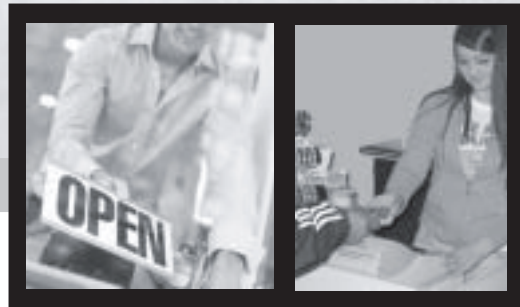


A Rural – Urban Analysis and Comparison of
Health Insurance Benefits Offered by Small Businesses



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The Center for Rural Pennsylvania is a bipartisan, bicameral legislative agency that serves as a resource for rural policy within the Pennsylvania General Assembly. It was created in 1987 under Act 16, the Rural Revitalization Act, to promote and sustain the vitality of Pennsylvania's rural and small communities.

Information contained in this report does not necessarily reflect the views of individual board members or the Center for Rural Pennsylvania. For more information, contact the Center for Rural Pennsylvania, 200 North Third St., Suite 600, Harrisburg, PA 17101, telephone (717) 787-9555, fax (717) 772-3587, email: info@ruralpa.org.

Executive Summary

Business-sponsored healthcare is a primary source of health coverage in the U.S. However, the rising costs of healthcare and monthly insurance premiums have resulted in dramatic changes in coverage, including higher co-payments or deductibles, reductions in benefits, higher employee contributions, or elimination of health insurance benefits altogether. These factors have stretched an already stressed healthcare environment.

One of the major challenges facing small businesses, which are those that employ less than 50 workers, is providing healthcare benefits for employees and their dependents.

This research, which was conducted in 2005, studied small businesses to determine if they offered health insurance benefits to employees, and if so, what types of coverage. The research also provided comparisons between rural and urban small businesses, and provided policy considerations to the Pennsylvania General Assembly.

The most important findings from the research suggest that small businesses with more employees and those that pay higher wages are most likely to provide health insurance benefits to full-time employees and their dependents. The findings also show that as the percentage of unskilled workers increases, businesses are less likely to provide health insurance benefits to full-time workers and their dependents.

What also emerged from the research was the enormity and complexity of this issue, one that is compounded by the interests and needs of various stakeholders, including healthcare providers, insurance companies, pharmaceutical and medical supply companies, businesses (both small and large, rural and urban), policy makers, and others.

The research project yielded policy considerations that, if acted upon by the Pennsylvania General Assembly, may help to alleviate the challenges that small businesses face in offering health insurance benefits to employees. The considerations are to: establish a quasi-governmental independent non-profit agency to act as an unbiased broker of insurance benefit plans designed specifically for small employers; provide funds and incentives for the state's small businesses, both rural and urban, to form cooperatives to provide purchasing power for small business health insurance; and consider putting a stronger focus on programs and policies that target the establishment of large small businesses throughout the state since large small businesses, regardless of geographic location, are the most likely to offer business-sponsored health insurance.

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Introduction

Business-sponsored healthcare is a primary source of health insurance coverage in the U.S. However, the rising costs of healthcare and monthly insurance premiums have changed business-sponsored coverage. These changes include higher co-payments, higher deductibles, reductions in benefits, higher employee contributions, and/or the elimination of health insurance benefits entirely. These changes have stretched an already stressed healthcare environment.

Research documents the differences in health insurance coverage between rural and urban areas. Businesses in rural areas are less likely to offer health insurance benefits and tend to provide less access to healthcare insurance benefits than businesses in urban areas throughout most of the U.S. (Comer and Mueller, 1995; Hartley, Quam, and Lurie, 1994; Larson and Hill, 2005). However, despite significant research on the differences in business-sponsored health insurance benefits available in rural and urban areas, studies that address and reveal the effect of business size on health insurance coverage in rural and urban areas were needed.

Overall, this research project set out to determine the number and types of health insurance benefits offered by small businesses and to evaluate the health insurance plans available to them. The research had six specific goals as follows: identify national trends in the ability of small businesses to offer health insurance benefits to employees and their dependents; develop a profile of small businesses and their ability to provide health insurance benefits, with a comparison between rural and urban businesses; profile the types of health insurance benefits offered by small businesses, with a comparison between rural and urban businesses, including similarities, differences and patterns in healthcare benefits offered; identify the barriers and challenges faced by small businesses in offering healthcare benefits to their employees; identify state-level legislation and regulations that impact the availability of healthcare insurance to individuals employed by small businesses; and provide policy considerations to the Pennsylvania General Assembly and other state-level stakeholders.



Methodology

This project entailed five activities: 1) a literature review; 2) a telephone survey of human resource representatives from rural and urban businesses; 3) key informant interviews with professional organizations to determine trends in insurance benefit options provided to individual and organizational members; 4) key informant interviews with selected health insurance providers that offer plans in rural and urban areas of the state; and 5) key informant interviews with state government agencies.

Much of the research analysis was based on data obtained from the telephone survey of individuals with human resource responsibilities in 713 Pennsylvania businesses that employ 50 or fewer persons. Of these, 462 were located in rural counties, as defined by the Center for Rural Pennsylvania (See box on Page 8 for rural definition). The remaining 249 businesses were located in the state's urban counties.

The businesses were chosen from a random sample of businesses from the June 2003 ES-202 data set. This quarterly data set is maintained by the Pennsylvania Department of Labor and Industry (L&I) and contains the name, address, contact information, NAICS (North American Industry Classification System) code, employment, and payroll total for more than 300,000 businesses covered by the state's unemployment compensation insurance requirements. All businesses in Pennsylvania that employ 50 or fewer workers, which represented about 94 percent of all businesses in the state, were selected and then classified as rural or urban, according to the county FIPS (Federal Information Processing Standards) codes. This resulted in about 78,640 businesses in rural areas and 222,297 businesses in urban areas. Businesses were then divided into the following small business sub-categories: one to 10 employees (these businesses employ 16 percent of all employees in rural counties); 11 to 25 employees (15 percent); and 26 to 50 employees (13 percent). The remaining businesses employed more than 50 workers. Businesses involved in all types of products or services were included in the study, including manufacturing, business, retail, service, and healthcare. No business categories were excluded from the study sample.¹

¹ For the survey, the researchers' screen was "less than 75 employees," since some businesses may have grown significantly since 2003 (the most recent data set for drawing the sample).

The state was also divided into four quadrants – northwest, northeast, southwest, and southeast – and the businesses included in the sample were assigned to one of the four quadrants based on county location. This division aided in comparing and contrasting businesses across regions.

The survey gathered basic background information about the business, the products or services it provided, and the length of time it had been in operation. The survey also asked the human resource representative to describe the current health insurance coverage, if any, provided to employees and their dependents and the monthly cost per employee to the business for providing health insurance benefits. The survey also asked for information about the type of plan offered by the business, such as traditional fee-for-service (indemnity) or managed care plan (HMO, etc), as well as the types of healthcare services offered, such as dental, mental health and prescription drug coverage. The financial responsibilities of the employees also were determined, including

the monthly amount of employee contribution to the cost of the healthcare plan, and co-payments at the time healthcare services are delivered. Human resource representatives also were asked how health insurance coverage benefits have changed over the past five years and how the cost to the business has changed during this time period. The respondents were asked about the role of offering health insurance benefits in attracting and retaining a qualified workforce.

To determine the extent to which the completed responses were representative of the state’s overall small business population, the researchers developed a breakdown of Pennsylvania’s small businesses by NAICS classification using 2004 data. In Figure 1, the first two columns of the table provide the number of businesses in the state with between five and 50 employees and each industry’s percentage of these businesses as a share of the total number of small businesses. For example, the table shows there were 22,986 retail businesses in the state, representing 18.4 percent of the total number of small

businesses. The final two columns describe the surveys’ respondents. Here, the table shows that 88 of the respondents (12.3 percent) were in the retail trade sector.

