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An Early Look At Changes In Employer-Sponsored Insurance Under The Affordable Care Act

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ABSTRACT Critics frequently characterize the Affordable Care Act (ACA) as a threat to the survival of employer-sponsored insurance. The Medicaid expansion and Marketplace subsidies could adversely affect employers' incentives to offer health insurance and workers' incentives to take up such offers. This article takes advantage of timely data from the Health Reform Monitoring Survey for June 2013 through September 2014 to examine, from the perspective of workers, early changes in offer, take-up, and coverage rates for employer-sponsored insurance under the ACA. We found no evidence that any of these rates have declined under the ACA. They have, in fact, remained constant: around 82 percent, 86 percent, and 71 percent, respectively, for all workers and around 63 percent, 71 percent, and 45 percent, respectively, for low-income workers. To date, the ACA has had no effect on employer coverage. Economic incentives for workers to obtain coverage from employers remain strong.

There have been strong assertions by some that the subsidies provided to adults to purchase coverage in the individual Marketplaces under the Affordable Care Act (ACA) will lead to widespread dropping of employer-sponsored insurance, particularly among firms with many low-wage workers.[1] Under such a scenario, employers would drop coverage if the total value of subsidies available to their workers in the Marketplaces exceeded the value of the tax subsidy for providing employer-sponsored insurance and the penalty they would pay for not offering coverage under the ACA. The consequences of such dropping, if it were to occur widely, would be quite serious. Along with the loss of employer-sponsored insurance benefits to workers, government subsidy costs could skyrocket, potentially making the law financially unsustainable.

There has been little information about changes in employer-sponsored insurance under the ACA. This article takes advantage of timely data from the Health Reform Monitoring Survey (HRMS) for June 2013 through September 2014 to examine early changes in offer, take-up, and coverage rates of employer-sponsored insurance under the ACA.

We begin by summarizing the provisions of the ACA that can potentially affect employer-sponsored insurance. We then review a number of studies that have addressed the potential for changes in this type of insurance under the ACA, including both studies that project widespread dropping of employer coverage and those that expect little change.

Next, we describe the data and methods used in our study to estimate the size of the early employer and employee responses under the ACA, followed by our findings and conclusions. The key result from this analysis is that there were no significant changes in offer, take-up, and coverage rates of employer-sponsored insurance between mid-2013 and late 2014, which captures the first nine months under the new health insurance Marketplaces.

ACA Provisions That Affect Employers

Before the ACA, the preferential tax treatment of employer-sponsored insurance provided a strong economic incentive for employers to offer coverage, particularly for those with workers who had higher incomes. Employers' contributions to employer-sponsored insurance are not taxed as income for workers. As a result, one dollar in these benefits is more valuable than a dollar of wages for workers with a tax liability. In addition, the value of the benefit increases with the taxpayer's marginal tax rate and the premium paid for the coverage.

The ACA has the potential to affect employers' economic incentives to offer health insurance to their workers. All else being equal, easier availability of coverage outside of employment relationships, particularly when subsidized, would reduce firms' incentives to offer health insurance to their employees. Thus, the establishment of individual insurance Marketplaces under the ACA and the availability of federal subsidies on a sliding scale for people with family incomes of 100–400 percent of the federal poverty level could reduce the incentive for firms to offer coverage—particularly for firms with a large share of low-wage workers who are eligible for more generous subsidies.

Similarly, the Medicaid expansion could reduce workers' take-up of employer-sponsored insurance. It could also reduce the total health care costs of firms that offered affordable coverage because workers could enroll in Medicaid without a penalty to their employers.

To counteract the incentives created by these new coverage options for workers, there are several factors that encourage employers to continue (or begin) to offer health insurance. First, the preferential tax treatment of employer-sponsored insurance remains intact under the ACA and will continue to provide a strong economic incentive for employers to offer coverage.

