



New Jersey's Small Group Health Insurance Market

JULY 2006

The Role of Employer Sponsored Coverage in New Jersey

Employers have long been a significant provider of health insurance coverage in New Jersey. In 2004, as in prior years, the majority of New Jerseyans received their health insurance coverage through an employer (68.1%).¹ In 2003, approximately 88% of full-time employees in New Jersey were eligible for health insurance coverage through their employer.² However, in recent years, employers have found it increasingly difficult to continue providing this benefit to employees with the same level of generosity that they have historically offered.³

Those who are offered coverage through their employer may be asked to contribute a greater percentage of the premium, or pay higher co-payments, co-insurance, or deductibles when they seek care. With health insurance premiums on the rise, in New Jersey and nationally, paying a greater proportion of the premium along with higher co-payments, co-insurance, or deductibles can be financially burdensome to employees. In response to these cost increases, some employees choose not to "take-up" coverage when offered, contributing to the growing number of uninsured. From 1999 to 2004, the percentage of New Jerseyans without any health insurance increased steadily from 12.1% to 15.3%.⁴

Policymakers are troubled by the rate of uninsurance in New Jersey. Many believe that employees of small firms (defined throughout this Issue Brief as those with fewer than 50 employees), and in particular very small firms (defined as those with fewer than ten employees), are most vulnerable to increases in health insurance costs. Factors contributing to this vulnerability include the likelihood of small employers to shape plans to their employers needs, the fact that administrative burden per enrollee is greater for small groups than for larger groups, and that rates of uninsurance are highest for workers and

their dependents employed by small firms or earning low wages⁵, with low-wage workers in small firms more likely to be uninsured than low-wage workers in large firms.⁶

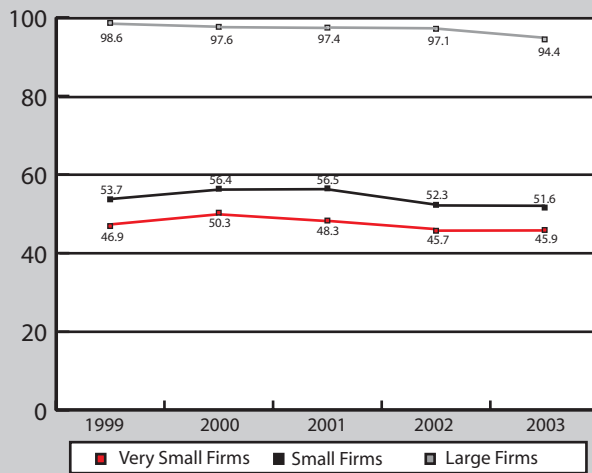
In 2003, New Jersey had 201,716 private sector establishments.⁷ Most of these establishments were part of a small firm (78.4%),⁸ and more than half (62.6%) belonged to very small firms⁹ based on the definitions above. Although most establishments in New Jersey belonged to small firms, most full-time workers in New Jersey were employed by large firms. Still, 29.5% of full-time employees in New Jersey were employed by small firms and about half of those employees worked for very small firms (14.6%).¹⁰ In fact, the percent of New Jerseyans employed full-time by small and very small firms increased considerably in 2003 compared to the previous four years.

Patterns Highlighted within this Issue Brief Include:

- Health insurance offering to see whether employers maintained their offer rate over recent years
- Employee eligibility to enroll in offered health insurance to determine whether health insurance benefits continue to be accessible to employees at establishments that offer coverage
- Employee enrollment to explore the extent to which employees continue choosing to enroll in coverage
- Health insurance cost trends including employee and employer contributions to provide a possible explanation for trends observed in offer rates, and employee eligibility and enrollment

This Issue Brief uses 1999 to 2003 data from the Medical Expenditure Panel Survey-Insurance Component (MEPS-IC)¹¹ to illustrate trends in New Jersey's small and very small group health insurance markets compared to the large group market.

Figure 1: Percent of Private Sector Establishments that Offered Health Insurance to Employees



Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 1999-2003 Medical Expenditure Panel Survey-Insurance Component.

