Health Insurance Costs Are Rising for Maine Small Businesses

Prepared for Rep. Tom Allen

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U.S. House of Representatives

May 21, 2001

Table of Contents

Executive Summary i

I. Background 1

II. Objective of the Report 2

III. Methodology 2

IV. Findings 3

A. Health Insurance Costs Are Increasing Rapidly 3

1. The Average Cost of Fee-for-Service Health Insurance Has Increased by 78% for Maine Small Businesses 3
2. The Average Cost of HMO Coverage Has Increased by Almost 60% for Maine Small Businesses 4

B. Small Business Health Insurers Are Consolidating and Leaving Maine . 5

C. Reasons for Increasing Health Insurance Costs for Maine Small Businesses 6

V. Case Studies 6

VI. Conclusion 7

EXECUTIVE SUMMARY

Maine small businesses employ half of Maine's workers and provide health insurance for almost one hundred thousand Maine residents. Unfortunately, providing this health insurance is becoming increasingly difficult for small businesses in the state. Nearly 90% of Maine small businesses are concerned about the high cost of health insurance. Among small businesses in Maine that do not provide health insurance for their employees, cost is cited as the single most important reason.

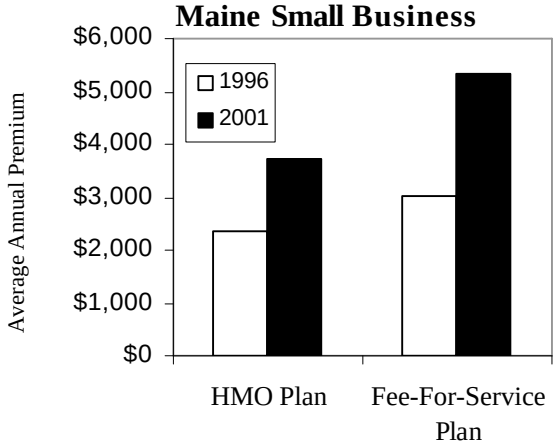
Because of his concern about the high cost of health insurance, Rep. Tom Allen, who represents Maine's 1st Congressional District, requested that the Special Investigations Division of the minority staff of the Committee on Government Reform investigate the cost and accessibility of health insurance for small businesses in Maine. This report, which presents the results of this investigation, contains the first detailed analysis of the changes in cost and accessibility for Maine small businesses.

The analysis in this report is based upon data obtained from the Maine Bureau of Insurance. State law requires that insurance companies and HMOs which offer coverage to small group employers report their premiums on an annual basis for defined "standard" and "basic" health insurance plans. This pricing data from 1996 to the present was used to determine changes in cost and changes in availability of small business health insurance plans.

The report finds:

- **The average cost of fee-for-service health insurance has increased by 78% for Maine small businesses.** The average premium for a standard fee-for-service health insurance plan offered to Maine small businesses has increased by 78% between 1996 and 2001. In 1996, the average annual premium was $3,005 per employee. The average annual premium rose to $5,350 in 2001 (Figure 1). One insurer raised its premium by more than $2,500 per employee over this period. Another insurer increased its premiums by 32% in the last year alone.

Figure 1: Health Insurance Premiums Are Rising Rapidly for Maine Small Business



- **The average cost of HMO coverage has increased by almost 60% for Maine small businesses.** The average premium for a standard HMO plan offered to Maine small businesses has increased by 58% between 1996 and 2001. In 1996, the average annual premium was $2,350, compared to $3,708 in 2001 (Figure 1). HMO premiums appear to be rising especially rapidly in recent years. In 1999 and 2000, the average premium for standard HMO coverage increased by 49%. **If this trend were to continue, the cost of HMO coverage for small businesses would more than double over the next four years.**

- **Small businesses health insurers are consolidating and leaving Maine.** In recent years, small businesses have fewer choices because many insurers have dropped

out of the small business market. In 1996, 23 insurers (19 fee-for-service insurance companies and four HMOs) reported prices for small business coverage to the Maine Bureau of Insurance. Since then, many insurers and HMOs have either dropped out of the market or merged. By 2001, only 13 insurers (nine fee-for-service insurance companies and four HMOs) were offering coverage to small businesses. The companies that dropped out of the market included several lower-priced companies, further exacerbating the price increases faced by small businesses.