Second, the ACA establishes new requirements for some employers to contribute to the cost of their employees' health insurance. Employers with more than fifty full-time-equivalent employees (FTEs) will face penalties if they do not offer adequate and affordable coverage to their workers and at least one of their full-time employees receives a subsidy for the purchase of coverage in a Marketplace.

These penalties were originally slated to begin in 2014, but their implementation has been delayed. Collectively they are often referred to as the employer mandate or the employer responsibility requirement. They are intended to encourage employers to provide affordable coverage, thereby limiting the cost of federal subsidies to assist people in purchasing insurance coverage independently.

Third, other elements of the ACA are specifically designed to encourage small firms to offer coverage. In 2010 employers with twenty-five or fewer FTEs with an average pay of $50,000 became eligible for tax credits to assist them in purchasing health insurance. Additionally, firms with fifty or fewer FTEs benefit from the introduction of the Small Business Health Options Program (SHOP) Marketplaces. Starting in October 2013, all firms with fifty or fewer employees (and, beginning in 2016, those with a hundred or fewer) have been able to purchase coverage in the SHOP Marketplaces via a paper application.[2] As of November 2014, small firms could begin to purchase SHOP coverage online.[3]

Finally, the individual mandate will tend to boost workers' demand for employer-sponsored insurance. This is particularly likely in the case of higher-wage workers, whose preferences for the employer-sponsored insurance tax exclusion and whose ability to avoid penalties may carry more weight compared to lower-wage workers in an employer's decision to offer insurance.

In summary, the potential impact of the ACA on employers' offers of coverage and on workers' take-up of those offers is difficult to predict a priori, given the competing incentives under the many components of the legislation. As illustrated by mathematical examples of how different types of firms will fare in offering employer-sponsored insurance under the ACA's provisions,[4] the decision to offer coverage or not will depend on complicated assessments of the benefit to and costs for the firm, and the decision to accept that offer will depend on complicated assessments of benefits and costs by workers.

Expectations Based On Early Research

Leading up to the ACA, national rates of coverage through employer-sponsored insurance had decreased nearly every year since 2000, with the largest declines seen during the 2001 and 2007–09 recessions. This was evident among various subpopulations, including parents, childless adults, and children; income groups; regions; and firm sizes.[5,6] The decline in employer-sponsored insurance was even more pronounced among small-firm and low-income workers, relative to large-firm and high-income workers.

For example, the share of full-time workers and their dependents with employer-based coverage in firms with fewer than ten workers fell from 43 percent in 2000 to 33 percent in 2010. Coverage for their counterparts working in firms with 1,000 or more employees fell from 87 per-

cent to 82 percent over the same period. Additionally, higher-income people in small firms and lower-income people in large firms experienced relatively large declines in employer-sponsored insurance, while higher-income people in larger firms experienced relatively small declines.[7]

As discussed above, critics frequently characterize the ACA as threatening the survival of employer-sponsored insurance by altering the choices and responsibilities of employers and their workers. For instance, the availability of subsidies to lower-income workers in the Marketplaces could adversely affect employers' incentives to offer health insurance, thereby reducing rates of employer-sponsored insurance.

Focusing more specifically on the changes likely to occur under the ACA, a study by the American Action Forum predicted that workers with incomes of up to 200 percent of poverty might be better off with subsidized individual coverage in the Marketplaces than with employer-sponsored insurance.[1] It assumed that a worker with this income worked at a firm consisting only of workers with the same income—all of whom would benefit equally if the employer dropped coverage, paid the penalty, and shared the savings with employees. Based on these assumptions, the study predicted that thirty-five million workers would lose or drop employer coverage and shift to the Marketplaces, increasing premium subsidy costs by $1.4 trillion over ten years.[1,8–10]

In other work, a 2011 McKinsey survey of 1,300 employers found that 30 percent of respondents said that their company would definitely (9 percent) or very likely (21 percent) drop coverage after 2014, with little variability in responses by firm size.[11,12] However, a recent survey of about 2,500 employers by Mercer found that only 4 percent of large employers and 16 percent of small employers planned to drop coverage in the next five years—lower than estimates from previous years.[13] Similarly, a survey of 3,330 plan sponsors by the Employee Benefit Research Institute and the Society for Human Resource Management reported that just 1 percent of employers planned to eliminate coverage in 2015.[14]

