ACHI
Arkansas Center for Health Improvement

ISSUE BRIEF

ACHI is a nonpartisan, independent, health policy center that serves as a catalyst for improving the health of Arkansans.

Will Employers Drop, Keep or Add Health Insurance in 2014?

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A question on the minds of many U.S. and Arkansas businesses—which are currently providing health insurance to employees—is whether to drop this benefit after 2014 or to keep it? For small businesses not currently providing health insurance to their employees, the question is whether to start providing health insurance by using the new health benefits exchanges. This is an extremely important issue for not only employers but also employees, who will have to find their own insurance if it is not provided through an employer.

Over the past few years, several studies by prominent research groups have either surveyed employers' sentiments about this decision or predicted how employers will make this decision based on sophisticated economic modeling. These studies, along with other research, suggest that there is not a simple answer to this question. Each Arkansas business will have to make a decision depending on its own unique circumstances. This Issue Brief *discusses key surveys and predictive studies that have been published on this subject.*

These studies—along with the real-world experience of how employers reacted in Massachusetts when similar new health laws were enacted in 2006—suggest that the overall availability of employer-sponsored insurance is not likely to change much after 2014.

BACKGROUND

Key parts of the federal health care law (Patient Protection and Affordable Care Act or PPACA) take effect in 2014, including the requirement that businesses with more than 50 full-time employees provide basic health insurance coverage to their employees. If they elect not to do so, they will face a penalty. The law, however, does not require firms with less than 50 full-time employees to provide health insurance to their employees.

More than 70 percent of Arkansas businesses have less than 50 full-time employees, so none of these businesses will be legally required to provide health insurance. Businesses with less than 25 full-time employees, however, are now eligible for tax credits if they do elect to provide health insurance. After January 1, 2014, for these firms to take advantage of the tax credits they will have to provide health insurance to employees by purchasing the health insurance in the health benefits exchange.[1]

Factors that Suggest Employers Will Drop Coverage

What are some of the factors that may lead employers who currently provide health insurance to drop coverage?

- **Low-Cost Penalty.** National reports have suggested that some large firms may opt to pay the penalty for not providing health insurance. Because the penalty is relatively low compared with providing health insurance to employees (about $2,000–$3,000 per employee with the first 30 employees exempt vs. an average cost of $9,773 (in 2010) to employers to provide family coverage to an employee),[2,3] the cost to the employer to provide health insurance may be far higher than the penalty amount.
- **Generous Help.** For individuals who decide to buy their health insurance in a health benefits exchange, the financial help from the federal government may be generous. Employers may decide that it is better to drop health care coverage for their low- to middle-income employees and let them buy insurance in the exchange, where federal help is potentially available even for a family of four earning up to about $80,000.[4]
- **Lack of Tax Credits.** Although businesses with less than 25 full-time employees may be eligible for tax credits, larger employers are not eligible for the credits under the new law. If such tax credits did exist, this would provide an incentive for employers with more than 25 full-time employees to keep coverage.

Factors that Suggest Employers Will Keep or Add Coverage

What are some of the factors that may lead employers who currently provide health insurance to keep coverage or for small employers who do not currently provide coverage to add it?

- **Competitors' Behavior.** Many employers will continue to provide health insurance or add it as a benefit because their employees expect it—especially high-wage, highly educated workers—and they risk losing good employees to competitors that continue to provide this benefit.
- **Tax Benefits.** Employer premium contributions are tax deductible for employers and employee contributions may be paid with pre-tax dollars. That tax benefit will go away for both if the business drops coverage. Also, if a firm drops coverage, it will likely have to raise employees' salaries to compensate for the lost benefit, and an increase in salary leads to an increase in Social Security and Medicare payroll taxes.
- **Nondiscrimination Rules.** Nondiscrimination rules will require that firms offer health benefits to all employees and firms use a variety of workers at different pay levels. When firms make decisions, the interests of high-wage workers tend to outweigh those of low-wage workers. Should an employer attempt to drop coverage, employees would be likely to strongly oppose such attempts and may move to competitors.

NATIONAL STUDIES

There have been several national studies recently that have tried to answer the question of whether employers will drop, continue or add health benefits after 2014. These studies can be broken into two methodological groups: (1) employer surveys and (2) economic models predicting future employer behavior.

Employer Surveys

Mercer

In a November 2010 survey of 2,800 employers released by Mercer,[5] employers were asked how likely they were to stop providing health-care insurance after 2014. For the great majority, the answer was "not likely."

