



Policy Brief

The Challenges of Health Insurance for Small Businesses in Texas: Profiles and Trends

Executive Summary

Employers are the main source of health insurance coverage for most Texans under 65, but small businesses face significant challenges in providing health insurance for employees. Businesses with fewer than 50 employees account for the majority – 72% – of Texas businesses. Twenty-four percent of Texas private sector employees, accounting for about 2 million employed Texans, worked for small businesses in 2005. However, of Texas small business employees, only half (50%) worked for companies that offered health insurance in 2005, as opposed to 96% of those that worked for large companies. One topic likely to be considered in the upcoming Texas Legislative Session is how to make insurance more affordable for small businesses and their workers. This issue brief provides new information from the Medical Expenditure Panel Survey about some of the challenges facing small businesses in providing health insurance. Highlights include:

Fewer Small Businesses Employees in Texas than Nationally Are Offered Health Insurance: As compared to the 50% of Texas small business employees who worked in establishments where health insurance was offered, 62% of small business employees nationally worked where health insurance was offered in 2005.

Texas Families Pay a Higher Share of Premiums in Small Businesses: Overall, the 2005 cost of small business health insurance premiums, for both single and family coverage, was comparable between Texas and the U.S. However, for family coverage, small firm employees in Texas paid a greater percentage of total premium costs than Texans working for large employers and the average U.S. employee working for a small company. On average, a small firm employee in Texas that chose family coverage in 2005 paid \$1,602 more than an employee working for a large company in Texas purchasing family of coverage.

Texans Pay Higher Deductibles: Eighty-nine percent of small business employees in Texas were enrolled in a health plan that had a deductible vs. 66% nationally. In addition, Texas small firm employees with both single and family coverage paid a significantly higher deductible than their national counterparts: \$1,216 in Texas vs. \$929 nationally for single coverage and \$2,465 in Texas, vs. \$1,899 nationally for family coverage.

Texans Working for Small Businesses Pay More Out-of-Pocket: Adding employees' premium contributions and deductibles, Texas employees with single coverage paid 5% more, on average, than those nationally; Texas employees choosing family coverage paid almost 40% more.

Access to Health Insurance in Texas Remains Steady: Though consistently lower than U.S. offer rates, the proportion of Texas employees in small businesses that offered coverage did not significantly decline from 2001 to 2005.

Premiums for Small Business Health Insurance are Rising: Both single and family insurance premiums in Texas increased from 2001 to 2005 – the average annual growth rates of 4% for single and 6% for family coverage were similar to national average annual growth rates but greater in both cases than the 3% increase in average annual wage growth over this same time period.

Texas Health Insurance Offer Rates for Small Businesses are Relatively Low: Five out of 8 Texas industries (e.g., mining and manufacturing, construction) had health insurance offer rates significantly lower than national offer rates for those sectors.

Similarities Across Texas: No significant differences were seen in either access to health insurance or premiums between Dallas, Houston, San Antonio and the remainder of the State.

Background

Employers are Main Source of Health Insurance: Most Texans under age 65 receive health insurance coverage from their employer. According to data from the 2005 Medical Expenditure Panel Survey, 50% of Texas' 404,000 private sector establishments offered health insurance to employees. Approximately 6.9 million Texans worked in private sector establishments of all sizes where health insurance was offered by the employer in 2005. Of those employees who worked where health insurance was offered, approximately 4.2 million (61%) chose to enroll. Nationally, 56% of all private sector employers offered health insurance in 2005. 98 million Americans worked in private establishments where health insurance was offered; about 61 million (62%) chose to enroll.

Challenges Facing Small Businesses¹: Nationwide and in Texas, small businesses face greater challenges in offering health insurance than do large businesses. Despite recent economic growth and low unemployment, already high health care costs continue to rise, making health insurance increasingly unaffordable for both employers and employees. Few small employers have the resources to shop for and compare multiple health plan packages, nor do they have the expertise or leverage to negotiate with large insurance companies. Health benefit costs are typically higher for small businesses because there are fewer employees across which to spread risk and administrative costs. Additionally, the cost of one illness or injury must be shared across a small number of workers.