A study by Jean Abraham, Roger Feldman, and Peter Graven that builds on their 2012 work[4] finds that most employers will still have a strong economic incentive to offer coverage to their workers under the ACA.[15] The authors focus on three major policies that drive whether or not firms realize a net financial benefit from offering employer-sponsored insurance. These policies are the tax exemptions for premiums for this insurance, which remain in place under the ACA; the penalties on larger employers that do not offer affordable coverage; and the premium tax credits for individual coverage in the Marketplaces for people with lower incomes.

Abraham and coauthors estimate that employers of the vast majority of workers now offered employer-sponsored insurance will continue to have an economic incentive to offer coverage under the ACA. The largest firms will continue to have a strong incentive to do so because the large benefit of the employer coverage tax exclusion and penalties avoided by offering coverage greatly outweigh the value of the premium subsidies that workers would receive if their employers did not offer coverage. Firms with fewer than fifty workers will face significantly lower economic incentives to offer coverage because they employ a larger share of low-income workers and are not subject to the employer mandate. However, Abraham and coauthors estimate that most small firms that already offer coverage are likely to continue to do so.[15]

Results from microsimulation models also suggest that the overall effects of the ACA on employer-sponsored insurance will be modest. In its most recent estimates, the Congressional Budget Office (CBO) predicts a decline in overall employer-sponsored insurance of six million people by 2016.[16] This represents a modest reduction of 3.7 percent, relative to the CBO's forecast that 161 million people would have employer-sponsored insurance in 2016 without the law.

At the other extreme, RAND estimates that the ACA would lead to a net increase of 8.0 million people with employer-sponsored insurance, relative to a no-reform scenario.[17] Other models—for example, that of the Lewin Group[18] and the Urban Institute's Health Insurance Policy Simulation model[19,20]—predict changes in overall employer-sponsored insurance within the range of the CBO and RAND estimates.

Finally, the Massachusetts experience also suggests that the combination of individual and employer mandates can increase the rate of employer-sponsored insurance, even when subsidized alternatives to the insurance are introduced. From fall 2006 to fall 2009—a period covering both the implementation of the state's health reforms and a rise in the state's unemployment rate—the rate of employer-sponsored insurance in Massachusetts increased about 3 percentage points.[21] A spring 2008 survey of 1,003 randomly selected Massachusetts firms found that the percentage of firms offering health benefits had increased from 73 percent in 2007 to 79 percent in 2008.[22]

We used data from the HRMS to provide real-time insights into the ACA's early effects on employer-sponsored insurance from the perspective of workers. We examined whether the likelihood of workers receiving an offer of

employer-sponsored insurance and that of workers taking up such offers changed between 2013 and 2014. We explored these outcomes among key subpopulations of workers, including by firm size (fewer than fifty workers versus fifty workers or more) and by family income (below 250 percent of poverty versus 250 percent or more of poverty).

Study Data And Methods

We used the HRMS data to examine changes in offer, take-up, and coverage rates of employer-sponsored insurance in early September 2014 relative to June 2013, which was before the implementation of the ACA's major coverage expansions. The HRMS, a quarterly survey of the nonelderly population, provides real-time estimates on ACA implementation and outcomes to complement the more robust assessments that will be possible when federal household surveys (such as the American Community Survey, Current Population Survey, and National Health Interview Survey) release their estimates of changes in health insurance coverage through 2014.[23–25] The HRMS is based on cross-sectional samples of a nationally representative Internet panel of US households—GfK's KnowledgePanel[26]—and began in January 2013 to provide a basis of comparison for the postimplementation period.

