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AT A GLANCE

This *EBRI Notes* article examines the percentage of employers offering health insurance from 2008–2015 to better understand how health insurance offer rates have been affected by the Affordable Care Act of 2010 (ACA), the Great Recession of 2007–2009, and the subsequent economic recovery. The data come from the Medical Expenditure Panel Survey–Insurance Component (MEPS-IC). Here are the key findings:

- Among larger employers, health insurance offer rates—the percentage of employers offering health coverage to their workers—have been steady: (a) for employers with 1,000 or more employees, around 99 percent, and (b) for employers with 100–999 employees, in the 92.5 percent to 95.1 percent range.

- Offer rates among smaller employers have been falling since 2009: (a) for employers with fewer than 10 employees, from 35.6 percent in 2008 to 22.7 percent in 2015 (a 36 percent decrease), (b) for employers with 10–24 employees, from 66.1 percent in 2008 to 48.9 percent in 2015 (a 26 percent decline), and (c) for employers with 25–99 employees, from 81.3 percent in 2008 to 73.5 percent in 2015 (a 10 percent decline).

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Fewer Small Employers Offering Health Coverage; Large Employers Holding Steady

By Paul Fronstin, Ph.D., Employee Benefit Research Institute

The Affordable Care Act of 2010 (ACA) requires employers with 50 or more employees to either offer health insurance coverage or pay a penalty. Employers with fewer than 50 employees are exempt from this provision. However, the ACA also requires that all individuals have health insurance coverage or pay a penalty. In addition, it creates new marketplaces (health exchanges) for small employers to make it easier to obtain coverage for their employees.

What impact is the ACA having on health insurance offer rates? Are large employers continuing to offer coverage or are they choosing to pay the penalty? And what are small employers (free of a pay-or-play mandate) doing—continuing to maintain plans, setting up plans to help their employees satisfy their individual mandates, migrating to the new health exchanges, or moving away from offering health coverage?

Since the ACA was enacted in 2010, there have been numerous predictions that employers would drop coverage:[1]

- In 2012, S&P Capital IQ Global Markets Intelligence projected that by 2020, 90 percent of workers with employment-based coverage would be shifted to individual coverage in public exchanges.[2]
- Ezekiel Emanuel, former senior health advisor to President Obama, predicted as recently as 2014 that fewer than 20 percent of workers would have coverage through their jobs by 2025.[3]
- The Congressional Budget Office (CBO) has issued several predictions that between 5 and 20 million fewer people would have employment-based health coverage in 2019 as a result of fewer employers offering health coverage after the ACA, with the most recent projection being 8 million fewer by 2019.[4]
- A recent *New York Times* story (April 4, 2016) concluded that "... those predictions were largely wrong. Most companies, and particularly large employers, that offered coverage before the law have stayed committed to providing health insurance."[5]

There are now several years of post-ACA-enactment data[6] that, combined with pre-ACA data, help identify the trends relating to the sponsorship of health plans by private-sector employers of various sizes. And at a general level, the data show (Figure 1) that while larger employers have stayed the course by continuing to sponsor health plans for their workers, smaller employers have not.