Trends in Health Insurance Offer Rates

The percent of small and very small firms that offered health insurance declined only slightly from 1999 to 2003 (53.7% to 51.6% for small firms and from 46.9% to 45.9% for very small firms) (Figure 1). However, the decline in health insurance offering was somewhat steeper for large firms (98.6% in 1999 and 94.4% in 2003). Still, a much larger percentage of large firms offered health insurance compared to small firms, and offer rates for very small firms were the lowest with not even half offering health insurance coverage.

The percent of full-time employees of very small firms that were offered health insurance fluctuated between 1999 and 2002, but increased in 2003 resulting in an overall increase of 8.7 percentage points from 1999 to 2003 (Figure 2). The trend for small employers differs from that of very small employers in that the percent of full-time employees of small firms that were offered health insurance held relatively steady during the same time period. For large firms, this percentage declined slightly between 1999 and 2003, but remained high relative to small and very small firms.

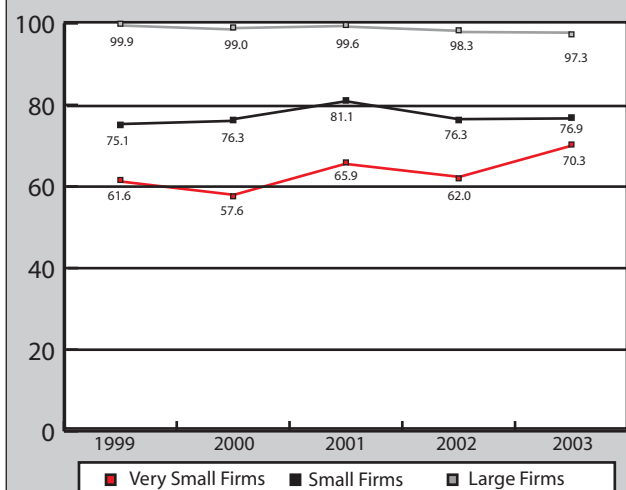
Small and very small firms may have lower offer rates than larger firms because employers of smaller firms may be more attune to whether employees are interested

in a health insurance benefit. In fact, some New Jersey employers have reported that employees have not shown an interest in such a benefit.³ It may be that these employees are insured through a spouse or public health insurance program so they do not seek coverage through the small employer. Also, some small business owners believe that it is not customary in their industry to offer a health insurance benefit and doing so would force them to reduce wages, making it more difficult to attract a talented and committed workforce.³ Finally, some small employers may prefer to pay employees in wage income rather than administer pecuniary benefits.

Access to Health Insurance in Firms that Offer Coverage

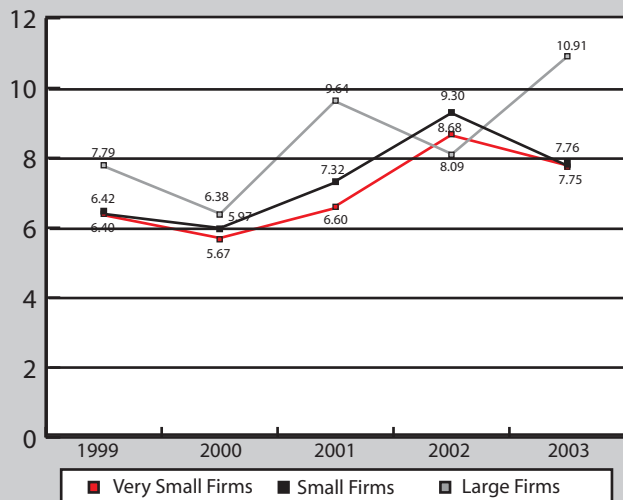
The average waiting period for new employees to qualify for health insurance coverage at small and very small firms that offered health insurance declined somewhat in 2003 after a steady increase from 2000 to 2002 (Figure 3). On the other hand, the average waiting period for large employers increased between 2002 and 2003 from 8.09 to 10.91 weeks. In general, waiting periods for large employers were higher than for small and very small employers. In fact, employees of very small firms that offered coverage were eligible for that coverage sooner than employees of any other firm size, on average.

Figure 2: Percent of Full-Time Employees at Private Sector Establishments that Offered Health Insurance



Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 1999-2003 Medical Expenditure Panel Survey-Insurance Component.