Studies assessing KnowledgePanel for its reliability as a survey have found little evidence of nonresponse bias in the panel on core demographic and socioeconomic variables.[27] Similarly, studies comparing KnowledgePanel and traditional random-digit-dialing telephone surveys have yielded comparable estimates for a range of measures related to demographic and socioeconomic characteristics, health status and behaviors, and other characteristics.[28,29]

Of particular relevance to this analysis, findings from the HRMS from early 2014[30] are consistent with the recent early-release data from the National Health Interview Survey[31] as well as ongoing Gallup survey data. The overall sample size for the HRMS is roughly 7,500 nonelderly adults per quarter. The HRMS is described in more detail in the online Appendix.[25]

DEFINITIONS In this analysis we defined *workers* as nonelderly adults (ages 18–64) who reported working for pay or who were self-employed. The HRMS asks adults who report working for pay whether their employer has fewer than fifty workers or fifty or more workers, counting employees at all locations where the employer operates. We excluded from the analysis workers who did not report work status or firm size ($n = 204$).

Following the phrasing in the HRMS, we defined workers as having employer-sponsored insurance if they reported coverage through their own or a family member's current or former employer, including coverage through the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985. It also includes TRICARE, military, or Veterans Affairs coverage, as well as write-in responses that listed a valid private group plan. The HRMS asks adults who do not report having employer-sponsored insurance whether their employer or a family member's employer offers health insurance that could cover them. Adults who report having employer-sponsored insurance are presumed to have an offer through their own or a family member's employer.

The employer-sponsored insurance take-up rate was defined as the share of workers who reported such insurance among all workers who had an offer of coverage. For both coverage with and offers of employer-sponsored insurance, the source within the family—self or another worker—is unobservable in the HRMS.

LIMITATIONS This study had several limitations. Each round of the HRMS is weighted to be nationally representative. However, it is important in examining changes over time that we based our estimates on comparable samples. For example, if the share of people with employer-sponsored insurance grew simply because more respondents were older or from higher-income groups in one round of the survey, it would be incorrect to associate such a change with the ACA coverage provisions.

This is a particular challenge in comparing estimates from survey samples over time because the composition of the sample that is surveyed can change from one round to another in ways that are not fully captured in the weights and that may distort the estimates of change. Therefore, we report regression-adjusted trends that correct for the effects of observed shifts in the characteristics of the survey respondents across quarters.[32,33] More details on the regression adjustment methods are available in the Appendix.[25]

Study Results

Exhibits 1–3 present our results for offer, take-up, and coverage rates of employer-sponsored insurance, respectively. As mentioned above, offer rates have been declining for several years, particularly for small firms. Absent the ACA, we might expect the decline to continue. However, the improving economy and tightening labor markets could result in some increase in offer rates. With the ACA, some employers have incentives to continue offering coverage (for example,

EXHIBIT 1

Nonelderly Workers With An Offer Of Employer-Sponsored Insurance (ESI), By Firm Size And Family Income, June 2013 And September 2014

				Workers with family income of:					
	All workers			<250% of poverty			≥250% of poverty		
Workers	June 2013	Sept. 2014	*p* value[a]	June 2013	Sept. 2014	*p* value[a]	June 2013	Sept. 2014	*p* value[a]
ALL									
With offer of ESI	82.7%	82.2%	0.643	63.3%	62.7%	0.794	93.7%	93.0%	0.439
Sample size	5,025	5,137	—[b]	1,622	1,657	—[b]	3,403	3,480	—[b]
AT SMALL FIRMS OR SELF-EMPLOYED									
With offer of ESI	61.5%	61.4%	0.968	43.7%	43.9%	0.932	80.1%	79.0%	0.593
Sample size	1,730	1,738	—[b]	792	802	—[b]	938	936	—[b]
AT LARGE FIRMS									
With offer of ESI	94.2%	93.4%	0.241	83.1%	81.4%	0.431	98.6%	98.2%	0.382
Sample size	3,275	3,399	—[b]	819	855	—[b]	2,456	2,544	—[b]

