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This *EBRI Notes* article examines the percentage of employers offering health insurance from 2008–2016 to better understand how health insurance offer rates may have been affected by the Patient Protection and 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).

Many employers were expected to drop workplace health insurance with the introduction of the ACA. Since 2008, the percentage of coverage-offering employers with 1,000 or more employees has been consistently near or above 99 percent—it reached 99.8 percent in 2016—but smaller firms have shown a steady, though not precipitous, decline in offer rates.

For the smallest employers studied, those with fewer than 10 employees, the offer rate declined from 22.7 percent in 2015 to 21.7 percent in 2016.

But over the last year, perhaps with the strengthening economy and lower unemployment rates, there is evidence of what may be a rebound in employment-based coverage offer rates among firms with 10–999 employees. More specifically, from 2015–2016:

- For employers with 10–24 employees, those offering health benefits increased from 48.9 percent to 49.4 percent.
- For employers with 25–99 employees, those offering health benefits increased from 73.5 percent to 74.6 percent.
- For employers with 100–999 employees, those offering health benefits increased from 95.1 percent to 96.3 percent. For these employers, this trend actually began a year earlier, when the offer rate increased from 92.5 percent in 2014 to 95.1 percent in 2015.

This paper discusses the context for the recent rebound and suggests factors that may influence future trends.
After Years of Erosion, Mid-size and Some Small Employers Added Health Coverage in 2016

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The Patient Protection and 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 law creates new marketplaces (health exchanges) for small employers to make it easier to obtain coverage for their employees. The ACA also requires that all individuals have health insurance coverage or pay a penalty.

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—keeping their 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:

- 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.
- 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.
- 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.
- A 2016 New York Times story 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."

There are now several years of post-ACA-enactment data that, combined with pre-ACA data, help identify the trends over the last 10 years in the sponsorship of health plans by private-sector employers of various sizes. And at a general level, the data show that while larger employers have stayed the course by continuing to sponsor health plans for their workers, smaller employers have not. However, in August 2016, it was reported in the Wall Street Journal that some small companies that had dropped health benefits were restoring the benefit. National data collected since then bears this out: there appears to be the beginning of a rebound in employment-based coverage offer rates among firms with 10–999 employees.

Large employers: Nearly all large employers offered health coverage before enactment of the ACA and continue to do so today. Over this period, the percentage of employers with 1,000 or more employees that offer coverage has been consistently near or above 99 percent and reached 99.8 percent in 2016 (Figure 1).

Midsize employers: Most midsized employers also offered health coverage before enactment of the ACA. In 2008, 95.4 percent of employers with 100–999 employees sponsored a health plan. However, while these employers have generally been committed to offering health coverage, there has been a downward trend in sponsorship that has continued after enactment of the ACA. More recently, the percentage offering coverage started increasing between 2014 and 2015, and reached 96.3 percent in 2016, a 1.3 percent increase from 2015 (Figure 2), which is also the highest the offer rate had been over the 2008–2016 period.
Figure 1

Source: Medical Expenditure Panel Survey.

Figure 2
Change in Percentage of Employers Offering Coverage, by Establishment Size and Time Period

Source: Medical Expenditure Panel Survey.
Small employers: Since just before enactment of the ACA, fewer small employers had been offering health benefits to their workers. And employers with fewer than 10 employees continued to move away from offering health coverage through 2016. But in 2016, there appeared to be what may be the start of a rebound in employment-based coverage offer rates among small employers with 10–24 employees and small employers with 25–99 employees.

More specifically:

- For employers with fewer than 10 employees, those offering health benefits declined from 22.7 percent in 2015 to 21.7 percent in 2016.
- For employers with 10–24 employees, those offered health benefits increased from 48.9 percent in 2015 to 49.4 percent in 2016.
- For employers with 25–99 employees, those offering health benefits increased from 73.5 percent in 2015 to 74.6 percent in 2016.

Why Did Small Employers Drop Health Coverage? There are several plausible reasons for the decline in health plan sponsorship among smaller employers that started before enactment of the ACA and continued until 2016, 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 3). 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 that did not offer health benefits reported no impact on employee recruitment, employee retention, employee attitude and performance, the health of their employees, and absenteeism.

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.

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—and workers—more cautious about taking on financial commitments they might not be able to fulfill in the future, particularly in another business slowdown.

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

- The ACA requirements may have convinced many smaller employers 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 all tended to change the cost-benefit calculation against sponsoring health coverage—greater costs and risks, with reduced differentiating, attraction and retention benefits.

In 2016, circumstances appear to have tilted again for some small employers, making it more advantageous to offer health coverage. With respect to health insurance premiums, for the last few years, premium increases have been relatively low and less volatile. With respect to the economy and the labor market, the unemployment rate has continued to trend down. It was below 5 percent for most of 2016, down from over 5 percent in 2015 and from over 6 percent in 2014 (Figure 4). When unemployment is low, recruiting and retaining workers becomes a bigger challenge for employers, including some smaller employers, which in turn often means improving compensation and benefits.

**Large and midsize employers in the future?** While the percentage of employers sponsoring a health plan has been relatively steady for large and midsize 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 in the future. There's no doubt that many of these 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.

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 and midsize employers may continue to reduce their involvement in their own health plans, increasingly concluding 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? When the next business slowdown (and corresponding rise in unemployment rates) takes hold, it will be interesting to see if fewer larger and midsized employers continue to sponsor their own health plans.

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. 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.

While there are many reasons to expect employers to move away from offering health benefits, there are also reasons to expect employers to continue offering them. Large employers may continue to sponsor their own health plans because of the concern that employees and their dependents may be impacted by continued volatility in both choice and premiums in the non-group market. Employers may also be hesitant to move away from offering coverage because of the uncertainty of repeal of the ACA and what that might mean for the availability of non-group coverage. Finally, employers may be hesitant to move away from offering health coverage simply because of the strengthening economy and lower unemployment rates, which make it more challenging to recruit and retain workers.
Figure 3


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

Figure 4

Monthly Unemployment Rate, 2004–2016

Source: Bureau of Labor Statistics, Series LNS14000000
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


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 could be over-represented in the survey if more than one location was surveyed. Nearly 40,000 establishments were interviewed in 2016. See https://meps.ahrq.gov/mepsweb/survey_comp/ic_sample_size.jsp for more information.

7 In MEPS, sponsorship is defined by the answer to this question: “Did your organization make available or contribute to the cost of any health insurance plans for its active employees at this location in (year)? For this survey, a health insurance plan is defined as a plan where hospital and/or physician coverage is made available to employees.”


9 The Kaiser Family Foundation survey also shows declines between 2009 and 2015, 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.


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

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/

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 were required to have health insurance for themselves. This may have resulted in more workers taking health insurance when offered. In 2015, employers with 100 or more full-time workers were subject to a penalty if they did not offer workers affordable coverage. This provision took effect in 2016 for employers with 50–99 employees.


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

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