



**2006  
Northwest  
Health Gap  
Study:**

# **Quality Health Insurance Out of Reach for Small Businesses**

**Jeremy Fredericksen and Julie Chinitz,  
Northwest Federation of Community Organizations**

**Aaron Katz, University of Washington,  
School of Public Health and Community Medicine\***

**October 2006**

# Table of Contents

---

## Page

1	<b>Introduction</b>
1	<b>Background</b>
1	What is the health gap?
1	The health gap is widening
2	The health gap disproportionately affects small businesses and their employees
3	The consequences of the health gap
3	<b>Methodology</b>
4	<b>Findings</b>
4	Reasons why small businesses do not currently provide insurance
5	Small business responses to health insurance premium increases
6	Small business perspectives on the future of health insurance
7	Small business concerns about the quality of coverage
7	<b>Conclusions</b>
9	<b>Recommendations for closing the health gap</b>

---

This report would not have possible without the contributions of Siobhan Beaver, Dan Bell, Roxy Carr, Beverly DeLeonardis, Bill Daley, Anthony Dayrit, Patricia Divine-Wilder, Smoki Donaldson, Erin Fair, Kerri Griffis, Miryam Laytner, Sunny Lindley, Taryn Magrini, Brooke Marjamaa, Fernando Mejia, Dominic Metropoulos, Paul Metzner, Diana Mora, Maru Mora Villalpando, Leo Morales, Bret Noble, Angela Omulepu, Adan Ramirez, Jill Reese, Rich Rohde, G Smith, Aaron Sundquist, Jesus Torres, Moses Torres, Greg Van Donge, Gloria Vaske, and Joshua Welter.

## 2006 Northwest Health Gap Study:

# Quality Health Insurance Out of Reach for Small Businesses

## Introduction

Across the Northwest, increasing numbers of people are falling into the health gap – going without needed health care because they have either no insurance or insurance that does not provide adequate access to services or treatment. The health gap undermines the wellbeing of millions in the Northwest by threatening their personal financial stability.

This situation represents a pressing public health crisis. Protecting the physical wellbeing of residents is a central responsibility of state governments, and the growing health gap calls for action on the part of lawmakers.

This report focuses on the perspectives of the Northwest's small businesses and their employees, who are at a particular disadvantage in the private health insurance system. Compared to large employers, small businesses often have more limited means for purchasing insurance. Yet they receive less coverage in the plans they are able to purchase, placing many of them at risk.

The data presented in this report were gathered through a survey of small businesses across the region and one-on-one conversations with small business owners about their experiences in the private health insurance system. The results indicate that small businesspeople are concerned deeply about the quality of insurance and believe the states have an important role to play in ensuring access to affordable, comprehensive coverage.

## Background

### What is the health gap?

The health gap is the widening middle ground between the employer-based health insurance coverage provided to employees of mostly mid-sized and large businesses and the health coverage provided by public health programs (such as Medicaid) for some very low-income people and some people with serious health conditions.

Most discussion of the health insurance crisis has focused on the growing number of people who have no coverage at all – the uninsured. However, the health gap is composed of two groups: those who have no health insurance and those who have health insurance that does not cover important services (e.g., prescription drugs) or that imposes high out-of-pocket costs, such as deductibles and copayments, that impede access to care.

Both employees and employers may fall into the health gap. Many small business owners struggle to provide comprehensive insurance not only for any employees they may have, but also for themselves and their families. Those in the health gap, whether employer or employed, insured or uninsured, face ongoing risks to their health, their finances, and their livelihood.

### The health gap is widening

The health gap is widening, both in the Northwest and nationwide. Nationally, the percent of the population with health insurance is declining: 2.7 percentage points fewer people worked in private-sector estab-

lishments that offer health insurance in 2004 than did in 2000.<sup>1</sup> This decrease is even greater for employees of small businesses, where there was a 6.8 percentage point drop (from 67.8 percent to 61.0 percent) in the portion of employees who worked for an establishment that offered health insurance during that same period.<sup>2</sup> The decline is even steeper in the Northwest. The percentage of small business employees at firms offering health insurance in Washington dropped by 9.2 percentage points between 2000 and 2004, and in Oregon by 12.7 percentage points.<sup>3</sup>

The evidence is growing that many of those with insurance have insurance that is not adequate to meet their needs. A recent study estimated that, in 2003, almost sixteen million working-age adults were “underinsured” – they were “insured all year but without adequate financial protection,” measured by comparing out-of-pocket medical expenses to income. The study found that, compared to those with adequate coverage, the underinsured were “significantly more likely to go without care because of cost.”<sup>4</sup>

Although public health insurance programs keep millions from falling into the health gap, state governments have not expanded them enough to meet the need. As the number of employees without insurance grows, and many of those who are insured have only inadequate coverage, the health gap widens.

