



**Report on  
The Quarterly Survey of Businesses Served by  
Professional Employer Organizations**

**November 2006**

**National Association of Professional Employer Organizations (NAPEO)**

**NAPEO**

901 North Pitt Street, Suite 150, Alexandria, Virginia 22314

Phone: (703) 836-0466 Fax: (703) 836-0976 Web Site: [www.napeo.org](http://www.napeo.org)



## Most Small Business Owners in the First Survey of Its Kind Oppose Making Private Employers Provide Health Insurance

EMBARGO UNTIL DECEMBER 4, 2006

America is trapped in a healthcare crisis. Healthcare costs continue to grow twice as fast as wages and inflation, undermining the competitiveness of American business, and more people every year face the financial and health risks of being uninsured. The incoming Congress will grapple again with soaring drug prices this session – and small businesses especially face stark choices regarding offering their employees healthcare plans.

Against this backdrop, the National Association of Professional Employer Organizations, or NAPEO, is starting to survey its PEO members' clients – mostly small businesses – every quarter about workplace issues, starting with questions about healthcare. More than 720 of these companies from around the nation, most with fewer than 50 employees, responded to the first survey in November.

Small businesses hire professional employer organizations, or PEOs to, share certain employer responsibilities and operate as a human resources department. PEOs enable their clients to cost-effectively outsource the management of human resources, employee benefits, payroll and workers' compensation.

NAPEO's first quarterly survey found:

- **Nearly two-thirds (64%) of the respondents said state and local governments should not require employers to provide health benefits.** Laws mandating health benefits were proposed in more than 40 states and in several municipalities this year and are expected to be debated again in 2007.
- **The vast majority (95%) of the companies responding offer healthcare plans and will not raise employees' share of the cost of their health benefits in 2007.** Only half the companies in America with fewer than 10 employees offer health insurance, according to the Kaiser Family Foundation. PEOs sponsor health plans for their business clients or reduce the headaches of administering the plans, so it's not surprising that the workers of most of the respondents have health insurance. Most of these companies will hold the line on employees' contributions even though employer-sponsored health plan premiums rose an average 7.7 percent this year.
- **A majority of the business owners who responded blamed insurance companies (69%) and malpractice suits (71%) for rising health costs.** Far fewer respondents blamed employees for over-using insurance benefits (33%) or medical providers (41%).
- **More than half (55%) said their employees are interested in wellness and prevention programs.** While some recent healthcare surveys say wellness programs have yet to make a significant dent in costs, reducing healthcare costs is just one reason for them. They also reduce absenteeism, on-the-job injuries and workers' compensation costs, and disability-management costs. Businesses focus on these health management programs to sustain employee productivity as they face of an aging workforce and the signs of health threats, such as obesity.

- **Most small business owners in the survey (91%) said salary is the most important attraction for recruiting talent, but seven in 10 said a healthcare plan is also very important.** That squares with what workers say, too. In other surveys, workers list compensation and healthcare benefits as the top two reasons they are attracted to, and stay with, a company.

“If America is going to resolve the healthcare crisis, it will take all hands on deck,” said Milan P. Yager, executive vice president of the trade association. “The small business owners and operators in this survey – working with their PEOs – are champions of healthcare options that match today’s workforce. Employers and employees both want the freedom to do so without government telling them how much and how long. That’s the essence of a free market solution.”

## Analysis of the *NAPEO’s Workplace Today* PEO Client Survey Results

**Question 1:** For 2007, what change if any will you make to the amount each employee pays towards your healthcare program? (Choose one.)

Question 1	Response Percent
Will decrease portion paid by employee	4%
<b>No change in current amount</b>	<b>74%</b>
1% - 5% increase in portion paid by employee	8%
6% - 10% increase in portion	5%
11% or greater increase in portion paid by employee	3%
Not applicable – no employee health benefit program	5%
<b>Note: All figures rounded to nearest percentage point. Several respondents did not complete this question.</b>	

**The vast majority (95%) of the NAPEO survey respondents offer healthcare plans and will not raise employees’ share of the cost of their health insurance plans in 2007.** They will hold the line on employees’ contributions toward the plan premiums, even though employer-sponsored health plan premiums rose an average 7.7 percent this year. Holding the line on employees’ contributions is not unusual – many companies large and small aren’t contemplating raising this amount, either. Where most employers *are* making employees reach into their own pockets is in actual expenses at the point of service, such as higher deductibles and co-payments for medical care and prescription drugs.