In general, the survey seems to represent Pennsylvania’s small businesses fairly well. Comparing the percent of respondents in the survey to the percent of total small businesses, the respondents, for the most part, are near their percentage of the state’s small businesses. There are, however, some notable exceptions. Manufacturing comprises 6.9 percent of the state’s small businesses but comprises 15.3 percent of respondents. A statistical test suggests that manufacturing may be over-represented. Conversely, retail trade comprises 18.4 percent of all small businesses, but comprises only 12.3 percent of respondents; though the difference is not statistically significant at the 10 percent level. Other notable differences include transportation and warehousing (2.5 percent of

Figure 1: Pennsylvania Small Businesses and Survey Respondents, by NAICS Industry, 2004

Industry	Pennsylvania Businesses		Survey Respondents	
	Businesses	Percent of Total	Businesses	Percent of Total
Agriculture, Forestry, Fishing and Hunting	864	0.7	7	1.0
Mining	478	0.4	4	0.8
Utilities	309	0.2	2	0.3
Construction	10,851	8.7	85	11.9
Manufacturing	8,591	6.9	109	15.3
Wholesale Trade	7,615	6.1	50	7.0
Retail Trade	22,986	18.4	88	12.3
Transportation and Warehousing	3,098	2.5	38	5.0
Information	1,872	1.5	11	1.5
Finance and Insurance	7,806	6.3	18	2.5
Real Estate and Rental and Leasing	3,418	2.7	8	1.1
Professional, Scientific, and Technical Services	8,334	6.7	45	6.3
Management of Companies and Enterprises	623	0.5	1	0.1
Administrative and Support and Waste Management and Remediation Services	5,554	4.5	33	4.6
Educational Services	1,516	1.2	12	1.7
Health Care and Social Assistance	15,809	12.7	85	11.9
Arts, Entertainment, and Recreation	2,078	1.7	13	1.8
Accommodation and Food Services	12,774	10.2	75	10.5
Other Services (except Public Administration)	10,090	8.1	31	4.3
TOTAL		100.0	713	100.0

Source: Pennsylvania Department of Labor and Industry

Figure 2: State Small Business and Survey Respondents, By Number of Employees

Size of business	Population		Survey	
	Number of businesses	Percent of total	Number of businesses	Percent of total
5-10 employees	64,964	52	170	24
11-25 employees	42,513	34	310	44
26-50 employees	17,189	14	230	32
TOTAL	124,666	100.0	710	100

Source: Pennsylvania Department of Labor and Industry

businesses; 5 percent of respondents) and finance and insurance (6.3 percent of businesses; 2.5 percent of respondents).

The apparent under-sampling of retail business and over-sampling of manufacturing is likely due to the fact that retail businesses, on average, tend to have fewer employees, and manufacturers, on average, tend to have more employees. Indeed, in Pennsylvania, small retail businesses average about 13.7 employees, whereas small manufacturing businesses average about 17.3 employees.

Key informant interviews were conducted with representatives of relevant government agencies, health plans, and professional associations that work directly with small businesses, have an effect on policy at the state level, and/or have a vested interest in assisting small businesses in offering health insurance to their employees. The purpose of the interviews was to determine trends in insurance benefit options provided to individual and organizational members and to obtain information on

the challenges faced by member organizations in offering health insurance benefits to employees.

The selection of government agencies was based on the researchers' knowledge of state-level agencies that have an impact on or are affected by health insurance plans offered to small businesses. Policy representatives from the Office of Health Care Reform, the Pennsylvania Insurance Department and the Pennsylvania Department of Health participated in the interviews.

Key informant interviews also were conducted with representatives from health insurance providers, including Blue Cross of Northeastern Pennsylvania, Inc., Geisinger Health Plan, HealthAmerica Pennsylvania, Inc. and UPMC Health Plan, Inc.

Representatives from the following professional associations were also interviewed: the County Commissioners Association of Pennsylvania, the Manufacturer's Association of Berks County, the Manufacturer's Association of Northwest Pennsylvania, the Manufacturer's Association of Southcentral Pennsylvania, the Pennsylvania Association of Non-Profit Homes for the Aging, the Pennsylvania Association of Realtors, the Pennsylvania Council of the National Federation of Independent Businesses, the Pennsylvania Farm Bureau, the Pennsylvania State Grange, the Pennsylvania Health Care Association, the Pennsylvania Homecare Association, the Pennsylvania Manufacturers Association, the Pennsylvania State Nurses Association, and SMC Business Councils.

The complete list of agencies and organizations that the researchers interviewed and attempted to interview are in Appendix 1 on Page 22.



Summary of Related Research

To develop the survey, the researchers first completed a literature review of related research. The following summary of related research describes the current issues in and variation of business-sponsored health insurance coverage between rural and urban areas and coverage differences between small and large businesses. It also examines previous research focused on the differences of business-sponsored health insurance coverage between rural and urban areas, and discusses and evaluates the importance of business size on the ability of businesses to offer health insurance benefits to their employees. Finally, state and national policies that may impact the ability of small businesses in rural or urban areas to offer health insurance benefits to their employees are discussed.

Current Issues and Trends in Business-Sponsored Health Insurance

Approximately 45 million Americans under the age of 65 (adults and children) are uninsured (Rhoades, et al, 2002), representing 18 percent of the U.S. population under the age of 65 (U.S. Census Bureau, 2000). In addition, the uninsured are not evenly distributed throughout the population (Larson and Hill, 2005). For example, Larson and Hill found that privately employed rural (using the U.S. Census Bureau's definition of metropolitan and non-metropolitan) workers in 10 states were 10 percentage points less likely to be offered business-sponsored health insurance than urban workers (78 percent versus 88 percent, respectively). While disparities in access to healthcare

services between rural and urban areas (using the U.S. Census Bureau definition of rural and urban, which is described in the box below) have decreased since the 1980s and 1990s, disparities still exist and are one of the causes of higher morbidity and mortality rates among rural residents. Other factors that contribute to these higher rates include decreased access to healthcare providers and transportation to healthcare services in rural areas (Larson and Hill, 2005).

More than three-quarters of businesses in the U.S. are considered small, and they employ nearly one-third of the private sector workforce (Gencarelli, 2005). Small

Defining Rural

The Center for Rural Pennsylvania defines rural as follows: a county is considered rural if its population density is less than the state average of 274 persons per square land mile. According to this definition, 48 of Pennsylvania's 67 counties are rural. The researchers used the Center's definition of rural for the research.

The researchers also discuss and use the following terms.

The U.S. Census Bureau classifies as "urban" all territory, population, and housing units located within an urbanized area (UA) or an urban cluster (UC). It delineates UA and UC boundaries to encompass densely settled territory, which consists of core census block groups or blocks that have a population density of at least 1,000 people per square mile and surrounding census blocks that have an overall density of at least 500 people per square mile. In addition, under certain conditions, less densely settled territory may be part of each UA or UC. The Census Bureau's classification of "rural" consists of all territory, population, and housing units located outside of UAs and UCs. The rural component contains both place and nonplace territory. Geographic entities, such as census tracts, counties, metropolitan areas, and the territory outside metropolitan areas, often are "split" between urban and rural territory, and the population and housing units they contain often are partly classified as urban and partly classified as rural (U.S. Census Bureau, 2000).

According to the Office of Management and Budget, Metropolitan Statistical Areas (MSAs) have at least one urbanized area of a population of 50,000 or more persons. MSAs are defined in terms of counties. One or more principle cities are defined within each MSA to label the area (Metropolitan Statistical Areas, 2003).

businesses (those that employ 50 or less persons) tend to offer less business-sponsored health insurance than large businesses because of the disadvantages small businesses experience in the insurance market today (Health Forum, Inc., 2004).

According to the Kaiser Family Foundation (June 7, 2005), about two-thirds of small businesses in the U.S. can afford to offer business-sponsored health insurance. Small business owners spend between 10 to 30 percent of their total budgets on healthcare and have to pass along the costs to employees.

Results from a national business survey conducted by Mercer Human Resource Consulting (2005) show that businesses anticipated an increase of about 10 percent in healthcare costs for 2006 if they continued with their current medical plans and made no changes. The preliminary results of the survey of 1,883 businesses revealed that businesses predicted their actual cost increase for 2006 to be 6.4 percent. Mercer's findings suggest that businesses will shift additional costs to workers in the form of higher deductibles, premiums and co-payments. Two-thirds of the large businesses surveyed said they would shift costs to employees, while only 35 percent of small businesses said they would shift costs in 2006. According to Mercer representatives, this difference is likely because small businesses are less flexible and less able to shift costs to employees.

According to Gould (2005), a decline in business-sponsored health insurance of 4.1 percent occurred nationally between 2000 and 2004. No category of workers was insulated from loss of coverage during this time period, with coverage of full-time workers and workers with college degrees declining by 2.3 percent and 2.8 percent, respectively.