Public Policy for Small Group Coverage²: In Texas, as in the nation, there is no requirement that employers provide health insurance to their employees. Employers that do choose to provide health insurance are not required to contribute towards plan premiums, although their contributions result in tax breaks as laws allow for employers' premium payments for employer-sponsored health insurance to be exempt from federal income and payroll taxes.

Three sets of laws govern coverage for small businesses. First, if a company self-funds its health insurance, the federal Employee Retirement Act of 1974 (ERISA) governs its health plans. According to data from the 2005 MEPS-IC, only 11% of Texas private employers that employed fewer than 50 employees were self-funded.

Second, the Health Insurance Portability and Accountability Act (HIPAA) creates minimum federal standards for health insurance across the nation. Though HIPAA does not regulate the rates that can be charged, it does require state licensed health insurers to make their small group products available to all small employers regardless of claims experience or employee health status. In addition, HIPAA requires that insurers accept individuals that are transitioning from group to individual coverage that meet a host of strict criteria, including having exhausted their group continuation coverage (known as "COBRA" coverage), being ineligible for any other coverage and having continuous coverage in the group market for at least 18 months.

Third, Texas, like other states, regulates commercial health insurance sold to small groups. For health insurance purposes, a business is considered a small group if it has between 2-50 full-time employees. Full-time employees are defined as those who typically work at least 30 hours per week and are not seasonal or contract workers. A health insurance carrier in Texas may require that at least 75% of a small employer's eligible employees elect to participate as a condition of offering a plan.

Under Texas state law, a requirement of small employer status is that coverage must be made available to all qualifying full-time employees and their spouses and dependents under the same terms and conditions. Texas has limited rate regulation for small group health insurance. It does set a 15% cap on annual rate increases due to employees' health status for small group plans. In addition, through a rate band approach, Texas allows for variation within limits in premiums among types of small businesses based on factors such as group size, industry, and workers' health.

Texas law provides special provisions for plans offered to small businesses, including a provision that some state-mandated benefits that must be included in plans offered by large employers do not have to be included in small group plans. Any health insurance plan that discontinues a small employer plan must automatically accept the group into any other employer plan that they offer, regardless of any existing enrollment requirements.

Analysis in this Issue Brief

This issue brief offers new analysis of health insurance for small businesses in Texas, looking at access to coverage, participation, costs, and trends.

Data in this issue brief are from the Insurance Component of the Medical Expenditure Panel Survey (MEPS-IC). This survey is conducted annually with employers to collect data on the number and types of private health insurance plans offered, benefits associated with these plans, premiums, contributions by employers and employees, eligibility requirements and employer characteristics. Because of employer confidentiality concerns, only summaries of the MEPS-IC data are available for public use. Some of the analysis in this issue brief is based on MEPS' publically available tables. Additionally, the Agency for Healthcare Research and Quality (AHRQ), the federal agency that oversees MEPS-IC, provided additional, Texas-specific, data analysis.

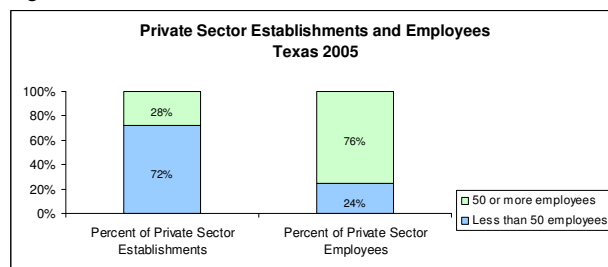
This issue brief specifically addresses health insurance coverage provided by private-sector Texas employers with between 2 and 50 employees, known as the small employer market. MEPS-IC data are collected at the establishment level, meaning a particular workplace or physical location where business is conducted or industrial operations are performed. This is different from data collected at the firm level, which may include one or more establishments under common ownership or control. Therefore, throughout this brief, reference to employer, business or company indicates reference to an establishment, by MEPS-IC definition.

Statistical tests to evaluate the significance of differences between Texas and U.S. data were performed. Areas in which Texas differs significantly from the national average at the 0.05 level are noted in the charts and tables below.

