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In this issue...

Between 2000 and 2002, the number and percent of employed Tennesseans lacking health insurance increased as fewer small firms offered coverage, and fewer employees that were offered coverage enrolled.

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**TRENDS IN EMPLOYER-SPONSORED INSURANCE IN
TENNESSEE: A DOWNWARD SPIRAL?**

Employer-sponsored health insurance (ESI) remains the most common form of private health insurance in the United States. However, recent national trends suggest that the proportion of employees covered by ESI is falling. The most common reason given for this decline is the escalating premiums paid by both the employer and the employee that reduce the affordability of coverage for each.

In this *Special Bulletin*, we will (a) provide information about ESI coverage in Tennessee in 2002 as an update to our previous report based on 2000 data, and (b) identify significant trends in coverage between 2000 and 2002. Findings suggest that the role of ESI in providing health insurance in Tennessee is limited and declining, especially for employees of small businesses.

What Data Were Used in this Report? The data used in this analysis were derived from the Insurance Component of the Medical Expenditure Panel Survey (MEPS-IC) conducted by the Agency for Healthcare Research and Quality. This survey includes information from a representative sample of private-sector businesses and households from which estimates can be made of the amount, types and costs of health insurance available through the workplace.

How Many Companies Offer Insurance to Their Employees?

Findings about the private-sector companies that offer ESI to their employees included the following (Figure 1):

Only half (53.6%) of all firms in Tennessee offered ESI to their employees in 2002.

The percentage of all firms offering ESI fell between 2000 and 2002. The percent of all firms offering ESI fell by 4.7 percentage points (58.3% vs. 53.6%) and, as a result, 112,465 fewer employees were offered ESI in 2002 than in 2000.

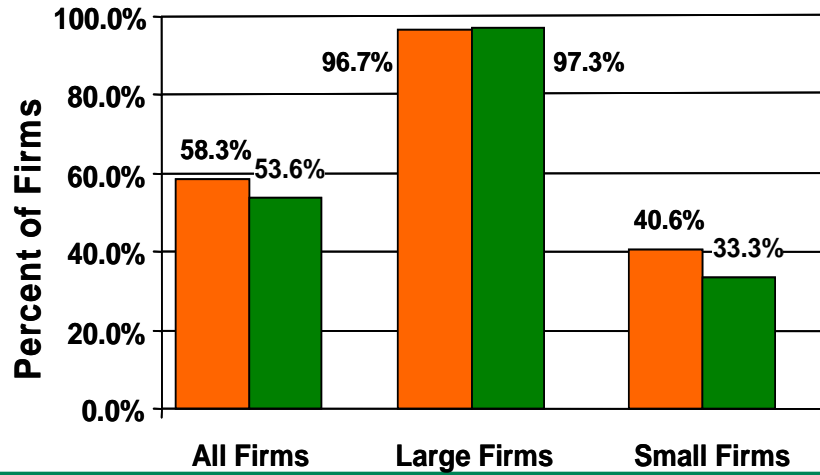
Small firms, that is, those with fewer than 50 employees, offered ESI to their employees much less often than did larger firms. Only 33.3% of small firms offered ESI whereas 97.3% of large firms did.

In addition, fewer small companies offered ESI in 2002 than in 2000. The proportion of small companies offering ESI fell by 7.3 percentage points (40.6% vs. 33.3%). In contrast, the percent of large companies offering ESI rose.

How Many Employees Are Offered ESI and How Many Enroll?

Data on the number of employees in private-sector firms in Tennessee in 2002 are shown in Figure 2. The data depict the three variables that determine the final proportion of employees who are covered by ESI - the proportion of all employees working in firms that offer ESI; the proportion of employees of firms that offer ESI who are eligible for ESI;

Figure 1: The percent of all firms, large firms and small firms offering ESI to employees in 2000 (orange bars) and in 2002 (green bars).



and the proportion of eligible employees who actually enroll in ESI.

These findings demonstrated the following:

- In 2002, more than four of every five (81.9%) employees worked in firms that offered ESI. However, only 80% of these workers were eligible for ESI and, of those that were eligible, only approximately 80% elected to enroll.
- Thus, only three out of five (63.6%) employees working for firms that offered ESI and only half (52.1%) of all employees were enrolled in employer-based insurance in 2002.
- Compared to 2000 (Figure 3), the proportion of all employees covered by ESI fell by 3.5 percentage points (55.6% vs. 52.1%). As a result, 27,076 fewer employees in Tennessee were covered by ESI in 2002 than in 2000.
- This reduction reflects a complex change among the three variables that combine to produce the proportion of employees who were enrolled (Figure 3). Compared to findings in 2000, there was a substantial reduction in the percent of employees working in firms offering ESI. The proportion of employees in firms offering ESI that were eligible for ESI increased, while the proportion of eligible employees who enrolled in ESI fell. The overall “take-up rate” (that is, the percent of employees working for firms offering ESI who enrolled, computed as the percent of eligible times the percent of enrolled employees) increased by 1.7%.
- The negative effect of the fall in the proportion of employees working in firms that offered insurance was greater than the positive effect of the increased take-up rate, so that the proportion of employees covered by ESI fell.