Question 1 pertains to the portion employees pay toward single and family coverage, generally using a payroll deduction plan the PEO administers. NAPEO did not ask about the point-of-purchase expenses, including deductibles and co-pays. PEOs offer options that give employees ways to manage medical costs. Such options can include health savings accounts, flexible savings accounts, HMOs or PPOs.

In its most recent “National Compensation Study,” the Bureau of Labor Statistics found that 71 percent of workers in private establishments had access to medical benefits. In NAPEO’s member research, more than three-quarters (76%) of worksite employees covered by PEO arrangements were offered health benefits in 2006.

The NAPEO survey results imply that PEO business clients view the provision of healthcare plans as a priority – and through their PEOs they can offer these benefits.

Since the year 2000, health insurance premiums have grown by 87 percent, compared with cumulative inflation of 18 percent and cumulative wage growth of 20 percent, according to the Kaiser Family Foundation. During this period, the percentage of workers covered by their own employer has fallen, the Kaiser study found. However, relatively few employers offering health benefits report that they are very likely or somewhat likely to drop coverage (6%) or limit eligibility (6%) in the next year.

**Question 2: What do you think contributes to the rising cost of healthcare premiums? Rank each one in terms of its impact, with “1” as “least impact” and “5” as “most impact.”**

Question 2	Least 1	2	3	4	Most 5	Important/ Most important
Insurance companies	3%	6%	22%	<b>30%</b>	<b>39%</b>	<b>69%</b>
Litigation/malpractice	3%	9%	18%	<b>32%</b>	<b>39%</b>	<b>71%</b>
Medical providers	6%	14%	39%	29%	12%	41%
Medical technology	6%	16%	34%	28%	16%	44%
Prescription drugs	3%	10%	27%	35%	25%	60%
Over-utilization of health plan	14%	24%	29%	19%	14%	33%
State-mandated coverage	25%	30%	29%	10%	6%	16%
<b>Note: Some respondents did not rate all of the options.</b>						

**A majority of the business owners who responded blamed insurance companies (69%) and malpractice suits (71%) for rising health costs.** Far fewer respondents blamed employees for over-using insurance benefits (33%) or pointed to medical providers (41%), although Americans tagged the providers and insurance companies as major drivers of higher costs when polled prior to the November 2006 elections.

In other surveys, employers think the insurers will have a role in cost controls. A study by United Benefit Advisors found that only 28 percent of employers (versus 30% in 2005) believe the primary responsibility for controlling healthcare costs resides with the parties directly involved – employees, physicians and hospitals. Almost all responsibility is given to intermediaries – insurers/health plans, government and employers.

As employees invest more in their healthcare coverage and medical expenses, they need more information and more choices. If they work with a small business and have a PEO on their side, they have the advantage of access to information and health plan options. “While companies are trying to cut healthcare costs, they also need to provide more information to employees and offer choices. PEOs are perfectly poised to fill this need,” said NAPEO’s Milan Yager.

**Question 3: Do you think local or state governments should mandate that employers provide healthcare benefits to employees?**

Question 3	Response Percent
Yes	36%
No	<b>64%</b>

Nearly two-thirds (64%) said state and local governments should not require employers to provide health benefits. Such mandates clearly will not sit well with business owners who work with PEOs. They already offer health plan options in most cases. They’ve been watching legislative initiatives requiring certain employers to provide some level of healthcare benefits to employees as these bills swept the country in 2006. Over the course of the year, legislation was introduced in more than 40 states and in several municipalities mandating healthcare coverage.

Small business owners, even those who already offer insurance, worry about increasing regulation. So it is not surprising that business owners in this survey generally oppose a blanket requirement to offer healthcare plans. What may be more surprising is that 36 percent *do* think governments should mandate that employers provide healthcare coverage. Part of the explanation may be that these business owners anticipate their PEOs will help them navigate any new requirements.

The public is more likely to favor mandated health coverage. Nearly four out of five (79%) of those polled by Kaiser said they favor requiring businesses to offer health insurance to full-time employees. Nearly two-thirds (64%) said companies additionally should be required to cover part-time workers.

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**Question 4: Are your employees showing an interest in wellness programs and health improvement?**

Question 4	Response Percent
Yes	<b>55%</b>
No	50%
<b>Note: Several respondents Skipped this question.</b>	

More than half (55%) said their employees are interested in wellness programs and health improvement. While some recent healthcare surveys say wellness programs have yet to make a significant dent in costs, reducing healthcare costs is just one reason for such programs. In addition to slowing the demand for medical services, wellness programs provide economic benefit by reducing absenteeism, on-the-job injuries and workers’ compensation costs, and disability-management costs. Employers also focus on health management programs as a way to sustain employee productivity as they face an aging workforce and the signs of health threats, such as obesity.