Small Business Health Insurance Access and Enrollment

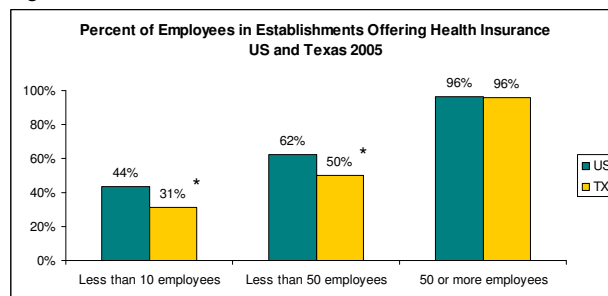
In 2005, the majority (72%) of Texas establishments employed less than 50 employees and were therefore considered small businesses (Figure 1). These companies employed 24% of private sector employees, accounting for about 2 million employed Texans. Though large companies accounted for only 28% of private sector establishments in Texas in 2005, they employed 76% - or about 6 million - of Texas employees. Very small businesses, with less than 10 employees, employed about 800,000, or 10%, of Texas employees (data not shown).

Figure 1



Source: MEPS IC-Component 2005

Figure 2



Source: MEPS IC-Component 2005

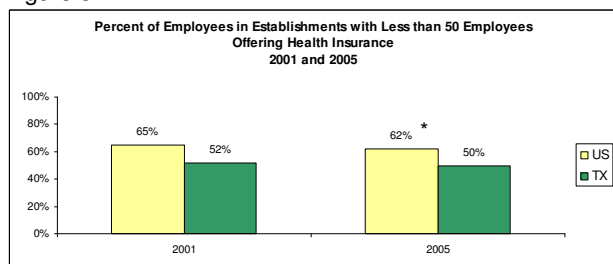
* Difference between Texas and U.S. is statistically significant (at the 95% confidence level).

Only half (50%) of Texas employees worked for small businesses that offered them health insurance in 2005, as opposed to 96% of those working for large companies (Figure 2). In very small companies with less than 10 employees, less than a third (31%) of Texas employees were offered health insurance.

While large companies in Texas offered health insurance to their employees at national average rates, Texas small businesses were significantly less likely to provide health insurance coverage for their

employees. As compared to the 50% of Texas small business employees who worked in establishments where health insurance was offered, 62% of small business employees nationally worked where health insurance was offered in 2005. (Figure 3)

Figure 3



Source: MEPS IC-Component 2001 and 2005

* Difference between 2001 and 2005 data is statistically significant (at the 95% confidence level).

Although Texas small businesses offer health insurance to their employees at consistently lower rates than national averages, there were not significant differences in health insurance offer rates from 2001 to 2005. From 2001 to 2005, offer rates to Texas employees working for establishments with less than 50 employees decreased about 5 percent, from 52% to 50%, which is not a statistically significant difference. Over the same time period, Texas establishments employing more than 50 people offered health insurance at rates comparable to national averages.

Cost: Premiums, Deductibles and Out-of-Pocket Costs

Premiums

Premium costs are a key determinant of whether an employer chooses to offer health insurance and of whether employees choose to enroll. In 2005, single coverage for a Texas employee cost, on average, between \$4,270 and \$4,065, depending on whether the employee worked for a small or large establishment (Figure 4). Family coverage cost, on average, between \$10,970 and \$11,613, again depending on whether the employee worked for a small or large establishment. Except for family coverage premiums for employees working for large companies, which were higher, Texas premiums for single and family coverage were comparable to U.S. averages in 2005.

Employees are typically responsible for contributing to premium costs. While small group employees working in Texas that chose single coverage paid a smaller percentage of the premium costs (10%) than either Texas employees working for large companies and choosing single coverage (16%) and small business employees choosing single coverage nationally (16%), Texas small business employees choosing family coverage paid a much greater percentage of the total premium costs (39%) than Texas employees working for large employers and choosing family coverage (23%) and small firm employees choosing family coverage nationally (28%) (Figure 4). On average, a small business employee in Texas that chose family coverage in 2005 paid \$1,602 more than an employee working for a large company in Texas. That same Texas small business employee paid \$1,306 more in 2005 than the average employee of a small business nationally.

