

## **After Years of Erosion, More Employers are Offering Health Coverage; Worker Eligibility Higher**

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

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### AT A GLANCE

This paper examines the percentage of employers offering health insurance from 2008–2017 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, and some have done so. Since 2008, the percentage of employers with 1,000 or more employees offering health benefits to workers has been consistently near or above 99 percent—it reached 99.8 percent in 2016—but smaller establishments 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.

However, in 2017, the overall percentage of private-sector employers offering health benefits increased for the first time since 2008. In 2008, 56.4 percent of private-sector employers offered health benefits. By 2016, it was down to 45.3 percent. It then increased to 46.9 percent in 2017. There have been years before 2017 when offer rates increased in various specific establishment size segments, perhaps due to the strengthening economy and lower unemployment rates.

More specifically:

- For employers with less than 10 employees, those offering health benefits increased from 21.7 percent to 23.5 percent between 2016 and 2017.
- For employers with 10–24 employees, those offering health benefits increased from 48.9 percent to 49.4 percent between 2015 and 2016.
- For employers with 25–99 employees, those offering health benefits increased from 73.5 percent to 74.6 percent between 2015 and 2016.
- For employers with 100–999 employees, those offering health benefits increased from 92.5 percent to 96.3 percent between 2014 and 2016.

This paper discusses the context for the recent rebound and suggests factors that may influence future trends.

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**Suggested citation:** Paul Fronstin. "After Years of Erosion, More Employers are Offering Health Coverage; Worker Eligibility Higher." *EBRI Issue Brief*, no. 454 (Employee Benefit Research Institute, August 6, 2018).

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# After Years of Erosion, More Employers are Offering Health Coverage; Worker Eligibility Higher

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## Introduction

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 includes a number of provisions intended to make it easier for small employers to obtain coverage for their employees. They include insurance market reforms, the Small Business Health Options Program (SHOP) or health insurance exchanges, and small employer tax credits. The ACA also requires that individuals have health insurance coverage or pay a penalty, though the Tax Cuts and Jobs Act of 2017 eliminated the financial penalty for not having health insurance starting in 2019.

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:

- 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.<sup>1</sup>
- 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.<sup>2</sup>
- 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.<sup>3</sup>

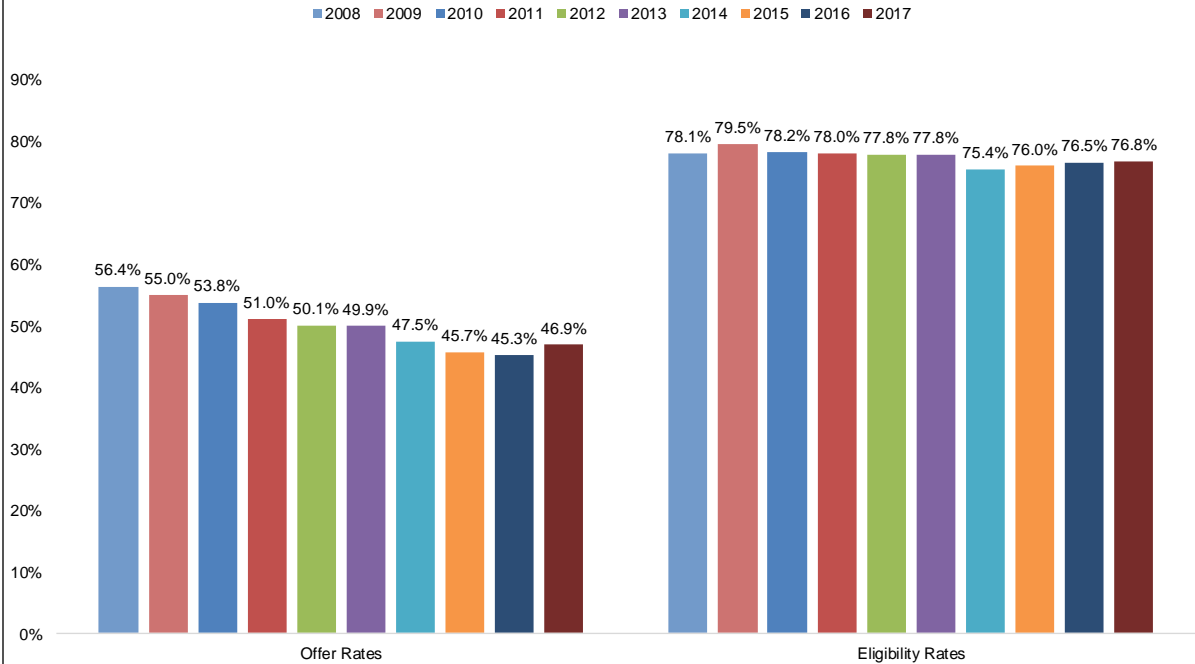
There were also contrary views at the time. A number of studies concluded that there would be relatively little net change in the number of people with employment-based coverage in the short term as a result of the ACA, but there was less certainty on the longer-term effects.<sup>4</sup> In addition, 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."<sup>5</sup>