The Kaiser Family Foundation (August 3, 2004) found that since the 2001 recession, the U.S. has experienced economic growth, but there are over 1 million fewer jobs. According to the foundation, businesses were less likely in 2003 to hire full-time employees because of the rising costs of business-sponsored health insurance benefits, a 6.1 percent increase in 2003 to approximately \$3,000 per year per employee. To address the increasing costs of health insurance coverage, many businesses have eliminated coverage for dependents, increased premiums and monthly costs, cancelled healthcare plans altogether, or frozen employee wages. From 2003 to 2004, the rate of employment among temporary employees increased by 9 percent. These workers typically are not guaranteed business-sponsored health insurance coverage. The foundation found that the overall labor force increased by only 1 percent during the same time period, resulting in an increased uninsured population in the U.S.

Also according to the Kaiser Family Foundation

(August 3, 2004), over 9 million U.S. residents under age 65 lost business-sponsored health insurance between 2001 and 2003. The number of employees covered under business-sponsored health insurance decreased from 67 percent in 2001 to 63.4 percent in 2003. Fewer employees are covered by business-sponsored health insurance largely because of the inability of businesses to afford this coverage, and low-income employees are the most significantly affected, receiving less access to healthcare services and paying higher co-payments and premiums.

According to the Kaiser Family Foundation (2005) and Gencarelli (2005), the percentage of large and small firms offering business-sponsored health insurance varies greatly. In their jointly published *Employer Health Benefits Annual Survey*, small firms were defined as employing three to 199 workers and large firms were defined as employing 200 or more workers. Sixty-three percent of small firms offered business-sponsored health insurance, while 99 percent of large firms offered this coverage. This survey also showed that as firm size increases, the percentage of firms offering business-sponsored health insurance also increases.

As indicated in a study conducted by Kronick, Gilmer, and Rice (2004), the probability of a worker receiving business-sponsored health insurance is affected by characteristics of the worker and workers in the area. Age, race, ethnicity, income, family structure, business size, industry, health status, home ownership, and union membership are specific characteristics that affect the likelihood of receiving business-sponsored health insurance. The study also revealed the effect that employees in the same geographic area have on the likelihood of businesses offering business-sponsored health insurance for employees.

Kirchner and Thomas (1990) also explored how rates of insurance vary across the nation. The largest number of uninsured Americans lives in the South and Southwest.

Glied and Gould (2005) found that states with low non-group premiums, low average incomes, and few prior health insurance expansion efforts gained the most under expansion proposals. Healthcare expansion proposals are those that seek to enlarge the number of persons who have healthcare insurance. Most proposals are state-based and range in scope from increasing the number of persons insured through the public insurance program of Medicaid to developing a single payor system in the state. The researchers studied the potential impact of five insurance expansion policies: refundable tax credits for the non-group market, tax credits for small-firm workers, and three policies that expand eligibility for Medicaid or the State's Children's Health Insurance Program (SCHIP). They concluded that policies that serve one state well could be ineffective in a neighboring state.

Since 1982, the National Federation for Independent Businesses (NFIB), which represents the smallest of small businesses in the U.S., has published a report—*Problems and Priorities*—that summarizes the results of a survey of its membership conducted every four years in the U.S. The report focuses on the most pressing issues facing small-business owners, as reported by small business owners themselves. As reported in the June 15, 2005 issue, the top five most severe problems for small-business owners in order are the cost of health insurance; cost and availability of liability insurance; workers' compensation; cost of natural gas, propane, gasoline, diesel, and fuel oil; and federal taxes on business income. Health insurance costs were a "critical" issue for about 66 percent of respondents, the highest percentage for any problem in the survey's 22-year history.

A study conducted by the Kaiser Family Foundation and Health Research and Educational Trust (HRET) (November 21, 2005) found that only 60 percent of U.S. businesses offered business-sponsored health insurance to workers in 2005, compared with 66 percent in 2003 and 69 percent in 2000. The study attributes the decline in business-sponsored health insurance largely to the decline in business-sponsored health insurance provided by small businesses. Fifty-nine percent of businesses with three to 199 workers offered coverage in 2005, compared with 68 percent in 2000. For the smallest firms with three to nine employees, only 47 percent offered health benefits.

The study also notes that businesses' health insurance costs increased by 6.1 percent in 2005—the slowest increase since 1998—compared with increases of 7.5 percent in 2004 and 10.1 and 14.7 percent in 2003 and 2002, respectively (November 21, 2005).

The average cost of business health plans increased from \$6,679 per employee in 2004 to \$7,089 per employee in 2005, according to a survey conducted by Mercer Human Resources (2005). Business spending on health coverage would have increased an estimated 10 percent in 2005 without the shift in cost to employees and changes to health plans.

The Kaiser Family Foundation (November 21, 2005) also found the strong trend towards reducing the number of plan options available to employees, specifically the higher-priced plans. In 2005, 8 percent of large businesses and 31 percent of businesses with 20,000 employees or more reduced the number of plans available.

Also according to the Kaiser Family Foundation (September 20, 2005), a growing number of businesses throughout the country are turning to employee incentives to slow the increasing costs of health insurance. Worthington Industries, Fairview Health Services, and United Healthcare are some of the companies that have offered employee incentives to take steps to improve the

health of their employees and decrease the costs of providing business-sponsored health insurance. These incentives vary significantly and include financial bonuses, gift certificates to company stores, and discounts on health insurance premiums. While these incentives will likely decrease the costs of business-sponsored health insurance in the short-term, the long-term impact is still unknown, according to the foundation.

The foundation also notes that businesses nationwide have become more aggressive in encouraging employees to practice healthier lifestyles. Companies are encouraging healthy lifestyles among employees through wellness programs that include preventive care, smoking cessation plans, weight-loss plans, and disease management plans. Businesses' increased focus on healthy lifestyles is based on expert opinions that such programs can significantly decrease healthcare costs by avoiding the most expensive emergency-level care.

The Rural Policy Research Institute notes in its summary report on health insurance in rural America that workers in rural areas are more likely than their urban counterparts to work for small businesses, be self-employed or work in agriculture. According to the report, those types of employment are less likely to be conducive to moderately priced group health insurance products (Pol, 2000).

Edelman and Menz (1996) note significant differences in healthcare insurance coverage between rural and urban populations, but conclude that Medicare policy preferences, such as federal policies establishing medical savings accounts, implementing Medicare vouchers, increasing premiums and payments to Medicare beneficiaries, increasing payroll taxes, reducing Medicare reimbursements to healthcare providers, and reducing the number of persons covered by Medicare, between rural and urban areas do not vary dramatically. Two national surveys were conducted to compare rural and urban households by focusing on Medicare and Medicaid populations with two policy proposals resulting. Edelman and Menz found that Medicare recipients were in favor of tax-free medical savings accounts (MSAs), vouchers for seniors, and fewer benefits for high-income seniors. The researchers also concluded that Medicaid recipients were in favor of using state indicators for need, special need indicators for "medically underserved and sparsely populated areas," and additional funds to states with lower incomes. The researchers found that both policy proposals favored rural residents over urban residents by addressing underserved and underpopulated areas.

Among employees who are eligible for their employer's coverage but decline, more than 52 percent cite cost as the reason for not participating in their

employer's health plan. Cost becomes an even bigger concern when an employee wants to purchase family coverage. In fact, small businesses report that 35 percent of their employees declined dependent coverage due to concerns about costs, and workers in small firms contribute an average of \$43 per month for single coverage and \$282 per month for family coverage. In addition, cost is the most significant reason businesses give for not offering health insurance coverage. Almost 80 percent of businesses that did not offer health insurance have chosen not to do so because of financial reasons (Gencarelli, 2005).

Federal and State Policies that Address or Impact Small Businesses' Ability to Offer Business-Sponsored Health Insurance

Federal efforts to expand business-sponsored health insurance vary greatly. Most aim to bring small businesses together to improve purchasing power and achieve economies of scale, create new ways for individuals to save for future medical expenses, or provide tax benefits for the provision of health coverage. In general, initiatives in 2005 included, but were not limited to, the Association Health Plans (AHPs), HealthMarts, and Health Savings Accounts (HSAs). AHPs allow small businesses to band together across state lines to purchase health insurance and often shield them from state mandates and regulation. HealthMarts are private organizations that serve as clearinghouses where businesses and employees within a geographic area can go to purchase health insurance. HSAs reveal a move toward consumer-driven healthcare. They are designed to allow individuals under the age of 65 to save for future healthcare expenses on a tax-free basis.