What is the Role of Small Businesses in the Trends in ESI? As shown in Figure 4, the proportion of employees in small firms that offered ESI was substantially lower than the proportion of workers in large firms

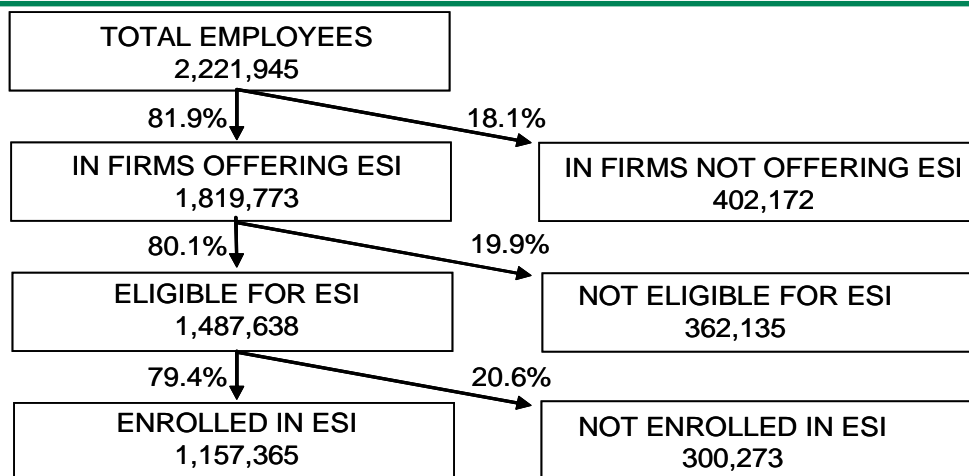


Figure 2: The distribution of employees working for private sector firms based on (a) employment by forms that offer employer sponsored insurance (ESI); (b) eligibility for the ESI that is offered; and (c) enrollment in ESI that is offered and which the employee is eligible.

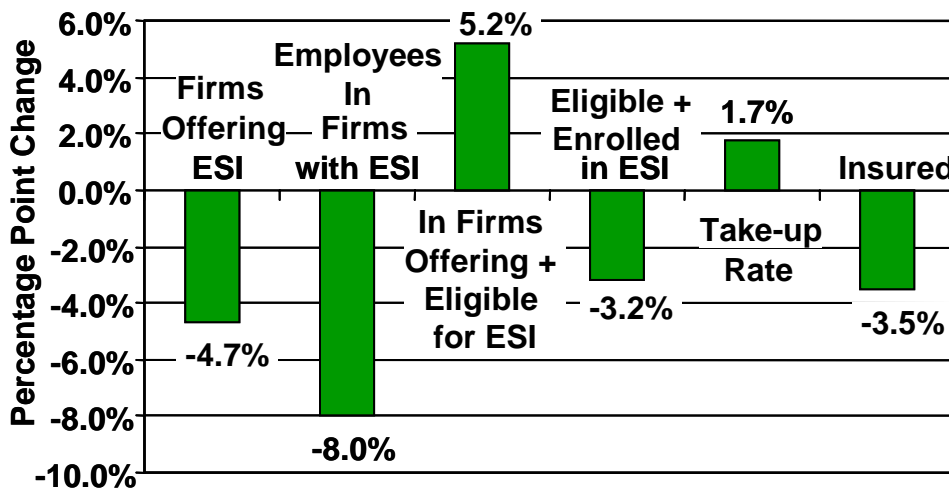


Figure 3: Changes between 2000 and 2002 in the percent of all employees in measures of employer-sponsored insurance coverage (ESI). The vertical axis represents the difference in the percent of employees in each category in 2000 and in 2002.

(45.0% vs. 96.4%). However, the overall take-up rate of ESI was similar among small and large companies (63.4% vs. 63.6%) that did offer coverage. The net effect was that a substantially smaller proportion of all workers in small firms were covered by ESI than of those in large firms (24.5% vs. 61.3%).

Changes in the three determinants of coverage for large and small businesses between 2000 and 2002 are shown in Figure 5. The trends described above for all employees were driven by the changes in small businesses. The proportion of small businesses offering ESI fell by 7.3 percentage points and the number of employees working in small firms offering ESI fell by 16 percentage point; 134,506 fewer Tennesseans worked for small firms that offered ESI in 2002 than in 2000. The net result was a substantial drop in the proportion of small business employees who had coverage; 105,158 fewer employees of small businesses were covered by ESI in 2002 than in 2000. In contrast, the number of large firms offering ESI actually increased slightly.

What are the Implications of these Results? These results demonstrate several concepts critical to understanding why people lack health insurance and to developing strategies to expand insurance coverage. First, in Tennessee, as in the nation, the employer-based model for health insurance is limited; only slightly over half (52%) of all employees in Tennessee had health insurance through ESI in 2002.