- **Rising prescription drug costs play a key role in rate increases.** One of the key reasons why health insurance rates have risen for small businesses in Maine is that medical costs have increased 26% between 1996 and 2001. The main component of this increased medical spending is increased spending on prescription drugs. Drug spending has almost doubled since 1996, leading a recent study to conclude that "the primary culprit behind the recent growth in underlying health care expenses is prescription drugs."

A series of interviews with small businesses in Maine indicate that increasing health insurance premiums are creating severe problems for these businesses, forcing them to reduce health benefits and shift costs to employees.

I. BACKGROUND

The cost of health insurance for Maine small businesses is a critical statewide issue because almost one hundred thousand employees and dependents receive health insurance coverage from small businesses. The vast majority of Maine citizens -- 69% -- receive health care coverage through their employers. Small businesses (those with fewer than 50 employees) employ half of all Maine workers. Many of these employees and their dependants would lose their health insurance if Maine small businesses were no longer able to provide coverage. For these reasons, the Maine Center for Economic Policy concluded that "the ability or inability of small businesses to provide employee health coverage is . . . a crucial factor in Maine's overall health access picture."[1]

Historically, small businesses in Maine and other states have had a difficult time providing health insurance for their employees. In order to assist these small businesses, the Maine legislature enacted several laws to promote health insurance access and affordability for small group purchasers.[2] The most prominent legislation, passed in 1992, enacted community rating requirements which prohibited insurance carriers from charging differing premiums based on gender, health status, claims experience, or policy duration. In addition, the legislature established requirements that guarantee the "issue and renewal" of insurance policies for small businesses.[3]

While these measures have reduced some of the problems faced by small businesses in obtaining health insurance, Maine small businesses continue to have difficulty affording health insurance for their employees. A 1996 federal survey of Maine small businesses found that over 68% of firms with fewer than 10 employees and 39% of firms with 10 - 24 employees did not offer health insurance to their employees. In contrast, over 90% of larger firms offered health insurance to their employees.[4]

The high costs of health insurance create serious problems for Maine small businesses. Almost 90% of these small employers report that the cost of health insurance causes financial concern. Cost concerns are the single most important reason that small businesses do not offer health insurance. Of Maine small businesses that are not offering coverage to their employees, 63% attribute their failure to do so to high costs.[5]

Even when small businesses offer coverage, many employees may not be able to take advantage of this coverage because of high premiums. Employers are being forced to raise deductibles, reduce benefits, and shift premium costs to employees.[6] These problems affect the ability of employees to pay for health insurance, even when some of the cost is covered by their employer. Nationwide, 20% of employees do not take up coverage when it is offered by their employer.[7] At many Maine small businesses

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[1]Maine Center for Economic Policy, *At Risk: Small Business Health Coverage in Maine*, 4 (Aug. 2000) (online at www.mecep.org/atrisk).

[2]*See id. at 12-13.*

[3]*Id.*

[4]Health Affairs, *Private Employer-Sponsored Health Insurance: New Estimates by State* (Jan. - Feb. 2000).

[5]*At Risk: Small Business Health Coverage in Maine*, *supra* note 1, at 9.

[6]*Id.*

[7]Health Affairs, *Job-Based Health Insurance, 1977-1998: The Accidental System Under Scrutiny* (Nov./Dec. 1999).