Figure 3: Average Waiting Period (in weeks) for New Employees to Qualify for the Health Insurance Benefit in Private Sector Establishments that Offered Coverage



Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 1999-2003 Medical Expenditure Panel Survey-Insurance Component.

While the percentage of full-time employees that were eligible for the health insurance benefit at firms that offered coverage fluctuated only slightly at all firms in New Jersey between 1999 and 2003, the rate was highest for full-time employees of very small firms (92.9% in 2003) and lowest for large firms (87.5% in 2003) (Figure 4). Therefore, full-time employees at very small firms that offered coverage were more likely to be eligible for the benefit than full-time employees at large firms that offered in New Jersey. One possible reason for this difference is that very small employers, especially in family run businesses, work more closely with employees than employers in large firms and, because of these personal relationships, may be more responsive to their needs. Also, insurers may encourage small employers to enroll as many employees as possible in the health insurance benefit in order to maintain high participation rates.

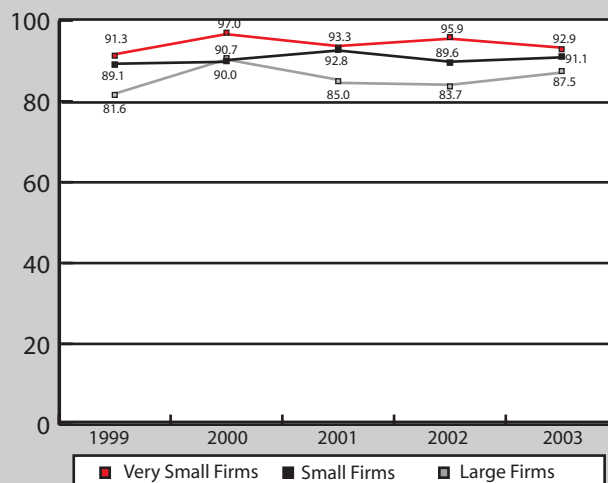
Are Employees Enrolling?

A greater percentage of full-time employees at very small firms chose to enroll in the health insurance benefit when offered compared to full-time employees at small firms (76.4% compared to 69.1% in 2003) (Figure 5). However, the percentage of full-time employees at large

firms who chose to enroll in coverage when it was offered was greater than at all small firms (82.5% in 2003). This held true for most of the years from 1999 to 2002 as well. Firms of all sizes saw a decline in the health insurance enrollment rate, but this decline varied by firm size. Enrollment at small firms declined the most, by 13.5 percentage points from 1999 to 2003, followed by a 7.1 percentage point decline for very small firms, and a 4.4 percentage point decline for large firms. This may be a reaction to increases in cost of coverage illustrated later in this Brief.

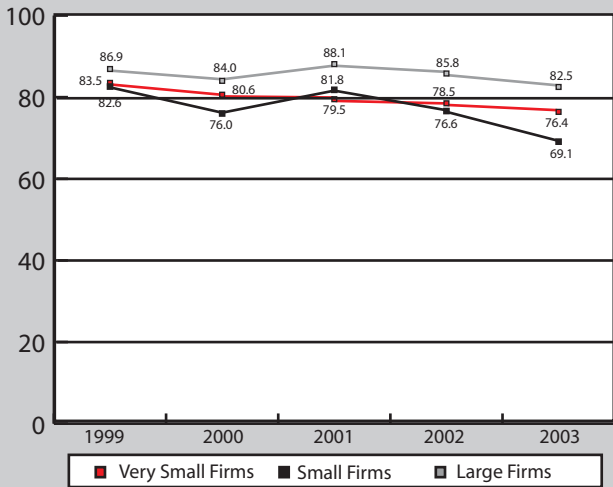
The average group size (number of enrollees) in the very small group market fluctuated and increased slightly from 1999 to 2003 (3.1 enrollees per firm in 1999 and 3.7 in 2003), while the average group size among small firms fluctuated slightly but overall held steady over the same period of time (Figure 6). The average number of employees working for firms that offered health insurance coverage increased for both small and very small firms between 1999 and 2003 (from 4.4 in 1999 to 5.7 in 2003 for very small firms and from 8.1 in 1999 to 9.2 in 2003 for small firms). The increase in the average number of employees working at small and very small firms is related to the increase in the number of New Jerseyans employed by small and very small firms. However, the increase in average firm size has led to increases in average group size only for very small firms.