## The health gap disproportionately affects small businesses and their employees

Employees of small businesses, whether “covered” or not, are more likely to find themselves in the health gap. Insurance premiums for small businesses have increased at a faster rate than those of large businesses, yet the quality of their coverage is lower.<sup>5</sup> Their employees receive less coverage for services such as prenatal care and dental benefits, and pay higher deductibles when they receive care.<sup>6</sup> It is not surprising, then, that small businesses offer insurance less often than do larger employers.<sup>7</sup>



---

### Lucio Prado, Ada County, Idaho

*I have lived in Idaho since 1977. About ten years ago my wife and I opened a restaurant in Boise, and a couple of years later I opened a small satellite television business. We have three children: a married daughter and two sons who are studying to be teachers. We have been lucky enough to purchase a home and help our sons go to college.*

*About six years ago we tried to buy insurance for our employees, but the only affordable plan was a catastrophic one with a \$3,000 deductible. I would have paid 80 percent, and the employees the remaining 20. They couldn't afford it, so we all found ourselves uninsured.*

*A little while later I decided to buy health insurance for my family. The only plan we could afford was a catastrophic plan. This insurance works only in the case of an extreme emergency – when I had an operation it covered some of the costs, and when my wife had an operation, too. But still it costs \$600 a month, quite a lot when you think about other bills like our mortgage, automobiles, and tuition. My two sons will stay on this plan until they finish school.*

*The health insurance system is very expensive and constantly worsens. Right now access to medical care has turned into a lucrative business instead of a human right like it should be.*

---

## The consequences of the health gap

Because of the cost of medical care, uninsured people in the health gap have a higher mortality rate and are less likely to receive regular and preventive care.<sup>8</sup> Out-of-pocket costs, like deductibles and copayments, can result in reduced use of effective care, especially among low-income people.<sup>9</sup> Lack of medical care carries significant health risks, especially for medical problems that can be identified and treated early on, such as breast, colon, and cervical cancer.<sup>10</sup> Once in the health gap, it can be very difficult to get out, as the problems of medical debt, illness, and joblessness compound each other.

## Methodology

We surveyed 388 small businesses (those with fifty or fewer employees) from May to August, 2006. The surveys were conducted either in-person or over the phone by NWFCO staff and staff and trained volunteers with community partner organizations. In-person survey subjects were identified through canvassing of business districts in locations selected for geographic balance (leading to overrepresentation of small businesses with storefronts). Participants in phone surveys were identified in two ways: (1) by calling businesses that had previous contact with NWFCO and affiliate organizations; and (2) by identifying businesses in locations selected for geographic balance via the Internet. The survey largely consisted of multiple choice questions, but also included some open-ended questions. Respondents were also allowed to make comments beyond the scope of the specific questions. Survey collectors recorded comments made in response to both kinds of questions.

In Idaho, surveys were collected from businesses in Boise, Burley, Twin Falls, Nampa, Eagle, Orofino, Lewiston, Jerome, and Montpelier. In Oregon, surveys were collected from businesses in Ashland, Central Point, La Grande, Medford, and Portland. In Washington, surveys were collected from businesses in Ellensburg, Federal Way, Dayton, Sammamish, Olympia, Seattle, Richland, Everett, Tacoma, Burien, Lacey, Edmonds, Walla Walla, and Yakima. On average, the businesses surveyed had 4.85 employees.

In addition to surveys, key informant interviews were conducted with eight small business owners and one small business employee. These interviews were based on a seven-point questionnaire designed to elicit discussion of the interviewee's experience with health insurance, as a business owner and a patient. (Questions not relevant to the small business employee's experience were omitted from his interview.) Portions of some of these interviews are included throughout the report.