(24%), more than half of eligible employees do not sign up for insurance coverage.[8] These problems hit lower paid employees the hardest because they have the most difficult time affording health insurance.[9]

A number of state and national surveys indicate that health insurance premiums are rising rapidly. Nationwide, between 1999 and 2000, health insurance premiums rose 8.3% -- more than twice as fast as the inflation rate.[10] In Maine, more than 40% of small businesses responding to a survey conducted by the Maine Center for Economic Policy reported that they experienced premium increases of more than 10% during their most recent insurance renewal.[11] These increasing premiums could have a potentially devastating effect on access to health insurance in Maine, causing small employers to decrease health coverage or drop coverage altogether.

II. OBJECTIVE OF THE REPORT

Because of the problems posed by the high cost of health insurance, Rep. Tom Allen, who represents Maine's 1st Congressional District, requested that the Special Investigations Division of the minority staff of the Committee on Government Reform conduct an investigation of rising health insurance premiums for Maine small businesses. Specifically, he requested an investigation of the rate at which premiums are rising for Maine small businesses, the reasons for these rate increases, and their potential impacts on employers and employees.

This report presents the results of the investigation requested by Rep. Allen. It is the first report to provide a detailed analysis of the changing cost and accessibility of health insurance for Maine small businesses.

III. METHODOLOGY

This report is based on an analysis of data on health insurance cost and availability for small businesses collected by the Maine Bureau of Insurance. Under state law, any health insurer or HMO that enters the small business market must offer two plans with standardized benefits, a "standard" plan and a less expensive and less generous "basic" plan.[12] Insurers are required to report small employer premiums for these basic plans under a variety of different options for deductibles (ranging from $250 - $1,500).

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[8] *At Risk: Small Business Health Coverage in Maine*, *supra* note 1, at 9.

[9] *Id.*

[10] *Private Employer-Sponsored Health Insurance: New Estimates by State*, *supra* note 4.

[11] *At Risk: Small Business Health Coverage in Maine*, *supra* note 1, at 10.

[12] The defined "standard" coverage includes 80% coinsurance for up to $1,000 of medical costs, then 100% coverage, with a lifetime maximum of $2,000,000 in costs. The coverage also includes emergency room services and coverage for an unlimited number of days of needed hospital care, 100 days of skilled nursing care, and 80% of the cost of home health care visits. Standard coverage also includes prescription drug coverage and substance abuse and mental health coverage. The defined "basic" coverage includes 60% coinsurance for up to $1,000 of medical costs, then 100% coverage, with a lifetime maximum of $1,000,000 in costs. Hospital care under the basic plan is limited to 60 days of coverage per calendar year, and skilled nursing care is not covered. Copays for prescription drug coverage and emergency room care are higher under the basic plan than the standard plan. Coverage for substance abuse, mental health care, and home health care is more limited under the basic plan than the standard plan. Maine Bureau of Insurance, *What Maine Small Employers Should Know About Health Insurance* (2001) (online at http://www.state.me.us/pfr/ins/smallemp.htm).

The minority staff obtained current and historical information on the available plans and the premiums for the standard and basic plans from 1996 to the present. The report analyzed the costs of the standard and basic plans with a $500 deductible.[13] Because HMO plans generally do not have deductibles, insurers report only one price for the standard plan and one price for the basic plan. The costs of these plans were used in the analysis of changing cost and availability of health insurance plans.

The standard and basic plans are not the only plans offered by insurers in Maine. Indeed, it is probable that the majority of plans sold by insurers in the state differ from the standard or basic plans. Insurers offer plans with a variety of different options, and these plans may cost more or less than the standard or basic plans. However, according to state law, the costs of these plans must be "actuarially consistent" with the reported costs of the basic and standard plan.[14] Thus, because they are actuarially consistent, and because the definitions of the standard and basic plans used by the state have remained substantially unchanged since 1996, the reported costs provide a consistent basis of comparison to estimate changes in the cost of health insurance for small employers.

In addition to analyzing pricing data from the Maine Bureau of Insurance, the Special Investigations Division, in conjunction with the staff of Rep. Allen, interviewed several small businesses in Maine. These interviews were used to develop case histories that illustrate difficulties that small businesses in Maine encounter in providing health insurance to their employees.