Figure 4: Percent of Full-Time Employees that Were Eligible to Enroll in the Health Insurance Benefit at Private Sector Establishments that Offered Coverage



Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 1999-2003 Medical Expenditure Panel Survey-Insurance Component.

Figure 5: Percent of Eligible Full-Time Employees who Enrolled in the Health Insurance Benefit at Private Sector Establishments



Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 1999-2003 Medical Expenditure Panel Survey-Insurance Component.

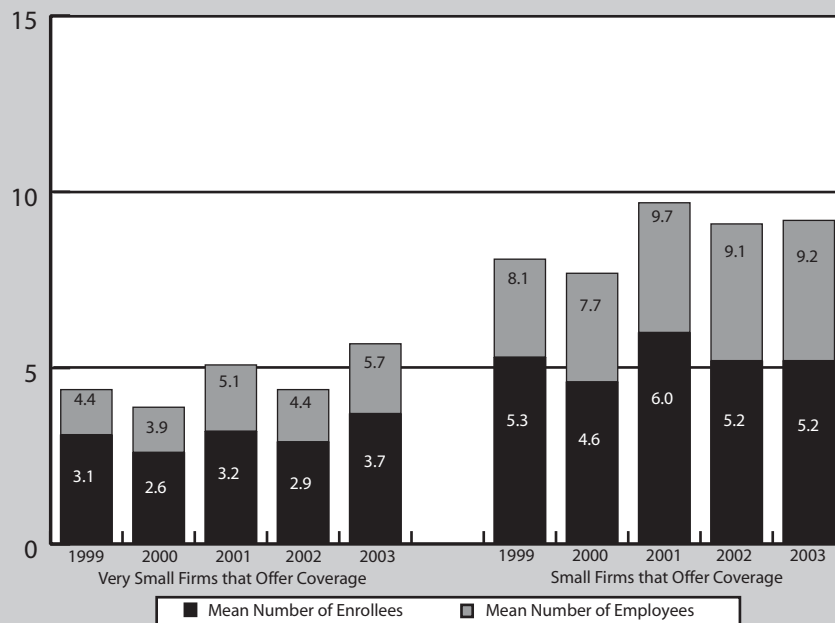
In general, because small and very small firms had low offer rates and somewhat low enrollment rates among eligible employees, the percentage of all full-time employees enrolled in health insurance coverage at small and very small firms was low compared to enrollment among all full-time employees at large

firms from 1999 to 2003 (Figure 7). In 2003, 70.3% of full-time employees at large firms were enrolled in the health insurance benefit compared to 48.4% of full-time employees at small firms and 49.9% at very small firms.

Trends in Health Insurance Costs for Employers and Employees

Very small firms were more likely than firms of other sizes to offer at least one single or family health insurance option that required no employee contribution to the premium (Figures 8 & 9). In fact, large firms were much less likely than small and very small firms to offer such an option. For single coverage, only 12.4% of large firms offered a health insurance option that required no employee contribution to the premium, while 65.9% of small firms and 71.3% of very small firms offered such an option in 2003. For family coverage, only 4.3% of large firms offered a health insurance option that required no employee contribution to the premium, while 40.5% of small firms and 40.9% of very small firms offered such an option in 2003.

Figure 6: Average Number of Employees and Enrollees (Group Size) at Private Sector Establishments that Offered Coverage



Source: Calculated by the Rutgers Center for State Health Policy using data from the Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 1999-2003 Medical Expenditure Panel Survey-Insurance Component.

For family coverage, only 4.3% of large firms offered a health insurance option that required no employee contribution to the premium, while 40.5% of small firms and 40.9% of very small firms offered such an option in 2003.