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 availability of health plans by private-sector employers of various sizes. In this paper, we use data from the Medical Expenditure Panel Survey – Insurance Component (MEPS-IC) to examine how the availability of employment-based health insurance has been changing. The MEPS-IC, 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). Over 40,000 private-sector establishments were interviewed in 2017.<sup>6</sup>

## Overall Trend

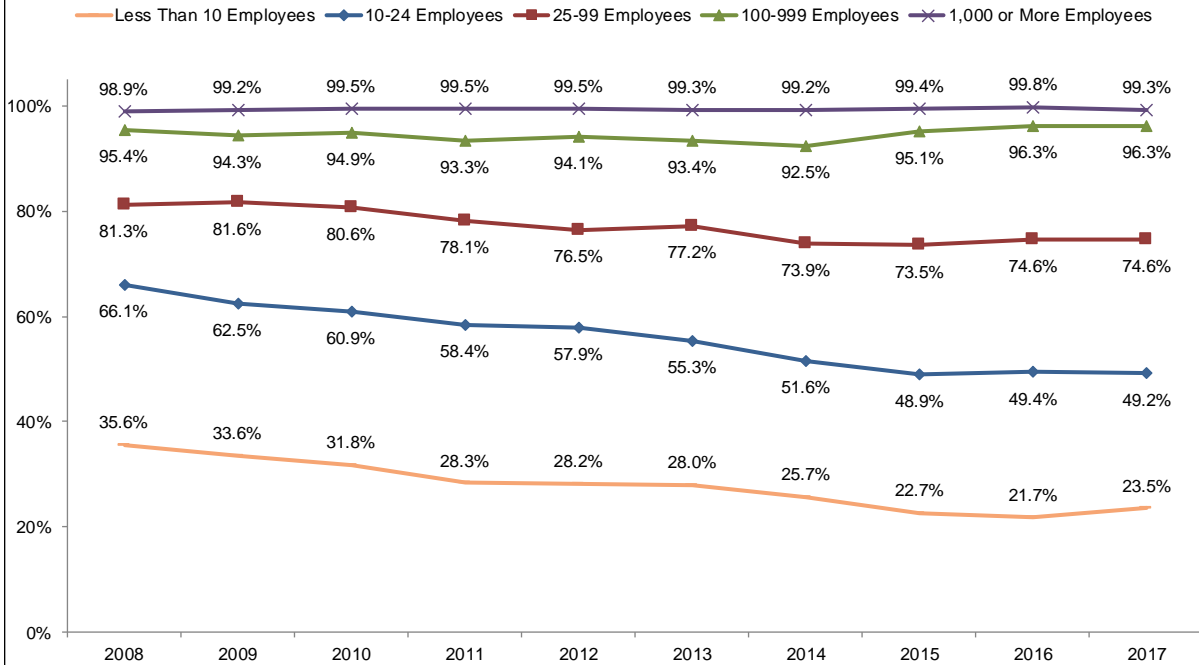
In 2017, the overall percentage of private-sector employers offering health benefits increased for the first time between 2008 and 2017. In 2008, 56.4 percent of private-sector employers offered health benefits (Figure 1). By 2016, it was down to 45.3 percent. It then increased to 46.9 percent in 2017. As will be discussed in more detail below, there have been years before 2017 when offer rates increased in various specific establishment size segments.

