The Health Benefits Squeeze: Implications for Delaware Nonprofit Organizations and Those They Serve

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Delaware's nonprofit organizations are not immune from the impacts of the significant increases in health benefit costs that have affected other segments of the nation's economy over the recent past. To the contrary, they are being especially hard hit, experiencing higher than average health benefit cost increases and finding it necessary to shift a disproportionate share of the resulting burden to their employees (already paid less than in other sectors) in order to reduce the impact on the populations they serve. Even so, these increases are already affecting access to nonprofit services for children, families, the elderly, and the public at large, and these effects seem likely to increase in the future if current trends continue, as they appear likely to do.

These conclusions emerge from a recent survey of nonprofit organizations in Delaware just completed as part of the Listening Post Project at the Johns Hopkins Center for Civil Society Studies.[1]

More specifically, this Sounding found:

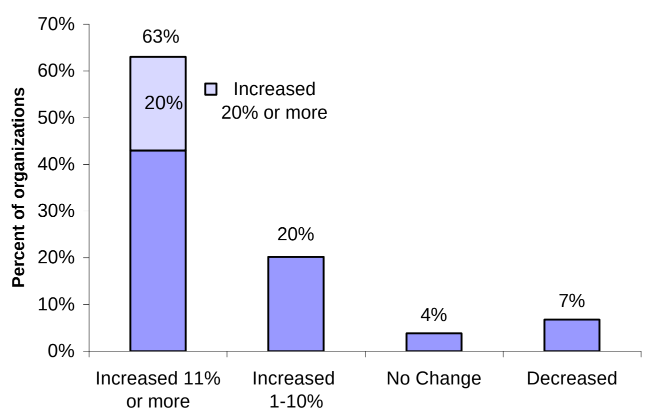
Delaware Nonprofits Hit Hard by Rising Health Benefit Costs

Delaware nonprofit organizations have experienced especially large increases in health benefit costs over the past year. In particular:

- At a time when overall health benefit increases averaged 9.2 percent nationwide,[2] Delaware nonprofits averaged a 12.7 percent increase. In fact, nearly two thirds (63 percent) of the respondents reported health benefit increases of 11 percent or more, and for 20 percent of these the increase was in excess of 20 percent (see *Chart 1*). Moreover, among the 84 percent of organizations reporting increases in health benefit costs, the average increase was over 15 percent.

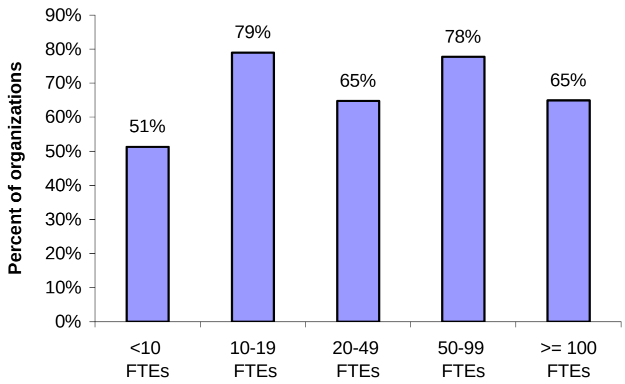
- This pattern of rapidly escalating health benefit costs affected virtually all segments of the nonprofit sector surveyed. Seventy-nine percent of relatively small organizations (10-19 employees) reported health benefit cost increases of 11 percent or more, but so did 65 percent of relatively large organizations (more than 100 employees) (see *Chart 2*).

Chart 1: Change In Health Benefit Spending Over the Past Year



n=104
SOURCE: Johns Hopkins University Nonprofit Listening Post Project

Chart 2: Share of Nonprofits Experiencing Large (11+%) Health Benefit Cost Increases, by Size of Organization



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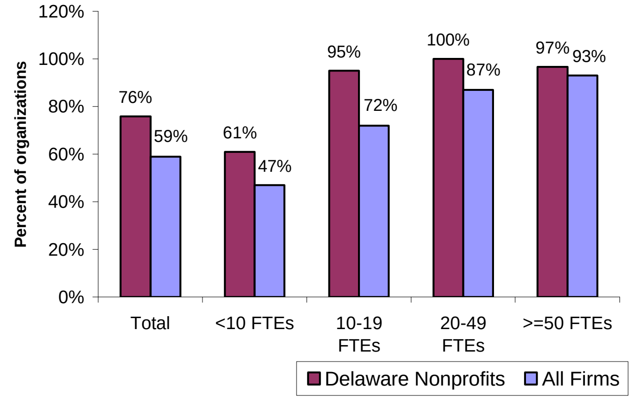
SOURCE: Johns Hopkins University Nonprofit Listening Post Project