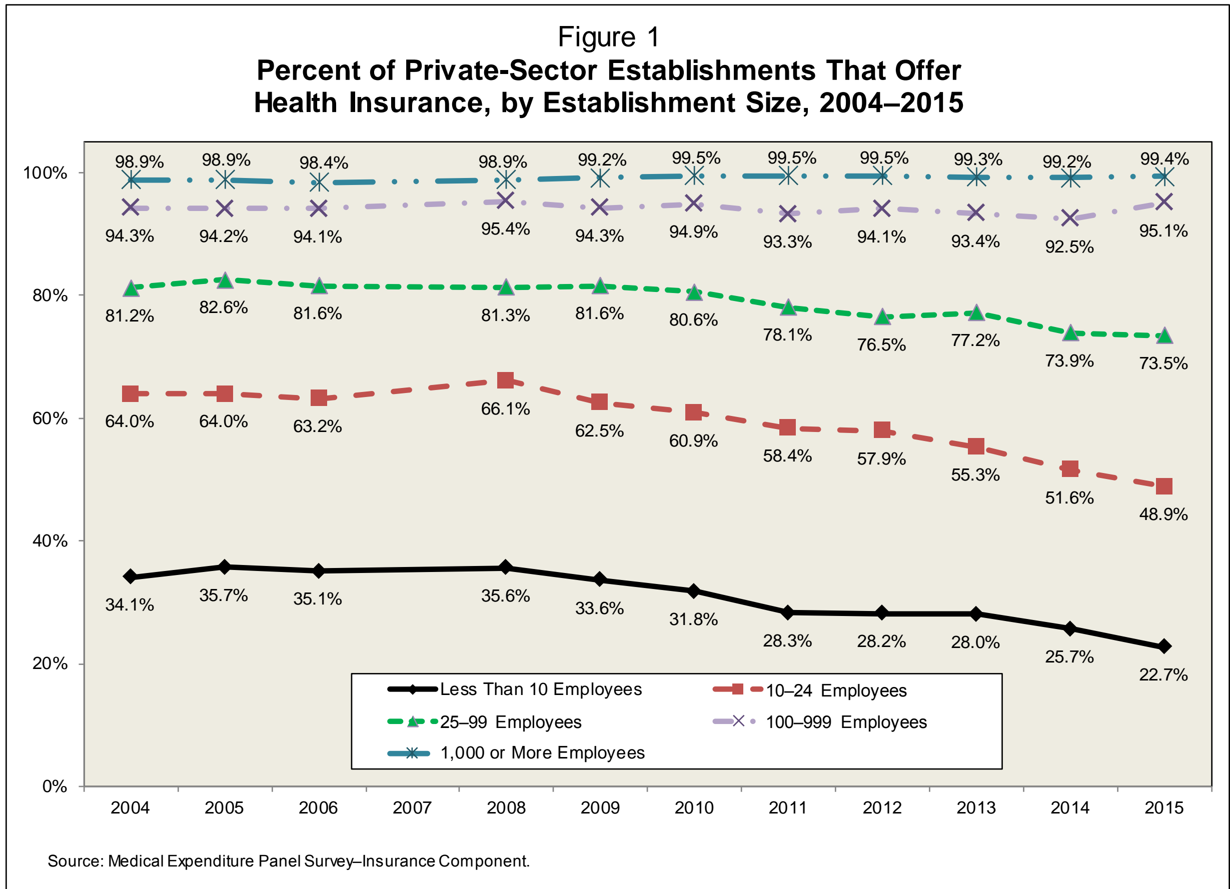
Large employers: Over 95 percent of employers with 100 or more employees offered health coverage before enactment of the ACA and continue to do so. More specifically, among employers with 1,000 or more employees, 98.9 percent offered health coverage in 2004 and 2005 and over 99 percent offered health coverage in each year from 2009 through 2015. Among employers with 100–999 employees, just over 94 percent offered health benefits in 2004–2006, while the percentages have ranged between 92.5 percent and 95.1 percent for 2012–2015.

Smaller employers: The percentage of smaller employers offering health benefits expanded slightly over the 2004–2008 period, peaked in 2008, and began to decline beginning in 2009. More specifically:

- For employers with fewer than 10 employees, those offering health benefits declined from 35.6 percent in 2008 to 22.7 percent in 2015 (a 36 percent decrease).
- For employers with 10–24 employees, those offering health benefits declined from 66.1 percent in 2008 to 48.9 percent in 2015 (a 26 percent decline).

- For employers with 25–99 employees, those offering health benefits declined from 81.3 percent in 2008 to 73.5 percent in 2015 (a 10 percent decline). For this group, the percentage actually peaked in 2009 at 81.6 percent.[7]

Figure 1
Percent of Private-Sector Establishments That Offer Health Insurance, by Establishment Size, 2004–2015



Source: Medical Expenditure Panel Survey–Insurance Component.

How come? There are several plausible reasons for the decline in health plan sponsorship among smaller employers, including rising health care costs; fear of rising health care costs; availability of non-group insurance in the public exchange; attitudes toward the ACA; the 2007–2009 recession; unemployment; and post-recession business and labor/employment softness and uncertainty.