---

---

***Compared to large employers, small businesses often have more limited means for purchasing insurance. Yet they pay more for it, while receiving less coverage in the plans they are able to purchase, placing many of them at risk.***

---

---

## Findings

The survey revealed several key findings about small business perspectives on the current health insurance system:

- Although small businesses in the Northwest have many reasons for not providing insurance, the lack of affordable, quality health insurance plans was the most pressing reason.
- Small businesses are responding to the health insurance crisis primarily by increasing employee out-of-pocket costs (such as deductibles and copayments).
- Small businesses are concerned about their future ability to provide health insurance that meets the needs of their employees.
- Finally, small businesses care about having quality health insurance at an affordable price. They would prefer subsidized, comprehensive coverage to choice among somewhat less expensive policies with less than comprehensive benefits.



Ajaz Ahmed,‡ Everett, Washington

*I moved from Pakistan to Everett, Washington with my mother and brother in 1999, when I was 19. I work two jobs, about 35 hours a week at a convenience store, and about 50 hours a week at a gas station, making between eight and nine dollars an hour at each job. I used to work more than 100 hours a week.*

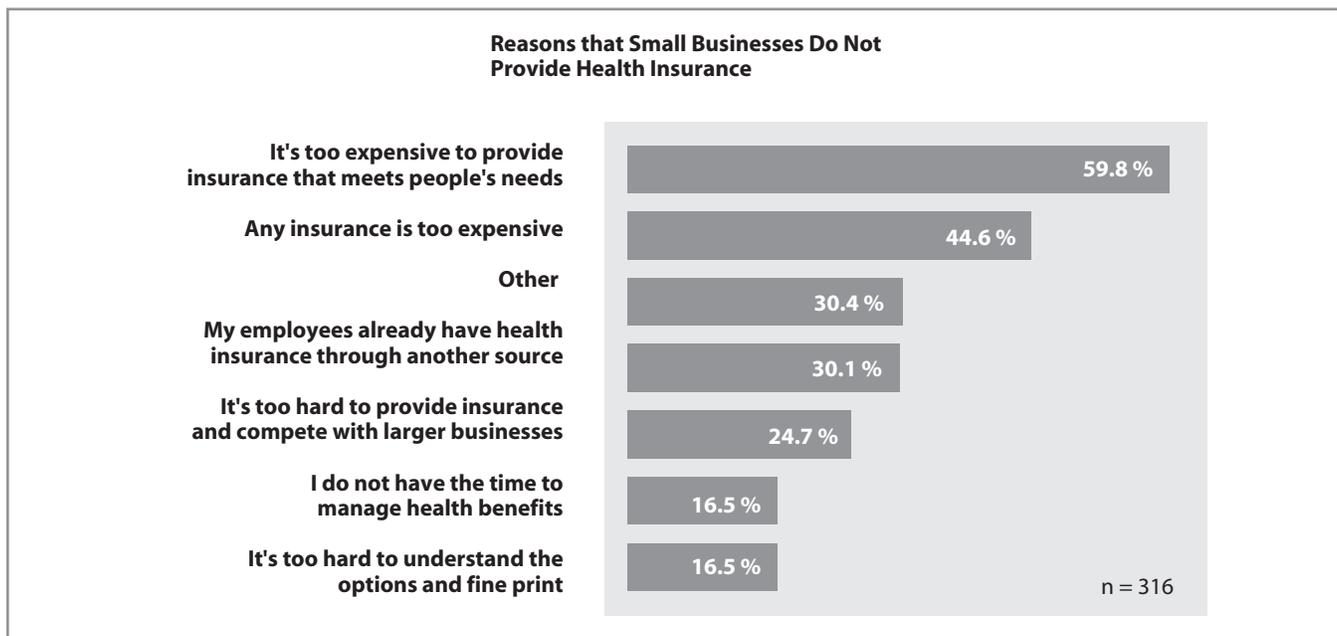
*I work a lot so that I can send money back home to help support my parents and other family members. I also hope that by working hard now I will be able to have a house for my wife and children when I am married and have a family.*

*But neither of my jobs provides health insurance and it is too expensive for me to buy it myself, so I am uninsured. I am fortunate that so far my health has been good and I haven't needed to see a doctor. I know that I should see a doctor every year to have my blood and other things tested. But it's expensive, so I don't do it. I think everyone in the U.S. should have access to health care. I would be willing to pay more in taxes for a health care system that covers everybody. It's the right thing to do.*

## Reasons why small businesses do not currently provide insurance

Among respondents, 67.8 percent do not currently offer health insurance, nor had they offered health insurance in the past two years.

