



Business Size and the Uninsured in California (Small Business Is Not *THE* Problem)

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It is well known that approximately 85% of the uninsured in California (and in the rest of the U.S.) are either workers or dependents of workers. It is also well known that small businesses are much less likely to offer employer-sponsored insurance than large businesses. The combination of these two observations has encouraged politicians and policy analysts at both the state and federal levels to propose a variety of measures designed to increase the availability and affordability of coverage for small businesses and their employees.

Examples of policies aimed at increasing coverage rates for small-business employees include: small group insurance market reform; the establishment of purchasing cooperatives, such as California's PacAdvantage; President Bush's proposal to establish Association Health Plans; and proposals to provide subsidies to small businesses that offer insurance. These include programs that have been implemented in Massachusetts and Michigan, a proposal for federal subsidies introduced by Senator Debbie Stebanow (D-MI), and Senator Kerry's proposal to provide a 50% subsidy to small businesses that offer insurance.

To assess the likely effects of such policies we estimated the proportion of the uninsured that are accounted for by small businesses that do not offer insurance and the likely response of businesses to offers of subsidized coverage, using the following data sources: household data from the California Health Interview Survey and the Current Population Survey to describe the employment and firm size status of the uninsured in California; a survey of small employers in San Diego to estimate the insurance status of employees at small businesses that do not offer insurance; results of an experiment we conducted in San Diego in which small businesses that did not offer insurance were offered subsidized coverage at a variety of different prices for two years; and the Current Population Survey to analyze whether any states have significantly higher rates of coverage than would be expected among employees of small businesses.

Findings

- Full-time workers at small businesses that do not offer insurance (and the dependents of these workers) account for 20% of the uninsured in California. This is clearly a substantial fraction, although it is also clear that the large majority of the uninsured are in other circumstances: workers in a business that offers insurance, workers in a larger business that does not offer insurance, the self-employed, the part-time employed, or members of a household without any workers.
- Among small businesses (2 to 50 full-time employees) in San Diego, 27% do not offer insurance. However, over one-half of the small businesses that do not offer insurance have either no uninsured employees or only one uninsured employee.
- San Diego has very few small businesses that both do not offer insurance and have substantial numbers of uninsured employees. The businesses that do not offer insurance and have more than a handful of uninsured employees are not quite so rare as a needle in a haystack, but are very hard to find. Of the 40,000 small businesses in San Diego, fewer than 1,000 do not offer insurance and have at least 10 uninsured full-time employees.
- When small businesses in San Diego that do not offer insurance were offered coverage at heavily subsidized prices, the response was modest. When businesses were offered an employee-only policy for \$60 per month (for a policy whose market value was approximately \$150 per month), only approximately 20% purchased the coverage.
- At \$20 per month for an employee-only policy, approximately 40% purchased; at \$100 per month, approximately 13% purchased. Price clearly does matter—lower prices result in more sales—but even at \$20 per month, which is almost a giveaway, many owners were not interested in the product.

- Most small-business owners are insured themselves (83% in our experiment), but among the 17% of owners who were themselves uninsured, interest in subsidized coverage was much greater: at \$60 per month, 52% of these businesses purchased the product (compared to 14% in the businesses in which the owner was insured).
- Analyzing the level of coverage among workers in small businesses across the 50 states, only in Hawaii is coverage substantially higher than would be expected based on workers' demographic and employment characteristics. In Hawaii, we would expect (based on national trends and the characteristics of Hawaiian workers) that 57% of workers would have employer-sponsored insurance, but the actual rate is 77%.

Conclusions

Small employers that do not offer insurance contribute less to the overall problem than is commonly thought. Furthermore, small employers are not very responsive to offers of subsidized insurance. Because small employers are not such a big target, and are not very responsive to subsidized insurance, policies aimed at reducing the number of uninsured by providing subsidies

to small employers are not likely to be very effective in reducing the number of uninsured.

If we want to substantially reduce the number of uninsured, other approaches—such as expansions of public coverage for individuals, or requirements that employers and employees contribute toward coverage—are needed.

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