From 1999 to 2003, the percentage of firms that offered a single coverage option that required no premium contribution from the employee fluctuated and declined slightly for all firm sizes (Figure 8). However, the percentage of firms that offered a family coverage option that required no premium contribution from the employee declined significantly (a 14.3 percentage point decline for very small firms, a 12.5 percentage point decline for small firms, and a 3.6 percentage point decline for large firms) (Figure 9). The cost of health insurance coverage increased dramatically during this time, as illustrated below. As a result, firms may have chosen to increase employee cost sharing for family coverage, especially in small and very small firms, where there is less ability for the firm to absorb these increases.

Average total premiums for single and family coverage increased from 1999 to 2003 for all firms (Figures 10 & 11). However, small firms continued to pay premiums that were greater than those of large firms for both single and family coverage, though this gap

Figure 7: Percent of Full-Time Employees at Private Sector Establishments that Enrolled in the Health Insurance Benefit

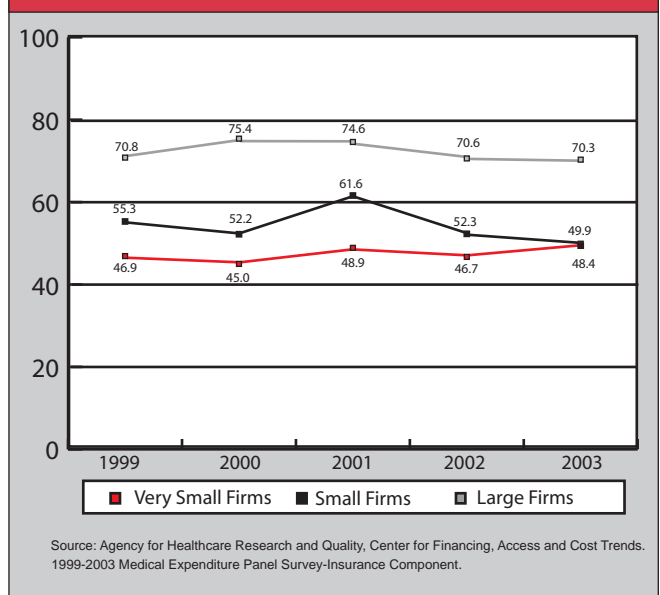
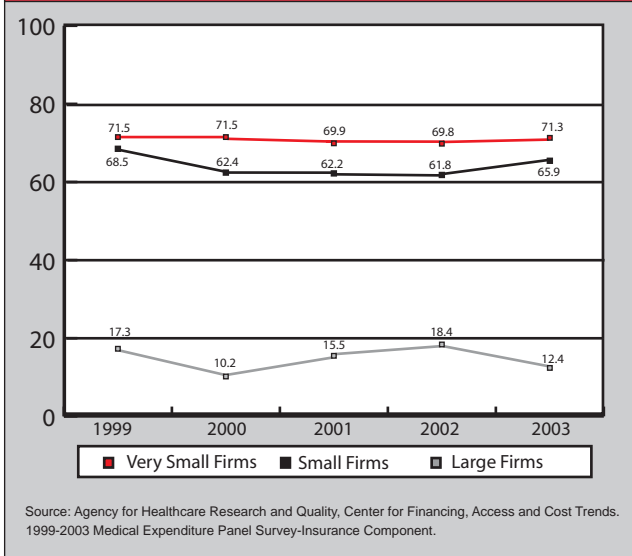


Figure 8: Percent of Private Sector Establishments that Offered at Least One Single Coverage Option that Required No Employee Premium Contribution



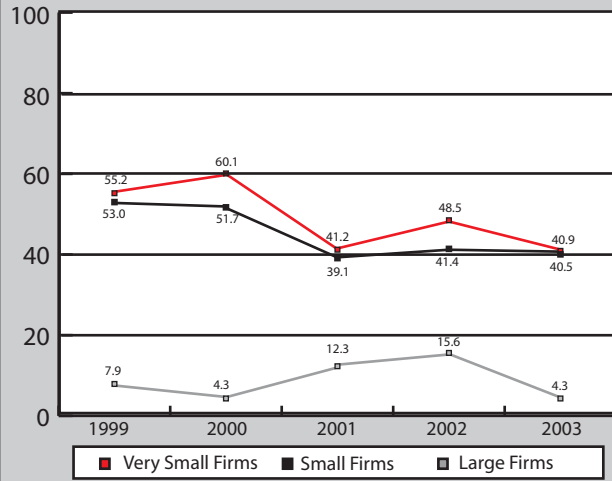
in premiums paid was much greater for family coverage; i.e., nearly \$1,000 more in 2003.