IV. FINDINGS

A. Health Insurance Costs Are Increasing Rapidly

1. The Average Cost of Fee-for-Service Health Insurance Has Increased by 78% for Maine Small Businesses

The data on small business health insurance premiums from the Maine Bureau of Insurance indicates that health insurance costs are rising rapidly. Overall, the average premium for the standard fee-for-service health insurance plan offered to Maine small businesses has increased by 78% between 1996 and 2001. In 1996, the average annual premium per employee was $3,005. In 2001, the annual average premium rose to $5,350.

Anthem Blue Cross Blue Shield is the largest provider of fee-for-service insurance coverage for small businesses in Maine. It was formed when Anthem purchased Blue Cross Blue Shield in April 2000. Between 1996 and 2001, the annual cost of the standard plan offered by Blue Cross Blue Shield, and now sold by Anthem Blue Cross Blue Shield, increased by more than $1,000 per employee, from $2,360 to $3,471. The majority of this increase occurred in the last three years, as the price of standard fee-for-

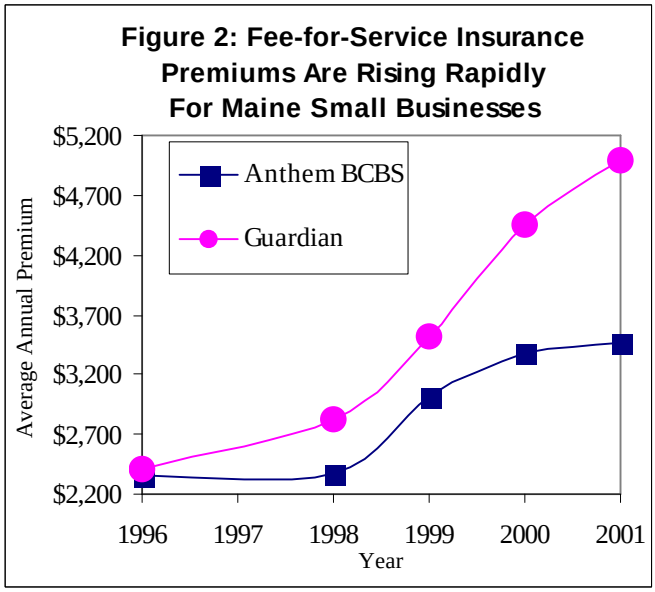
[13]Plans with a $500 deductible were selected for analysis because this is a common choice among employers. If plans with other deductible levels had been analyzed, the results would have been similar. During the period analyzed in this report, the rate of increase in health insurance premiums is not significantly affected by the deductible level.

[14]Department of Professional and Financial Regulation, Bureau of Insurance, *Chapter 940, Requirements for Health Insurance Rate Filings and Data Reporting,* sec. 9(C)(5). This requirement went into effect in March 2001. However, experts with the Maine Bureau of Insurance believe that insurers have been consistently reporting actuarially consistent prices since 1996.

service coverage increased by 46% between 1998 and 2001.

Another health insurer that has raised significantly raised premiums between 1996 and 2001 is Guardian Life Insurance. The price of a standard fee-for-service policy from Guardian increased by more than $2,500 annually during this period, from $2,413 in 1998 to $4,997 in 2001 (Figure 2). This is an increase of 107%.