**Figure 1**  
**Percent of Private-Sector Establishments That Offer Health Insurance and**  
**Percent of Workers That are Eligible, 2008-2017**



Source: Medical Expenditure Panel Survey - Insurance Component (MEPS-IC).

**Figure 2**  
**Percent of Private-Sector Establishments That Offer Health Insurance,**  
**by Establishment Size, 2008-2017**



Source: Medical Expenditure Panel Survey - Insurance Component (MEPS-IC).

While the overall offer rate trended down until 2017, the percentage of workers eligible for health coverage has been increasing since 2015. Furthermore, the 76.8 percent of workers eligible for health coverage in 2017 was much higher than the percentage of employers offering such coverage. The juxtaposition between the two trends suggests that workers have been migrating to jobs that offer health coverage.

## **Availability of Health Coverage by Establishment Size**

Generally, large employers have stayed the course by continuing to offer health coverage to their workers. Nearly all large employers offered health coverage before enactment of the ACA and continued to do so through 2017. Over this period, the percentage of employers with 1,000 or more employees that offered coverage was consistently near or above 99 percent and was 99.3 percent in 2017 (Figure 2).

In contrast to large employers, small and midsized companies did not stay the course. Regardless of establishment size, the percentage of small and midsized employers offering health benefits started falling as far back as 2009. Interestingly, in August 2016, the *Wall Street Journal* reported on anecdotal evidence that some small companies that had dropped health benefits were restoring the benefit.<sup>7</sup> National data collected since then bears this out: there appears to be the beginning of a rebound in employment-based coverage offer rates in every establishment size category below 1,000 starting between 2015 and 2017.

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, then increased to 23.5 percent in 2017.
- For employers with 10–24 employees, those offering 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.
- For employers with 100-999 employees, the percentage offering health benefits increased from 92.5 percent in 2014 to 95.1 percent in 2015.

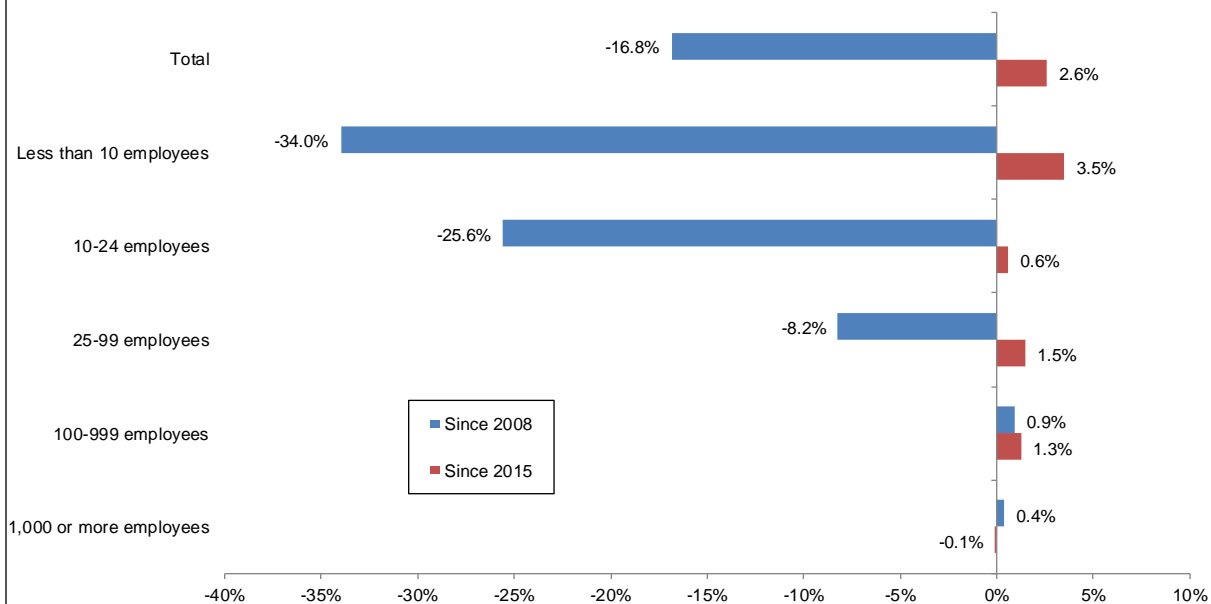
Changes in offer rates can also be seen in Figure 3, and despite recent growth, offer rates are still below 2008 levels. Among employers with less than 10 employees, offer rates are down 34 percent since 2008, but are up 3.5 percent since 2015. The same pattern can be seen for employers with 10-24 and 25-99 employees.

