JOHNS HOPKINS UNIVERSITY
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Listening Post Project

A joint project of the Center for Civil Society Studies at the Johns Hopkins Institute for Policy Studies in cooperation with the Alliance for Children and Families, the Alliance for Nonprofit Management, the American Association of Homes and Services for the Aging, the American Association of Museums, the National Congress for Community Economic Development, the National Council of Nonprofit Associations, and the Theatre Communications Group

COMMUNIQUÉ NO. 3

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

Lester M. Salamon and Richard O'Sullivan
Johns Hopkins University

Nonprofit organizations are not immune from the impacts of the double-digit increases in health benefit costs that have affected other segments of the American 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 already less well paid employees in order to reduce the impacts 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 national survey of nonprofit organizations in five key fields (children and family services, elderly housing and services, community and economic development, museums, and theaters) just completed as part of the *Listening Post Project* at Johns Hopkins' Center for Civil Society Studies.[1]

More specifically, the latest Listening Post Sounding found that:

Nonprofits Hit Hard by Rising Health Benefit Costs

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 11.2 percent nationwide,[2] nearly two thirds (63 percent) of Listening Post organizations reported health benefit increases of 11% or more, and for 15 percent of these the increase was in excess of 20 percent (see Chart 1).

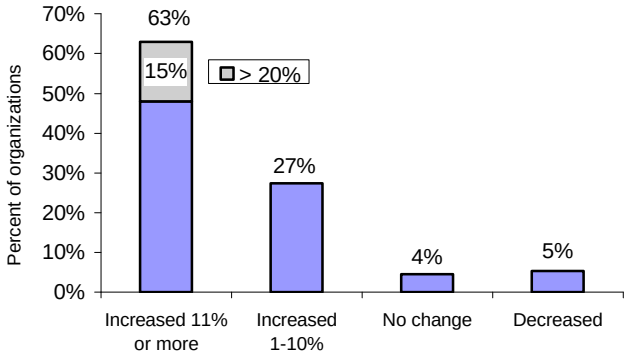
- Reflecting this, the health benefits share of employee compensation increased from an average of 10.9 percent of total compensation to 12.8 percent—a 17 percent increase in share, putting a squeeze on other components of employee compensation.

All Types of Organizations Affected

This pattern of rapidly escalating health benefit costs affected virtually all segments of the nonprofit sector surveyed.

- Seventy-seven percent of relatively small organizations (10-19 employees) reported health benefit cost

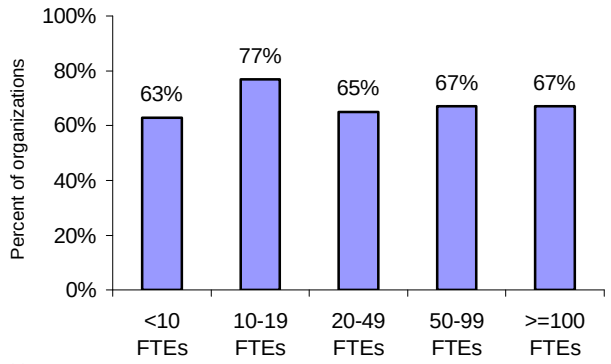
Chart 1: Change in Health Benefit Spending Over the Past Year



n=226
SOURCE: Johns Hopkins Nonprofit Listening Post

increases of 11 percent or more, but so did 67 percent of relatively large organizations (more than 50 employees) (see Chart 2);

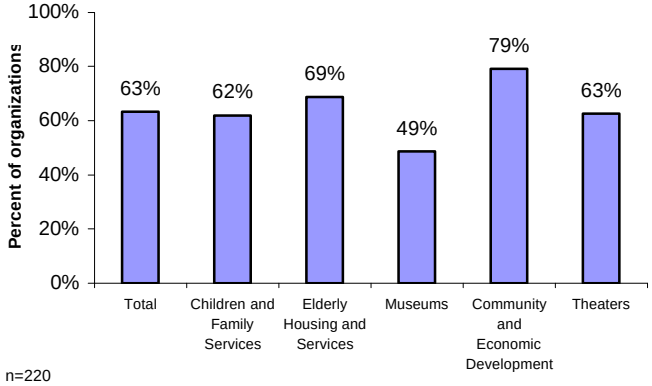
Chart 2: Share of Nonprofits Experiencing Large* Health Benefit Cost Increases, by Size of Organization



n=224
* Large=Increase of 11% or more
FTE=Full-time equivalent workers
SOURCE: Johns Hopkins Nonprofit Listening Post Project

