996 to 1997 increased from 41 to 43 million. Should health premium inflation heat up and the economy cools down, the willingness of small employers to offer health benefits is likely to suffer further and even more workers may lose their health insurance.