The discussions about HSAs have been controversial. Many health and tax policy experts assert that HSAs will be disproportionately attractive to healthier, higher-income individuals, will likely be used as tax shelters, and may lead, over time, to a weakening of business-sponsored health insurance. In response, some Bush Administration officials and others in favor of HSAs have argued that the actual experience with HSAs over the last two years show these concerns to be unfounded. Studies conducted by the Center on Budget and Policy Priorities have concluded that these claims about the experience with HSAs rely on misleading use of selective statistics and do not stand up under scrutiny (Park, 2006).

According to Fletcher (2005), HSAs would most likely increase out-of-pocket monthly premiums, deductibles, and co-payments. These costs would not be fully addressed through tax credits and the amount of government money proposed. Fletcher notes that HSAs could

potentially increase the financial vulnerability of sick people and could negatively affect the quality of business-sponsored health insurance coverage.

A major change occurred in the healthcare industry in 1996 when the federal government passed the United States Health Insurance Portability and Accountability Act (HIPAA). The act (HIPAA) includes two sections: HIPAA Title I, which focuses on protecting health insurance coverage for people who lose or change jobs, and HIPAA Title II, which includes an administrative simplification section dealing with the standardization of healthcare-related information systems. In the information technology industries, this section is what most people mean when they refer to HIPAA. HIPAA established standardized mechanisms for electronic data interchange, security, and confidentiality of all healthcare-related data. The act mandates standardized formats for all patient health, administrative, and financial data; unique identifiers (ID numbers) for each healthcare entity, including individuals, employers, health plans and healthcare providers; and security mechanisms to ensure confidentiality and data integrity for any information that identifies an individual (U.S. Department of Health and Human Services, 2006).

Insurance options available to small businesses through HIPAA protections have been enhanced. Prior to the passage of HIPAA, many states had laws relating to the availability of coverage within the small-group market. HIPAA established a basic level of access to coverage across all states, but preserved states' ability to enforce their own laws that may exceed the federal protections. These protections include, but are not limited to, portability (protecting workers and family from losing their health insurance coverage when workers switch jobs), guaranteed renewability (continuation of employee's coverage at the business's option), and nondiscrimination (prohibits an insurer from applying different eligibility rules or charging a higher premium to any individual within a group on the basis of certain "health factors") (Gencarelli, 2005).

At the state level, in the 1990s, state-mandated benefit laws were created to ensure that insurance companies provided coverage for certain diseases, services or providers. In 2005, these laws came under scrutiny due to rising healthcare costs. State lawmakers have found themselves weighing the benefits of such mandates against their costs. States have responded in a variety of ways. Some states have created mandated benefit review laws that require an evaluation of the costs and benefits of mandates before they can be imposed. Other states have enacted legislation that allows health plans to offer less costly policies that do not provide coverage for state-mandated benefits or permits small businesses to offer

products exempt from mandated benefits and certain premium taxes (Gencarelli, 2005). While specific information on the reaction by Pennsylvania's legislators to state-mandated benefits is not available, in general, legislators favor state laws that supercede federal mandates in order to retain flexibility (Mowatt, 2006).

Enacted Pennsylvania Policies that Address or Impact Small Businesses' Ability to Offer Business-Sponsored Health Insurance

Escalating healthcare costs continue to bring about significant proposals in the commonwealth that address or impact the ability of small businesses to offer business-sponsored health insurance.

In 2005, the Pennsylvania General Assembly passed the Health Savings Accounts Act, which extended special tax provisions to HSAs established in Pennsylvania. According to the National Federation of Independent Business (NFIB), the initiative will provide regulatory relief for small businesses and will be highly beneficial for those employed by small businesses.

In December 2005, Governor Edward Rendell announced the formation of a group of consumers, business owners, union leaders, healthcare providers, insurers and legislators to work with the Governor's Office of Health Care Reform on ideas to expand accessibility to affordable, quality healthcare coverage for every Pennsylvanian. In 2005, Pennsylvania was awarded a \$900,000 state planning grant from the U.S. Department of Health and Human Services' Health Services and Resources Administration to help with this planning process.

After receiving feedback from stakeholders, the Governor's Office of Health Care Reform crafted a plan to provide healthcare to all Pennsylvanians. The panel presented its findings in September 2006. In January 2007, during his budget address to the General Assembly, the governor introduced his plan, Prescription for Pennsylvania, as part of his 2007-2008 budget proposal. The plan included a program, called Cover All Pennsylvanians, which would provide subsidized insurance to small businesses and individuals who could not afford coverage. Employers that join the program would pay about \$130 per month per employee, and an employee would contribute between \$10 and \$70 per month, depending on income, for coverage. (Note: At the time of publication, the governor's 2007-2008 budget proposal was being considered by the General Assembly.)

About Small Business Employment in PA

What is clear from the literature review is that businesses in rural areas are less likely to offer health insurance benefits than businesses in urban areas throughout

most of the U.S. It is also known that there is a variation in rates of insurance among states. Data from most surveys focus on large firms, but many policy options focus on improving access to insurance for small businesses. It is important to understand the effect of business size on health insurance coverage and to collect data on insurance benefits and coverage of small businesses to benefit the population.

The following provides a general background about Pennsylvania's employment picture, especially with respect to the commonwealth's small businesses.

Overall, the ES-202 data show that Pennsylvania had 4,739,160 workers employed in private businesses in June 2004 (Figure 3). Of this total, 1,030,030 (22 percent) were employed in the state's rural counties (using the Center for Rural Pennsylvania's definition). The data also show that Pennsylvania was home to about 295,880 private employers in 2004. Of these, 74,988 (25 percent) were located in rural counties.

Classifying by businesses size, in 2004, 52.3 percent of all businesses in the state had zero to four employees, 42.1 percent had five to 50 employees, and 5.6 percent had more than 50 employees. For rural counties, 51.8 percent of all businesses had zero to four employees, 43.5 percent had five to 50 employees, and 4.7 percent had more than 50 employees.

Although small businesses predominate statewide, most workers are employed in larger businesses. In 2004, 5.3 percent of all workers in urban areas were employed in businesses with zero to four workers; 35.3 percent were employed in businesses with five to 50 workers, and 59.3 percent were employed in businesses with more than 50 workers. A similar story applies to rural areas, but rural businesses tend to be slightly smaller, on average. In 2004, 6.9 percent of all rural employees worked in businesses with less than five employees, 42.5 percent worked in businesses with five to 50 employees, and 50.6 percent worked in businesses with more than 50 employees (Figure 4).

This study focuses on businesses that employ five to 50 workers. Overall, 437,850 workers were employed in rural businesses in this category in 2004. The top five employment sectors for rural Pennsylvania were retail trade (104,499 workers), accommodations and food service (60,592), health care and social assistance (53,329), manufacturing (42,144), and construction (33,945).

Overall, there is substantial variation in the

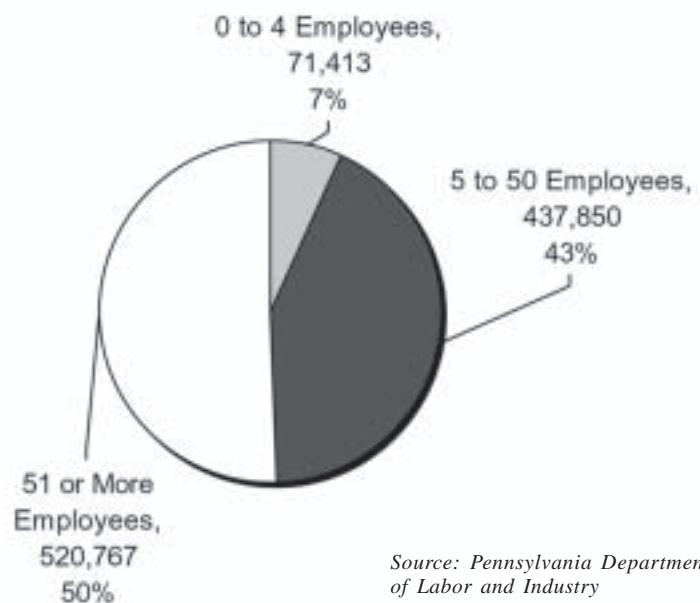
Figure 3: Description of Pennsylvania Businesses, by Employee Size, 2004

	Pennsylvania			
	Number of businesses	% of total businesses	Total employees	% of total employees
0-4 employees	154,673	52.3%	269,478	6%
5-50 employees	124,698	42.1%	1,748,234	37%
51 or more employees	16,519	5.6%	2,721,448	57%
Total PA	295,880	100.0%	4,739,160	100%
Urban Pennsylvania				
0-4 employees	115,859	52.5%	198,065	5.3%
5-50 employees	92,056	41.7%	1,310,384	35.3%
51 or more employees	12,977	5.9%	2,200,681	59.3%
Total Urban PA	220,892	100.0%	3,709,130	100.0%
Rural Pennsylvania				
0-4 employees	38,814	51.8%	71,413	6.9%
5-50 employees	32,632	43.5%	437,850	42.5%
51 or more employees	3,542	4.7%	520,767	50.6%
Total Rural PA	74,988	100.0%	1,030,030	100.0%

Source: Pennsylvania Department of Labor and Industry

wages and salaries that these sectors pay. Figure 5 shows a breakdown of average annual compensation per worker in small businesses for the primary NAICS industries in Pennsylvania. The breakdown is by small small, medium small, and large small businesses and by rural and urban. The wage is calculated by dividing the average monthly total wages paid by a business in the second quarter of 2004 by the number of employees that business reported for June 2004. This gives an estimated monthly average

Figure 4: Percent of Rural Employees by Size of Business Establishment, June 2004



Source: Pennsylvania Department of Labor and Industry

wage, which was multiplied by 12 to get an annual wage.