The ESI model is weaker among small businesses than among large ones. Of all firms not offering ESI, 98.2% were small firms. While only 28.1% of all employees in Tennessee in 2002 worked for small businesses, 42.5% of all employees without ESI worked for small companies. Thus, the realistic ability of current employer-based health insurance programs to provide broad-based health insurance coverage in Tennessee is limited, especially in small firms.

Second, the trends from 2000 to 2002 indicate that substantial changes in the ESI market occurred over this relatively short period. The major driving factor in the reduction in the percent and the number of employees covered by ESI was the reduction in the number of firms offering ESI to their employees, coupled with a smaller

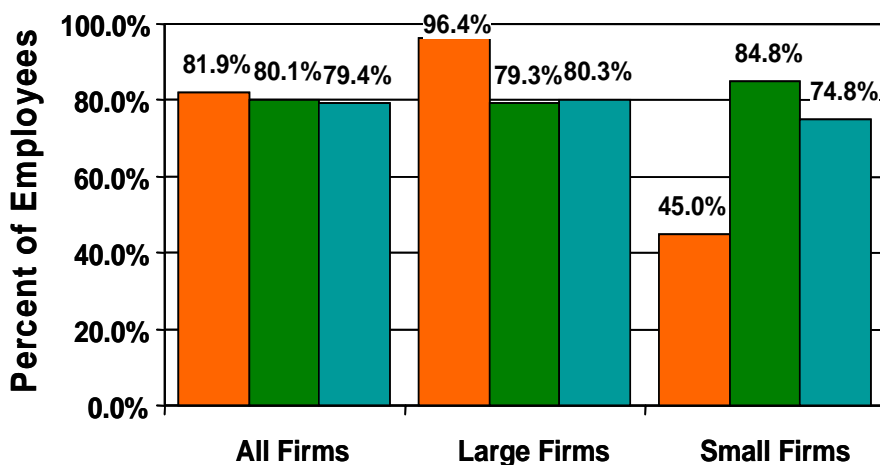


Figure 4: The percent of employees of all firms, large firms (those with 50 or more employees) and small firms who worked in firms offering ESI (green bars), the percent of those in firms offering ESI who were eligible for ESI (orange bars) and the percent of those eligible for ESI who enrolled in coverage (blue bars).

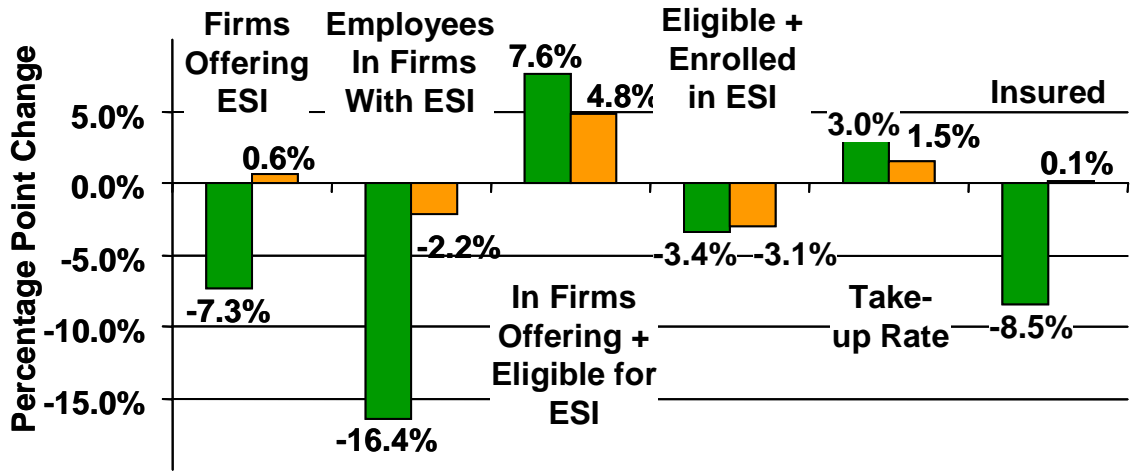


Figure 5: Changes in the percent of employees in large (green bars) and in small (orange bars) firms between 2000 and 2002 in measures of employer-sponsored insurance coverage (ESI). The vertical axis represents the difference in the percent of employees in each category between 2000 and 2002.

fall in the proportion of employees offered ESI who enrolled. Higher costs of coverage to both employers and employees may have been compounded by the availability of alternative publically funded coverage, that is, to “crowd out”.

These trends were greatest for small businesses and their employees. Virtually all the reductions in coverage between 2000 and 2002 were due to changes among small businesses. Notably, the proportion of small business employees working for firms that offered ESI fell by over 16 percentage points and the proportion of small business employees covered by ESI fell by over 8 percentage points in just two years. Thus, small businesses and their employees represent critical targets for various policy and market-based interventions to expand health insurance coverage and, more importantly, to mitigate a further reduction in coverage such as has occurred since 2000.

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