- Nonprofits in the fields of elderly housing and services, children and family services, community and economic development, and theaters were all virtually identically hard hit by rising health benefit costs during the past year, with anywhere from 62 percent to 79 percent of organizations in these fields reporting increases of 11 percent or more (see Chart 3). In only one field—museums—did less than half of the organizations report an 11 percent or more increase in costs, but this may be partially because many of these institutions are parts of larger institutions (e.g., universities) and benefit from the buying power the larger institutions can muster.

Chart 3: Share of Nonprofits Reporting Large* Health Benefit Cost Increases, by Field



n=220
* Large=Increase of 11% or more
SOURCE: Johns Hopkins Nonprofit Listening Post Project

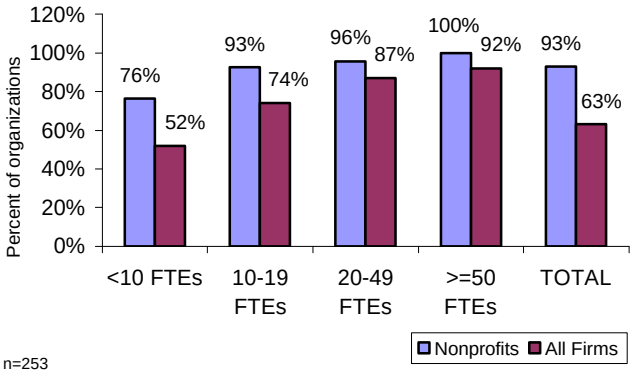
Health Coverage Widespread Among Nonprofits

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

- A striking 93 percent of Listening Post organizations reported providing health insurance coverage for their employees. This is a considerably higher proportion than among similarly sized firms (see Chart 4);[3]

- 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;[4]

Chart 4: Share of Nonprofit Organizations and All Firms with Healthcare Benefits Coverage, by Size of Organization



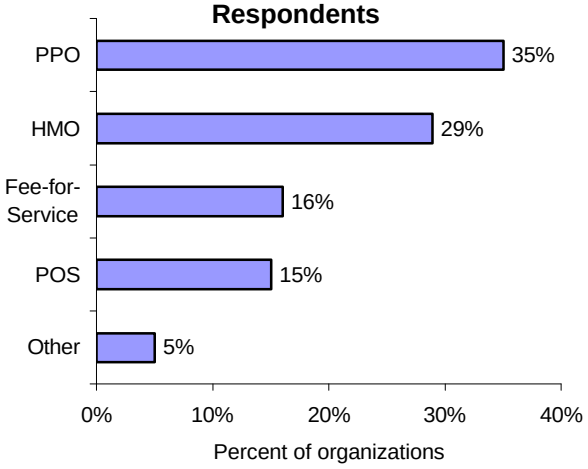
n=253
Data on "All Firms" from *Employer Health Benefits Survey, 2004* , Kaiser Family Foundation and Health Research and Education Trust, September 2004.
SOURCE: Johns Hopkins Nonprofit Listening Post Project

- Of the 7 percent of Listening Post organizations that offer no health insurance, most (82 percent) cited the already high premiums as the reason, and 55 percent cited the inability of their employees to cover their share of the costs.[5]

Not only do the Listening Post respondents offer health insurance, but also their dominant plans appear to be fairly sophisticated, reflecting many of the leading ideas about health insurance. This means that opportunities for further savings through modernization of existing plans may be limited. Thus, as shown in Chart 5:

- Seventy-nine percent of organizations use, as their major health insurance plan, some type of controlled-

Chart 5: Major Type of Health Insurance Plan Among Listening Post Respondents



n=218
SOURCE: Johns Hopkins Nonprofit Listening Post Project

access health insurance—either a Preferred Provider Plan (PPO) in which employees are limited to particular approved medical providers (35 percent), a full Health Maintenance Organization (HMO) (29 percent), or a Point of Service plan (POS) (15 percent);

- Only 16 percent of the organizations had traditional "fee-for-service" plans as their primary health insurance option.