Overall, two trends emerged. First, urban small businesses tend to pay more per worker than their rural counterparts. For example, the average total earnings per worker for medium small businesses in urban counties in 2004 were \$32,965, versus \$23,464 for rural counties. Second, larger small businesses tend to pay higher wages. For example, the average annual wage in 2004 for a large small business in rural counties was \$25,214, whereas small small businesses in rural counties paid an average wage of \$22,080.

Figure 5: Small Business Average Annual Compensation Per Worker for Primary NAICS Industries in PA, 2004

	Small small		Medium small		Large small	
	urban	rural	urban	rural	urban	Rural
Agriculture, Forestry, Fishing and Hunting	\$22,155	\$18,711	\$21,882	\$16,952	\$22,421	\$19,665
Mining	\$44,709	\$31,703	\$42,125	\$36,963	\$49,368	\$39,380
Utilities	\$49,063	\$39,821	\$66,795	\$49,958	\$72,585	\$58,224
Construction	\$32,042	\$24,329	\$39,145	\$29,592	\$43,771	\$35,288
Manufacturing	\$33,421	\$24,826	\$37,373	\$29,617	\$40,362	\$31,612
Wholesale Trade	\$45,078	\$30,634	\$46,758	\$31,290	\$47,275	\$35,742
Retail Trade	\$19,948	\$16,782	\$21,573	\$18,800	\$23,927	\$21,701
Transportation and Warehousing	\$33,172	\$26,958	\$34,110	\$27,526	\$33,900	\$28,499
Information	\$48,466	\$29,233	\$46,282	\$31,167	\$48,922	\$37,950
Finance and Insurance	\$42,618	\$30,242	\$58,340	\$37,765	\$66,483	\$41,118
Real Estate, Rental and Leasing	\$28,939	\$21,000	\$30,514	\$20,658	\$41,705	\$21,418
Professional, Scientific and Technical Services	\$47,109	\$31,320	\$63,415	\$35,547	\$57,431	\$41,911
Man. of Companies and Enterprises	\$79,835	\$41,734	\$71,570	\$45,245	\$80,795	\$48,639
Management and Remedial Services	\$27,775	\$21,197	\$30,872	\$21,199	\$31,688	\$21,285
Educational Services	\$26,642	\$16,893	\$23,567	\$19,006	\$26,201	\$21,549
Health Care and Social Assistance	\$35,935	\$30,292	\$38,702	\$30,258	\$38,187	\$25,876
Arts, Entertainment and Recreation	\$15,406	\$9,891	\$12,256	\$9,770	\$13,221	\$9,685
Accommodation, and Food Services	\$11,315	\$8,497	\$11,346	\$8,907	\$12,442	\$10,271
Other Services (except Public Admin)	\$21,450	\$15,404	\$24,187	\$17,263	\$25,912	\$17,685
Average (Overall)	\$30,457	\$22,080	\$32,965	\$23,464	\$34,227	\$25,214

Source: Pennsylvania Department of Labor and Industry



Results

Telephone Survey of Human Resource Representatives

The results of the telephone survey of small businesses were analyzed in three ways: 1) rural versus urban counties; 2) small small (five to 10 employees) versus medium small (11 to 25 employees) versus large small (26 to 50 employees) businesses; and 3) select comparisons of four quadrants of the commonwealth.

Overall, for all sizes of small businesses, the results showed that urban small businesses have about two more employees, on average, than rural small businesses. The average small business in rural counties had 14.26 full-time employees, 4.80 part-time employees, and 1.04 seasonal employees. The average small business in urban counties had 16.86 full-time employees, 4.80 part-time employees, and 0.96 seasonal employees.

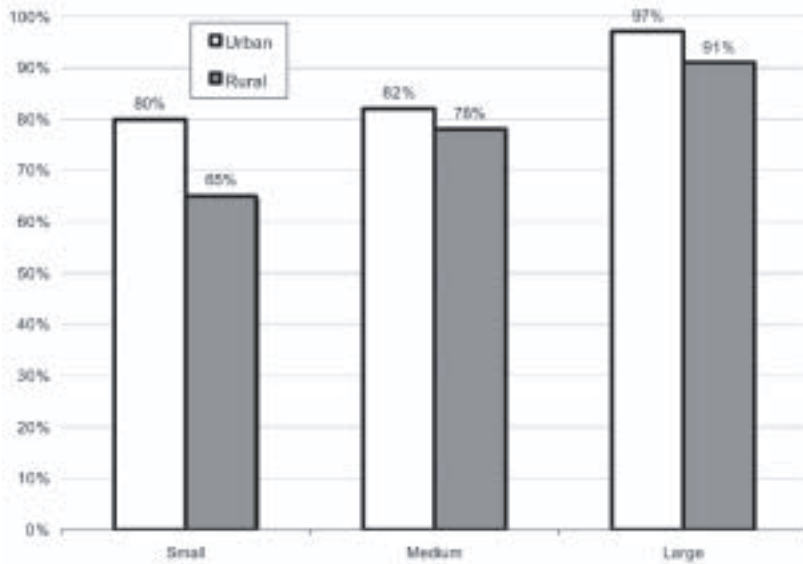
There was little difference between rural and urban counties in the average number of employees for small small and medium small businesses (Figure 6). Large small businesses in urban counties, however, average nearly three more employees.

According to the survey results, as small businesses increase in size, they were more likely to provide health insurance benefits to their employees. For example, more than 91 percent of rural businesses and 97 percent of urban businesses with 26 to 50 employees provided health insurance benefits to full-time employees. Urban small businesses also were more likely to provide health insurance benefits to full-time employees than rural small businesses; a finding that holds for all three size classifications. Especially notable was the significantly larger percentage of small small urban businesses providing health insurance benefits to full-time

Figure 6: Average Number of Employees, by Small Business Size and Rural-Urban

Business Category	Average Number of Employees	
	Urban	Rural
Small (5-10 employees)	7.69	7.59
Medium (11-25 employees)	17.34	17.06
Large (26-50 employees)	38.04	35.20

Figure 7: Percentage of Businesses Offering Health Insurance Benefits to Full-time Employees



employees (80 percent) relative to their rural counterparts (65 percent) (Figure 7).

The likelihood that businesses provide employee health insurance varies substantially across industry. Overall, 97 percent of manufacturers, 96 percent of professional, scientific and technical services, and 96 percent of wholesale trade small businesses provided health insurance to employees. Industries least likely to provide

Surprisingly, this relationship does not hold true for rural businesses, where large small businesses were less likely to provide health insurance benefits (7 percent) than medium small businesses (12 percent). Rural small and medium small businesses were slightly more likely to provide health insurance benefits to part-time employees than their urban counterparts (Figure 9).

Regionally, there was no significant variation in terms of covering part-time workers.

Most small businesses offered health insurance benefits to the dependents of employees, and, notably, as small businesses increased in size, they were more likely to provide health insurance benefits to employee dependents. Also, urban businesses appear more likely to provide health insurance benefits to employee dependents than rural businesses, regardless of size.

There was some regional variations in offering coverage to dependents: businesses in the southeast (71 percent) were most likely to offer coverage, while businesses in the southwest (67 percent) and northeast (66 percent) were somewhat less likely, and those in the northwest (56 percent) were least likely to offer coverage. These trends were, overall, consistent with coverage of employees, though at a lesser rate.