These survey responses varied quite a bit by employer size, however. Large employers remained the most likely to continue providing health insurance. Just three percent of employers with more than 10,000 employees said they planned to drop coverage and only six percent of employers with more than 500 employees said they planned to end coverage. Among employers with 10–499 employees, however, 20 percent responded that they were likely to drop coverage, especially employers with low-wage workers and high turnover rates.

In August 2011, Mercer released results of a survey of 849 employers as follow-up to the 2010 survey. Results indicated that employers' opinions on whether to drop health insurance coverage were essentially unchanged.[6]

In early 2012, Mercer released results of a survey[7] with a larger sample of 2,844 employers. The results showed that 49 percent of respondents were "not at all likely to terminate" coverage and 41 percent were "not very likely to terminate."

McKinsey

A June 2011 study released by McKinsey[8] of 1,329 employers (ranging from less than 20 employees to more than 10,000 employees) stated that "30 percent of employers will definitely or probably stop offering employer sponsored insurance after 2014." That 30 percent comprised nine percent of employers who responded that they would "definitely" stop offering health insurance and 21 percent who said that they would "probably" stop offering health insurance.

Because McKinsey found that such a large percentage of employers would likely drop health care insurance, the report received widespread media coverage. Debate ensued about the methodology McKinsey used to reach this result. When McKinsey released its methodology, it noted that its study was indeed an employer survey and not predictive modeling like studies by the Congressional Budget Office, Urban Institute and RAND.

Deloitte

A study released by Deloitte[9] in July 2012 surveyed company owners, chief executive officers, chief financial officers, chief human resources officers, and individuals responsible for health benefits program decisions of 560 companies with 50 or more employees. Results indicated that nine percent of surveyed employers—which represented three percent of the workforce—“[anticipated] dropping health insurance coverage in the next 1–3 years.” Eighty-one percent of surveyed employers—which represented 84 percent of the workforce—indicated that their “company does not anticipate dropping health insurance coverage in the next 1–3 years,” and 10 percent of the surveyed employers—representing 13 percent of the workforce indicated that they “[d]on’t know.”

	Likeliness that Employer Will Stop Providing Health Insurance
Mercer	Employers with >10,000 employees: 3%[5] Employers with >500 employees: 6%[5] Employers with 10–499 employees: 20%[5] Overall: 2% very likely to terminate coverage, 7% likely to terminate coverage[5,7]
McKinsey[8]	30% (21% responded “probably” and 9% percent “definitely”)
Deloitte[9]	9% of 520 companies, accounting for 3% of the workforce

Predictive Models

In 2010 and 2011, the **Congressional Budget Office (CBO)**,[10] **Urban Institute**[11] and **RAND**[12] conducted studies aimed at predicting whether employer-sponsored health insurance will increase or decrease after 2014. These studies use sophisticated economic modeling—referred to as micro-simulation models—to predict how employers will react to the variety of provisions that may encourage or discourage employers to provide health insurance under the new health care law.

The CBO and Urban Institute models predicted very little change in the availability of employer-sponsored insurance after 2014. CBO initially predicted approximately a two to three percent drop in employer-sponsored plans, whereas the Urban Institute predicted no significant net change—a decline of less than one-half of one percent in employer-sponsored plans. Both organizations have since updated their estimates. The CBO now estimates[13] that approximately 3–5 million people will no longer be getting health coverage through their employers, resulting in net decreases ranging from 1.9 to 3.1 percent, while the Urban Institute[14] projects that that individuals receiving coverage from their employers will increase from 151.5 million to 155.6 million, or a 2.7 percent increase.

An initial RAND analysis predicted a 7.1 percent decrease in the number of employers that would provide health insurance to employees by 2016. Its model predicted a fall from 154 million to 118 million being insured through traditional employer insurance plans. RAND predicted that 25 million people would become insured through SHOP (Small Business Health Option Program) Exchanges and 9 million people will get insurance through individual exchanges or Medicaid and 2 million will go uninsured.[15]

In 2012, RAND conducted a second analysis using its model.[16] The model estimated a 4.2 percent net decrease in individuals receiving some form of employer coverage. It predicted that although the number of individuals having traditional employer-based health insurance will fall from 154.2 million to 113.2 million people under the PPACA, 34.5 million of those individuals will retain coverage through SHOP Exchanges.

	Estimated Net Change in Employer Sponsored Insurance
Congressional Budget Office	About 2–3% net decrease[13]
RAND	Study 1: About 7.1% net decrease[12] Study 2: About 4.2% net decrease[16]
Urban Institute	Study 1: No significant net change[11] Study 2: A 2.7% increase[14]

MASSACHUSETTS EXPERIENCE

Massachusetts and Utah are the only two states currently operating exchanges, but Utah's exchange is open only to small businesses, not individuals.