Employee premium contributions for single coverage increased for small and very small firms between 1999 and 2003 (from \$413 to \$703 for small firms and from \$380 to \$573 for very small firms) (Figure 10). However, employee contributions for single coverage at large firms increased only slightly during this period (\$532 in 1999 and \$576 in 2003). Similarly, employee premium contributions for family coverage increased by about \$1,100 for small and very small firm employees between 1999 and 2003, while employee contributions to family coverage at large firms increased about \$700 during the same period (Figure 11).

Conclusions & Policy Implications

New Jersey policymakers have long been concerned about health insurance coverage for full-time employees of small and, in particular, very small firms. Nearly one-third of New Jersey's full-time workforce is employed by small firms, and many contend that these workers are more vulnerable than employees of large firms to increases in health insurance costs. This Issue Brief illustrates that relationships between health insurance offering, employee eligibility for coverage, enrollment decisions, and cost for small and very small firms in New Jersey are complex.

Figure 9: Percent of Private Sector Establishments that Offered at Least One Family Coverage Option that Required No Employee Premium Contribution



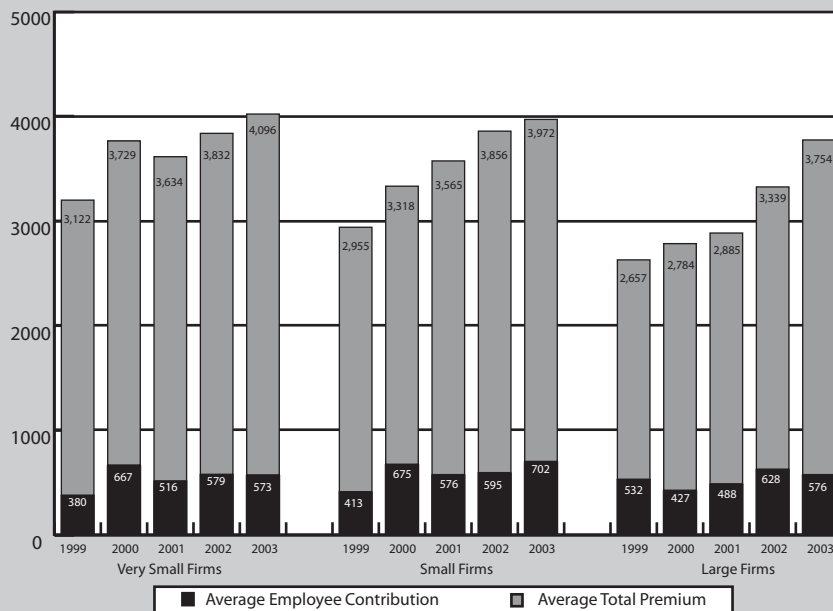
Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 1999-2003 Medical Expenditure Panel Survey-Insurance Component.

To summarize, small and, in particular, very small employers, were far less likely to offer health insurance coverage than large employers, possibly because the escalating costs of health insurance are too great for small firms to absorb or because small employers prefer to provide wage income than administer benefits. Some small employers in certain industries do not find that employees

expect them to provide this benefit, while others report that employees are already insured through a spouse or public health insurance program.³ However, compared with large employers, small firms that offered coverage, and, in particular, very small firms, made it more accessible for full-time employees, with shorter average waiting periods and higher eligibility rates, and were much more likely to offer a health insurance option that required no premium contribution from the employee. One possible explanation for the accessibility of health insurance at small firms that offer coverage is that employers in smaller firms, especially family businesses, may be more sensitive to employee needs for coverage because they work more closely with employees. Another explanation might be that employees in the small group market are encouraged to enroll in the health insurance benefit in order to maintain a high participation rate.