Historically, smaller employers have been less committed to sponsoring health coverage than larger employers. One often-cited reason is that smaller firms, more than larger ones, frequently face higher and more volatile increases in health insurance premiums (Figure 2).[8]

Another reason is that smaller employers are less likely to report linkages between employment-based health coverage and worker attraction and retention. For example, between 68 percent and 80 percent of small employers not offering health benefits report that not offering them has had no impact on employee recruitment, employee retention, employee attitude and performance, the health of their employees, and absenteeism.[9]

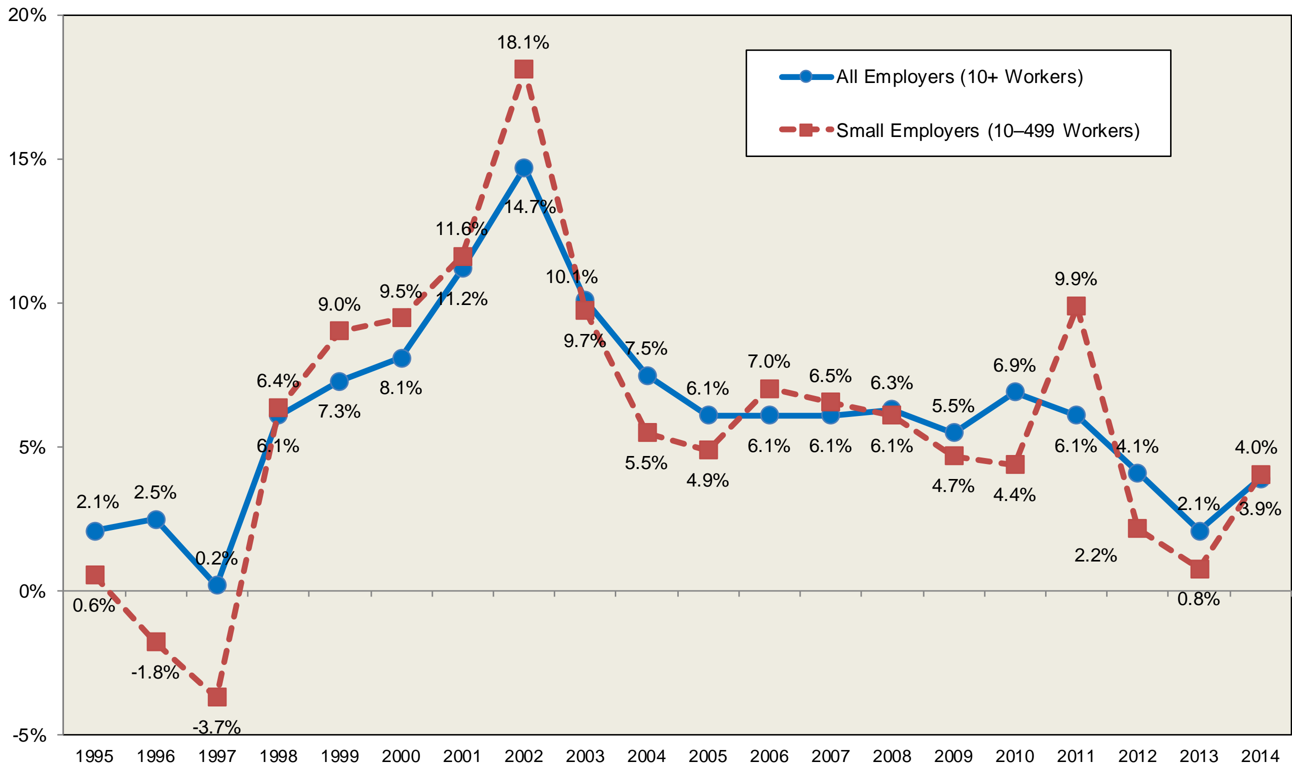
When the 2007–2009 business recession took hold and unemployment rates rose to around 10 percent, many smaller employers that had been sponsoring health plans dropped the coverage, leading to fewer workers with such coverage.[10]

Small-employer sponsorship continued to decline after 2009 as business and labor/employment softness and uncertainty continued—as reflected in lower gross domestic product (GDP) growth and business profitability results;

higher unemployment rates; and projections of higher health care costs. Indeed, the business and labor/employment experiences associated with the recession and the sluggish subsequent years may have made many employers[11]—and workers[12]—more cautious about taking on financial commitments they might not be able to fulfill in the future, particularly in another business slowdown.