SOURCE Authors' analysis of data from the Health Reform Monitoring Survey. **NOTES** Estimates are regression-adjusted. "Workers" are nonelderly adults working for pay and self-employed adults. Adults who refused to report work status and those who reported working for pay but refused to report firm size were excluded. Respondents were coded as having an ESI offer if their own or a family member's employer offered health insurance or if they reported having ESI. Small firms are those with fewer than fifty workers; large firms are those with fifty workers or more. [a]*p* values refer to significance tests between June 2013 and September 2014 estimates. [b]Not applicable.

many workers are newly required to have coverage or pay a tax penalty because of the individual mandate, and tax benefits are unchanged), whereas others (such as employers with a large share of low-income workers eligible for subsidies in the Marketplaces) might have an incentive to stop offering coverage.

We found essentially no change in offer rates throughout the study period (Exhibit 1). Overall, the rates stayed steady, at around 82 percent.[34] Offer rates in small firms also held steady, at around 61 percent, and rates in large firms remained in the 93–94 percent range. For workers with incomes below 250 percent of poverty, about 63 percent were offered coverage; the figure was about 93 percent for those with higher incomes. These percentages were statistically unchanged between the two periods. Even for low-income individuals working in small firms—people for whom their employers' incentives to offer insurance are most likely to decline—offer rates remained relatively constant, at close to 44 percent. Thus, there has not been the decline in offers of employer-sponsored insurance that many have feared.

The individual mandate should encourage more workers, assuming they have an offer of affordable insurance, to take up their employer's offer of coverage, whereas the Medicaid expansion could have the opposite effect for low-

EXHIBIT 2

Nonelderly Workers Who Accepted An Offer Of Employer-Sponsored Insurance (ESI), By Firm Size And Family Income, June 2013 And September 2014

				Workers with family income of:					
	All workers			<250% of poverty			≥250% of poverty		
Workers	June 2013	Sept. 2014	*p* value[a]	June 2013	Sept. 2014	*p* value[a]	June 2013	Sept. 2014	*p* value[a]
ALL									
Accepted ESI	86.1%	86.9%	0.35	70.5%	72.8%	0.25	92.0%	92.3%	0.73
Sample size	4,219	4,281	—[b]	1,042	1,047	—[b]	3,177	3,234	—[b]
AT SMALL FIRMS OR SELF-EMPLOYED									
Accepted ESI	80.7%	83.0%	0.27	70.0%	73.6%	0.12	86.9%	88.0%	0.71
Sample size	1,096	1,082	—[b]	349	348	—[b]	747	734	—[b]
AT LARGE FIRMS									
Accepted ESI	88.0%	88.3%	0.71	71.2%	72.2%	0.70	93.6%	93.6%	0.99
Sample size	3,108	3,199	—[b]	687	699	—[b]	2,421	2,500	—[b]

SOURCE Authors' analysis of data from the Health Reform Monitoring Survey. **NOTES** Estimates are regression-adjusted. "Workers" are nonelderly adults working for pay and self-employed adults. Adults who refused to report work status and those who reported working for pay but refused to report firm size were excluded. Respondents were coded as having an ESI offer if their own or a family member's employer offered health insurance or if they reported having ESI. Small firms are those with fewer than fifty workers; large firms are those with fifty workers or more. [a]*p* values refer to significance tests between June 2013 and September 2014 estimates. [b]Not applicable.

EXHIBIT 3

Nonelderly Workers With Employer-Sponsored Insurance (ESI), By Firm Size And Family Income, June 2013 And September 2014

