
Business & Employee Insurance Issues Among U.S. Small Businesses

**A Report on Survey Research Conducted for
The National Association of Insurance Commissioners**

March 2007



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I BACKGROUND

This report highlights the findings from a national telephone survey of small business owners/managers, conducted on behalf of the National Association of Insurance Commissioners (NAIC) by ICR (International Communications Research) in March 2007. The research was designed to profile the business and employee insurance issues, needs and perceptions of small businesses across the U.S.

A total of 501 interviews were completed with a nationally representative sample of small businesses (defined as having less than 100 employees).

Survey dates were March 15 – 28, 2007.

II SPECIAL NOTES & DATA PROCESSING

- Periodically, as part of their “SmallBizEXCEL” omnibus survey, ICR targets the completion of 500 interviews with a nationally representative sample of small business owners and managers. Results reported herein reflect questions included in the SmallBizEXCEL interviews in March 2007.

SmallBizEXCEL establishes targets for interviewing based on (1) number of employees, (2) type of business, and (3) region. The targets for number of employees are a stratification of the sample across four employee range groups (1-9 employees, 10-19 employees, 20-49 employees, and 50-99 employees). The targets for type of business and region are in proportion to the universe. In the end, the results are balanced by these three variables to reflect the universe of small businesses (see Appendix B for a sample breakdown).

- Where sample size is adequate, results herein are presented by two determinants of company size: # of employees (‘under 20’, vs. ‘20 or more’), and annual revenue (‘under \$1million’, vs. ‘\$1million or more’). Where relevant, these comparative results were tested for statistical significance, at a 95% level of confidence. When results were found to be significantly different, a small arrow is inserted between the two numbers, pointing in the direction of the significantly higher number.

- Maximum error ranges for the results shown in the tables (at a 95% confidence level) are as follows:

<u>Sample Size</u>	<u>Maximum error range</u>
501 (Total).....	+/- 4.4 points
288 (1-19 employees)	+/- 5.8 points
213 (20-99 employees)	+/- 6.7 points
223 (Annual revenue < \$1million)	+/- 6.6 points
186 (Annual revenue ≥ \$1million)	+/- 7.2 points

III KEY FINDINGS

Incidence by Type of Insurance

- Over 90% of the small businesses surveyed have property and liability insurance, and 61% have workers' compensation insurance. Just under half (48%) have commercial auto insurance, suggesting that many may be relying on personal auto policies for their business coverage.

Not surprisingly, as company size grows (in terms of both # of employees and revenue), likelihood to have these types of policies increases. For example 51% of small businesses with annual revenues of less than \$1 million have workers' compensation coverage ...vs. 95% of small businesses with revenues of \$1 million or more.

The same holds true for business interruption insurance: One third of firms with revenues under \$1 million had such coverage, vs. 48% of the higher-revenue firms. Even more dramatic differences were observed based on # of employees: One-third of small businesses with less than 20 employees had business interruption insurance, vs. almost 60% of firms with 20 to 99 employees.

- In terms of employee insurance coverage: 47% offered employee health insurance, 26% offered disability, 24% had life insurance and 21% had dental coverage. Here too – regardless of the type of employee insurance – likelihood of offering such coverage was substantially greater as company size increased.
- 12% of the small business owners/managers do not have health insurance for themselves. Interestingly, of the 88% who do have health coverage, the majority have their coverage through a source other than their business: Among owners/managers who have personal health insurance, nearly two-thirds of them are utilizing another source for this insurance.

The likelihood of having personal health insurance – and the likelihood of having such insurance through one's company – significantly increases as company size increases: For owners/managers of small businesses with annual revenues of \$1 million or more, virtually all (99%) had health insurance, and 60% had coverage through their firms. For owners/managers of firms with revenue under \$1 million, 86% had health insurance, and only 26% had such coverage through their business.

- As one might expect, incidence of having health insurance for one's family closely parallels the personal health coverage pattern: 84% of small business owners/managers have health insurance for their families ...but here again, the vast majority (roughly three-quarters) rely on a source other than their business for such coverage. And once again, as company size increases, likelihood of having coverage for one's family – and likelihood of having that coverage through the business – significantly increases.

The Impact of Rising Costs

- Twenty-four percent of the business owners/managers whose companies had employee health plans acknowledged that they had made changes to the fee structure, deductibles or other components of the plans in the past year to offset the cost of premiums. Interestingly, here there was not a discernible pattern based on company size. Whether based on # of employees or annual revenue, larger firms were no more or less likely to have adjusted components to offset cost than were smaller firms.
- Had any of these firms ever dropped or reduced business or employee coverage to offset other expenses? Seven percent said that, indeed, they had dropped or reduced coverage for this reason in the past.
- If more affordable, what insurance benefits would these small business owners/managers like to offer to their employees? For 16% the answer was “health insurance.”

Key Person Insurance

- Not surprisingly, small businesses are extremely dependent on just a few key people for their success and viability. Among these owners/managers, 71% say that they are “very dependent” on only one or two key people. And even though this is significantly less likely to be the case as company size increases, the fact is that even among the firms with \$1million+ annual revenue, almost half still acknowledge that they are “very dependent on one or two key people to keep operations running smoothly.”
- In light of this dependence, how prevalent is “Key Person Insurance”? Among these small businesses, 22% have “Key Person Life Insurance” and 15% have “Key Person Disability Insurance” (with 7% of businesses having both types of coverage).

The smaller firms may be the one's who are extra-dependent on one or two key people, but they are less likely to have "Key Person Life Insurance": Likelihood of having such coverage increases significantly as company size increases. Interestingly, however, likelihood of having "Key Person Disability Insurance" appears to be little affected by company size.

Home-Based Businesses

- Twenty-two percent of small business owners/managers run their businesses from home. Among businesses run from home, just under half (48%) depend on their homeowner's insurance to protect their businesses, and 8% have no insurance at all to protect their property.