

# The Affordable Care Act's Impact on Small Business

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## ABSTRACT

**ISSUE:** Small-business owners have seen significant gains in health care coverage for themselves and their employees thanks to the Affordable Care Act. Though efforts to repeal the law failed in 2017, the current administration continues to take steps that undermine the law's progress. In recent months, new rules have been announced that allow more groups to establish association health plans and extend the length of short-term health insurance plans. These changes are likely to impact the stability of the marketplaces and coverage rates for the small-business community.

**GOAL:** Examine the Affordable Care Act's impact on small businesses, solo entrepreneurs, and small-business employees.

**METHODS:** Analysis of ACA small-business enrollment data from established sources, including federal agencies and nonpartisan health care research foundations, supplemented by analysis of U.S. Census data.

**FINDINGS AND CONCLUSIONS:** Because of the creation of the individual marketplaces and the expansion of Medicaid, more entrepreneurs and small-business employees have health coverage than before the ACA was implemented. Indeed, the uninsured rate for small-business employees fell by almost 10 percentage points post-ACA. The ACA also has helped stabilize health costs for many small businesses that provide coverage, with the rate of small-business premium increases falling by half following implementation of the law.

## TOPLINES

- ▶ More small-business employers and their employees have health coverage since the ACA's insurance marketplaces and Medicaid expansion took effect.
- ▶ The ACA helped stabilize health costs for many small businesses that provide coverage, with the rate of premium increases falling by half since 2010.

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<https://www.commonwealthfund.org/publications/issue-briefs/2018/oct/affordable-care-act-impact-small-business>.

## BACKGROUND

Since its implementation, the Affordable Care Act has provided health insurance to more than 20 million people who couldn't otherwise get coverage. Many are small-business owners, self-employed entrepreneurs, or employees of small companies. More than 5.7 million small-business employees or self-employed workers are enrolled in the ACA marketplaces; more than half of all ACA marketplace enrollees are small-business owners, self-employed individuals, or small-business employees.<sup>1</sup>

Efforts to fully repeal the law have failed so far, but Congress did significantly alter it by repealing the individual mandate penalty. In addition, the Trump administration has announced changes that will undermine the individual marketplace, including increasing the length of time a person can use short-term health insurance and allowing associations to offer group plans that don't meet the ACA's requirements. These changes ignore the significant benefits the ACA have offered the small-business and self-employed communities.

Prior to the ACA, small businesses and their employees comprised a disproportionate share of the working uninsured. In 2011, six of 10 of the nation's uninsured workers were self-employed or working at companies with fewer than 100 employees.<sup>2</sup> Recent analyses show significant gains in coverage for small-business owners, the self-employed, and small-business employees, with significant decreases in uninsured rates as a result of access to ACA marketplaces and the expansion of Medicaid in many states.

Many small businesses can now more easily afford to offer coverage to their employees. The ACA's market regulations ban insurers from setting premiums based on the health and demographic profile of a company. Fears that the ACA would lead to drops in offer rates from employers were unfounded. While certain provisions of the law need to be strengthened, this brief reviews the evidence and finds that the ACA has helped small businesses and their employees access more affordable and comprehensive health insurance.

## FINDINGS

### Drop in Uninsured Rates for Small Businesses Under the ACA

Prior to the ACA, small-business employees and self-employed individuals were much more likely to be uninsured than were employees of larger companies. The costs associated with providing coverage meant that small businesses were often unable to offer employer-sponsored coverage. Additionally, most insurance companies charged higher rates to people with preexisting conditions or discriminated based on health status, gender, or other characteristics, such as industry type. Market regulations, the ACA marketplaces, and subsidies have led to a significant decrease in the uninsured rates for the small-business community.