The reason most commonly cited for not providing health insurance is that it is too expensive to provide insurance that meets people's needs. This response (59.8 percent) was distinguished from the comment that any insurance is too expensive (44.6 percent). Survey collectors reported that many small businesses indicated that they likely could purchase some type of insurance for their employees, but that it would fall short of meeting people's needs and be too expensive in comparison to the benefits provided.



‡ A pseudonym has been assigned upon request.

Some respondents felt that providing insurance would make it too hard to compete with larger businesses. A portion also reported finding it challenging to manage health benefits, both because of the difficulty of understanding numerous options and fine print and the time that it takes to manage health benefits

## Small business responses to health insurance premium increases

Of respondents who currently provide coverage or provided it in the past two years (108), 64.8 percent faced increased health insurance premiums in the past two years. Most respondents have not increased the employee share of the health insurance premium. However, many small businesses have taken some action to address the premium increases.

Over ninety percent of respondents increased out-of-pocket costs (such as deductibles and copayments). Many employers indicated to survey collectors that without systemic change, their health insurance rates would keep rising and could force them to make drastic changes to their health benefits.

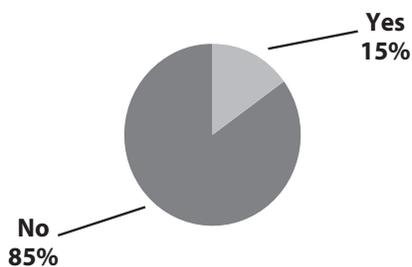


Ron Roth, Ashland, Oregon

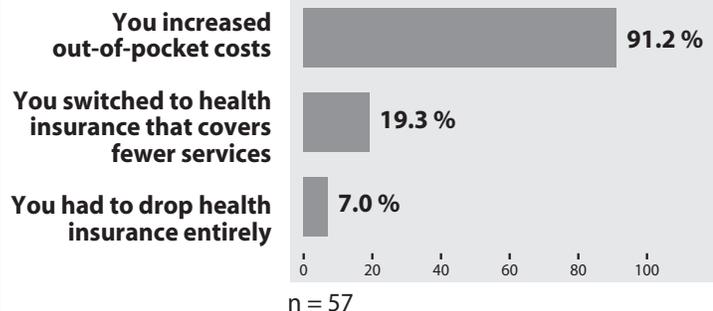
*For twenty-five of the twenty-nine years that I have owned Gepetto's Restaurant, I was able to provide health insurance for my employees. In the beginning, all my employees who worked twenty-five hours a week were covered, with dependent coverage available for full-time employees. As the cost of insurance went up, we had to increase the cost of deductibles and charge employees for a portion of the coverage. Finally, a few years ago, we were no longer able to provide any coverage at all.*

### Small Business Responses to Health Insurance Premium Increases

Have you increased the Employee Contribution to Premiums over the past two years?



Small Business Responses to Premium Increases



## Small business perspectives on the future of health insurance

The health insurance crisis is troubling for small businesses. More than 86 percent of respondents believe that it will be a significant challenge to provide health insurance to employees in the future.

In looking towards future provision of health insurance, most small businesses were again concerned with the value of health insurance – that is, the price of coverage that would meet people’s needs, rather than just with the price of any insurance.

More than 80 percent of respondents said that it would be a challenge to provide insurance because insurance that meets people’s needs would be too expensive. Small businesses chose this survey response at a significantly higher rate than “any insurance is too expensive,” which was selected by 57.3 percent of respondents, and frequently indicated to survey collectors that this was a deliberate choice.