- In addition, substantial proportions of the Listening Post organizations have already incorporated a variety of other advanced ideas into their health benefit packages. Thus, for example, 54 percent reported offering employees the option of high deductible/low premium plans, 48 percent offer cafeteria benefit plans, 43 percent offer medical savings accounts, and 42 percent provide wellness programs.

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 Listening Post organizations reported reducing services or activities as a result of escalating healthcare costs, though one in five 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 (55 percent) also sought to preserve existing health benefits by seeking savings elsewhere or generating additional revenues;

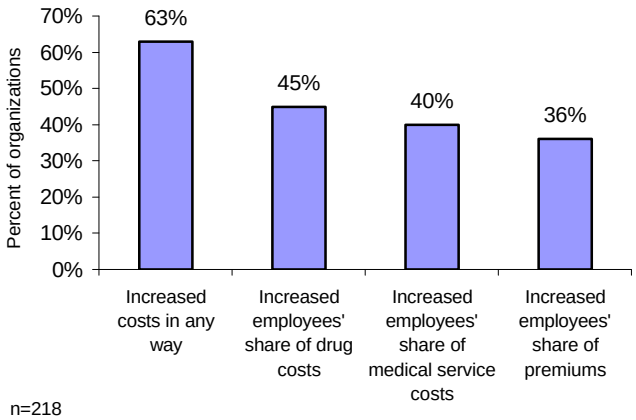
- In practice, however, the overwhelming majority of agencies (63 percent) found it necessary to cope with escalating health insurance costs by shifting a larger share of these costs to their already relatively poorly paid employees. More specifically, as shown in Chart 6:

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

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

  – 36 percent increased employees' share of healthcare premiums.

Chart 6: Shifting Healthcare Costs to Employees



n=218
SOURCE: Johns Hopkins Nonprofit Listening Post Project

This cost-shifting appears to be more widespread among nonprofits than among other employers.[6]

- Rising healthcare costs have put a squeeze on nonprofit employees in other ways as well. Thus, as shown in Chart 7:

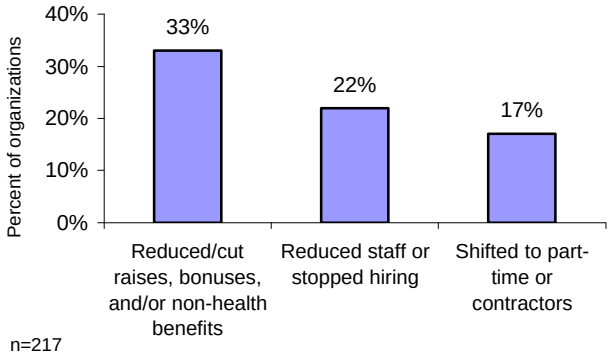
  – 33 percent of surveyed organizations reported reducing or eliminating raises, bonuses and/or non-health benefits as a direct consequence of health benefit cost increases;

  – 22 percent reduced staff or delayed hiring needed workers, thus putting more pressure on existing staff;

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

A number of Listening Post respondents reported taking these steps after consultation with their employees, who, given a choice between reducing healthcare benefits or other components of compensation, chose the latter. For some, preserving health benefits was a way to offset the sting of other forms of retrenchment stimulated by rising healthcare costs. As one museum director reported, "In a time of furloughs and salary freezes for our staff, we have made a commitment to maintain consistent healthcare benefits."

Chart 7: Share of Nonprofits Reporting Other Impacts on Employees of Increased Health Insurance Costs



n=217
SOURCE: Johns Hopkins Nonprofit Listening Post Project

- Even after squeezing nonprofit workers in this way, however, one in three organizations (32 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 8:

  – 25 percent of organizations decreased their drug coverage;

  – 17 percent shifted their major health insurance plan, most often by replacing a fee-for-service plan with more restrictive group insurance;

  – 9 percent reduced the choice of physicians;

  – 9 percent reduced the choice of hospitals or clinics.

