

Covering the Uninsured

Expanding Health Insurance Coverage to More North Carolinians

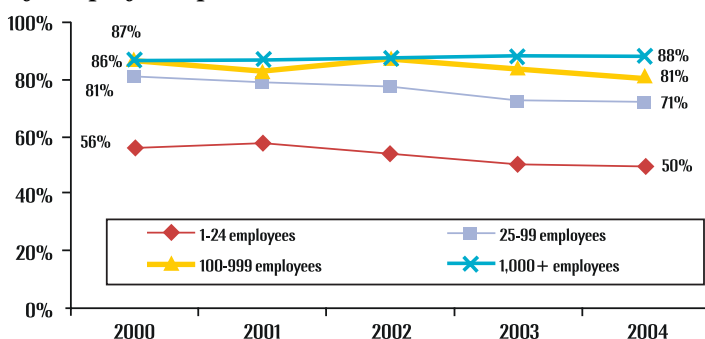
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Health Insurance Coverage and Small Employer Groups

Employer-sponsored health insurance (ESI) is the primary source of health insurance coverage for nonelderly North Carolinians. *In 2004, more than 60% of the 7.5 million North Carolinians under the age of 65 were covered by ESI.* However, in the past few years, the proportion of individuals covered by ESI has steadily declined.¹

In 2000, the ESI coverage rate for all nonelderly North Carolinians was nearly 68%; today it is six percentage points lower. This decrease has been concentrated primarily in small employer groups. *The rate of ESI coverage for full-time workers in firms with less than 100 employees has fallen by over one percentage point a year between 2000 and 2004.* ESI coverage rates in large firms are essentially unchanged over this same period.¹

Figure 1
Percentage of Full-Time Nonelderly Workers Covered by Employer-Sponsored Insurance



Source: Holmes M. Analysis of CPS 2004-2005 (Calendar years 2003-2004). Two year averages (1999-2000 to 2003-2004). Cecil G. Sheps Center for Health Services Research, University of North Carolina at Chapel Hill.

More than half of all uninsured workers in the state (55.5%) work for small employers with fewer than 25 employees. Employees who work for the smallest firms have the highest risk of being uninsured.¹ Small employers (with fewer than 10 employees) are far less likely to offer health insurance coverage than other size firms. On average, in 2002-2003, only 29.4% of these firms offered health insurance, compared to 67.5% of firms with 10-24 employees, 79.3% of firms with 25-99 employees, and more than 90% of larger firms in North Carolina.

Table 1
Percent of Firms that Offer Health Insurance, by Size of Firm (2002-2003)

	NC	US
Total	53.6%	56.7%
<10 employees	29.4%	36.2%
10-24 employees	67.5%	67.0%
25-99 employees	79.3%	81.7%
100-999 employees	99.3%	94.5%
1000+ employees	98.9%	98.7%

Source: Holmes M. Analysis of Medical Expenditure Panel Survey-Insurance Component. Percent of private-sector establishments that offer health insurance by firm size and state: United States, 2002 and 2003 (Table II.A.2). Agency for Healthcare Research and Quality.

High premium costs are the primary reason that some employers do not offer health insurance coverage.² *In a national survey of employers, 86% of those that did not offer health insurance listed high premiums as an important reason for not offering coverage.*³

North Carolina small firm employees are less likely to be offered health insurance by their employer than nationally, but those who are offered are more likely to enroll.⁴

Table 2
Health Insurance Offer and Enroll Rates in Businesses with Fewer than 50 Employees (NC, US)

State	Percent offered coverage	Percent who enroll
North Carolina	57.2%	67.6%
United States	62.6%	61.0%

Source: Holmes M. Analysis of Medical Expenditure Panel Survey-Insurance Component. 2002-2003. (Tables II.B.2, II.C.1, and II.C.2). Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends.