Interestingly, small businesses in Texas saw smaller average annual growth rates in premiums for single and family coverage from 2001 to 2005 than their large business counterparts (Figure 5). In companies with less than 50 employees, single coverage premiums grew 4% on an average annual basis, while in companies with 50 or more employees, the average annual growth rate was 7%. A similar situation was seen with family coverage premiums, where the average annual growth rate for small businesses between 2001 and 2005 was 6% vs. a 9% average annual growth rate for large establishments.³

At 4%, the average annual growth rate for single coverage premiums for Texas' small business was less than the national average of 6% (Figure 5), but this rate was still twice as high as the approximately 2% average annual growth rate in the Consumer Price Index (CPI) for All Urban Consumers for the same time period.⁴ Family coverage premiums in Texas and the U.S. both grew at an average annual rate of 6% between 2001 and 2005 (Figure 5), which was higher than the 4% average annual growth rate in the medical care component of the Consumer Price Index over the same time period.⁵ Premium rate increases for both single and family coverage in Texas were greater than the 3% average annual increase in wage growth over the same time period.⁶

Figure 4

**Premiums by Coverage Type
2005**

	TX		U.S.	
	Less than 50 Employees	50 or More Employees	Less than 50 Employees	50 or More Employees
Single Coverage				
Average Total Single Premium	\$4,270	\$4,065	\$4,121	\$3,951
Average Total Employee Contribution (% of Total Premium Contributed)	\$425 * 10%	\$667 * 16%	\$641 16%	\$748 19%
Average Total Employer Contribution (% of Total Premium Contributed)	\$3,845 90%	\$3,398 84%	\$3,480 84%	\$3,203 81%
Family Coverage				
Average Total Family Premium	\$10,970	\$11,613 *	\$10,632	\$10,746
Average Total Employee Contribution (% of Total Premium Contributed)	\$4,236 * 39%	\$2,634 23%	\$2,930 28%	\$2,521 24%
Average Total Employer Contribution (% of Total Premium Contributed)	\$6,734 61%	\$8,979 77%	\$7,702 72%	\$8,225 77%

Source: MEPS IC-Component 2005

Note: Numbers may not add up due to rounding.

* Difference between Texas and U.S. is statistically significant (at the 95% confidence level).

Figure 5

**Premium Rates of Change by Coverage Type
2001 and 2005 (in 2005 dollars)**

	TX			U.S.		
	2001	2005	Average Annual Growth Rate	2001	2005	Average Annual Growth Rate
Single Coverage						
Average Total Premium per Employee in Establishments with Less than 50 Employees	\$3,638	\$4,270	4%	\$3,342	\$4,121	6%
Average Total Premium per Employee in Establishments with 50 or More Employees	\$3,098	\$4,065	7%	\$3,137	\$3,951	7%
Family Coverage						
Average Total Premium per Employee in Establishments with Less than 50 Employees	\$8,793	\$10,970	6%	\$8,496	\$10,632	6%
Average Total Premium per Employee in Establishments with 50 or More Employees	\$8,186	\$11,613	9%	\$8,241	\$10,746	7%

Source: MEPS IC-Component 2001 and 2005

Note: All costs have been converted to 2005 dollars using the Consumer Price Index – All Urban Consumers (CPI-U)

Deductibles

Deductibles are an important indicator of the total cost borne by an employee for his or her health care coverage. Small firm employees in Texas had a much higher likelihood of being in a health care plan with a deductible than the average U.S. employee working for a small company: 89% of employees working for small companies in Texas in 2005 had a deductible vs. 66% nationally (Figure 6). In addition, among employees enrolled in plans with a deductible, Texas small establishment employees with single or family coverage were responsible for a significantly higher deductible than their national counterparts: \$1,216 in Texas vs. \$929 nationally for single coverage and \$2,465 in Texas vs. \$1,899 nationally for family coverage.

Figure 6
Deductibles, by Firm Size and Coverage Type

	TX		U.S.	
	< 50 Employees	50+ Employees	< 50 Employees	50+ Employees
Percent of Employees in Plan with Deductible	89% *	75% *	66%	64%
Average Individual Deductible for Employees with Single Coverage in Plan with Deductible	\$1,216 *	\$731 *	\$929	\$566
Average Family Deductible for Employees with Family Coverage in Plan with Deductible	\$2,456 *	\$1,303 *	\$1,899	\$1,111

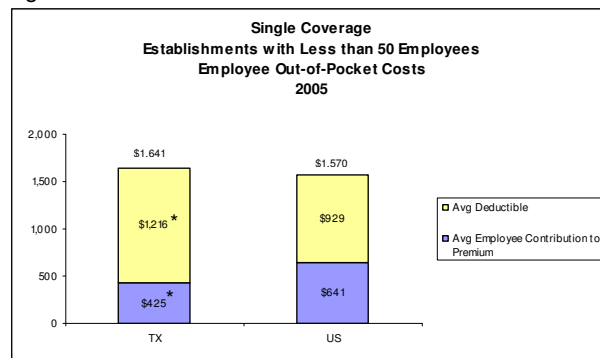
Source: MEPS IC-Component 2005

* Difference between Texas and U.S. is statistically significant (at the 95% confidence level).