- Generally speaking, the higher the health benefit cost increase an organization experienced, the more likely it was to take one of these restrictive actions. Thus, as shown in Table 1:

  – While 63 percent of all organizations increased healthcare costs to their employees, 67 percent of the organizations with high health insurance cost increases took this action;

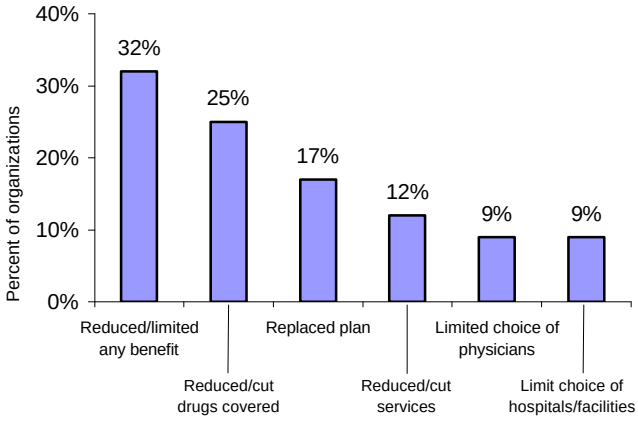
  – While 33 percent of all organizations reduced or eliminated raises, bonuses, or non-health benefits, 39 percent of organizations with high health insurance cost increases took this action;

  – While 33 percent of all organizations reported cutting services or raising fees, 43 percent of organizations with high health insurance costs increases reported doing so;

  – While 32 percent of all organizations reduced hiring or shifted to part-time or contract workers, 36 percent of organizations with high health insurance cost increases took these actions;

  – While 31 percent of all organizations reported cutting employee health benefits, 38 percent of the organizations with high health insurance cost increases reported doing so.

Chart 8: Share of Organizations Reporting Reductions in Health Benefits



n=221
SOURCE: Johns Hopkins Nonprofit Listening Post Project

Taken as a whole, these findings suggest that recent health benefit cost increases are exacting a significant toll on the nation'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

Table 1: Impact of High Health Insurance Cost Escalation on Nonprofit Organizations

(Percent of Organizations)

Action	All	No Change or Decreased Costs	>= 11% Increase
Increased cost to employees	63%	41%	67%
Reduced or eliminated raises, bonuses, non-health benefits	33%	19%	39%
Cut services, raised fees	33%	9%	43%
Reduced hiring, shifted to part-time/contract work	32%	28%	36%
Decreased healthcare benefits	31%	18%	38%
Changed plans	18%	24%	20%

SOURCE: Johns Hopkins Nonprofit Listening Post Project

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 taking a toll as well on those the sector serves, by reducing the services they have available or increasing the costs.

Future Prospects

If health insurance rates continue to increase by 11 percent or more per year over the next three years, as they have over the past three years, nonprofit executives expect additional significant impacts on their employees, their operations, and ultimately those they serve. In particular, as shown in Table 2:

- Two out of three (68 percent) of the 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;

- About a third of the organizations expect continued health insurance cost escalation to cause delays in purchasing needed equipment or making needed changes in their facilities;

- A substantial 31 percent of the organizations consider it highly likely that continued health benefit increases will lead them to raise or introduce fees;

- Only 25 percent of the organizations considered it highly likely that they would have to make further reductions in their health benefits and only 6 percent thought it highly likely they would have to cut programs or services. However, about two out of five 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.

Table 2: Projected Responses to Continued Health Benefit Cost Increases

Response	Percent of Organizations Citing Response as	
	Highly Likely	Less Likely but Possible
Shift costs to employees through higher premiums, co-pays, deductibles	68%	20%
Freeze hiring or reduce staff	29%	26%
Cut or eliminate wage increases or bonuses	24%	33%
Reduce or eliminate non-healthcare benefits	20%	34%
Delay improvements to office space	34%	25%
Delay equipment and other purchases	30%	20%
Raise/introduce fees	31%	26%
Reduce or eliminate health insurance benefits	25%	41%
Cut programs or services	6%	39%

SOURCE: Johns Hopkins Nonprofit Listening Post Project

Table 3: What Worked?

Coping Action	Share of Organizations Reporting	
	No Change or Decreased Costs	>= 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 reducing savings elsewhere	9%	55%
Reduced benefits	6%	77%
Shifted costs to employees	6%	70%

SOURCE: Johns Hopkins Nonprofit Listening Post Project

What Worked?

While the overwhelming majority of Listening Post organizations experienced double-digit increases in their health insurance costs and had to find ways to absorb them, 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.

