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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 both employers and employees, who will have to find their own insurance if it is not provided through an employer.

Over the past year there have been several studies by prominent research groups either surveying employers' sentiments about this decision or predicting 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 the 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 new health care law take effect in 2014, including the requirement that businesses with over 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.

Over 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.ⁱ

■ 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 to 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)ⁱⁱ 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.ⁱⁱⁱ

❖ **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,^{iv} 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 over 10,000 employees said they planned to drop coverage and only six percent of employers with over 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 a survey of 849 employers as follow-up to the 2010 survey. It noted that the employers' opinions on whether to drop health insurance coverage were essentially unchanged.^v

McKinsey

A June 2011 study released by McKinsey^{vi} of 1,329 employers (ranging from less than 20 employees to over 10,000 employees) stated that “30 percent of employers will definitely or probably stop offering employer sponsored insurance after 2014.” That thirty percent was composed of nine percent of employers who responded that they would “definitely” stop offering health insurance and twenty-one 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.

	Likelihood that Employer Will Stop Providing Health Insurance
Mercer	Employers (over 10,000 employees): 3% Employers (over 500 employees): 6% Employers (10-499): 20%
McKinsey	30% Of the 30%, 21% responded “probably” and 9% percent “definitely”

■ Predictive Models

In 2010 and 2011, the **Congressional Budget Office (CBO)**, **Urban Institute** and **RAND** conducted studies^{vii} 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.

CBO and the Urban Institute models predicted very little change in the availability of employer-sponsored insurance after 2014. CBO predicted approximately a 2-3 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.

The RAND study, however, predicted an 8.7 percent increase in the number of employers that would provide health insurance to employees by 2016. Its model predicted increased demand for health insurance from employees, due to the individual mandate and lower cost options for small businesses that may buy health insurance for employees by using the health benefits exchanges.^{viii}

	Estimated Net Change in Employer Sponsored Insurance
Congressional Budget Office	About 2-3% net decrease
RAND	About 8-9% net increase
Urban Institute	No significant net change

■ 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, 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.^{ix} Overall, more than three-fourths of non-elderly residents of Massachusetts continue to get health insurance through their employer.

■ CONCLUSION

In sum, these studies—along with 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.

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 microsimulation model studies is mixed as to how firms will react. The 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. Indeed, RAND's model predicts a significant increase in the number of employers who will provide health insurance.

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 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.

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

ⁱ 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).

ⁱⁱ Affordable Care Act, Sections 1513 and 10106. Kaiser Family Foundation, *Employer Health Benefits 2010 Summary of Findings* <http://ehbs.kff.org/pdf/2010/8086.pdf>.

ⁱⁱⁱ Affordable Care Act, Section 1402.

^{iv} Fewer employers planning to drop health plans after reform in place, survey finds. <http://www.mercer.com/press-releases/survey-find-few-employers-to-drop-health-plans-after-health-care-reform-in-place>. Accessed July 29, 2011.

^v US employer health enrollment up 2% under PPACA's dependant eligibility rule. <http://www.mercer.com/press-releases/1421820>. Accessed August 3, 2011.

^{vi} Employer Survey on US Healthcare Reform. http://www.mckinsey.com/us_employer_healthcare_survey.aspx. Accessed July 29, 2011.

^{vii} Congressional Budget Office, *Score of the Patient Protection Affordable Care Act*, March 20, 2010; Urban Institute, Bowen Garrett and Matthew Buettgens, *Employer-Sponsored Insurance under Health Reform: Reports of Its Demise Are Premature* (January 2011); RAND Corporation, Christine Eibner and others, *Establishing State Health Insurance Exchanges* (2010).

^{viii} For a discussion of these studies and other studies, see Avalere, *The Affordable Care Act's Impact on Employer Sponsored Insurance: A Look at the Micro-simulation Models and Other Analyses* (June 17, 2011).

^{ix} *Health Insurance Coverage in Massachusetts: Results from the 2008-2010 Massachusetts Health Insurance Surveys* (December 2010).