Employee Out-of-Pocket Costs

When both average employee contribution to premium cost and average deductibles are taken into account, Texans working for small businesses pay more out of their pockets for their health care than their national counterparts.⁷ Employees working for small establishments in Texas that chose single coverage paid an average 5% more (\$1,641 vs. \$1,570) out of pocket than did employees working for small establishments nationally (Figure 7). Employees choosing family coverage in Texas paid almost 40% more – or almost \$1,900 – on average than small establishment employees that chose family coverage nationally (Figure 8).

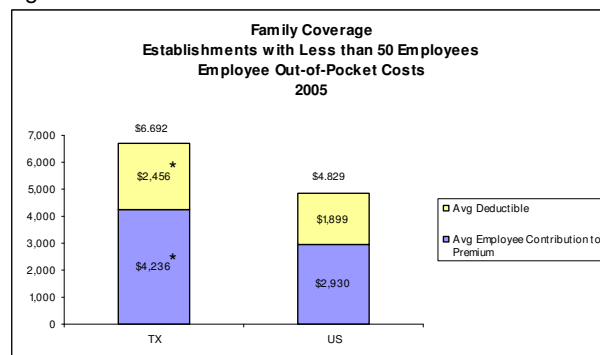
Figure 7



Source: MEPS IC-Component 2005

* Difference between Texas and U.S. is statistically significant (at the 95% confidence level).

Figure 8



Source: MEPS IC-Component 2005

* Difference between Texas and U.S. is statistically significant (at the 95% confidence level).

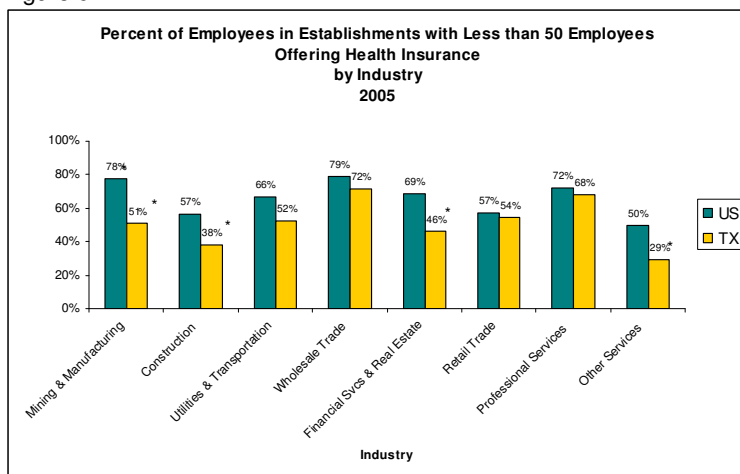
The Small Employer Market by Industry

MEPS-IC data are collected by the following sectors: Mining and Manufacturing, Construction (including Agriculture, Fish and Forestry⁸), Utilities and Transportation, Wholesale Trade, Financial Services and Real Estate, Retail Trade, Professional Services and Other Services.⁹

Small Business Health Insurance Access and Enrollment by Industry

As compared to U.S. averages per sector, five out of eight Texas industries had offer rates for small establishments significantly lower than national offer rates (Figure 9): Mining and Manufacturing (51% in Texas vs. 78% nationally); Construction (38% in Texas vs. 57% nationally); Financial Services and Real Estate (46% in Texas vs. 69% nationally); Professional Services (68% in Texas vs. 72% nationally); Other Services (29% in Texas vs. 50% nationally).

Figure 9



Source: Special data analysis conducted on MEPS-IC database by AHRQ.
 * Difference between Texas and U.S. is statistically significant (at the 95% confidence level).