In particular, as shown in Table 3, 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, though they were also more likely to experience high 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.

In practice, however, many organizations ended up reducing eligibility or reducing benefits even though they did not have an explicit strategy of doing so, and these organizations did not manage to reduce their health insurance cost increases. To the contrary, as Table 3 also shows:

- Organizations that actually reduced benefits or shifted costs to employees were more likely than all agencies to have high health insurance cost increases;

- Changing health plans also did not reduce healthcare cost increases. To the contrary, the organizations that changed plans during the past year were more likely to experience high health insurance cost increases than other agencies.

- These findings suggest that for many agencies the causal relationship between making these changes and health benefit cost increases runs in the opposite direction: the changes are not a solution to the problem of health insurance cost escalation but a result of it. Agencies are not finding it possible to avoid the increases; they are simply having to cope with them.

Table 4: Impact of Health Benefit Cost Increases by Field

Feature	Children and Family Services	Elderly Housing and Services	Community and Economic Development	Museums	Theaters	All
Health benefit costs rose >= 11%	62%	69%	79%	49%	63%	**63%**
Shifted cost to employees	69%	64%	54%	58%	43%	**58%**
Raised fees, cut services	42%	45%	22%	31%	28%	**36%**
Reduced raises/benefits	53%	11%	33%	41%	38%	**36%**
Reduced hiring, shifted to part-time	40%	9%	61%	34%	40%	**34%**
Reduced health benefits	35%	24%	29%	31%	30%	**30%**
Fee-for-service most common plan	10%	9%	38%	20%	11%	**14%**

SOURCE: Johns Hopkins Nonprofit Listening Post Project

Variations by Type of Organization

While health insurance costs are increasing throughout the nonprofit sector and having similar impacts in different fields, some intriguing variations are also evident both in the extent of the impact and the way agencies have responded. Thus, as shown in Table 4:

- *Large increases in health benefit costs were especially prevalent among community and economic development and elderly housing and services organizations, and least prevalent among museums.* One reason for this may be that the community and economic development organizations tend to be small, and smaller organizations tended to fare worse than larger ones in the face of escalating healthcare costs. In addition, the community and economic development organizations tended to rely more heavily on traditional fee-for-service plans, which are generally more expensive than managed care plans, though this relationship fails to receive consistent support in our data.

- *Children and family services agencies appear to have been impacted unusually heavily by escalating health insurance costs, perhaps because they had fewer options for absorbing the costs. Thus, these organizations were consistently most likely to be forced into a range of restrictive actions to offset rising health benefit costs.* This included shifting costs to employees (69 percent of children and family agencies took this action vs. 58 percent of all organizations), reducing or eliminating raises and other benefits (53 percent of children and family agencies vs. 36 percent of all organizations), raising fees and/or cutting services (42 percent of children and family agencies vs. 36 percent of all organizations), and reducing employee health benefits (35 percent of children and family organizations vs. 30 percent of all organizations).

- *Community and economic development organizations reported perhaps the most draconian consequences of health insurance cost escalation.* More than 60 percent of these organizations—nearly twice as many as among all organizations—reported reducing hiring or shifting from full-time to part-time employees. Despite these cuts in staffing, however, these organizations, which tend to operate in low-income communities, were the least likely to increase client fees or cut services.

- *Among elderly housing and services agencies, a distinctive pattern of response to rising health insurance costs was also evident.* These organizations seem to have focused on two primary responses: shifting costs to employees (64 percent of the organizations), and passing costs on to clients in the form of raised fees or cuts in service (45 percent of the organizations).

- *Museums and theaters pursued perhaps the most balanced approach to health insurance cost escalation.* Substantial, but not overwhelming, proportions of these organizations adopted each of the major responses to health insurance cost increases. These organizations made special efforts to shield their staffs from the effects of health cost escalation, but also sought to limit the impact on their services and operations.