The percentage of workers eligible for health coverage (the eligibility rate) is shown in Figure 4, by establishment size. Trends have been less clearly defined since 2008. However, since 2014, the percentage of workers eligible for health insurance in establishments with less than 10 employees has increased from 79.9 percent to 81.8 percent. Similarly, the eligibility rate increased from 74 percent to 76.1 percent among workers in establishments with 25-99 employees between 2014 and 2017. It increased from 74.8 percent to 76.6 percent among workers in establishments with 1,000 or more workers between 2015 and 2017.

## **Why Did Small Employers Drop Health Coverage?**

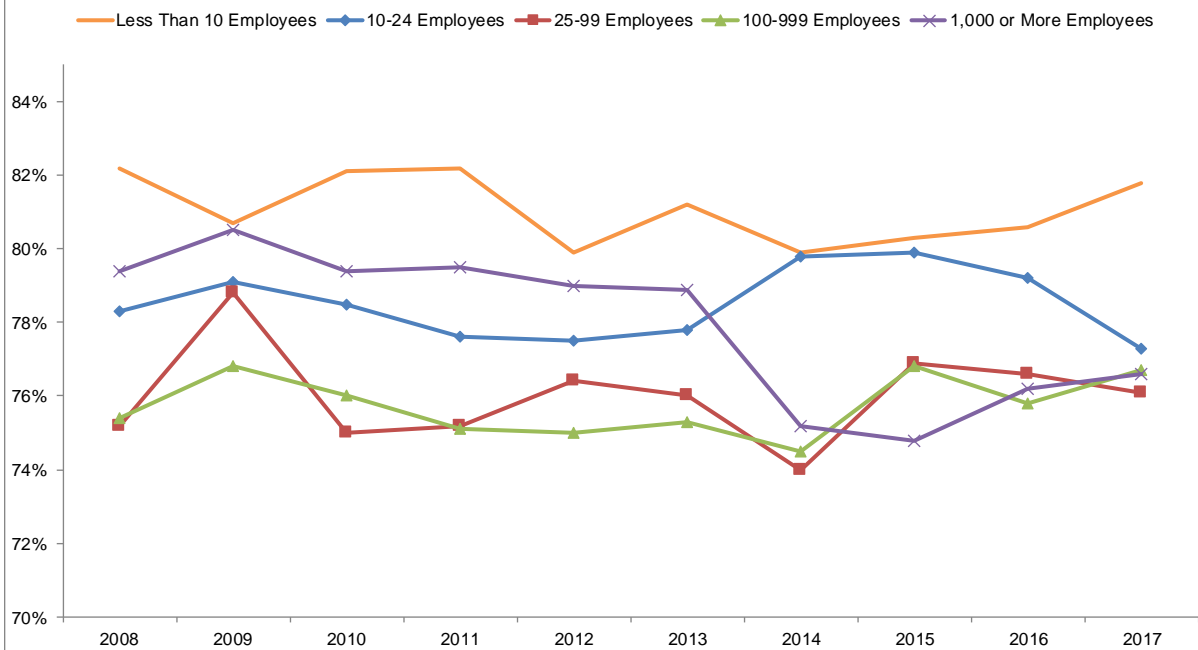
There are several plausible reasons for the decline in the availability of health coverage among smaller employers, including rising health care costs; fear of rising health care costs; availability of non-group insurance in the public exchange; attitudes toward the ACA; the 2007–2009 recession; unemployment;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