				Workers with family income of:					
	All workers			<250% of poverty			≥250% of poverty		
Workers	June 2013	Sept. 2014	*p* value[a]	June 2013	Sept. 2014	*p* value[a]	June 2013	Sept. 2014	*p* value[a]
ALL									
With ESI	71.2%	71.4%	0.82	44.6%	45.7%	0.60	86.3%	85.8%	0.64
Sample size	5,025	5,137	—[b]	1,622	1,657	—[b]	3,403	3,480	—[b]
AT SMALL FIRMS OR SELF-EMPLOYED									
With ESI	49.7%	51.0%	0.49	30.8%	32.6%	0.42	69.6%	69.5%	0.97
Sample size	1,730	1,738	—[b]	792	802	—[b]	938	936	—[b]
AT LARGE FIRMS									
With ESI	82.9%	82.4%	0.59	59.2%	58.6%	0.82	92.3%	91.9%	0.63
Sample size	3,275	3,399	—[b]	819	855	—[b]	2,456	2,544	—[b]

SOURCE Authors' analysis of data from the Health Reform Monitoring Survey. **NOTES** Estimates are regression-adjusted. "Workers" are nonelderly adults working for pay and self-employed adults. Adults who refused to report work status and those who reported working for pay but refused to report firm size were excluded. Respondents were coded as having ESI if they reported having coverage through their own or a family member's current or former employer or union; had Veterans Affairs, military, or TRICARE coverage; or reported having ESI or a private group plan. Small firms are those with fewer than fifty workers; large firms are those with fifty workers or more. [a]*p* values refer to significance tests between June 2013 and September 2014 estimates. [b]Not applicable.

income workers. We found no change in take-up rates overall, or by income or firm size, between June 2013 and September 2014 (Exhibit 2). Although not significant at conventional levels, the one change that approached significance was an increase in the take-up rate from 70.0 percent to 73.6 percent ($p = 0.12$) among workers in small firms with family incomes below 250 percent of poverty. Low-income people working in large firms had no significant change in take-up rates.

As with offer and take-up rates of employer-sponsored insurance, there were no significant differences in coverage rates for the insurance overall or for any subgroup (Exhibit 3). The rates stayed roughly constant at about 71 percent across all workers, about 50 percent among workers in small firms, and about 82 percent among workers in large firms. The rates also remained constant among low- and high-income workers in either small or large firms.

Conclusion

This is the first peer-reviewed study to analyze changes in employer-sponsored insurance after the ACA was implemented and coverage could be obtained through the new health insurance Marketplaces.[35] We found no evidence that offer, take-up, or coverage rates of employer-sponsored insurance declined from June 2013 to September 2014, either overall or for workers with lower incomes in small firms. These results fill the information gap before additional 2014 estimates are available from employer surveys (for example, the Employer Health Benefits Survey of the Henry J. Kaiser Family Foundation and Health Research and Educational Trust, and the Medical Expenditure Panel Survey Insurance Component) and larger federal household surveys in mid-to-late 2015.

Thus, the incentives in current law, including the strong tax incentives to obtain coverage from employers because of the tax exemption of employer contributions to insurance and the individual mandate, remain a strong force. The tax incentives mean that most workers are financially better off if they obtain coverage via employment. Since many people are newly required by the ACA to obtain coverage or pay a penalty, the law has increased incentives for employers to maintain their offers of coverage and for people to take up coverage when it is offered.

The combined effects of these incentives are borne out in the data. However, it is arguably still too early to see the full effects of the ACA on employer-sponsored insurance. Employers may have been slow to understand and react to the new incentives in the first year of implementation of the ACA's major coverage expansions because of uncertainty over the health insurance Marketplaces (which discourages firms from offering coverage) and the employer mandate (which encourages large firms to offer coverage). Nonetheless, results from this study, microsimulation predictions,[16–20] and findings from employer responses under reform in Massachusetts[21,22] suggest that workers will continue to obtain health insurance through employers. ■

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NOTES

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8 Avalere Health (see Note 9) and Bowen Garrett and Matthew Buettgens (see Note 10) address some flaws in this study's assumptions and a number of additional reasons why its conclusions are unwarranted. For example, Garrett and Buettgens point out that 79 percent of the workers who have employer-sponsored insurance have incomes above 250 percent of poverty. Firms would not have an incentive to drop coverage for these workers and, if they did drop coverage, would need to compensate the workers with higher wages.

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