Figure 2

Premium Increases, by Firm Size, 1995–2014



Source: Mercer's National Survey of Employer-Sponsored Health Plans.

These factors may have been reinforced by the enactment of the ACA in 2010 and then the incremental application[13] of those requirements to smaller employers, for several reasons:

- The ACA requirements could have convinced many that health plan sponsorship would become a more regulated and expensive benefit—something to stay away from.

- Workers with smaller firms could get health coverage in ACA-mandated public exchanges where they could not be denied coverage for pre-existing conditions, premiums would not vary with health status, subsidies would be available for those with income below 400 percent of the federal poverty level, and in many cases there would be more plan choices than smaller employers are typically able to provide.

In other words, for many smaller employers, the business, labor/employment, and health care environments may have all changed the cost-benefit calculation against sponsoring health coverage—greater costs and risks, with reduced differentiating, attraction and retention benefits.

Of course, more research needs to be done to better understand and have more confidence about what factors have driven smaller employers away from providing health coverage and whether the current trends are likely to continue.

Large employers in the future? While health plan sponsorship hasn't declined among larger employers, some have predicted that even these employers—traditionally more committed to sponsoring health coverage for their workers—will begin to move away from sponsorship at some point in the future.[14] There's no doubt that many larger employers have already made significant changes in the nature of their sponsorship, moving from defined benefit to defined contribution approaches that include more individual cost-sharing (both through employee premium or contributions and employee out-of-pocket expenses) and decision-making responsibilities; shifting to private health insurance exchanges; adopting wellness programs; and more generally supporting greater health consumer engagement.[15]

Assuming that ACA-mandated public exchanges and the available plan offerings are given the chance to mature and more employers become confident about having their employees access health coverage through these third-party entities, more larger employers may come to conclude that sponsoring their own health plans is not crucial to the attraction and retention of their employees—so why take on the costs and risks? This is a leading suggested scenario for why fewer larger employers may continue to sponsor their own health plans in the future, particularly when the next business slowdown (and corresponding rise in unemployment rates) takes hold.

It's also possible that certain public policy changes, if adopted, may drive some employers—larger and smaller employers alike—away from offering health benefits and cause some workers to care less about whether they get health coverage from their employer. For example, several tax and health reform proposals would modify the tax exclusion of employment-based health coverage for workers by applying a cap, not allowing the exclusion against the highest marginal tax rate, or converting the exclusion into a refundable/nonrefundable tax credit.[16] And some versions of the tax credit approach would make the same credit available to all individual taxpayers (not just workers) with respect to not only employment-based health coverage but also health coverage purchased in the individual market.

As always, it will be important to track the employer-plan-sponsorship trends into the future, to put them in the context of larger or separate changes, and to examine closely the possible causal relationships among the data and trends.

Endnotes

[1] There were also contrary views at the time. A number of studies concluded that there would be relatively little net change in the number of people with employment-based coverage in the short-term as a result of the ACA, but there was less certainty on the longer-term effects. See the summary by the U.S. Government Accountability Office in http://www.gao.gov/assets/600/592411.pdf

[2] See http://www.calhospital.org/sites/main/files/file-attachments/akemp_-_attachment_-_sp_report.pdf

[3] Emanuel, Ezekiel J. "Reinventing American Health Care: How the Affordable Care Act Will Improve Our Terribly Complex, Blatantly Unjust, Outrageously Expensive, Grossly Inefficient, Error Prone System." *PublicAffairs* (2014).

[4] Note that the CBO also found that there could be three million *more* people with employment-based coverage under a certain set of assumptions. See Table 4 in https://www.cbo.gov/sites/default/files/111th-congress-2009-2010/costestimate/amendreconprop.pdf, Table 4 in http://cbo.gov/sites/default/files/cbofiles/attachments/03-15-ACA_and_Insurance_2.pdf, Table 2 in https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/45231-ACA_Estimates.pdf, Table 2 in https://www.cbo.gov/sites/default/files/51298-2015-03-ACA.pdf , Table 4 in https://www.cbo.gov/sites/default/files/51298-2016-03-HealthInsurance.pdf (last reviewed April 2016).