Aetna, which provides health insurance to almost 2,000 small business employees and dependents in Maine, had one of the largest increase in premiums last year. According to the data from the Maine Bureau of Insurance, the

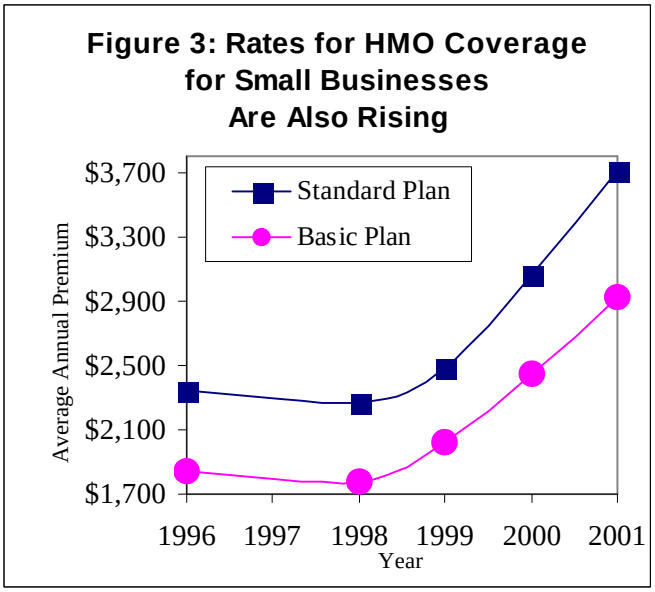


annual cost of Aetna's standard fee-for-service plan increased by 32% between 2000 and 2001, from $2,231 to $2,947 annually.

2. The Average Cost of HMO Coverage Has Increased by Almost 60% for Maine Small Businesses

The cost of purchasing insurance coverage from HMOs is also increasing rapidly. In 1996, there were four HMOs that offered coverage to Maine small businesses: Harvard Pilgrim Health Care, Healthsource Maine, Inc., HMO Maine (BCBS), and NYL Care of Maine. The average annual premium for a standard plan offered by these four HMOs was only $2,349. This year, there are also four HMOs that offer coverage to Maine small businesses: Aetna U.S. Healthcare, CIGNA Healthcare, HMO Maine (Anthem BCBS), and Maine Partners. The average annual premium for a standard plan offered by these four HMOs is $3,708. This represents an increase of almost $1,400 per employee. (Figure 3).

Over this five year period, the cost of standard coverage offered by CIGNA increased by 79%, the cost of standard coverage offered by HMO Maine increased by 50%, and the cost of standard coverage offered by Aetna increased by 41%. A similar trend was observed in the cost of basic coverage. Between 1996 and 2001, the average cost of the basic HMO plan offered to Maine small businesses increased from $1,841 to



$2,926, an increase of 59%.

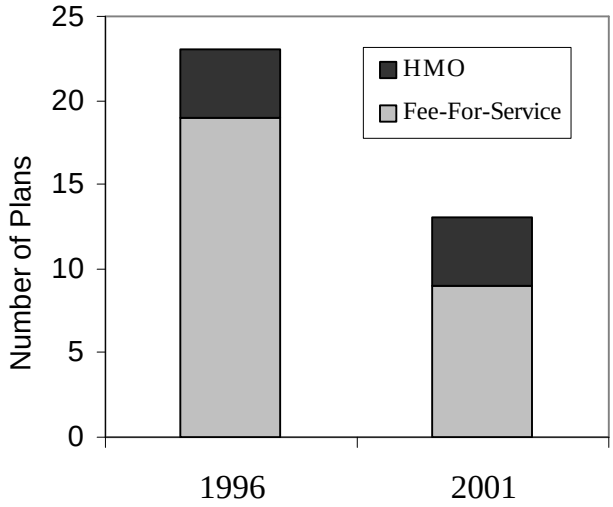
An analysis of the data on HMO costs indicates that costs have been increasing especially rapidly in recent years. In 1999 and 2000, the average cost of standard HMO coverage increased by 49%. This accounted for the vast majority of the total increase in cost over the five year period. **If this trend were to continue, the cost of HMO coverage for small businesses would more than double over the next four years.**