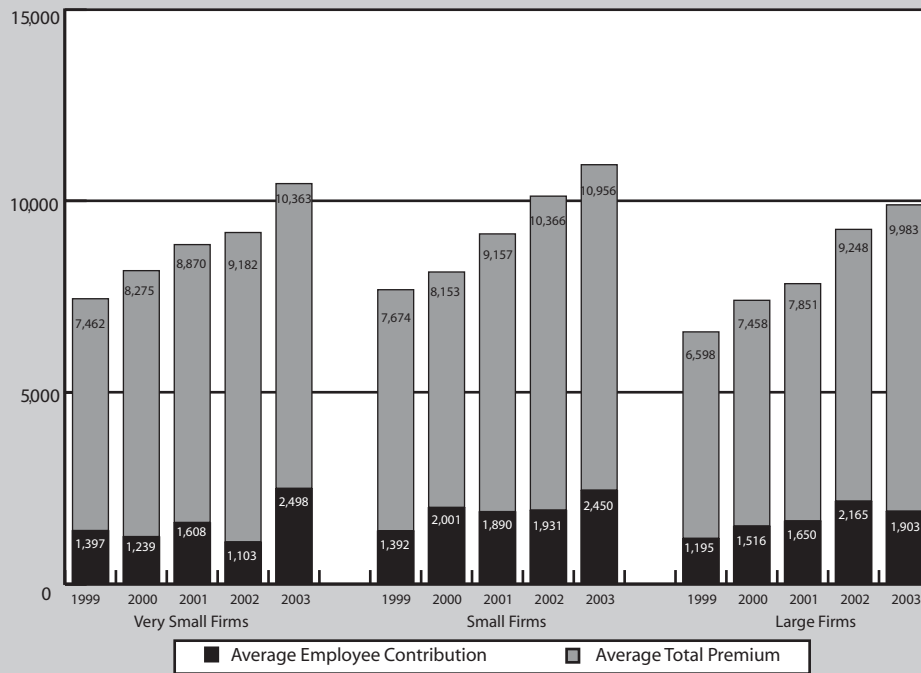
Still, average enrollment of eligible full-time employees at small and very small firms was low compared to that of large firms, perhaps because the employee's contribution premium, for family coverage especially, was higher than at large firms. Also small firms may be more

Figure 10: Average Total Premiums Paid by Private Sector Establishments and Average Employee Contributions for Single Coverage (In Dollars)



Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 1999-2003 Medical Expenditure Panel Survey-Insurance Component.

Figure 11. Average Total Premiums Paid by Private Sector Establishments and Average Employee Contributions for Family Coverage (In Dollars)



Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 1999-2003 Medical Expenditure Panel Survey-Insurance Component.

likely than large firms to offer employees the option of a wage increase in lieu of enrollment in the health insurance benefit. Eligible employees in smaller firms may choose the wage increase over health insurance benefits, whereas employees in large firms may not be offered such an option. Moreover, the data presented in this Issue Brief do not allow for comparisons in the benefit design of offered health insurance plans. It may be that larger employers are able to offer richer benefit packages than smaller employers, making enrollment in the health insurance benefit more appealing for employees of large firms than it is for employees of small firms. Additional data would be needed to further understand employee decision-making about whether to enroll in an offered health insurance benefit, and why this decision might differ for employees of small firms compared to those of large firms.

Finally, this Issue Brief shows that trends between small and very small firms followed a similar pattern, but were often more pronounced for employees of very small firms than small firms. Very small firms were even less likely than small firms to offer health insurance coverage. However, among firms that did offer coverage, employees in very small firms were more likely to be

eligible for that coverage than employees in small firms and to experience a shorter average waiting period. Also, employees of very small firms were more likely than those of small firms to be offered a single or family coverage option that required no premium contribution from the employee. In other respects, the experiences of very small-firm employees are similar to the employees of small firms; both have lower enrollment rates among employees, on average, and both face similarly high average employee contributions for coverage.