Premiums by Industry

As compared to U.S. averages, Texas premiums for both single and family coverage were comparable across the majority of sectors (Figures 10 and 11). The only significant differences were seen in lower single coverage premiums for the Utilities and Transportation sector in Texas (Figure 10) and lower family coverage premiums in the Utilities and Transportation and Financial Services and Real Estate sectors in Texas (Figure 11).

For the most part, the contributions made by Texas employees towards premium costs were consistent with national averages by sector. However, Texas employees choosing single coverage in the Mining and Manufacturing, Utilities and Transportation and Retail Trade sectors paid significantly lower contributions than their national cohorts in these sectors (Figure 10). Employees choosing family coverage in the Utilities and Transportation and Other Services sectors paid a significantly greater portion of premiums than their national counterparts (Figure 11).

Figure 10

Single Coverage Premiums By Industry Establishments with Less than 50 Employees 2005

Industry	TX		U.S.	
	Average Total Single Premium per Employee	Employee Contribution to Single Premium (% of Total Premium Contributed)	Average Total Single Premium per Employee	Employee Contribution to Single Premium (% of Total Premium Contributed)
Mining and Manufacturing	\$4,292	\$231 * (5%)	\$3,762	\$682 (18%)
Construction (Includes Agriculture, Fish and Forestry)	\$3,454	\$305 (9%)	\$3,799	\$233 (6%)
Utilities and Transportation	\$3,335 *	\$446 * (13%)	\$4,013	\$997 (25%)
Wholesale Trade	\$4,301	\$668 (16%)	\$4,132	\$554 (13%)
Financial Services and Real Estate	\$5,060	\$577 (11%)	\$4,570	\$539 (12%)
Retail Trade	\$4,739	\$295 * (6%)	\$4,080	\$801 (20%)
Professional Services	\$4,270	\$411 (10%)	\$4,277	\$560 (13%)
Other Services	\$4,334	\$472 (11%)	\$4,162	\$718 (17%)
Total	\$4270	\$425 (10%)	\$4121	\$641 (16%)

Source: Special data analysis conducted on MEPS-IC database by AHRQ.
 * Difference between Texas and U.S. is statistically significant (at the 95% confidence level).

Figure 11

**Family Coverage Premiums By Industry
Establishments with Less than 50 Employees 2005**

Industry	TX		U.S.	
	Average Total Family Premium per Employee	Employee Contribution to Single Premium (% of Total Premium Contributed)	Average Total Family Premium per Employee	Employee Contribution to Single Premium (% of Total Premium Contributed)
Mining and Manufacturing	\$10,474	\$3,837 (37%)	\$10,176	\$3,016 (30%)
Construction (Includes Agriculture, Fish and Forestry)	\$10,081	\$3,397 (34%)	\$9,749	\$2,799 (29%)
Utilities and Transportation	\$9,822 *	\$6,797 * (69%)	\$12,201	\$4,276 (35%)
Wholesale Trade	\$11,832	\$2,544 (22%)	\$10,572	\$2,556 (24%)
Financial Services and Real Estate	\$9,457 *	\$4,222 (45%)	\$11,665	\$2,459 (21%)
Retail Trade	\$10,351	\$3,684 (36%)	\$10,209	\$3,098 (30%)
Professional Services	\$12,240	\$3,869 (32%)	\$11,228	\$3,345 (30%)
Other Services	\$10,139	\$6,963 * (69%)	\$10,009	\$2,735 (27%)
Total	\$10,970	\$4,236* (39%)	\$10,632	\$2,930 (28%)

Source: Special data analysis conducted on MEPS-IC database by AHRQ.
* Difference between Texas and U.S. is statistically significant (at the 95% confidence level).

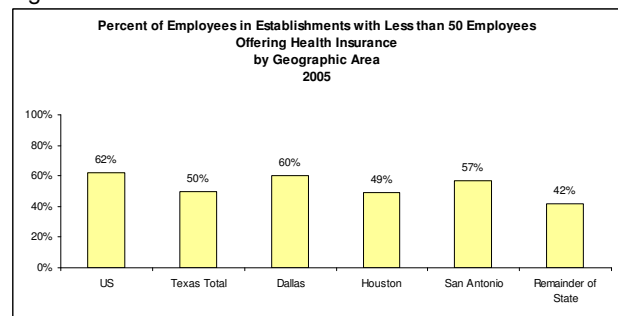
The Small Employer Market by Geographic Area

Small establishment data for the following Texas geographic areas was evaluated to determine if there were geographic differences in access and enrollment or cost: Dallas, Houston, San Antonio, All Other Areas.