#### Small-business employees

According to U.S. Census data, in 2013 there were 36.3 million nonelderly adults in the United States working for a business with fewer than 50 employees, 28.1 percent of whom were uninsured. At that time, uninsured small-business employees accounted for 40 percent of all uninsured workers in the U.S.<sup>3</sup>

There have been significant decreases in the uninsured rates since the implementation of the ACA. In 2016, there were 36.1 million people working at a business with fewer than 50 employees. Of those, 19.4 percent were uninsured.<sup>4</sup>

#### Self-employed entrepreneurs

There have been similar gains in coverage for self-employed individuals. Twenty-nine percent of self-employed adults were uninsured in 2013.<sup>5</sup> As of 2016, this rate had fallen to 19.2 percent. Almost 12 percent of these individuals found coverage through Medicaid, with additional insurance gains coming from marketplace enrollment.<sup>6</sup>

A report from early 2017 by the U.S. Department of the Treasury found that the ACA marketplaces have been instrumental in helping small-business owners access coverage. According to the report, 1.4 million marketplace consumers were self-employed, small-business owners, or both, meaning that one of five marketplace users was a small-business owner or self-employed in 2014. Small-

business owners and the self-employed were almost three times more likely to purchase marketplace coverage as other consumers.<sup>7</sup> Additionally, more than 10 percent of gig-economy workers received coverage through the marketplace in 2014.

The ACA marketplaces are critical for small-business owners and self-employed individuals with low-to-moderate incomes. Small-business owners and other independent workers with annual incomes below \$40,000 were more likely to use the marketplace to purchase health insurance compared to other consumers in this income range. Thirty-three percent of self-employed individuals, 37 percent of small-business owners, and 36 percent of gig-economy workers with incomes below \$40,000 were enrolled in marketplace coverage.<sup>8</sup>

### Medicaid Expansion Supports Small-Business Employees

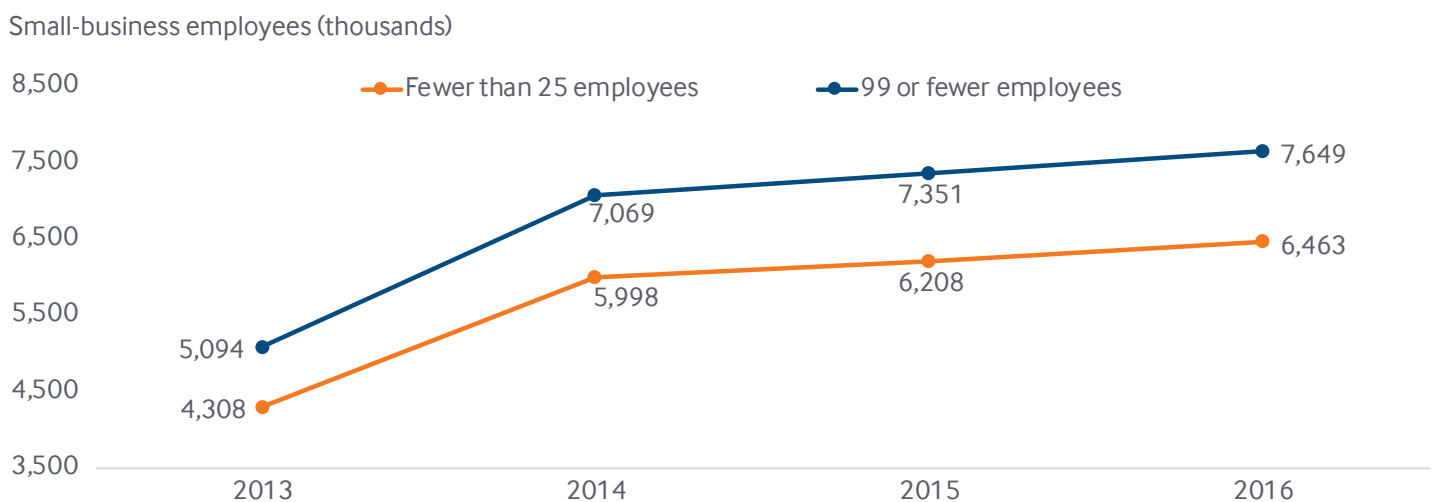
Many self-employed individuals and small-business employees gained access to health insurance because of expanded Medicaid eligibility. The ACA allowed states to expand Medicaid coverage to adults with income at or below 138 percent of the federal poverty level (about \$16,600 for an individual and \$34,000 for a family of four). As of 2018, 33 states and the District of Columbia have

expanded Medicaid, resulting in significant decreases in uninsured rates within these states.<sup>9</sup>