Policymakers trying to increase health insurance coverage in the small group market should focus on two areas, increasing offer rates among employers and increasing enrollment of employees. Past research has shown that New Jersey employers who do not offer health insurance coverage have never offered coverage and may be committed to not offering coverage in the future for a variety of reasons.³ However, this Issue Brief shows that some very small and small employers are offering employees generous health insurance benefits. This dichotomy in coverage decisions among small and very small employers may be associated with differences in employee wages across businesses. Low wage

employees of small businesses are much less likely than higher wage employees of small businesses to work for an employer that offers health insurance coverage (36% compared to 67% in the US)⁶ and small businesses with predominantly low-wage workers are much less likely to offer health insurance coverage than those with fewer low-wage workers (40% compared to 68% in NJ).¹² Policy initiatives to increase health insurance offer rates among small firms might focus on businesses with predominantly low-wage employees.

Furthermore, the data presented in this Issue Brief show that from 1999 to 2003 fewer employees in the small and very small group market have chosen to enroll in an offered health insurance benefit. This decline corresponds to increases in required premium contributions for these employees (and probably increases in cost sharing requirements). As such, policymakers should consider addressing the increasing costs of health insurance in order to entice higher rates of employee enrollment in small and very small firms.

Endnotes

1. U.S. Census Bureau, Current Population Survey, 1988 to 2005 Annual Social and Economic Supplements. Accessed on 2-23-06 at <http://www.census.gov/hhes/www/hlthins/historic/hihist4.html>.
2. Agency for Healthcare Research and Quality. Percent of private-sector full-time employees eligible for health insurance at establishments that offer health insurance by firm size and State: United States, 2003 (Table II.B.3.b.1). Published July 2005. <http://www.meps.ahrq.gov/MEPSDATA/ic/2003/Tables_II/IIIB3B1.pdf>

3. Belloff D and Fox K. "Maximizing Enrollment in the Premium Support Program: Results from Employer Interviews". Rutgers Center for State Health Policy, September 2004. <http://www.cshp.rutgers.edu>.
4. U.S. Census Bureau, Current Population Survey, 1988 to 2005 Annual Social and Economic Supplements. Accessed on 2-23-06 at <http://www.census.gov/hhes/www/hlthins/historic/hihist4.html>.
5. Hoffman C, Carbaugh A, Moore, HY, and Cook A. "Health Insurance Coverage in America: 2004 Data Update". Kaiser Family Foundation, Kaiser Commission on Medicaid and the Uninsured, November 2005. <http://www.kff.org>.
6. Collins SR, Schoen C, Colasanto D, and Downey DA. "On the Edge: Low-Wage Workers and Their Health Insurance Coverage: Findings from the Commonwealth Fund 2001 Health Insurance Survey". The Commonwealth Fund Task Force on the Future of Health Insurance, Issue Brief April 2003. <http://www.cmf.org>.
7. An establishment is defined by AHRQ as a particular workplace or physical location where business is conducted or services or industrial operations are performed.
8. A firm is defined by AHRQ as a business entity consisting of one or more business establishments under common ownership or control. A firm represents the entire organization, including the company headquarters and all divisions, subsidiaries and branches. A firm may consist of a single-location establishment or multiple establishments. In the case of a single-location firm, the firm and establishment are identical.
9. Agency for Healthcare Research and Quality. Number of private-sector establishments by firm size and selected characteristics: United States, 2003 (Table II.A.1.a). Published July 2005. <http://www.meps.ahrq.gov/MEPSDATA/ic/2003/Tables_II/TIIA1A.pdf>
10. Agency for Healthcare Research and Quality. Percent of number of full-time employees by firm size and state; United States, 2003 (Table II.B.3.a). Published July 2005. <http://www.meps.ahrq.gov/MEPSDATA/ic/2003/Tables_II/IIIB3A.pdf>
11. Agency for Healthcare Research and Quality. Medical Expenditure Panel Survey – Insurance Component: United States, 1999-2003. <http://www.meps.ahrq.gov/Data_Pub/IC_TOC.htm>
12. Agency for Healthcare Research and Quality. Percent of private-sector establishments that offer health insurance by proportion of employees that are full-time and low-wage by State: United States, 2003 (Table VII.A.2). Published July 2005. <http://www.meps.ahrq.gov/MEPSDATA/ic/2003/Tables_VII/TVIIA2.pdf>



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Acknowledgements:

A grant from the Robert Wood Johnson Foundation supported the analysis and publication of this *Issue Brief*.

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