Large employers in North Carolina face health insurance premiums similar to neighboring states and the nation as a whole. Combined data from 2002 and 2003 indicate that the average premium for larger firms with at least 50

employees was slightly lower in North Carolina (\$3,206) than it was nationally (\$3,286).⁴ *In contrast, small employers in North Carolina face higher health insurance premiums than many neighboring states and the nation as a whole.* The average total premium for North Carolina small firms with fewer than 50 employees was \$3,597 per year, compared to a national average of \$3,499 during that same time period. Faced with higher health insurance premiums, some firms respond by not offering health insurance to their employees.⁵

If employed in a firm that offers insurance, North Carolina employees are generally eligible for coverage and choose to enroll when offered. Employees who work for small firms are generally more likely to be eligible for insurance coverage than employees in larger firms, and are about equally likely to enroll when offered coverage.⁶ The problem, therefore, appears to be that small employers are less likely to offer coverage to their employees than are larger firms.

To address these issues, the NC Institute of Medicine Task Force on Covering the Uninsured recommended a number of policy options for providing more health insurance coverage to workers in small firms. These recommendations included:

- **Healthy North Carolina:** A public-private partnership utilizing government reinsurance to reduce private market health insurance costs for small employers, individual workers, and self-employed individuals previously without health insurance.
- **Tiered benefit plans:** Private, low-cost health insurance products that offer basic healthcare coverage, which can be enhanced to include more comprehensive benefits with reduced cost sharing and higher premiums.
- **Small-group reform evaluation:** Reviewing the impact of small-group reform laws in North Carolina to determine if there are potential modifications that could increase healthcare coverage among small employer groups.

References

- 1 Holmes M. Analysis of US Census. Current Population Survey 2004-2005 (Calendar years 2003-2004). Cecil G. Sheps Center for Health Services Research, The University of North Carolina at Chapel Hill. 2005. The analyses are based on two-year average of 2004-2005 CPS data weighted more heavily to the most recent year.
- 2 Studies that have examined the causes of the decreasing national rate of insurance coverage have concluded that the increase in the price of health insurance is the primary cause of the increasing rate of uninsurance in our country. Chernen M., Cutler D, Keenan P. Competition, markets, and insurance: Increasing health insurance costs and the decline in insurance coverage. *Health Serv Res* 2005;40(4):1021-1039. Analysis of North Carolina data suggest that the experience of our state is no different.
- 3 Kaiser Family Foundation and Health Research and Education Trust. Employer Health Benefits 2005 Annual Survey. Chart #11. Available at: <http://www.kff.org/insurance/7315/upload/7315.pdf>. Accessed January 6, 2006. Another 73% of the employers noted that their "firm was too small" as a reason for lack of coverage.
- 4 Holmes M. Analysis of Medical Expenditure Panel Survey-Insurance Component. 2002-2003. (Tables II.B.2, II.B.2.b, II.C.1). Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. Tables available at: <http://meps.ahrq.gov/>. Accessed January 30, 2006.
- 5 Gruber J, Lettau M. How elastic is the firm's demand for health insurance? *Journal of Public Economics* 2004;88:1273-1293.
- 6 Holmes M. Analysis of Medical Expenditure Panel Survey-Insurance Component. 2002-2003. (Tables II.B.2.a, II.B.2.a(1), II.B.2.b). Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. Tables available at: <http://meps.ahrq.gov/>. Accessed January 30, 2006.

This issue brief is one in a series, produced as part of North Carolina's "State Planning Grant" effort, led by the NC Department of Health and Human Services, to examine options to expand health insurance coverage to the uninsured. The State Planning Grant supported a Task Force on Covering the Uninsured, which brought together stakeholders from a variety of interest groups to examine these issues and develop a set of recommendations for improving healthcare coverage across the state. Collaborating organizations include: the NC Department of Insurance, Cecil G. Sheps Center for Health Services Research at The University of North Carolina at Chapel Hill, and North Carolina Institute of Medicine. The State Planning Grant was funded by the Health Resources and Services Administration of the US Department of Health and Human Services. For other issue briefs or a copy of the final report of the NC IOM Task Force on Covering the Uninsured, visit the NC IOM website at: <http://www.nciom.org>.