In Medicaid expansion states, uninsured rates declined on average from 18.4 percent in 2013 to 9.1 percent in 2017.<sup>10</sup> In states that did not expand Medicaid, the percentage of uninsured adults decreased from 22.7 percent in 2013 to 19 percent in 2017, a significantly smaller decline. Medicaid expansion has directly benefitted small-business owners and their employees. The rate of self-employed individuals covered through Medicaid rose from 7.3 percent to 11.6 percent between 2013 and 2016.<sup>11</sup> Similarly, the percentage of small-business employees covered by Medicaid rose from 9.1 percent to 13.4 percent over the same time period. By 2015, the Center on Budget and Policy Priorities estimates that 1.7 million small-business employees gained coverage through the expansion of Medicaid.<sup>12</sup>

Additionally, according to the U.S. Census Bureau's 2017 Current Population Survey (based on 2016 data), 13 percent of employees at firms smaller than 25 employees received health coverage through Medicaid in 2016, while 11.2 percent of employees at firms between 25 and 99 employees were enrolled in Medicaid. Overall, there was roughly a 50 percent increase in the number of small-business employees (firms with 99 or fewer employees) enrolled in Medicaid between 2013 and 2016 (Exhibit 1).<sup>15</sup>

## Exhibit 1. More Small-Business Employees Are Getting Medicaid Coverage



Data: Current Population Survey, Annual Social and Economic Supplement, HI-01. Health Insurance Coverage Status and Type of Coverage by Selected Characteristics: All Races (U.S. Census Bureau, n.d.).

According to a June 2018 report from the Kaiser Family Foundation, among states that did not expand Medicaid coverage, an estimated 2.2 million adults are in the so-called coverage gap.<sup>14</sup> This means they currently do not qualify for Medicaid nor do they earn enough to purchase their own coverage in the individual marketplace, but would qualify for Medicaid if their state were to expand. Of these individuals, which include 1.1 million working adults, half (50%) work for small businesses with fewer than 50 employees and an additional 6 percent work at businesses with 50 to 99 employees. Roughly 616,000 small-business employees could gain coverage if all remaining states expanded Medicaid.

### Premiums Stabilizing for Small Businesses and Their Employees

Many small businesses offering health insurance coverage have seen slower annual premium increases in the years following the ACA. Since 2010, the increase in small-business health care premiums has been at the lowest level

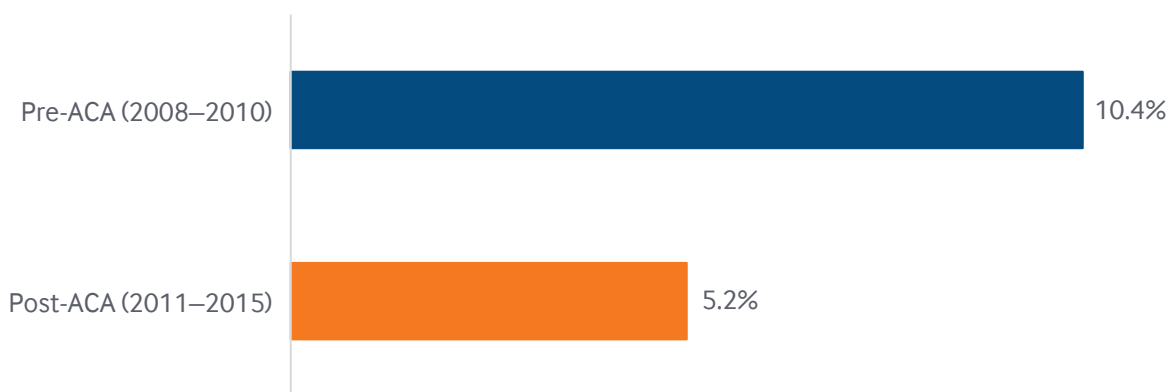
in years, following regular double-digit increases prior to the law's enactment (Exhibit 2).