---

***More than 80 percent of respondents said that it would be a challenge to provide insurance because insurance that meets people’s needs would be too expensive.***

---

George Cook, ‡ Gem County, Idaho

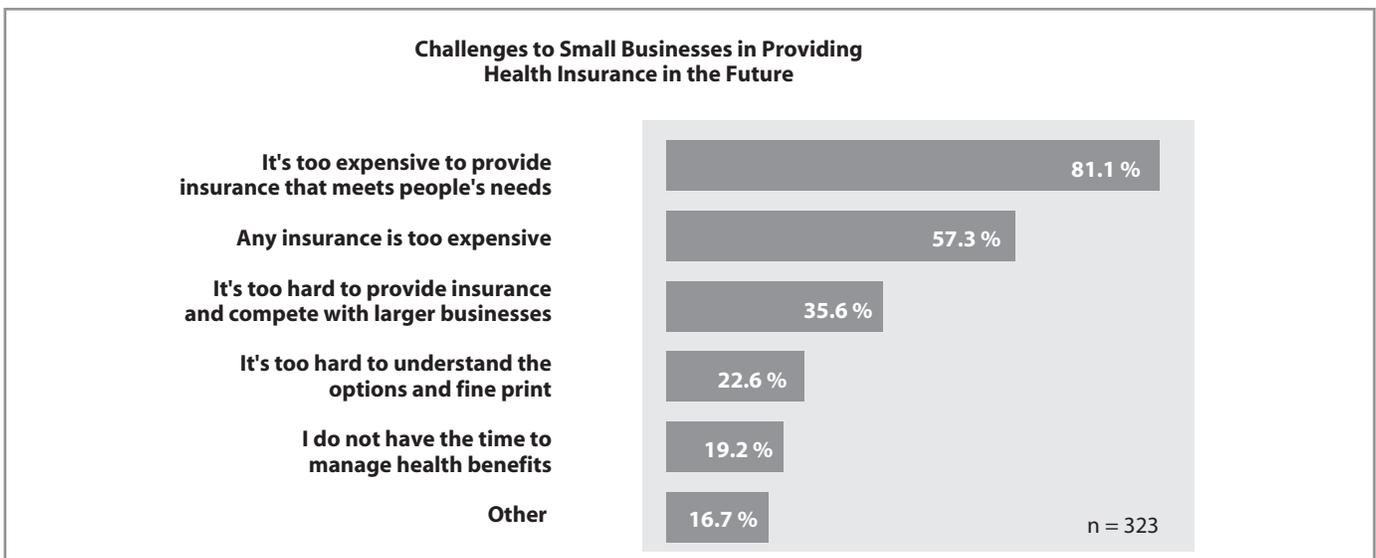
*For over fifteen years my wife and I have run two small businesses, a physical therapy clinic and a second business. Since opening day we have constantly struggled to provide insurance for our family and all of our employees and their families, something most small businesses in our area are unable or unwilling to do.*

*Our initial insurance plan in 1990 had an 80/20 coinsurance split with a \$200 deductible. Each year the insurance company priced the plan 10 to 20 percent higher. After several years the plan became prohibitively expensive, forcing us to switch to a cost-sharing program with a much higher deductible. We recently entered into a new plan with a 70/30 split and a \$500 deductible.*

*These changes resulted in a loss of benefits for our employees, especially those that have a more extensive history of medical needs. Insurance companies are increasing premiums and decreasing reimbursements to providers; due to our field of work we are feeling the pressure on both ends. The quality of health insurance sharply declines while health insurance companies amass enormous reserves.*

*From an ethical standpoint we choose to provide insurance, though we’re not required to. Our personal philosophy as businesses owners is that no one should be deprived of the medical care they truly need just because of financial reasons. However, if the current trends continue we, as owners, and our employees may soon find ourselves in that exact situation.*

‡ A pseudonym has been assigned upon request.



## Small business concerns about the quality of coverage

When given the choice between: (a) choice among a large number of health insurance plans with less than comprehensive benefits and somewhat lower premiums, or (b) access to comprehensive health insurance with premiums subsidized by the state to make it affordable, an overwhelming majority (73.5%) of respondents chose option “b.”

Concern over the quality of coverage is also reflected in the more than three-quarters of respondents who say that mental health services should receive coverage equal to that given other health services in an insurance plan.