[5] See Abelson, Reed. "Despite Fears, Affordable Care Act Has Not Uprooted Employer Coverage." *New York Times* (April 4, 2016). See http://www.nytimes.com/2016/04/05/business/employers-keep-health-insurance-despite-affordable-care-act.html?_r=0

[6] Self-reported data were examined from the Medical Expenditure Panel Survey Insurance Component (MEPS-IC), which is a survey of private- and public-sector employers fielded by the U.S. Census Bureau for the Agency for Healthcare Research and Quality (AHRQ). The survey has been fielded annually since 1996 (with the exception of 2007). Note that the survey collects data from private establishments, which consist of a single physical location. It is possible that some large employers are over-represented in the survey if more than one location was surveyed. Nearly 40,000 establishments were interviewed in 2015. See https://meps.ahrq.gov/mepsweb/survey_comp/ic_sample_size.jsp for more information.

[7] The Kaiser Family Foundation survey shows declines, but they are much smaller than the declines found using the Medical Expenditure Panel Survey Insurance Component (MEPS-IC). See Exhibit 2.2. in http://kff.org/report-section/ehbs-2015-section-two-health-benefits-offer-rates/ Note that the Kaiser survey is based on a sample of 1,997 private- and public-sector employers, whereas, in 2015, the MEPS-IC is based on a sample of nearly 40,000 private-sector employers.

[8] See Lee, Jason. "Are Health Insurance Premiums Higher for Small Firms?" *Research Synthesis Report* No. 2, Robert Wood Johnson Foundation, online at https://folio.iupui.edu/bitstream/handle/10244/472/no2researchreport.pdf?sequence=2

[9] See Fronstin, Paul, and Ruth Helman. "Small Employers and Health Benefits: Findings from the 2002 Small Employer Health Benefits Survey." *EBRI Issue Brief*, no. 253, (Employee Benefit Research Institute, January 2003), https://www.ebri.org/pdf/briefspdf/0103ib.pdf

[10] The Cawley et al (2011) study found that the health insurance coverage of men is sensitive to the unemployment rate, with higher unemployment rates leading to less health insurance coverage. See Cawley, John, Asako S. Moriya, and Kosali I. Simon. "The Impact of the Macroeconomy on Health Insurance Coverage: Evidence from the Great Recession." *NBER Working Paper* No. 17600, November 2011, http://www.nber.org/papers/w17600

[11] Job creation was far below expectations in May 2016. The economy added 38,000 jobs. However, expectations were that 162,000 jobs would be created. The number of jobs added in April 2016 was also fewer than expected. See http://www.cnbc.com/2016/06/03/us-nonfarm-payrolls-may-2016.html

[12] There is increasing evidence that Millennials, who make up an increasing percentage of workers, may be generally more cautious about making financial commitments. For example, compared with previous generations, Millennials who have graduated college will on average earn more money (adjusted for inflation) but face significantly higher costs of living. In addition, over one-half (55 percent) of 18- to 29-year-olds report they are watching their spending "very closely" these days, up from 43 percent of 18- to 29-year-olds who shared that view in 2006. See http://www.pewsocialtrends.org/files/2010/10/millennials-confident-connected-open-to-change.pdf and http://www.pewsocialtrends.org/2014/02/11/chapter-1-education-and-economic-outcomes-among-the-young/

[13] The ACA subjects small employers to a number of different requirements that took effect at different points in time. For example, beginning in 2014, individuals are required to have health insurance for themselves. This may result in more workers taking health insurance when offered. In 2015, employers with 100 or more full-time workers are subject to a penalty if they do not offer workers affordable coverage. This provision takes effect in 2016 for employers with 50–99 employees.

[14] See the summary of employer surveys by the U.S. Government Accountability Office in http://www.gao.gov/assets/600/592411.pdf and http://www.calhospital.org/sites/main/files/file-attachments/akemp_-_attachment_-_sp_report.pdf

[15] See http://content.healthaffairs.org/content/34/10/1779.long

[16] See http://waysandmeans.house.gov/event/hearing-on-the-tax-treatment-of-health-care/

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