More data from the Kaiser Family Foundation's 2017 Employer Health Benefits Survey show that premiums continue to be stable for small businesses that offer coverage to their employees. For all firms with between three and 199 employees, the average premium increase from 2016 to 2017 was less than 1 percent. This is lower than the average premium increases from 2016 to 2017 across all firm sizes, which are 4 percent for single coverage and 3 percent for family coverage.<sup>15</sup>

Analysis of data from the Agency for Healthcare Research and Quality reveals further evidence of lower average annual increases in premiums for small businesses after the implementation of the ACA. According to the report, the average premium percent change for an employee of a business with fewer than 50 employees was just 3.1 percent between 2011 and 2015, down from 5.1 percent between 2006 and 2010 (Exhibit 3).<sup>16</sup>

## Exhibit 2. Average Yearly Premium Increase in Small-Group Market Dropped by Half

Average annual percentage increase



Data: HHS.gov, *Private Health Insurance Protections and Programs* (U.S. Department of Health and Human Services, last updated Feb. 12, 2016).

### Exhibit 3. Lower Average Annual Increases in Small-Business Premiums

National trends in premiums among private sector establishments with fewer than 50 employees, 2001–2015

Trend across three five-year periods	Total premium, single	Total premium, family
Average annual percentage change, 2001–2005	7.9%	8.3%
Average annual percentage change, 2006–2010	5.1%	5.8%
Average annual percentage change, 2011–2015	3.1%	3.1%

Data: Agency for Healthcare Research and Quality, *2001–2015 Medical Expenditure Panel Survey – Insurance Component* (AHRQ, n.d.); and Agency for Healthcare Research and Quality, *Insurance Component State and Metro Area Tables* (AHRQ, n.d.).

In addition to lower overall premium increases, employee contributions for employer-sponsored coverage have also stabilized at small businesses; workers at small firms with individual coverage paid on average just \$9 more toward their premiums in 2017 than they had in 2016.<sup>17</sup> However, recent policy changes, such as the repeal of the individual mandate and weakening of ACA requirements, may cause premiums to increase in future years faster than they would have otherwise. It remains to be seen how these anticipated increases will impact small-group coverage purchased through the individual marketplaces.

#### Stability of Employer-Sponsored Health Insurance Offer Rates

Critics of the Affordable Care Act argued that it would cause a large number of employers to stop offering health insurance, but the data do not support this assertion.

Comparisons in coverage from before and after the ACA show a decline in the rate of employers offering

health coverage that began well before the passage of the law. According to the Kaiser Family Foundation, the percentage of firms offering employer-sponsored health coverage decreased from 66 percent in 1999 to 59 percent in 2009, the year before the ACA was passed. For firms with three to 199 workers, this amounts to an average annual decrease in coverage of 0.6 percent.<sup>18</sup>

Data show that offer rates have stayed roughly the same post-ACA, and that slight declines have been in line with national trends that predate the ACA. Overall, the average annual decrease in offer rates between 2012 — the first year of major coverage expansions under the ACA — and 2017 was 0.75 percent, showing that the number of small employers offering coverage was dropping on average by less than 1 percent before the ACA's primary implementation and is still dropping on average less than 1 percent after the ACA for firms with between three and 199 workers (Exhibit 4).

### Exhibit 4. Percentage of Firms Offering Health Benefits by Firm Size, 2012–2017, Pre- and Post-ACA

Firm size	2012	2013	2014	2015	2016	2017
3–9 workers	50%	45%	44%	47%	46%	40%
10–24 workers	73%	68%	64%	63%	61%	66%
25–49 workers	87%	85%	83%	82%	80%	78%
0–199 workers	94%	91%	91%	92%	91%	92%

Data: Gary Claxton et al., *Employer Health Benefits Survey 2017 — Figure 2.2: Percentage of Firms Offering Health Benefits, by Firm Size, 1999–2017* (Henry J. Kaiser Family Foundation and Health Research and Educational Trust, Sept. 2017).