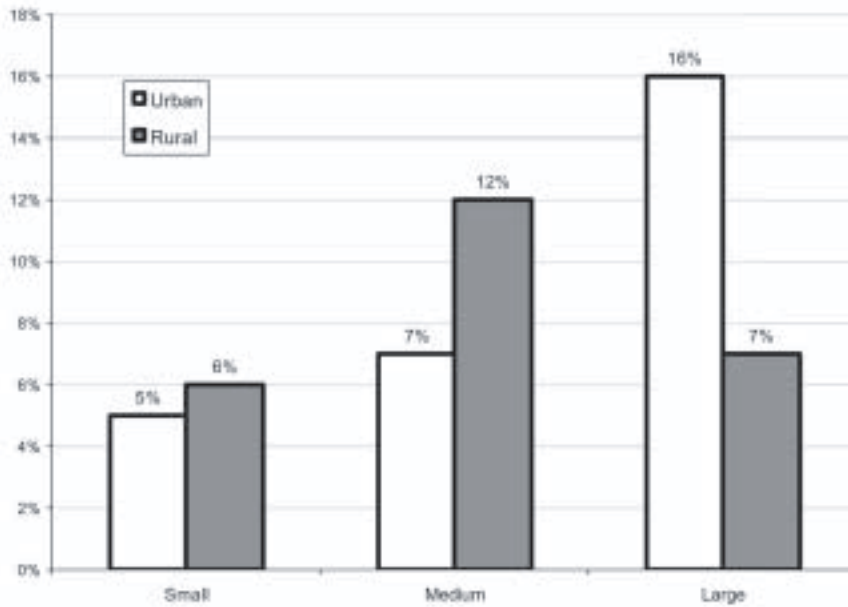
Cost was, by far, the primary reason

Figure 8: Percentage of Respondents Providing Employees with Health Insurance Benefits, By Industry*



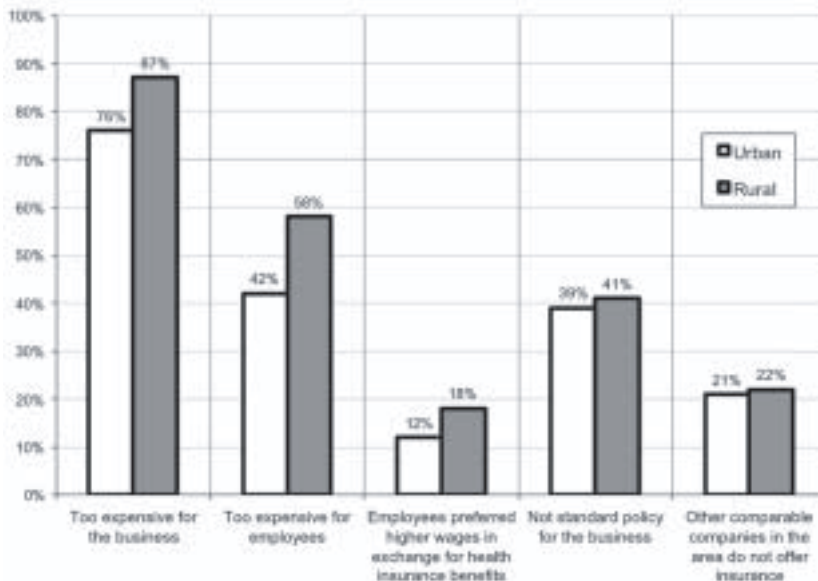
* For industries with at least 30 respondents

Figure 9: Percentage of Small Businesses Offering Health Insurance Benefits to Part-time Employees



for not offering health insurance: 87 percent of rural small businesses and 76 percent of urban small businesses cited the cost to employers, and 58 percent of rural small businesses and 42 percent of urban small businesses cited cost to the employee (Figure 10). One interesting finding was that less than one in five businesses said they did not offer health insurance because employees preferred higher wages to health insurance benefits (18 percent rural and 12 percent urban). This suggests that this

Figure 10: Reported Reasons Why Small Businesses Do Not Provide Health Insurance Benefits



Percentages do not add up to 100 because of multiple responses.

benefit is highly valued by employees; perhaps more so than higher wages.

When respondents were asked if they would be more likely or less likely to offer healthcare insurance if federal or state policies created incentives for businesses to offer healthcare coverage, 34 percent of urban and 42 percent of rural businesses indicated they would be more likely to offer health insurance benefits. Urban businesses were more unlikely than rural businesses (28 percent versus 19 percent, respectively) to offer health insurance benefits as a result of federal or state policies and incentives (Figure 11 on Page 16).

Most urban (72 percent) and most rural (64 percent) businesses indicated they would be very unlikely or unlikely to offer health insurance or undecided about offering health

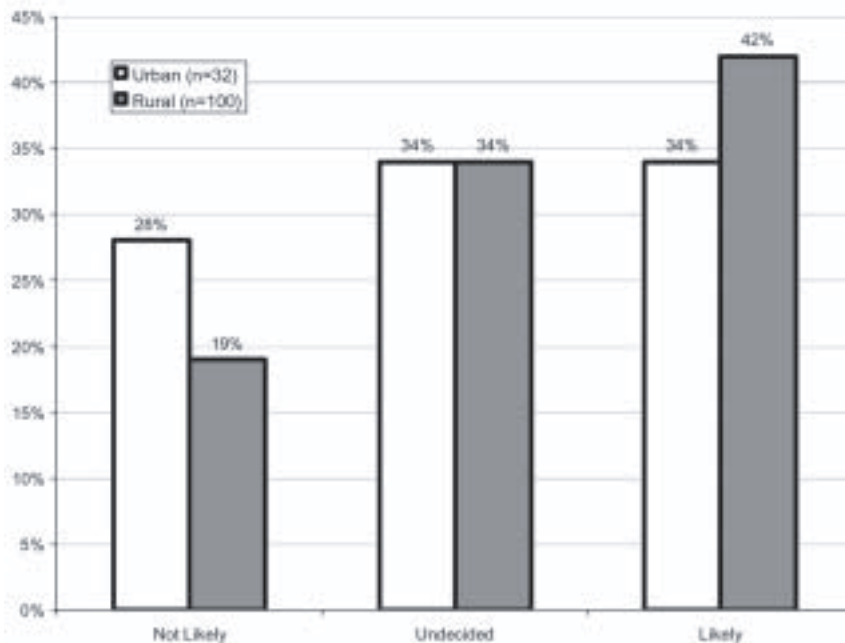
insurance benefits if federal or state policies were created to increase employees' responsibilities for those benefits. Nineteen percent of rural small businesses and 28 percent of urban small businesses indicated they would be likely or very likely to offer health insurance benefits if employees were more responsible for those benefits. Overall, rural small businesses were more likely to offer health insurance benefits if this type of policy were enacted than were urban small businesses.

The survey also asked respondents if they would be more or less likely to offer healthcare insurance if insurance companies developed special programs for small businesses.

If insurance companies developed small business health insurance programs, more rural small businesses would be likely or very likely to offer health insurance benefits versus urban small businesses (54 percent versus 34 percent). Urban small businesses would be less likely to offer or were undecided on offering health insurance if health insurance companies developed programs (34 percent of urban businesses versus 20 percent of rural businesses). Interestingly, urban small businesses were more undecided than their rural counterparts (31 percent versus 23 percent) on this issue.

Rural businesses were far more likely than urban businesses to indicate that the

Figure 11: Respondents' Likelihood of Offering Health Insurance Benefits to Employees if Federal or State Policies Created Various Incentives



* Excludes "don't know" responses

chances of offering health insurance benefits would increase if partnership opportunities with other small businesses were offered, as 65 percent indicated they would be likely or very likely to do so, compared with almost 41 percent of urban businesses. About 56 percent of urban small businesses would be unlikely or very unlikely to do so, versus 31 percent of small rural businesses. More rural businesses were undecided on this

substantially lower than urban businesses.

Providing health insurance is a costly benefit for businesses. Overall, rural small businesses paid \$576 per month per worker on average, while urban small businesses paid \$608. However, small small businesses have substantially higher costs per worker than both medium small and large small businesses (which differ little among themselves). It is also interesting that rural small

businesses tend to have slightly lower costs per worker than their urban counterparts, though it is significantly different only for employers with five to 10 workers (Figure 12).