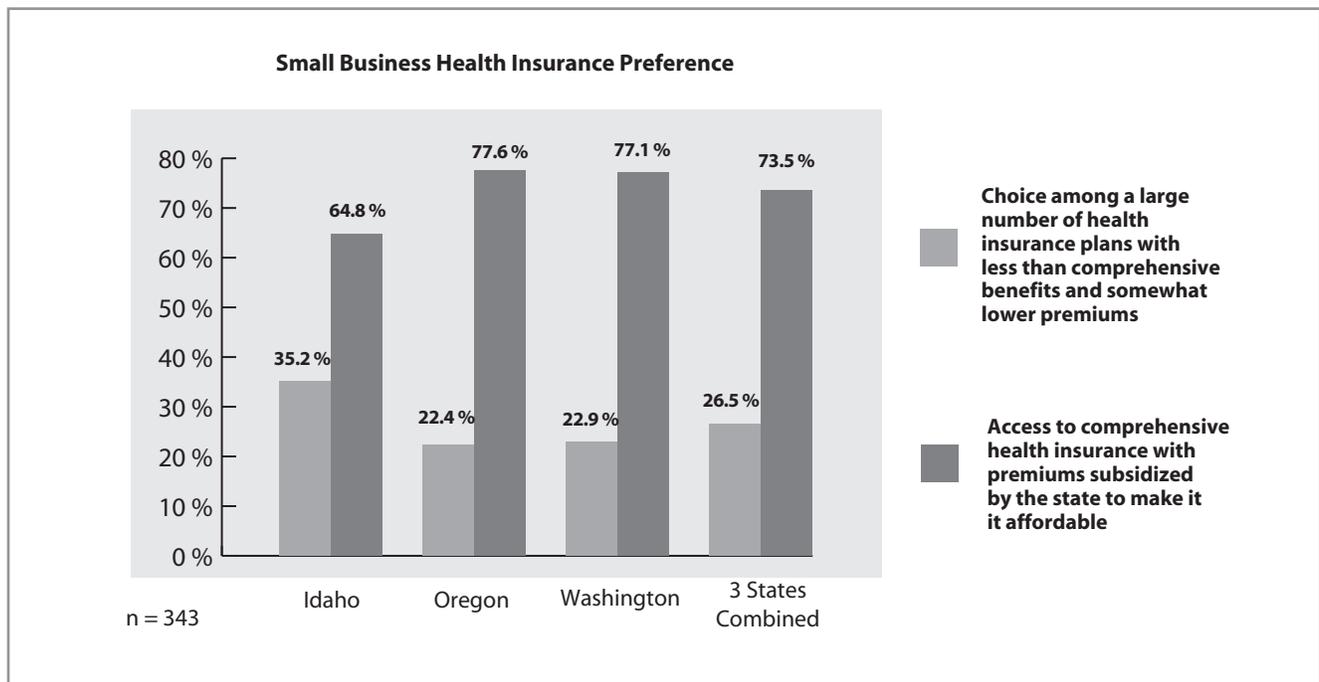
## Conclusions

Small businesses in the Northwest (Idaho, Oregon, and Washington) are struggling to provide insurance for their employees. The lack of insurance that is both affordable and helpful to their employees is the major barrier to coverage for them. As small businesses see their premiums rise, they are responding by

choosing insurance with steeper out-of-pocket costs, such as copayments and deductibles.

The experiences of small businesspeople in the Northwest are consistent with national trends. Across the country, compared to large businesses, small employers pay more for less and are seeing their premiums rise at higher rates. As small business owners opt for insurance that imposes greater out-of-pocket costs, more of their employees (and more owners themselves) are falling into the health gap, at great risk to their financial wellbeing and their health.

Health is a primary responsibility of state governments. As a result, closing the health gap – and ensuring access to care for all residents of the region – should be a high priority for state policy makers across the Northwest. Small businesspeople do not believe that increasing choice among cheaper, less-than-comprehensive plans will resolve the health gap. Acknowledging that quality counts, overwhelmingly they prefer public solutions that put affordable, comprehensive coverage in their hands and the hands of their employees.