Small Business Health Insurance Access by Geographic Area

When compared to statistics for the State of Texas, there were no significant differences in health insurance offer rates by geographic area (Figure 12).

Figure 12



Source: Special data analysis conducted on MEPS-IC database by AHRQ.
* Difference between Texas and U.S. is statistically significant (at the 95% confidence level).

Premiums by Geographic Area

Average single and family premiums for small businesses were relatively consistent across the State of Texas, with no significant differences seen in the geographic areas evaluated. The same holds true for employee contributions to both single and family premiums. (Figure 13)

Figure 13

Premiums By Geographic Area Establishments with Less than 50 Employees 2005

	Texas Total	Dallas	Houston	San Antonio	Remainder of State
Single Coverage					
Average Total Single Premium	\$4,270	\$3,983	\$4,860	\$3,304	\$4,425
Average Total Employee Contribution (% of Total Premium Contributed)	\$425 10%	\$459 12%	\$471 10%	\$285 9%	\$401 9%
Average Total Employer Contribution (% of Total Premium Contributed)	\$3,845 90%	\$3,524 88%	\$4,389 90%	\$3,019 91%	\$4024 91%
Family Coverage					
Average Total Family Premium	\$10,970	\$10,659	\$10,464	\$11,641	\$11,443
Average Total Employee Contribution (% of Total Premium Contributed)	\$4,236 39%	\$4,865 46%	\$4,610 44%	\$2,520 22%	\$4,035 35%
Average Total Employer Contribution (% of Total Premium Contributed)	\$6,734 61%	\$5,794 54%	\$5,854 56%	\$9,121 78%	\$7408 65%

Source: Special data analysis conducted on MEPS-IC database by AHRQ.
* Difference between Texas and U.S. is statistically significant (at the 95% confidence level).

Conclusion

Clearly, Texas small businesses face significant financial challenges in providing health insurance coverage to their employees. On average, premium costs for small businesses in Texas are rising at a rate similar to rest of the country but these rate increases are often too great a financial burden for a small business to bear. Texas small business employees pay significantly more than their national counterparts, especially in terms of deductible and other out-of-pocket costs. It is unlikely that either employers or employees can continue on this trajectory. Thoughtful and substantive policy changes that take into account Texas' unique situation but that also take advantage of innovative health policy approaches being taken in states across the country should be seriously considered by Texas policy makers across the political spectrum.

Acknowledgements

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Thanks to the Agency for Healthcare Research and Quality for conducting a special analysis of the Medical Expenditure Panel Survey that allowed for the comparison of Texas statistics to national data.

- ¹ Health-Cost Crossroad: Why American Businesses Urgently Need to Fix the Health System, published by Better Health Care Together: <http://betterhealthcaretogether.org/Library/documents/BHCT%20Milwaukee%20Issue%20Brief%2004%2025%2008.pdf>
- ² Sources for this section: Texas Department of Insurance: <http://www.tdi.state.tx.us/pubs/consumer/cb005.html>; Code Red: The Critical Condition of Health in Texas, chapter entitled, State Regulation of Health Insurance: http://www.coderedtxas.org/files/Report_Chapter05.pdf
- ³ All costs have been converted to 2005 dollars using the Consumer Price Index- All Urban Consumers (CPU-U).
- ⁴ Bureau of Labor Statistics Web Site: <http://www.bls.gov/data/>
- ⁵ Cumulatively, the average total single premium for Texas employees of small businesses rose 17% (from \$3,638 to \$4,270) from 2001 to 2005. Over the same time period, the average price for family coverage rose 25% (from \$8,793 to \$10,970).
- ⁶ Kaiser Family Foundation, Employer Health Benefits 2007 Annual Survey: <http://www.kff.org/insurance/7672/sections/ehbs07-1-2.cfm>. Cumulatively, wages grew by 11% from the 2001 to 2005 time period.
- ⁷ Note that this analysis does not take into account copayments and other out-of-pocket costs for which employees may also be responsible.
- ⁸ State level estimates combine Agriculture, Fish and Forestry with Construction.
- ⁹ MEPS-IC classification by industry is based on the North American Industrial Classification System.