Variations by Size of Organization

Interesting variations are also evident in how health insurance cost escalation is affecting agencies of different sizes. Thus, as shown in Table 5:

- *Relatively small organizations (those with 10-19 employees) tended to be especially hard hit by escalating health insurance costs.* This may be because

Table 5: Impact of Health Benefit Cost Increases by Size of Organization

Impact	Percent of Organizations with					
	<10 FTEs	10-19 FTEs	20-49 FTEs	50-99 FTEs	100+ FTEs	All
Health benefit costs rose >= 11%	63%	77%	65%	67%	67%	**67%**
Shifted costs to employees	47%	44%	59%	63%	68%	**59%**
Raised fees, cut services	26%	65%	32%	32%	38%	**36%**
Reduced/eliminated raises, bonuses	28%	71%	32%	32%	35%	**36%**
Strategy of seeking savings elsewhere	31%	30%	31%	48%	37%	**35%**
Reduced hiring, shifted to part-time	46%	47%	37%	32%	24%	**34%**
Decreased health benefits	18%	36%	32%	41%	32%	**31%**

SOURCE: Johns Hopkins Nonprofit Listening Post Project

this is the size range at which the provision of health insurance becomes especially important but at which the resources for researching the best plans are 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, shift to part-time workers, and cut services.*

Conclusion: The Silent Tax

Escalating health insurance premiums have emerged as a silent tax on the American workforce, offsetting by a substantial margin whatever advantage workers received as a consequence of recent federal tax cuts and contributing 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, nonprofit managers have succeeded in shielding those they serve from the impact of escalating healthcare costs except for a growing need to introduce or increase service fees. To do so, however, nonprofit managers 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 generally benign human resource policies that nonprofits 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 the nation'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 nonprofit employers as well.

[1] 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, the Alliance for Nonprofit Management, the American Association of Homes and Services for the Aging, the American Association of Museums, the National Congress for Community Economic Development, the National Council of Nonprofit Associations, and the Theatre Communications Group. Working through the partner organizations, the project has identified a national sample of over 500 nonprofit organizations in five fields—children and family services, elderly housing and services, community and economic develop-

ment, theaters, and museums (includes art galleries, botanical gardens, zoos, and science centers). 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. Support for the project has been provided by the Carnegie Corporation of New York, the Ewing Marion Kauffman Foundation, the Rockefeller Brothers Fund, and the Surdna Foundation. For further information on the Listening Post Project, visit the project web site at: www.jhu.edu/listeningpost.

The Health Benefits Sounding was distributed via the Internet to senior executives at the 458 organizations in our sample on June 24, 2004, and the Sounding closed on July 23, 2004. Altogether, 253 organizations, or 55 percent of those that received the Sounding, responded. The Sounding was also distributed to a random sample of 186 nonprofit organizations in these five fields drawn from national databases independent of the umbrella organizations. This Sounding was completed on August 20, 2004. The response rate for this random sample was 22 percent. While such a small sample does not allow interpretation by field, we found the strategies employed similar to those for the larger sample discussed in the Communiqué, though fewer of these random sample organizations reported providing health insurance, as discussed more fully in footnote 5 below.

[2] *Employer Health Benefits Survey, 2004.* The Kaiser Family Foundation and Health Research and Education Trust, September 2004.

[3] The rate of insurance coverage among all firms lags behind that among nonprofits in every size class, but the disparity widens the smaller the organization. *Employer Health Benefits Survey, 2004.* The Kaiser Family Foundation and Health Research and Education Trust, September 2004.

[4] 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 Employment: The Perspective from the ES-202 Data System," *Monthly Labor Review*, forthcoming 2004.

[5] Among the random sample of nonprofit organizations not affiliated with national umbrella organizations, a considerably smaller 70 percent reported offering health insurance benefits to their employees. However, these tended to be smaller organizations. This suggests that the Listening Post organizations affiliated with national umbrella groups may be among the larger and better-off organizations in their fields. This makes the findings reported here about the burden of health insurance cost increases on them all the more significant. We would expect that the less well-off agencies are faring even worse.

[6] An Employee Benefit Research Institute study in 2002, for example, found that only 30 percent of firms increased employees' share of premiums. Blue Cross/Blue Shield Association, Employee Benefit Research Institute, *2002 Small Employer Health Insurance Survey, 2002.*

For More Information

A copy of this report is available online at www.jhu.edu/listeningpost/news. For further information on the Listening Post Project, contact the Center for Civil Society Studies, Institute for Policy Studies, Johns Hopkins University, 3400 N. Charles Street, Baltimore, MD 21218; listeningpostproject@jhu.edu.

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