Overall, employees in rural small businesses pay \$121 per month on average, whereas employees of urban small businesses pay \$134. While medium small and large small businesses tend to pay less per worker for health insurance than small small businesses, the results indicated that small small businesses required smaller monthly contributions than medium small and large small businesses. For example, rural small small businesses required employees to pay about \$95 per month, on average, whereas rural large small businesses required employ-

Figure 12: Average Per Worker Business Cost for Health Insurance Benefits

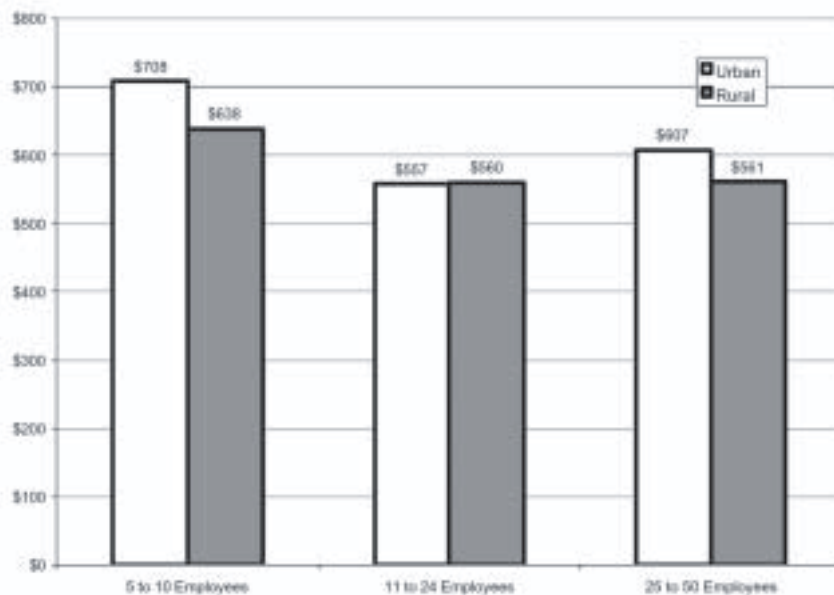
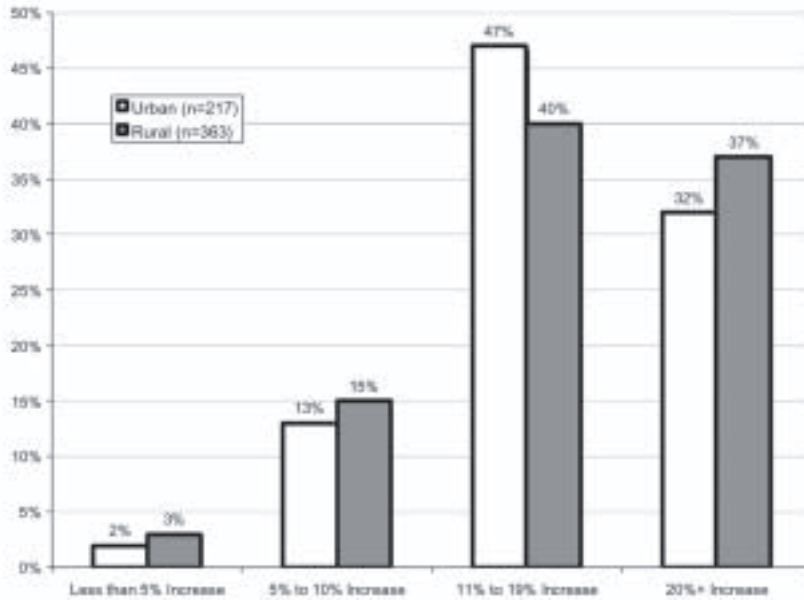


Figure 13: Change in Cost of Health Insurance Benefits Per Year



Excludes "don't know" responses

ees to pay about \$147 on average. This difference is even more pronounced for urban businesses, where large small businesses required employees to pay nearly twice the amount of small small business employees.

Over the past five years, change has certainly been the norm for small businesses as 71 percent of respondents reported making some change to the type and/or amount of health insurance coverage. The most common change made was to switch plans (46 percent), with the ultimate goal of reducing costs to the employer. For many companies, plans were changed more than once over the past five years. While this is a way of reducing costs to businesses, switching plans can cost significant time to businesses as they research the various available options. Additionally, changing plans can affect employees as they may have to change primary care physicians or see reduced coverage. Other frequent changes made included increasing the deductible that employees pay (22 percent), reducing the amount of coverage (19 percent), increasing the co-pay for benefits (18 percent), and increasing employee contributions (18 percent). The effect of these latter changes is a reduction in employees' take-home pay and a resulting limit to their ability to purchase other goods and services, which in turn may affect other parts of the economy and increase the likelihood of employee turnover.

Almost all small business, regardless of geographic location, saw more than 5 percent yearly increases in health insurance benefits during the last five years, with only about 3 percent of urban and 2 percent of rural businesses experiencing increases of 5 percent or smaller

(Figure 13). Slightly more rural small businesses than urban small businesses saw increases of between 5 and 10 percent (15 percent versus 13 percent), while more urban small businesses (almost 47 percent) saw increases of between 11 and 19 percent (versus 40 percent of rural small businesses). However, more rural small businesses saw increases of 20 percent or more than urban small businesses (37 percent versus 32 percent) (Figure 13).

When asked if they expected to make a change to the health insurance benefits offered to employees in the next year, 35 percent of both rural and urban small businesses said they expected to make a change, 59 percent did not expect to make a change, and 29 percent did not know. Respondents were allowed to indicate more than one planned change, and the most common types of changes

respondents expected to make were to increase employees' contributions (80 percent), followed by decreasing the amount of coverage offered (40 percent) and changing provider/plans (24 percent).

Overall, these results show a continuation of recent trends. First, employees are going to have to pay more toward the cost of their insurance, either through increased contributions or higher co-pays or deductibles. The next most common expected activity is to decrease the amount of coverage an employee receives. Like recent trends, a substantial number of businesses will be seeking to change plans/providers. One important response to note is that some respondents indicated plans to drop employee coverage.

Overall, health insurance benefits seem to be quite important in a company's ability to attract and retain employees. The results suggest that 64 percent of all urban small businesses and 60 percent of all rural small businesses think insurance benefits are as important as wages.

Both rural and urban small businesses overwhelming agreed that health insurance packages are an important factor in attracting and retaining a qualified workforce (83 percent of urban and almost 81 percent of rural businesses). Ten percent of rural and 11 percent of urban businesses disagreed that health insurance packages are important to attract and retain qualified workers.

More urban small businesses (42 percent) than rural small businesses (34 percent) agreed or strongly agreed that employers should be the primary source of health insurance benefits. Thirty percent of rural small busi-

nesses and 27 percent of urban small businesses disagreed or strongly disagreed with this statement and 35 percent of rural and 28 percent of urban small businesses were undecided.

When given the opportunity to provide additional comments, the respondents primarily focused on two issues: the need for policy makers to address healthcare costs and the question of who should pay for healthcare coverage, with the responses ranging from the government providing universal healthcare to individuals paying for their own health coverage.

Key Informant Interviews

State Government Agencies

Several key themes emerged from the state agency key informant interviews:

- Pennsylvania Governor Rendell has made a commitment to developing a plan for providing accessible, affordable, and high quality healthcare for every Pennsylvanian.
- Competition within health insurance markets should be maintained while multiple health plans should be available in every region in the state.
- Special interest groups have significant, and often mutually exclusive, stakes in the way that the costs of healthcare are supported.
- Providing health insurance benefits and paying for healthcare costs are such complicated issues that even the “experts” are at a loss to suggest viable options that can be implemented and sustained.

Health Insurance Providers

During the interviews with representatives of health insurance providers, several themes emerged:

- Most provider respondents see the small business market as a “niche” market for them.
- Each provider offers customized services to small businesses.
- Those customized services are viewed by each insurance provider as the most competitive and most comprehensive.

Professional Organizations

The reoccurring themes that became evident through the interviews with representatives of professional organizations are as follows:

- The past few years have been marked by significant increases in health insurance costs with unprecedented increases in premiums and deductibles.
- Health insurance costs negatively impact business profit margins.
- Health insurance benefits are used as a recruitment and retention tool.

- Organizations employing a young and healthy workforce believe their insurance contributions are an inefficient use of resources and that demographics should be assessed when insurance costs are calculated.
- Health insurance costs are detrimentally impacting the viability of the agricultural industry and are prompting shifts in profitability and employment trends, particularly for small family farms.
- HSAs and the cost savings that may potentially be gained are receiving a mixed reception with some organizations enthusiastically embracing them and others cautiously exploring the costs and benefits of using this new coverage option.