Chart 3: Share of Delaware Nonprofit Organizations and All Firms with Healthcare Benefits Coverage, by Size of Organization



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Data on "All Firms" from *Employer Health Benefits Survey, 2005*, Kaiser Family Foundation and Health Research and Education Trust, September, 2005.
SOURCE: Johns Hopkins University Nonprofit Listening Post Project

Health Coverage Widespread Among Delaware Nonprofits

The implications of rapidly escalating health benefit costs are particularly serious for Delaware's nonprofit organizations because of the overwhelming proportion of these organizations that offer health insurance coverage for their employees.

- More than three-quarters of respondents reported providing health insurance coverage for their employees. This is a considerably higher proportion than among similarly sized U.S. firms (see *Chart 3*).

- This disparity holds in all size classes, though it is less pronounced among the larger entities. This suggests that access to health insurance is an important feature of nonprofit employment, perhaps offsetting in part the generally lower wages that nonprofits are able to offer.[3]

- Of the 24 percent of responding organizations that offer no health insurance, most (64 percent) cited that the organization was too small to do so. Other key reasons included "premiums too high" (59 percent), "employees are generally covered under other plans" (44 percent), "administrative tasks are too burdensome" (39 percent), and "employees cannot afford it" (38 percent).

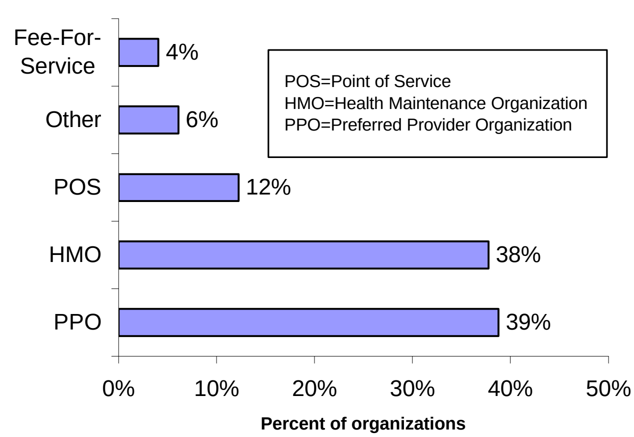
Not only do the Delaware respondents offer health insurance, but also their dominant plans appear to be fairly sophisticated, reflecting many of the leading ideas about health insurance. Thus, as shown in *Chart 4*:

- Eighty-nine percent of organizations use, as their major health insurance plan, some type of controlled-access health insurance—either a Preferred Provider Organization (PPO) (39 percent), a full Health Maintenance Organization (HMO) (38 percent), or a Point of Service Plan (POS) (12 percent).[4]

- Only 4 percent of the organizations had traditional "fee-for-service" plans as their primary health insurance option.

- In addition, substantial proportions of the organizations have already incorporated a variety of other advanced ideas into their health benefit packages.

Chart 4: Major Type of Health Insurance Plan Among Delaware Nonprofits



n=98
SOURCE: Johns Hopkins University Nonprofit Listening Post Project

Thus, for example, 57 percent reported offering employees the option of high deductible/low premium plans, 50 percent provide wellness programs, 49 percent offer cafeteria benefit plans, and 42 percent offer medical savings accounts.

These findings suggest that opportunities for further savings through modernization of existing plans may be limited.

A Tax on Employees

In response to rising healthcare costs, nonprofit organizations sought to avoid cuts in services but found it necessary to exact a kind of "tax" on their employees to do so. More specifically:

- Only 8 percent of Delaware nonprofits reported reducing services or activities as a result of escalating healthcare costs, and only 14 percent reported introducing or increasing fees. This commitment to preserve services means that the emerging health benefits crisis in the nonprofit sector has been largely shielded from public view.

- Most organizations (58 percent) also sought to preserve existing health benefits by seeking savings elsewhere or generating additional revenues.