## Recommendations for closing the health gap

**Create opportunities for shared responsibility for quality health insurance.** Adequate and shared financing of health care is needed if the health gap is ever to be closed. Small businesses and individuals need opportunities to pool their finances with public sources and larger businesses, such as through buying pools that provide access to comprehensive coverage.

**Increase access to public health insurance programs.** Without public programs like Medicaid, the health gap would be far wider. In fact, the uninsured rate in many states dropped during the 1990s primarily because of expansions of public programs

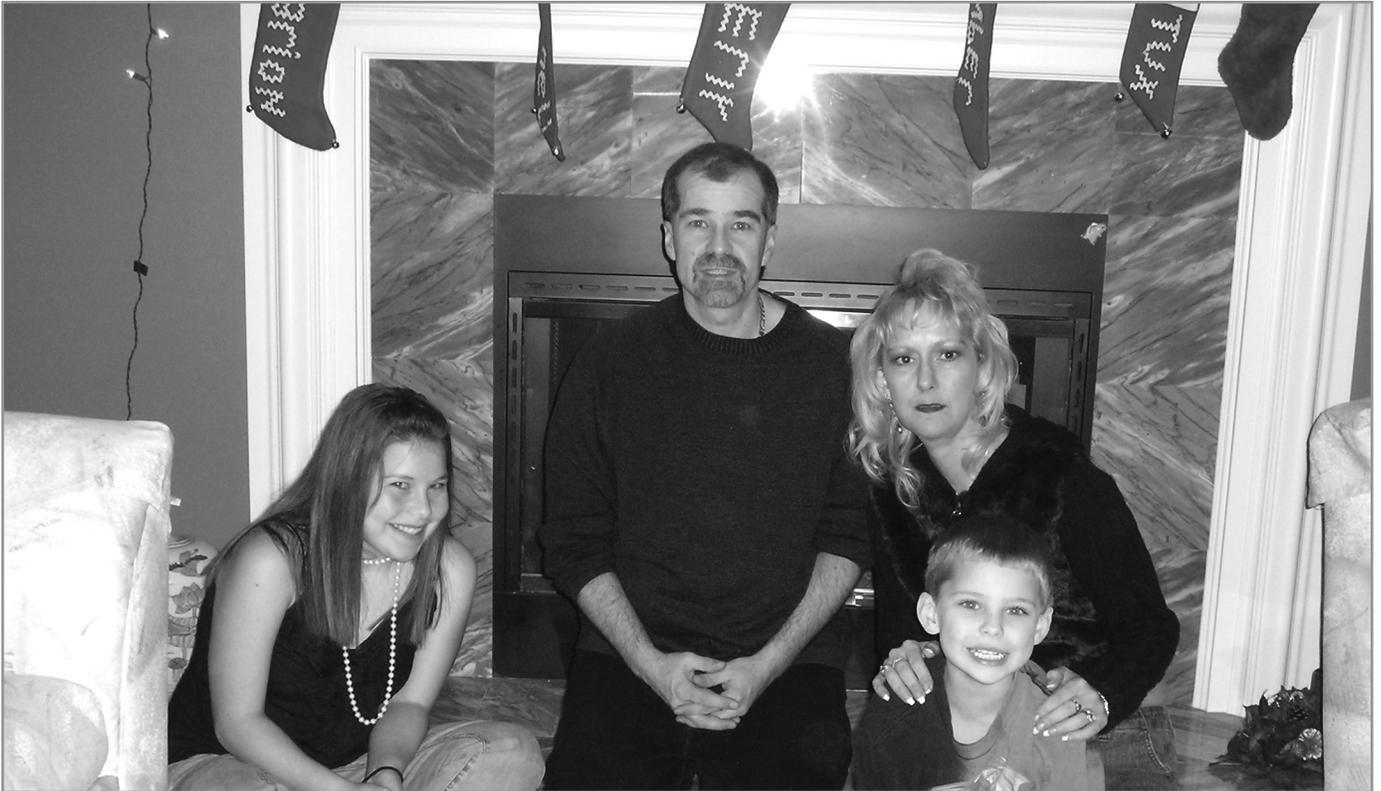
like Medicaid and the Children's Health Insurance Program. Expanding eligibility for these programs while maintaining the quality and affordability of coverage could go a long way toward shrinking the health gap.