B. Small Business Insurers Are Consolidating and Leaving Maine

In addition to increasing premiums, data provided by the Maine Bureau of Insurance indicates that small businesses have fewer choices of health care insurers now than they did in previous years. Many health insurance companies and HMOs are merging or dropping out of the small business market, exacerbating the problems caused by increasing premiums. In 1996, 19 different insurance companies offered fee-for-service plans to Maine small businesses. By 1998, only fourteen companies offered small businesses these plans. This year, only nine companies are registered with the state to offer fee-for-service health insurance plans to small businesses, and of these nine companies, two -- Anthem Blue Cross Blue Shield and United Health Care -- sell more than 70% of all policies sold to small businesses in Maine. A similar pattern is observed with HMOs. In 1998, seven HMOs sold health insurance plans to small businesses, but this year only four HMOs offer these plans.

Overall, 23 insurers (19 fee-for-service insurance companies and four HMOs) were registered to offer policies to Maine small businesses in 1996, but only 13 insurers (nine fee-for-service insurance companies and four HMOs) are currently registered to offer health insurance plans (Figure 4).

Figure 4: Small Business Insurers Are Consolidating and Leaving Maine



A number of these companies have dropped out of the market entirely. In other cases, companies have been purchased. For example, Aetna purchased New York Life, and Cigna purchased Healthsource, in each case creating one larger insurance company out of two smaller companies.

This reduced choice has a particular impact on small businesses because many of the companies that are dropping out of the market are those that offered the lowest premiums. For example, three of the five insurance companies that offered the lowest premiums for fee-for-service plans in 1996 (Prudential, CUNA, and Principal Mutual) are no longer offering insurance to Maine small businesses in 2001. Similarly, Tufts Associated Health Plans, which was the second least expensive HMO in 1998, has gone out of business.

The decline in the number of insurers offering plans to small businesses may be related

to the small size of the Maine market. If this is the case, more choices of health care insurers would not necessarily reduce the cost of health insurance for small businesses.

C. Reasons for Increasing Health Insurance Costs for Maine Small Businesses

There are several reasons why health insurance premiums are rising rapidly. One reason is that overall medical spending is increasing. Between 1996 and 2001, overall medical spending per patient increased by 26%.[15] This increase in spending was driven by increases in the cost and use of medical services.

Increased spending on prescription drugs accounts for the largest percentage of the total increase in spending on medical care. Between 1996 and 2000, prescription drug spending almost doubled, increasing by an average of over 14% annually.[16] One study found that increases in prescription drug spending accounted for 40% of the total increases in spending on medical care.[17] The authors concluded that "the primary culprit behind the recent growth in underlying health care expenses is prescription drugs."[18]

Underlying trends in the insurance underwriting cycle also account for part of the increase in premiums. According to industry analysts, many insurance companies made unexpected profits in the early 1990s because health care spending grew at a slower rate than anticipated. As a result, insurers cut rates to compete for new markets. However, in recent years, health care spending has increased, leading to underwriting losses. This has resulted in health insurance premiums that are rising even faster than health care costs.[19]

V. CASE STUDIES

Interviews with a number of Maine small businesses revealed that increasing health insurance costs are causing severe problems for employers and employees. These interviews revealed that virtually every small business owner has experienced significant increases in health insurance premiums in the past year. In some cases, employers have been forced to absorb the additional premiums; in others, they have been forced to reduce coverage or pass on the additional cost to their employees.

For example, a Portland-area restaurant with 26 employees has experienced a significant increase in costs despite reducing coverage and increasing employee copays. Last year the business, which receives coverage through an HMO, was forced into a new plan with significantly higher copays in order to avoid a large price increase. This year, the cost of coverage increased by more than 20%, from $1,836 annually per employee to $2,256 annually per employee. Although the business has traditionally paid 75% of the costs of employee coverage, it is now being forced to require employees to pay for the entire increase. The restaurant has mostly young workers, has had no major claims, and was told by its insurance agent that the main reason for the increase was rising prescription drug costs. According to the owner,

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[15] *See* Health Affairs, *Tracking Health Care Costs: Inflation Returns*, 217 (Nov./Dec. 2000).