**Figure 3**  
**Change in Percentage of Employers Offering Coverage,**  
**by Establishment Size and Time Period**



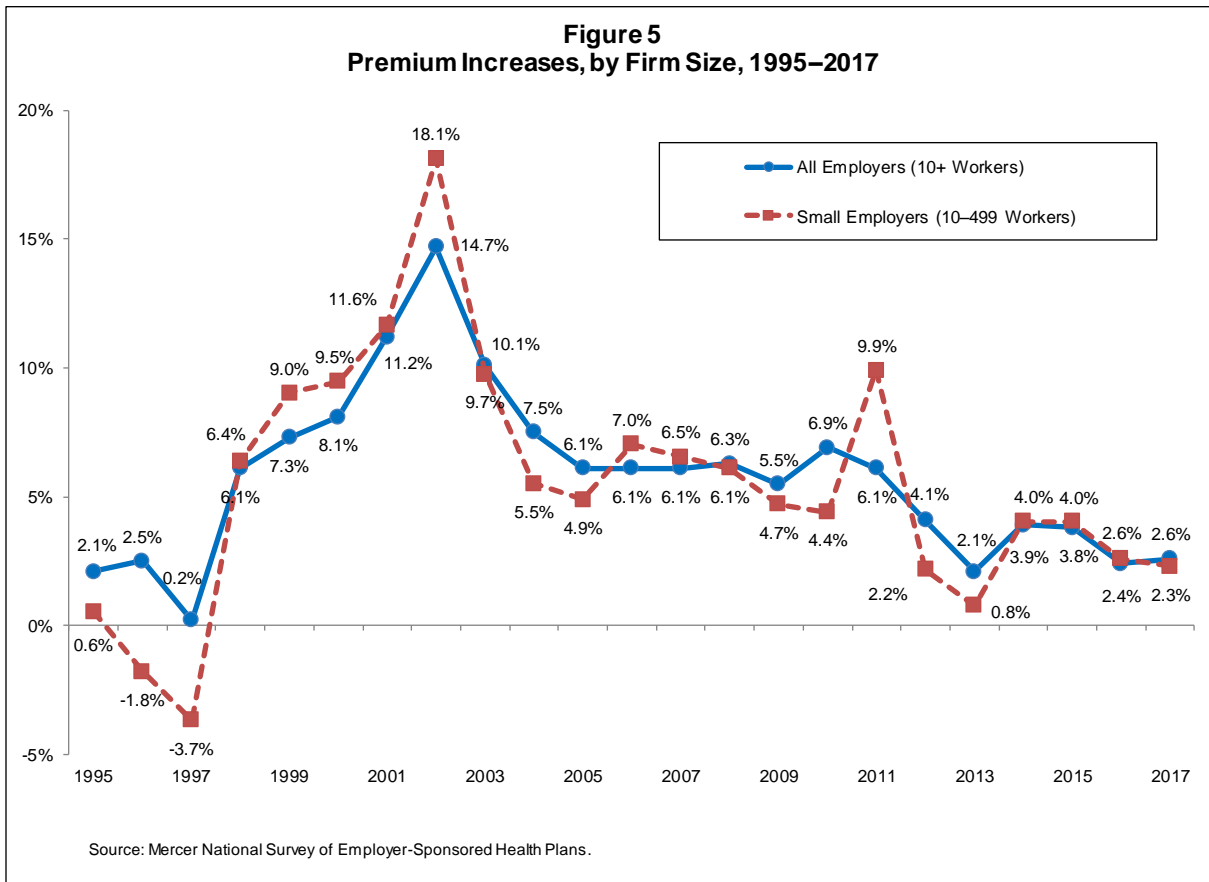
Source: Employee Benefit Research Institute estimates from the Medical Expenditure Panel Survey - Insurance Component (MEPS-IC).