**Increase oversight and transparency in private health insurance markets.** Understanding trends in private health insurance markets, such as the rapidly increasing premiums for small businesses, is necessary in order to determine why the health gap is growing. To gain this understanding, insurers must be required to share information about their rating and financial practices.

---

### ENDNOTES

1. Agency for Healthcare Research and Quality, Percent of private-sector employees in establishments that offer health insurance by firm size and State (Table II.B.2), years 2000 and 2004: 2000 (August 2002), 2004 (July 2006), Medical Expenditure Panel Survey Insurance Component Tables, Generated using MEPSnet/IC, <<http://www.meps.ahrq.gov/mepsnet/IC/MEPSnetIC.asp>> (August 11, 2006).
2. *Id.*
3. *Id.*
4. Cathy Schoen, Michelle M. Doty, and Sarah R. Collins, "Insured but Not Protected: How Many Adults Are Underinsured?," Health Affairs, June 14, 2005 [hereinafter "Insured but Not Protected"].
5. Jon R. Gabel and Jeremy D. Pickreign, "Risky Business: When Mom and Pop Buy Health Insurance for Their Employees," Health Research and Educational Trust, April 2004, p. 2.
6. *Id.*
7. Kaiser Family Foundation and Health and Health Insurance Educational Research Trust, "2005 Summary of Findings," Employer Health Benefits 2005 Annual Survey, Exhibit E, p. 4.
8. Kaiser Commission on Medicaid and the Uninsured, "The Uninsured: A Primer," January 2006, p. 7 [hereinafter "The Uninsured: A Primer"]; "Insured but Not Protected."
9. Leighton Ku and Victoria Wachino, "The Effect of Increased Cost-Sharing in Medicaid: A Summary of Research Findings," Center on Budget and Policy Priorities, rev. July 7, 2005.
10. "The Uninsured: A Primer."



---

Michelle Moulton, Sammamish, Washington

*My husband and I own a small painting contracting business with four to ten employees, depending on how busy we are. We give one of them \$320 extra each month towards health care, but we can't afford to offer insurance, especially good coverage. Finding quality insurance for our own family has also been a challenge. When we bought a plan, I thought we had researched our options and chosen well, but now I know how naïve I was.*

*Beforehand, we were told x-rays were covered – but when my daughter broke and dislocated her elbow, requiring major surgery, the bills started coming in and the insurance company was paying almost nothing. It turns out surgical fees needed to exceed \$16,000 before the claims department would make substantial payments – and that's just one example. For several years, my daughter needed x-rays to ensure blood supply around her elbow and, again, we couldn't meet the minimum. The insurance company sold us their "physician card" that would cover about 50 percent*

*of an office visit – but I have yet to find a physician that accepts the card. Then I was misdiagnosed with an immune disorder and underwent chemotherapy for almost a year. The bills that our insurance did not cover came to approximately \$30,000.*

*To pay the debt, we stopped saving for retirement and our kids' college and refinanced our house. Now, because of my history, insurance companies won't cover us. Even though I had been misdiagnosed, just having undergone the chemo makes me too risky.*

*We have only been able to qualify for an extremely barebones policy through the National Association of the Self-Employed. This continues to leave us tremendously exposed to financial uncertainty and unable to truly care for our health care needs. We need our elected officials to guarantee access to comprehensive, affordable health care for everyone, regardless of your medical history, your income, or how small a business you work for. Health insurance shouldn't just be for the wealthy and the healthy.*

# 2006 Northwest Health Gap Study: **Quality Health Insurance Out of Reach for Small Businesses**

## About the organization releasing this report



Northwest Federation of Community Organizations (NWFCO) is a regional federation of four statewide, community-based social and economic justice organizations located in the states of Idaho, Montana, Oregon, and Washington: Idaho Community Action Network (ICAN), Montana People's Action (MPA), Oregon Action (OA), and Washington Citizen Action (WCA). Collectively, these organizations engage in community organizing and coalition building in 14 rural and major metropolitan areas, included the Northwest's largest cities (Seattle and Portland) and the largest cities in Montana and Oregon. 1265 South Main Street Suite #304, Seattle, WA 98144, Voice: (206) 568-5400, Fax: (206) 568-5444, Web: <http://www.nwfc.org>