- In practice, however, more than half of agencies (56 percent) found it necessary to cope with escalating health insurance costs by shifting a larger share of these costs to their already relatively poorly paid employees. More specifically, as shown in *Chart 5*:

  – 31 percent of organizations increased employees' share of drug costs;

  – 27 percent increased employees' share of medical service costs; and

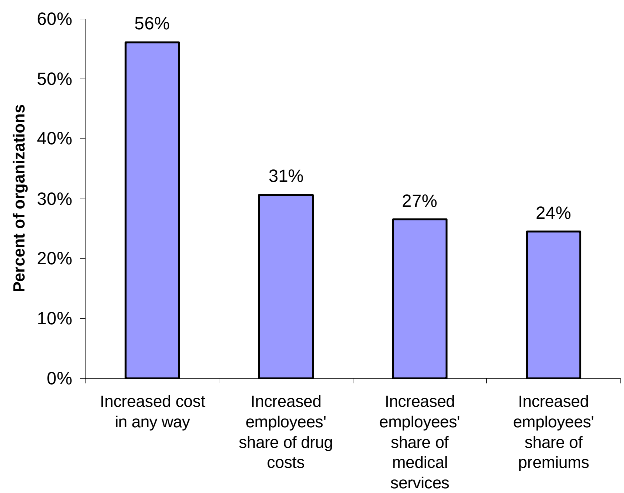
  – 24 percent increased employees' share of healthcare premiums.

- Rising healthcare costs have put a squeeze on nonprofit employees in other ways as well. Thus, as shown in *Chart 6*:

  – 43 percent of Delaware organizations reduced staff or delayed hiring needed workers, thus putting more pressure on existing staff;

  – 31 percent of surveyed organizations reported reducing or eliminating raises, bonuses, and/or non-health benefits as a direct consequence of health benefit cost increases; and

Chart 5: Shifting Healthcare Cost to Employees



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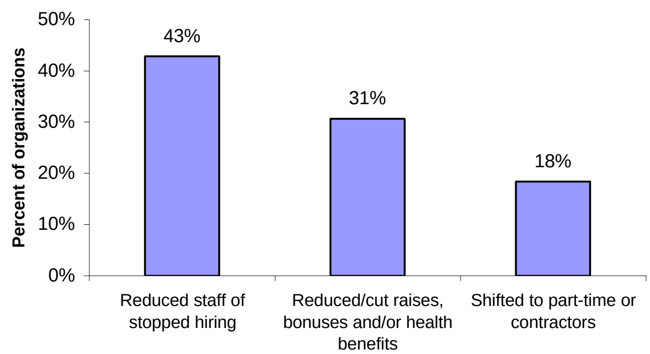
SOURCE: Johns Hopkins University Nonprofit Listening Post Project

Chart 6: Share of Delaware Nonprofits Reporting Other Impacts on Employees of Increased Health Insurance Cost



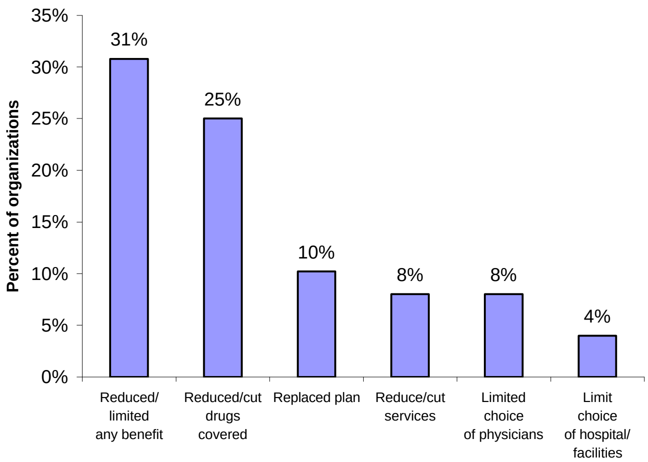
n=98
SOURCE: Johns Hopkins University Nonprofit Listening Post Project

  – 18 percent changed some workers from full-time to part-time status or moved more work to contract employees.