**Figure 4**  
**Percent of Private-Sector Workers Eligible for Health Insurance,**  
**by Establishment Size, 2008-2017**



Source: Medical Expenditure Panel Survey - Insurance Component (MEPS-IC).

Historically, smaller employers have been less committed to offering health coverage than larger employers. One often-cited reason has been that smaller establishments, more than larger ones, frequently face higher and more volatile increases in health insurance premiums (Figure 5).<sup>8</sup>



Another reason has been 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.<sup>9</sup>

When the 2007–2009 business recession occurred and unemployment rates rose to around 10 percent, many smaller employers that had been offering health coverage plans dropped it, leading to fewer workers with such coverage.<sup>10</sup>

The availability of coverage among small employers 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; 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<sup>11</sup>—more cautious about taking on financial commitments they might not be able to fulfill in the future, particularly in another business slowdown.

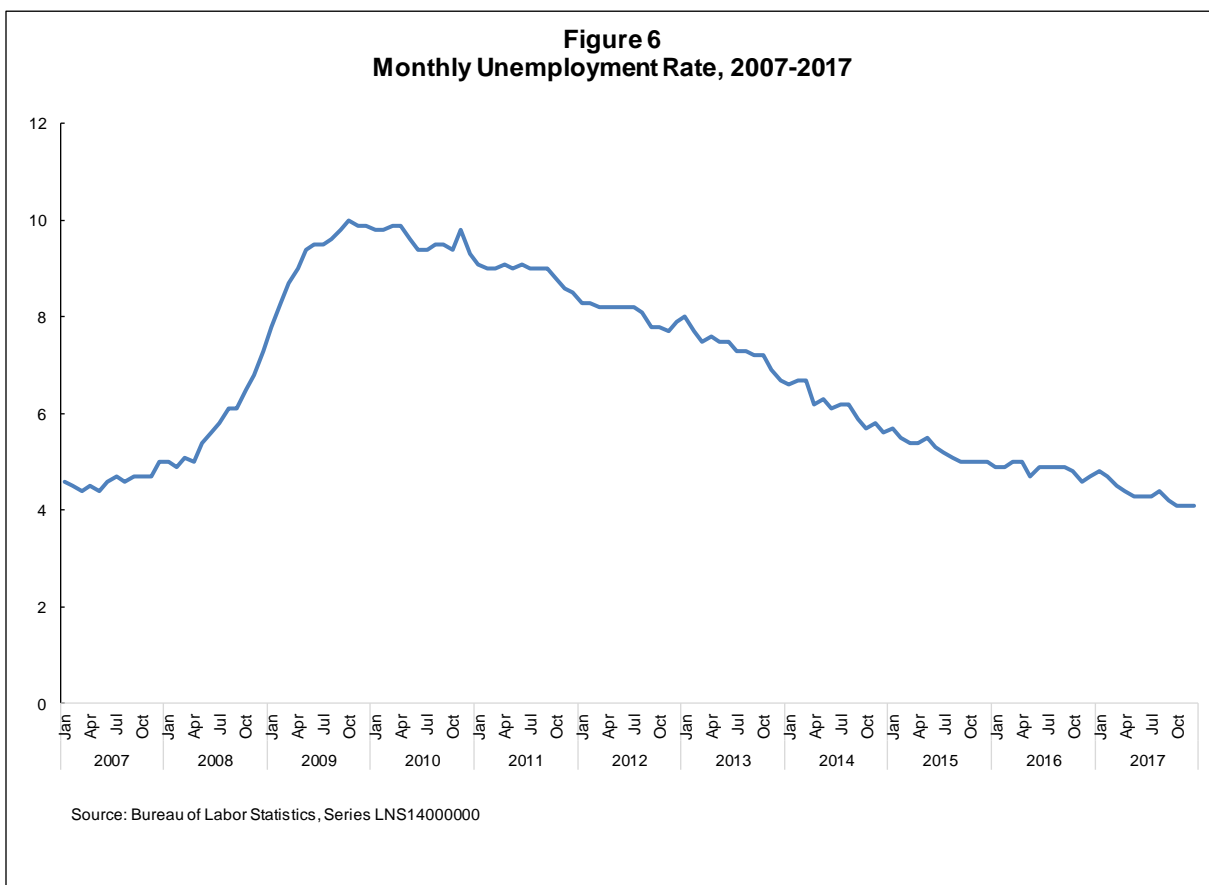
These factors may have been reinforced by the enactment of the ACA in 2010 and then the incremental application<sup>12</sup> of those requirements to smaller employers, for several reasons:

- The ACA requirements may have convinced many smaller employers that offering health coverage would become a more regulated and expensive benefit—something to stay away from.

- Workers with smaller establishments 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 offering health coverage—greater costs and risks, with reduced differentiation, attraction and retention benefits.

In 2017, circumstances appear to have changed 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, trending down to 4.1 percent by the end of 2017 (Figure 6). 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 offering health coverage to their workers—will begin to move away from offering those benefits in the future.<sup>13</sup> There’s no doubt that many of these employers have already made significant changes in the nature of the coverage that is offered, 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 consumer engagement in health care.<sup>14</sup>



More larger and midsize employers may continue to reduce their involvement in their own health plans, increasingly concluding that offering 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 midsize employers continue to offer health coverage.

It's also possible that certain public policy changes, if adopted, may drive some employers—large and small 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, the tax exclusion of employment-based health coverage could be changed, as has been proposed in the past.<sup>15</sup> Similarly, while the excise tax on high cost plans (aka the Cadillac tax) has been delayed numerous times, the tax may take effect at some point.

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 the future 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.

As always, it will be important to track the availability of employment-based health coverage 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

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<sup>1</sup> Note that the CBO also found that there could be 3 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](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](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).

<sup>2</sup> 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).

<sup>3</sup> See [http://www.calhospital.org/sites/main/files/file-attachments/akemp\\_-\\_sp\\_report.pdf](http://www.calhospital.org/sites/main/files/file-attachments/akemp_-_sp_report.pdf)

<sup>4</sup> See the summary by the U.S. Government Accountability Office in <http://www.gao.gov/assets/600/592411.pdf>

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

<sup>6</sup> 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. See [https://meps.ahrq.gov/mepsweb/survey\\_comp/ic\\_sample\\_size.jsp](https://meps.ahrq.gov/mepsweb/survey_comp/ic_sample_size.jsp) for more information.

<sup>7</sup> See Simon, Ruth. "Some Small Businesses Restore Group Health Coverage." *Wall Street Journal* (Aug. 21, 2016), <https://www.wsj.com/articles/some-small-businesses-restore-group-health-coverage-1471771802>

<sup>8</sup> See Lee, Jason. "Are Health Insurance Premiums Higher for Small Firms?" *Research Synthesis Report No. 2*, Robert Wood Johnson Foundation, online at <https://pdfs.semanticscholar.org/a26a/a32fe9c3500ef0e2dabb1505e09e10da4cac.pdf>

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<sup>9</sup> 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>

<sup>10</sup> 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>

<sup>11</sup> There is a growing body of 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/>

<sup>12</sup> 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.

<sup>13</sup> See the summary of employer surveys by the U.S. Governmental 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](http://www.calhospital.org/sites/main/files/file-attachments/akemp_-_attachment_-_sp_report.pdf)

<sup>14</sup> See <http://content.healthaffairs.org/content/34/10/1779.long>

<sup>15</sup> See <http://waysandmeans.house.gov/event/hearing-on-the-tax-treatment-of-health-care/>