Health management is widely regarded as one of the most promising cost management strategies available to employers today, according to a report on a survey last winter by Mercer Health & Benefits LLC and Marsh, Inc. Health management initiatives range from health risk screenings to far more coordinated, comprehensive approaches. The survey defined health management as “a set of programs or resources beyond those offered on a standard basis as part of a medical plan that enables employees to stay healthy, manage chronic conditions or recover from serious illness or injury.”

The Mercer/Marsh survey found that among employers of all sizes, 34 percent offer a few health management programs on a voluntary basis; 15 percent offer several programs designed to address needs at all stages of the health continuum; and 11 percent offer a comprehensive program. Asked about their primary objective for the program, the greatest proportion of respondents said it was to control rising healthcare costs (88%), and many said that promoting greater employee responsibility for health was an objective (76%).

A 2006 study by Hewitt Associates found that most employees aren't effectively managing their healthcare and are looking to employers to provide resources that can help them make better and more informed decisions throughout the year. While the majority of employees believe their companies provide sufficient tools and information to choose and use their health plans, only half say they used those tools.

PEOs and other employers are recognizing that tools such as health risk questionnaires can help influence healthy behaviors by helping employees more easily understand and address their healthcare needs. The key is catching their interest. The NAPEO survey respondents say that door of interest is open in their workforces.

**Question 5: What do you consider essential to recruiting talent? Please rank in important, with "1" as "least important" and "5" as "most important."**

Question 5	Least 1	2	3	4	Most 5	Important/ Most important
Company culture	3%	7%	18%	40%	32%	72%
Educational assistance	29%	34%	22%	11%	4%	15%
Flextime	13%	22%	33%	22%	10%	32%
401(k)	8%	17%	38%	27%	10%	37%
Good management/HR practices	2%	7%	29%	39%	23%	62%
Healthcare plan	2%	4%	24%	43%	27%	70%
Salary	0%	1%	8%	30%	61%	91%

**Most small business owners in the survey (91%) said salary was the most important attraction for recruiting talent, but seven in 10 said a healthcare plan is also very important.** That squares with what employees say, too. In other surveys, employees list compensation and healthcare benefits as the top two reasons they are attracted to, and stay with, a company. These business owners are listening to the talent marketplace, even when others are miscalculating workers' priorities.

The Society of Human Resource Management recently asked employees about the importance of 21 aspects of the work environment commonly associated with job satisfaction. They cited compensation (70%), benefits (66%), job security (64%), work/life balance (58%) and feeling safe in the workplace (57%) as very important aspects of job satisfaction. These findings are nearly the same as the results for 2005 – except that the order of compensation and benefits is reversed.

On the other hand, human resources professionals rated benefits and compensation as the third and fifth most important, the SHRM report notes. They underestimated just how important these two factors are to keeping employees happy.

Two out of three employees in a 2006 Watson Wyatt survey said healthcare benefits are an important reason to stay with their company. In that research, 22 percent of top-performing employees cited healthcare benefits as one of the top three reasons they *leave* a company.

Clearly employees look to companies to offer healthcare benefits. The small businesses in the NAPEO survey understand this – and because they work with PEOs, they can act on this knowledge and offer these benefits.

NAPEO survey respondents pegged company culture as the third most important attraction, and good management and HR practices as fourth. Fortunately for these small businesses, they have the PEOs' human resources professionals to provide guidance on their workplace practices and help them create a workplace culture that will give workers the opportunity to thrive.

### **Survey Methodology**

The November 2006 *NAPEO's Workplace Today* Quarterly PEO Client survey was conducted November 1 through November 9, 2006. NAPEO invited its member PEOs to participate by agreeing to ask the owner-operators of their client firms to take part in the national NAPEO survey. The PEOs sent an electronic message to a contact at each of their designated clients. The message contained an explanation of the NAPEO survey and a link to an electronic questionnaire at a secure, nationally recognized survey site. The survey contained five questions and asked for the respondent's company location (state) and number of workers. All responses were anonymous. NAPEO received responses from 726 business owner-operators.

### **About the National Association of Professional Employer Organizations (NAPEO)**

NAPEO, the National Association of Professional Employer Organizations, is the recognized "Voice of the PEO Industry.®" NAPEO has approximately 370 PEO members found in all 50 states, representing more than 70 percent of the revenues of the \$51 billion PEO industry. To learn more about the PEO industry and how PEOs contribute to small businesses' success, visit the NAPEO Web site, [www.napeo.org](http://www.napeo.org), or contact NAPEO headquarters at (703) 836-0466 in Alexandria, Virginia.

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