- Even after squeezing nonprofit workers in this way, nearly one in three organizations (31 percent) still found it necessary to reduce the healthcare benefits they offer their employees because of rising health insurance costs. In particular, as shown in *Chart 7*:

  – 25 percent of organizations decreased their drug coverage;

Chart 7: Share of Delaware Organizations Reporting Reductions in Health Benefits



n=98
SOURCE: Johns Hopkins University Nonprofit Listening Post Project

– 10 percent shifted their major health insurance plan;

– 8 percent reduced the choice of physicians; and

– 8 percent reduced or cut services.

Variations by Size of Organization

Interesting variations are evident in how health insurance cost escalation is affecting agencies of different sizes. Thus, as shown in *Table 1*:

- Relatively small organizations (those with 10-19 employees) tended to be especially hard hit by escalating health insurance costs. This may be because this is the size range at which the provision of health insurance becomes especially important but at which access to the best plans is least available.

- One of the more promising strategies for coping with health insurance cost increases—i.e., finding savings elsewhere in the organization—appears to be less available for smaller organizations than for larger ones. This makes some sense since smaller organizations have fewer places to turn to find meaningful savings. Thus fewer of the smaller organizations than the larger ones reported pursuing this strategy.

- Larger agencies were also better able to shift healthcare costs to their employees. This may be because they have more employees and also because their employees may be better paid to begin with.

- Smaller agencies were thus forced more often to reduce staff and shift to part-time workers.

Taken as a whole, these findings suggest that recent health benefit cost increases are exacting a significant toll on Delaware's nonprofit organizations. For the most part, this toll is being passed on to the sector's employees, whose average compensation is already well below that prevailing in the business and government sectors. Rising healthcare costs are thus contributing to an emerging nonprofit employment crisis, potentially undermining one of the nonprofit sector's most important attractions as a place of employment—its generally supportive human resource policies. Beyond this, however, there is evidence that continued health insurance cost increases are also taking a toll on those the sector serves, either by reducing the services they have available or increasing the costs.

Table 1: Impact of Health Benefit Cost Increases by Size of Organization

Impact	ALL	<10 FTEs	10-19 FTEs	20-49 FTEs	50-99 FTEs	100+ FTES
Health benefits costs rose >=11%	63%	51%	79%	65%	78%	65%
Shifted costs to employees	52%	41%	39%	52%	56%	60%
Raised fees, cut services	21%	21%	16%	24%	7%	17%
Reduced / eliminated raises, bonuses	31%	33%	29%	35%	30%	33%
Strategy of seeking savings elsewhere	30%	26%	26%	26%	41%	32%
Reduced hiring, shifted to part-time	38%	51%	53%	41%	36%	27%
Decreased health benefits	31%	18%	36%	32%	41%	32%

Source: Johns Hopkins University Nonprofit Listening Post Project

What Worked?

Given the relatively small sample size in Delaware, and the correspondingly smaller number of respondents that successfully avoided sizeable increases in healthcare costs, it is difficult to explain with confidence how the successful Delaware organizations achieved this result. However, some useful clues about what may have worked in Delaware may be available from the record of the national sample of organizations surveyed previously by the Listening Post Project. Similar to the Delaware sample, the overwhelming majority of national Listening Post organizations experienced double-digit increases in their health insurance costs and had to find ways to absorb them, but a sizable minority experienced smaller increases or actual declines. Several intriguing clues about how to reduce the impact of escalating health insurance costs emerge from an examination of this special subgroup of agencies. As shown in *Table 2*, the agencies with lower healthcare cost increases tended to have the following characteristics:

- They were more likely to have an assigned benefits manager. Those that outsourced benefits management did best, but assigning the benefits management function internally also seemed to have a positive effect. By contrast, the organizations that did not make benefits management an assigned function had the highest health benefit insurance cost increases. This shows how complex the health benefits insurance system has become.

- They pursued a strategy of reducing eligibility for health benefits. Organizations that pursued a strategy of reducing eligibility for healthcare benefits were significantly more likely than other agencies to avoid health insurance cost increases.

- They pursued a conscious strategy of reducing the range of healthcare benefits offered. Those who reported reducing health benefits were 50 percent more likely than all organizations to avoid health insurance cost increases, and were also less likely to have increases of 11 percent or more.

- They sought savings elsewhere in their organizations. Organizations that responded to growing healthcare costs by searching for savings elsewhere in their organizations also tended to be less likely to experience high health insurance cost increases. Conceivably, the general cost saving strategy may have carried over to facets of organizational operations that affected healthcare costs.