Critics of the ACA also predicted that the employer mandate for companies with more than 50 employees would lead to job loss or reduction in labor hours, as employers would cut jobs or move full-time employees to part-time to reduce health care costs. Thus far, there is no evidence or analysis that has indicated the ACA has had negative effects on employment or labor hours.<sup>19</sup>

## NOTES

1. Authors' analysis with Small Business Majority. See the [Appendix](#) for more information.
2. Paul Fronstin, *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2012 Current Population Survey* (Employee Benefit Research Institute, Sept. 2012), p. 15.
3. Henry J. Kaiser Family Foundation, *The Uninsured: A Primer — Key Facts About Health Insurance and the Uninsured in America: Supplemental Tables* (KFF, Dec. 2014), p. 11.
4. Henry J. Kaiser Family Foundation, *The Uninsured: A Primer — Key Facts About Health Insurance and the Uninsured Under the Affordable Care Act: Supplemental Tables* (KFF, Dec. 2017), p. 10.
5. KFF, *The Uninsured*, 2014.
6. KFF, *The Uninsured*, 2017.
7. Adam Looney and Kathryn Martin, "One in Five 2014 Marketplace Consumers Was a Small Business Owner or Self-Employed," *Treasury Notes* (blog), U.S. Department of the Treasury, Jan. 12, 2017.
8. Looney and Martin, "One in Five," 2017, Table 2.
9. Commonwealth Fund, *Status of Medicaid Expansion and Work Requirement Waivers* (Commonwealth Fund, updated Sept. 20, 2018).
10. Robin A. Cohen, Emily P. Zammitti, and Michael E. Martinez, *Health Insurance Coverage: Early Release of Estimates from the National Health Interview Survey, 2017* (National Center for Health Statistics, May 2018), p. 5.

## CONCLUSION

As this issue brief shows, the creation of the individual marketplaces and the expansion of Medicaid have resulted in more small-business owners and employees accessing health coverage than before the ACA was implemented. Many small businesses that provide coverage to their employees have also seen costs stabilize during this time.

11. Comparison of supplemental tables from KFF, *The Uninsured*, 2014 and 2017. (See notes 3 and 4 above.)
12. Sarah Lueck, "Health Coverage Gains for Small-Business Workers at Risk," *Off the Charts* (blog), Center on Budget and Policy Priorities, Jan. 9, 2017.
13. Current Population Survey, Annual Social and Economic Supplement, *HI-01. Health Insurance Coverage Status and Type of Coverage by Selected Characteristics: All Races* (U.S. Census Bureau, n.d.).
14. Rachel Garfield, Anthony Damico, and Kendal Orgera, *The Coverage Gap: Uninsured Poor Adults in States that Do Not Expand Medicaid* (Henry J. Kaiser Family Foundation, June 2018).
15. Gary Claxton et al., *Employer Health Benefits Survey 2017: Summary of Findings* (Henry J. Kaiser Family Foundation and Health Research and Educational Trust, Sept. 2017).
16. See also: Urban Institute and Robert Wood Johnson Foundation, *Small Business Health Insurance and the ACA: Views from the Market 2017* (Urban and RWJF, July 2017), p. 5.
17. Urban and RWJF, *Small Business*, 2017, Fig. 6.10, p. 81.
18. Gary Claxton et al., *Employer Health Benefits Survey 2017 — Figure 2.2: Percentage of Firms Offering Health Benefits, by Firm Size, 1999–2017* (Henry J. Kaiser Family Foundation and Health Research and Educational Trust, Sept. 2017).
19. Jean Abraham and Anne Beeson Royalty, *How Has the Affordable Care Act Affected Work and Wages?* (Leonard Davis Institute of Health Economics, University of Pennsylvania, Jan. 2017).



## APPENDIX

### Number of Small-Business Owners, Self-Employed People, and Small-Business Employees in the ACA Marketplaces

Distribution of private sector employment by firm size (thousands)

Year	1–4 employees	5–9 employees	10–19 employees	20–49 employees	50–99 employees	All small firms (1–99 employees)
2010	5,527	6,221	7,688	10,990	8,252	38,678
2011	5,549	6,216	7,719	11,124	8,414	39,022
2012	5,564	6,298	7,859	11,404	8,635	39,760
2013	5,592	6,323	7,949	11,627	8,780	40,271
2014	5,628	6,374	8,100	11,912	8,884	40,898
2015	5,666	6,410	8,231	12,226	9,099	41,632
2016	5,722	6,476	8,385	12,521	9,270	42,374

Data: U.S. Bureau of Labor Statistics, *Table F. Distribution of Private Sector Employment by Firm Size Class: 1993/Q1 Through 2017/Q1, Not Seasonally Adjusted* (BLS, n.d.).