[16] *Id.*

[17] Health Affairs, *Private Employer Sponsored Health Insurance: Premiums Rise Sharply While Coverage Grows*, 144-151 (Sep./Oct. 2000)

[18] *Id.* at 150.

[19] *See Tracking Health Care Costs: Inflation Returns*, *supra* note 16.

it is likely that some of the employees will drop coverage because of the cost increase.

A public relations firm in southern Maine faces similar problems. This small business has 17 employees and pays 80% of insurance premiums for employees who have been working for the company for one year or longer. Because of the high costs of coverage, employees must pay 100% of the premium for dependents. When the company renewed coverage in 2001 the company received a 20% increase in premiums, with the premium increasing from $2,448 to $2,952 annually for single employees, and the premium increasing from $7,236 to $8,628 for family coverage. To avoid even higher premium increases, the company was forced to restructure the plan with higher copays, increasing costs for employees. As a result of the changes, the office visit copay increased from $10 to $15 and a hospital copay of $240 per visit was added to the plan. In addition, the prescription drug plan changed from a $5 copay for all drugs to a tiered plan of $10 for generic drugs, $15 for preferred brand name drugs, and $30 for other brand name drugs. According to the owner, dropping insurance is out of the question because of competition for employees. However, the owner stated that if next year brings similar premium increases, the company will again be forced to redesign the benefit structure.

Another company, a small manufacturing firm with 23 employees in Cumberland County, also faces a combination of increasing premiums, reduced coverage, and increased cost-sharing for employees. The company offers coverage through an HMO. This year, its premiums increased by 25%, to $2,520 annually per employee. Before the cost increases, the company paid 95% of the cost of coverage. However, as a result of the increases, the employer has reduced its share of the cost to 87%. In a further effort to reduce the cost of coverage, the copays for an office visit doubled, from $10 to $20. The owner is adamant that "health insurance is an absolutely necessary benefit to retain high quality employees." However, he has stated that if faced with a similar premium increase next year, he will again ask employees to pay a higher proportion of the premium and may also look at reducing other benefits like life, disability, or dental insurance.

At a small nonprofit agency serving parts of Cumberland and Sagadahoc Counties, many employees have been forced to drop coverage because of increasing costs. This agency has about 70 employees, most of whom earn under $10 an hour. Employees working 20 or more hours per week are eligible for health care benefits. Employees must now pay 50% of the single premium and 100% of the costs of dependent coverage. In 1995, the annual cost of health insurance was less than $1,800 for single coverage, the agency paid 100% of the premium, and almost 90% of eligible employees (27 of 31) were covered under the agency's policy. However, by this year, health insurance costs increased by more than $1,000, to $2,800 annually. Because of these increasing costs, many employees can no longer afford to join the plan. Only 26% of eligible employees (16 of 61) are now covered under the agency's health care policy.

VI. CONCLUSION

Small businesses play a critical role in providing health insurance access to Maine citizens. Half of all Maine employees work for small businesses, and the majority of these employees rely on their employers to provide them with health care coverage. Rising health insurance costs for small businesses could result in severe reductions in overall health insurance coverage. These rising prices could also place small businesses at a disadvantage in attracting employees and competing with larger businesses

that can purchase more affordable health insurance.

This analysis found that health insurance premiums for small businesses are rising rapidly. Between 1996 and 2001, average health insurance rates rose by 78% for fee-for-service coverage and by 58% for HMO coverage. A large part of this increase was driven by increasing health care expenses, particularly for prescription drugs. The problem of increasing premiums for Maine small businesses was exacerbated by the fact that many insurers are dropping out of the market, leaving Maine small businesses with fewer choices.

Case studies of Maine small businesses indicate that increasing insurance premiums are forcing businesses to reduce benefits or require employees to pay for a greater share of health insurance costs. If this trend continues, many Maine workers will no longer have access to employer sponsored health insurance.