Modeling the Likelihood that Small Businesses Provide Insurance

To provide a profile of the types of small businesses that are more likely to provide healthcare benefits to full-time employees as well as dependents, the researchers developed a set of statistical models that identified the business and regional characteristics that are correlated with providing health insurance benefits. The variables used in the models were: rurality, or whether differences result solely from a business location; the number of employees; the number of part-time workers; per worker compensation; employee skill levels; the age of the business; the type of industry; and local labor market trends.

The most important findings suggest that small businesses with more employees and those that pay higher wages are the most likely to provide health insurance benefits to full-time employees and their dependents, all else being equal. Also, as the percentage of unskilled workers increases, businesses are less likely to provide health insurance benefits to full-time workers and their dependents.

The findings also indicate that rural does not seem to matter. While rural businesses are, overall, less likely to provide health insurance than their urban counterparts, rurality does not seem to be an influencing factor. Instead, differences seem to arise from job- and firm-specific attributes. It is also interesting that there were few industry differences, once wages and the number of employees were considered. For example, no evidence was found to support the notion that retailers are any less likely than manufacturers to provide employees with health insurance. Still, industry sector differences potentially matter to the extent that wages and full-time employment opportunities vary across industries.

Conclusions

The effects of rapidly escalating health insurance costs are resonating across the economy. Indeed, many businesses today are more concerned about the rising costs of healthcare than they are about wage increases. To remain competitive in today's global economy, businesses are taking steps to contain these costs. For example, this research showed that small businesses in Pennsylvania are dealing with escalating costs in a variety of ways, including increasing deductibles, co-pays and employee contributions, and decreasing coverage. Most businesses are also shopping for plans every year, trying to find cheaper alternative providers, and are enrolling their employees in HSAs. (While comparison shopping for inputs is something all businesses do, constant insurance shopping is a real cost to businesses in terms of human resource time and to employees who often need to change doctors or make other adjustments, as in-network providers change.) More dramatic steps involve eliminating coverage of dependents, or, in some cases, completely eliminating health insurance benefits. As a result, working Pennsylvanians are paying more for their health insurance, taking home less pay, or worse, losing their coverage completely.

And there is no end in sight. According to the research results, more than 40 percent of the respondents that offer health insurance benefits have seen their costs of providing healthcare increase by an average of 10 to 20 percent per year over the past five years. More astonishing is that about 35 percent report annual cost increases of more than 20 percent per year during the last five-year period.

The key informant interviews confirmed that the situation is complex. The key informant healthcare providers identified the small business market as a niche market for which they offered customized products. However, rural respondents seemed to be unaware of such products as 54 percent indicated that they would be likely to offer healthcare benefits if such products were available. The professional organizations in the state recognize that small businesses need specialized programs to meet the healthcare needs of their members and struggle to offer plans that are affordable and still provide a useful array of services. The government agencies concur that solving the healthcare payment crisis is a challenge for those who are in key policy leadership positions.

The current model of paying for health insurance benefits cannot be sustained. In a global economy, competitive pressures facing Pennsylvania businesses are increasing daily. While improvements in production efficiency through technology have surely helped Pennsylvania businesses to remain competitive, there are limits in efficiency gains through technology. Accordingly, for many businesses, employees remain the most important resource. However, the researchers note that rising healthcare costs may be a very real threat to the continued global viability of Pennsylvania businesses. And any business that tries to contain costs by reducing benefits or increasing employee contributions may run into problems in attracting and retaining good workers.

The research shows that the businesses least likely to offer health insurance benefits are those that are the smallest of small businesses, which pay lower wages and have a higher proportion of unskilled workers. An alternative interpretation of the research suggests that the Pennsylvanians who are most likely to be uninsured, or to lose their insurance, are those who are unskilled and receive low wages: the very individuals who are most unable to pay for healthcare themselves.

The research does not indicate that this is a rural issue, or an industry issue. It is a Pennsylvania and a national issue.



Policy Considerations

As previously noted, the issue of paying for healthcare costs is an intractable, complex issue at both the national and state levels. Competing interest groups, such as consumer advocates, healthcare providers, insurance companies, pharmaceutical and medical supply companies, and policy makers, to name a few, often have varying and influential stakes in the future of healthcare in the U.S.

While this study provided data on the challenges small businesses have in providing health insurance benefits to employees, it became apparent as the study progressed that it was far beyond the scope of the investigation to offer a full complement of policy considerations that could change the way in which the payment for healthcare in Pennsylvania is structured. Instead, the researchers offer three considerations that may alleviate the challenge that small businesses face in offering health insurance benefits to employees.

1. The Pennsylvania General Assembly should consider establishing a quasi-governmental independent non-profit agency to act as an unbiased broker of insurance benefit plans designed specifically for small employers. This agency might work in concert with Small Business Development Centers in offering health insurance education programming to small businesses. For example, small businesses might approach this agency with basic questions about the various types of policies available and the difference between a PPO and an HMO, and more complex questions, such as how to evaluate and select plans with differing coverages, co-pays and deductibles. Going further, the agency would maintain a list of providers that businesses can approach for coverage. This type of information would help reduce the amount of time that businesses must spend researching various plans and providers, thus allowing them to focus their energy on their businesses' performance.

2. The Pennsylvania General Assembly should consider providing funds and incentives for the state's small employers, both rural and urban, to form cooperatives in order to provide purchasing power for small business health insurance. By allowing large numbers of firms to band together, small business owners and employees could benefit from the same economies of scale, purchasing clout, and administrative efficiencies enjoyed by larger companies and unions. Such cooperatives could either purchase plans from existing providers or self-insure. It would be important, however, for these plans to not offer scaled-down benefit packages, or allow employers to "cherry pick" or discriminate against those that it covers. In addition, such plans should maintain the current consumer protections provided by current state and federal legislation.

3. Because large small employers, regardless of geographic location, are the most likely to offer business-sponsored health insurance, the Pennsylvania General Assembly could consider placing a stronger focus on programs and policies that target the establishment of large small businesses throughout the state. Specifically, the research shows that the likelihood a business offers insurance increases as the size of the business increases. Further, from a workforce development perspective, business-sponsored health insurance is an important component of attracting and retaining a qualified workforce.

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Appendix 1: Key Informant List

The researchers contacted the following organizations to participate in the research. The date of the interview/contact with the organizations that agreed to participate is provided in the second column.

State Agencies

Organization Name	Date of Interview
Office of Health Care Reform	March 23, 2006
Pennsylvania Department of Health	July 29, 2005
Pennsylvania Insurance Department	July 28, 2005
Pennsylvania Department of Labor and Industry	August 2, 2005
Pennsylvania Health Care Cost Containment Council	Did not participate

Health Insurance Plans

Organization Name	Date of Interview
AETNA Health Inc.	Did not participate
Blue Cross of Northeastern Pennsylvania, Inc.	August 4, 2005
Capital Blue Cross	Did not participate
Geisinger Health Plan	August 2, 2005
HealthAmerica Pennsylvania, Inc.	August 3, 2005
Highmark, Inc.	Did not participate
Independence Blue Cross	Did not participate
Three Rivers Health Plans, Inc.	Did not participate
UPMC Health Plan, Inc.	July 29, 2005

Professional Organizations

Organization Name	Date of Interview
County Commissioners Association of Pennsylvania	July 25, 2005
Manufacturer's Association of Berks County	July 15, 2005
Manufacturer's Association of Northwest Pennsylvania	July 15, 2005
Manufacturer's Association of Southcentral Pennsylvania	July 22, 2005
MidAtlantic Employers' Association	Did not participate
Mid-State Occupational Health Services Inc.	Did not participate
Northeast Pennsylvania Manufacturers and Employers Association	Did not participate
Pennsylvania AFL-CIO	Did not participate
Pennsylvania Association of Non-Profit Homes for the Aging	July 22, 2005
Pennsylvania Association of Realtors	July 20, 2005
Pennsylvania Chamber of Business and Industry	Did not participate
Pennsylvania Council of National Federation of Independent Businesses	July 28, 2005
Pennsylvania Farm Bureau	July 26, 2005
Pennsylvania Grange	July 22, 2005
Pennsylvania Health Care Association	July 22, 2005
Pennsylvania Homecare Association	July 11, 2005
Pennsylvania Manufacturer's Association	July 15, 2005
Pennsylvania Small Business Administration	Did not participate
Pennsylvania State Nurses Association	July 20, 2005
SMC Business Councils	August 5, 2005

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