### Calculations of Small-Business Owners, Self-Employed People, and Small-Business Employees in the ACA Marketplaces

Total small-business employees and self-employed (<100 workers)	63,238,953
Percent of small-business owners, employees and self-employed in individual market	15%*
Total number of small-business owners, employees and self-employed in individual market	9,485,843
Percent of individual-market enrollees in marketplace	61.6%**
<b>Total number of small-business owners, employees + self-employed in marketplace</b>	<b>5,843,279</b>
Total number of individuals on ACA marketplace	11,100,000**
Total number of small-business owners, employees and self-employed on ACA marketplace	5,742,312
<b>Percent of ACA marketplace enrollees who work for or own a small business</b>	<b>52.64%</b>

Note: Calculations were made by examining enrollment data on small business and small-business employees and comparing to total enrollment in the ACA marketplaces.

\* Data: Commonwealth Fund, Biennial Health Insurance Survey, *Biennial Explorer Interactive* (Commonwealth Fund, n.d.).

\*\* Data: Office of the Assistant Secretary for Planning and Evaluation, *About 2.5 Million People Who Currently Buy Coverage Off-Marketplace May Be Eligible for ACA Subsidies* (U.S. Department of Health and Human Services, Oct. 4, 2016), Table 1.

### Small-Business (0–99 employees) Workers on Individual Market

	2010	2012	2014	2016
Percent	9%	11%	15%	15%

Data: Commonwealth Fund, Biennial Health Insurance Survey, *Biennial Explorer Interactive* (Commonwealth Fund, n.d.).

### Total Individual Marketplace Enrollment (ACA exchange and non-ACA exchange)

Total individual market enrollment	18,000,000	100%
Off exchange	6,900,000	38.3%
ACA marketplaces	11,100,000	61.6%

Data: Office of the Assistant Secretary for Planning and Evaluation, *About 2.5 Million People Who Currently Buy Coverage Off-Marketplace May Be Eligible for ACA Subsidies* (U.S. Department of Health and Human Services, Oct. 4, 2016), Table 1.

## ABOUT THE AUTHORS

**David Chase** is vice president for national outreach at Small Business Majority, leading the team on business outreach, state advocacy, and development. He serves on the California health care exchange's Small Business Health Options Program Advisory Group and directs SBM's national health care policy work. Before joining SBM more than eight years ago, Chase served for more than four years in the office of California Governor Arnold Schwarzenegger, where he built coalitions with business and other stakeholder groups to advance the governor's agenda. Chase was part of the team responsible for building the coalition behind Governor Schwarzenegger's 2007 comprehensive health care reform proposal.

**John Arensmeyer** is founder and CEO of Small Business Majority. He has used his long experience as a business owner to build SBM into a nationally recognized small business organization and the leading advocate for critical public policy issues facing America's entrepreneurs. In the past few years Arensmeyer has spearheaded the growth of SBM's Entrepreneurship Program, providing critical practical resources to our nation's 28 million small businesses. John was the founder and CEO of ACI Interactive, an award-winning international interactive communications company. Earlier, he was the chief operating officer of a pioneering multimedia business and an attorney in New York. Arensmeyer is a frequent speaker on small business policy issues and a regular guest on television and radio. In 2009 he was an active participant at the White House summit on health care reform. He testifies regularly before congressional committees, and has briefed White House officials and congressional leadership on small business policy issues. Arensmeyer serves as Board Chair for California's Insure the Uninsured Project. He has led a study group at Harvard's Kennedy School of Politics, and has served on the Association for Enterprise Opportunity's Economic Impact Council and Micro Capital Task Force.

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### About the Commonwealth Fund

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