Massachusetts's system,[17,18] similar to the one envisioned under the new health care law, arguably makes it cheaper for employers to drop coverage for employees—yet this has not happened in Massachusetts. Instead, the percentage of employers providing health insurance has remained about the same. For example, of non-elderly adults in Massachusetts, 76 percent had employer-sponsored insurance in 2010. In 2009, 77 percent had insurance from their employer and 78 percent in 2008. Overall, more than three-fourths of non-elderly residents of Massachusetts continue to get health insurance through their employer.

CONCLUSION

The above review illustrates three important points.

First, the business decision about whether to continue, drop or add health insurance is not simple. A number of factors—not just the penalty calculation—go into the mix. Factors such as tax credits, the income level of workers, tax deductions, competitors' behavior, and nondiscrimination rules are also important components in the decision. For each Arkansas business, the decision will depend on the specific factors that apply to that particular company.

Second, at the national level, the evidence from the employer surveys and micro-simulation model studies is mixed as to how firms will react. Surveys by Mercer (especially for small employers) and McKinsey suggest a larger drop-off in the availability of employer-sponsored health insurance than the predictive models run by CBO, Urban Institute and RAND. While RAND's model predicts a decrease in the number of employers who will provide health insurance, the study notes that many of the employees no longer receiving coverage through traditional employer-sponsored coverage will instead gain coverage through SHOP or individual exchanges or Medicaid. On the other hand, the Urban institute reports results ranging from no significant net change to a slight increase in employer-sponsored coverage.

Third, Massachusetts serves as a real-world example in which employer-sponsored insurance has not significantly changed after Massachusetts implemented changes similar to those called for in the new federal law.

In sum, these studies—along with the real-world experience of how employers reacted in Massachusetts—suggests that the overall availability of employer-sponsored insurance is not likely to change much after 2014.

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Note: Information shared in this overview is based on the law, interim rules and regulations as they are known at this time, and is ACHI's best interpretation of the information. As the law continues to be written into final rules and regulations, it will be further interpreted. Details may change during this process.

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Endnotes

[1] For a discussion of the impact of the Affordable Care Act on Arkansas's businesses, see Arkansas Center for Health Improvement, *Issue Brief, Effects of Health Reform on Arkansas Businesses* (July 2010).
[2] Patient Protection and Affordable Care Act (P.L. 111-148), Sections 1513 and 10106.
[3] Kaiser Family Foundation. *Employer Health Benefits 2010 Summary of Findings.* (2010). Accessed at: http://www.thehanbackgroup.com/pdfs/Kaiser2010EmployerHealthBenefitsFindings.pdf on November 28, 2012.
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[13] *CBO and JCT's Estimates of the Effects of the Affordable Care Act on the Number of People Obtaining Employment-Based Health Insurance.* (March 2012). Accessed at: http://www.cbo.gov/sites/default/files/cbofiles/attachments/03-15-ACA_and_Insurance_2.pdf on November 29, 2012; *Updated Estimates for the Insurance Coverage Provisions of the Affordable Care Act.* (March 2012). Accessed at: http://www.cbo.gov/sites/default/files/cbofiles/attachments/03-13-Coverage%20Estimates.pdf on November 29, 2012; and Elmendorf, D.W. *CBO's Analysis of the Major Health Care Legislation Enacted in March 2010*. Testimony before the Subcommittee on Health, Committee on Energy and Commerce, House of Representatives. (March 2011). Accessed at: http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/121xx/doc12119/03-30-healthcarelegislation.pdf on November 29, 2012;
[14] Buettgens, M. and C. Carroll. *Eliminating the Individual Mandate: Effects on Premiums Coverage, and Uncompensated Care.* Washington, D.C., and Princeton, N.J. (January 2012).
[15] Avalere Health, *The Affordable Care Act's Impact on Employer Sponsored Insurance: A Look at the Micro-Simulation Models and Other Analyses* (2011). Accessed at: http://www.avalerehealth.net/pdfs/2011-06-17_ESI_memo.pdf on November 28, 2012.
[16] Eibner, C. and C. C. Price. *The Effect of the Affordable Care Act on Enrollment and Premiums, With and Without the Individual Mandate*. (2012). Accessed at: http://www.rand.org/content/dam/rand/pubs/technical_reports/2012/RAND_TR1221.pdf on November 29, 2012.
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