Future Prospects

If health insurance rates continue to increase by 9 percent or more per year over the next three years, as they have over the past three years, Delaware nonprofit executives expect additional significant impacts on their employees, their operations, and ultimately those they serve. In particular, as shown in *Table 3*:

- Three out of five (60 percent) of the Delaware organizations consider it highly likely that further health benefit cost increases will lead them to shift more health insurance costs to their employees through higher premiums, co-pays, and deductibles, and sizable numbers expect to have to freeze hiring, cut or eliminate pay raises, and reduce or eliminate non-health benefits.

- More than a quarter of the organizations expect continued health insurance cost escalation to cause delays

Table 2: What Worked?

	Listening Post Project National Sample (n=213)	
Coping Action	**No Change or Decreased Costs**	**Greater than or equal to 11% Increase**
All respondents	10%	63%
Respondents that :		
Outsourced benefits management	20%	50%
Adopted strategy of reducing eligibility	17%	67%
Adopted strategy of reducing benefits	15%	58%
Changed plans	13%	72%
Adopted strategy of finding savings elsewhere	9%	55%
Reduced benefits (health)	6%	77%
Shifted cost to employees	6%	70%

Source: Johns Hopkins University Nonprofit Listening Post Project

Table 3: Projected Responses to Continued Health Benefit Cost Increases

	Delaware (n=98)		Listening Post Project National Sample (n=222)	
	% Organizations Citing Response as		% Organizations Citing Response as	
Response	Highly Likely	Less Likely but Possible	Highly Likely	Less Likely but Possible
Shift costs to employees through higher premiums, co-pays	60%	16%	68%	20%
Delay improvements to office space	30%	20%	34%	25%
Raise/ introduce fees	28%	30%	31%	26%
Delay equipment and other purchases	26%	25%	30%	20%
Cut or eliminate wage increases	22%	32%	24%	33%
Freeze hiring or reduce staff	20%	32%	29%	26%
Reduce or eliminate health insurance benefits	19%	43%	25%	41%
Reduce or eliminate non-healthcare benefits	16%	40%	20%	34%
Cut programs or services	11%	45%	6%	39%

Source: Johns Hopkins University Nonprofit Listening Post Project

in purchasing needed equipment or making needed changes in their facilities.

- A substantial 28 percent of the organizations consider it highly likely that continued health benefit increases will lead them to raise or introduce fees.

- Only 19 percent of the organizations considered it highly likely that they would have to make further reductions in their health benefits, and only 11 percent thought it highly likely they would have to cut programs or services. However, nearly half of the organizations indicated that these more draconian measures, while less likely, were still quite possible if health insurance rates continue to climb at their current rate.

Conclusion: The Silent Tax

As these findings make clear, Delaware nonprofits—like nonprofits across the country—have experienced higher health benefit cost increases than the overall national average. Escalating health insurance premiums have thus emerged as a silent tax on Delaware's nonprofit workforce. This silent tax offsets, by a substantial margin, whatever advantage workers received as a consequence of recent federal tax cuts and also contributes to the reluctance of employers to add new workers to their rolls.

For the most part, attention to the impact of these rising healthcare costs has focused on the business sector. But as the research reported here makes clear, nonprofit organizations have not been immune to these pressures. To the contrary, there is evidence that they have been particularly hard hit, perhaps because they are generally smaller in scale or lack access to the benefit management specialists that seem so important in keeping healthcare costs in check in an increasingly complex healthcare market.

To date, Delaware nonprofit managers have struggled to shield those they serve from the impact of escalating healthcare costs. To do so, however, they have had to shift the costs on to their employees—through increased premiums, co-pays, and cost-sharing, or through reduced raises or other benefits. In the process, however, they may be undermining one of the few concrete advantages of nonprofit employment—the generous human resource policies that nonprofits generally tend to provide.

How long this process can continue before serious problems of employee turnover and burnout surface is anyone's guess. What is more, the pressures of continued health insurance cost escalation are likely to accelerate the trend toward increased nonprofit fees and charges, undermining the sector's ability to fulfill its mission of service to those in greatest need and its broader advocacy role. The "silent tax" represented by continued rapid increases in health insurance costs thus has particularly profound implications for Delaware's nonprofit sector, implications that have been largely overlooked until now. Hopefully, the data reported here will help focus new attention on the health insurance crisis facing Delaware nonprofit employers.

Appendix

Organizations by Field

Primary Field	n	%
Health	24	17.5%
Education	18	13.1%
Culture/Arts	17	12.4%
Housing	14	10.2%
Children & Youth	13	9.5%
Seniors	10	7.3%
Faith-based	7	5.1%
Environment	4	2.9%
Other	30	21.9%
TOTAL	**137**	**100.0%**

Organizations by Size

	Full-time		Part-Time		FTE*	
Size	**n**	**%**	**n**	**%**	**n**	**%**
<10 Employees	80	58.4%	101	73.7%	70	51.1%
10-19 Employees	15	10.9%	9	6.6%	20	14.6%
20-49 Employees	20	14.6%	11	8.0%	17	12.4%
50-99 Employees	9	6.6%	5	3.6%	9	6.6%
>=100 Employees	13	9.5%	11	8.0%	21	15.3%
TOTAL	**137**	**100.0%**	**137**	**100.0%**	**137**	**100.0%**

* Full-time Equivalent

1 This Sounding was distributed via the Internet to 362 nonprofit organizations in Delaware on February 15, 2006, and closed on March 8, 2006. The survey was sent to all Delaware nonprofits for which the Delaware Association of Nonprofit Agencies' (DANA) Insurance Task Force could obtain a valid e-mail address. A special subcommittee of the task force created the distribution list by combining the mailing lists from numerous Delaware nonprofits including DANA, the United Way of Delaware, various state agencies, arts organizations, and members' personal lists. Altogether, 137 organizations, or 38 percent of those that received the Sounding, responded, quite high for surveys of this sort. See the Appendix for a breakdown of participating organizations by size and field.

A similar Sounding was fielded in the summer of 2004 to the Listening Post Project's national sample of nonprofit organizations. Altogether, 253 organizations, or 55 percent of those that received this Sounding, responded. The Listening Post Project is a collaborative undertaking of the Johns Hopkins Center for Civil Society Studies and seven partner organizations—the Alliance for Children and Families, Alliance for Nonprofit Management, American Association of Homes and Services for the Aging, American Association of Museums, National Council of Nonprofit Associations, National Congress for Community Economic Development, and Theatre Communications Group. Working through the partner organizations, the Project has identified a national sample of over 700 nonprofit organizations in five fields—children and family services, elderly services, community development, museums, and theaters. These organizations have agreed to respond to a series of Web-based surveys about key trends affecting them and major coping strategies they have adopted.

2 *Employer Health Benefits Survey, 2005.* The Kaiser Family Foundation and Health Research and Education Trust, September 2005. While this increase was 2 percent less than the 11.2 percent increase in 2004—the year in which this survey was fielded to the Listening Post Project's nationwide sample—the Kaiser report notes that the 9.2 percent increase was much larger than overall inflation (3.5 percent) and wage gains (2.7 percent).

3 Data generated by the Johns Hopkins Nonprofit Employment Data Project demonstrate that average nonprofit wages lag 10 percent behind those of the private business sector, and 18 percent behind those of state government employees nationwide. See: Lester M. Salamon and Wojciech Sokolowski, "Nonprofit Organizations: New Insights from QCEW Data," *Monthly Labor Review*, September 2005.

4 A Preferred Provider Organization (PPO) is a program that establishes contracts with providers of medical care. Providers under such contracts are referred to as preferred providers. Usually, the benefit contract provides significantly better benefits and lower member cost for services received from preferred providers, thus encouraging covered persons to use these providers. A Point-of-Service (POS) Plan is a health benefit plan allowing the covered person to choose to receive a service from a participating or non-participating provider, with different benefit levels associated with the use of participating providers. A Health Maintenance Organization (HMO) is an entity that provides, offers, or arranges for coverage of designated health services needed by plan members for a fixed, prepaid premium. Under the Federal HMO Act, an entity must have three characteristics to call itself an HMO: 1) an organized system for providing health care or otherwise assuring health care delivery in a geographic area; 2) an agreed upon set of basic and supplemental health maintenance and treatment services; and 3) a voluntary enrolled group of people.
(http://www.independencecare.com/knowledge.glossary.htm)