

Stan Dorn
Senior Fellow
Health Policy Center

202.261.5561
sdorn@urban.org

Memorandum

To: SustiNet Board of Directors
Re: Effect of federal reform on small firms
Date: September 2, 2010

Introduction

During the July Board meeting, I presented Dr. Jonathan Gruber's findings that, for firms with up to 100 full-time employees, the Patient Protection and Affordable Care Act (PPACA) will reduce employers' health care costs. Gruber's microsimulation showed that some small firms that today offer coverage will stop paying for their workers' health insurance or will pay less than they do today. These are mainly companies whose workers disproportionately earn low wages. Such workers will thus qualify for subsidized coverage in the exchange. These companies can protect their relatively few well-paid workers by raising their wages, thus compensating for the loss of federal tax advantages when coverage is purchased without an employer's help.

Dr. Gruber found that companies dropping coverage will be in the distinct minority among even small firms. Most companies have heterogeneous workers who, as a whole, will be better off if their coverage is obtained through employers, using pre-tax dollars. For this larger group of firms, the same labor market considerations that today lead them to offer coverage will continue under PPACA. Put differently, most companies that, today, must offer coverage to attract essential workers will continue providing this benefit for the exact same reason—namely, recruitment and retention of essential employees. In some ways, the labor market advantages of offering insurance will grow even stronger under national reform. Workers will be required to have coverage, making it more attractive to accept an offer of employment where the firm helps pay for insurance. **As a result, fully 88 percent of small firm employees receiving employer-sponsored insurance (ESI) under current law will continue to do so under PPACA.**¹

According to Dr. Gruber's analysis, premium savings under PPACA, plus tax credits for which small firms will qualify, will exceed any increased costs that PPACA imposes on small firms. In the Board's discussion of these estimates, two questions surfaced, which this memo explores:

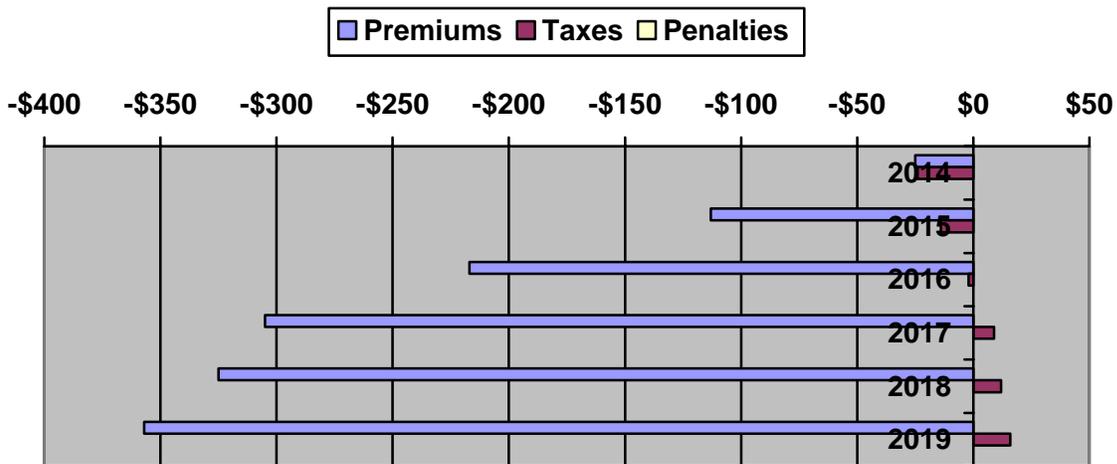
1. What are the predicted effects of PPACA on costs for firms with 50 or fewer workers, as distinguished from those with 51 to 100 employees? The short answer is that both sets of firms will benefit financially.
2. How many workers at these firms will move from employer-sponsored insurance (ESI) to Medicaid? The short answer is that very few will shift. PPACA's largest effect on workers at small firms is that many fewer of these workers will be uninsured.

¹ This estimate applies both to firms that employ 1-50 workers and those with 51-100 employees.

Effect of PPACA on small firm costs

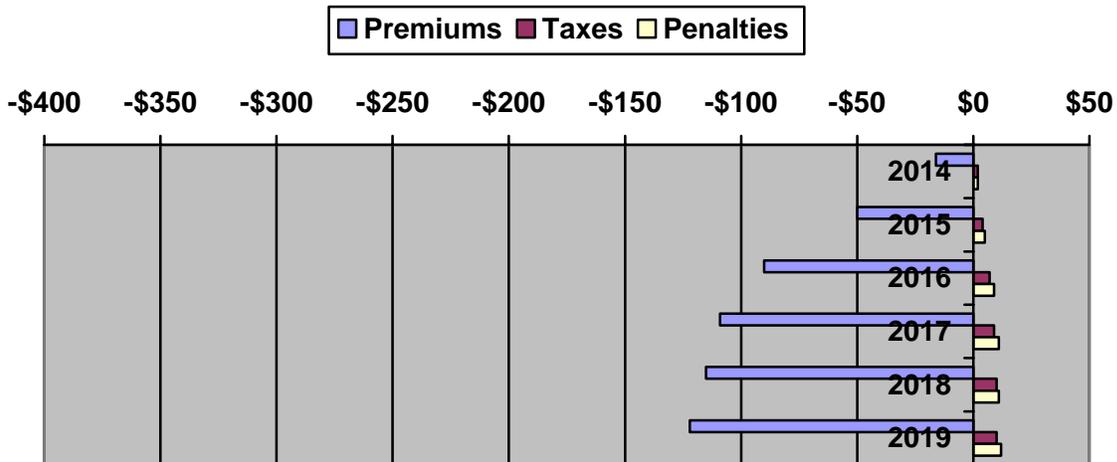
Whether they have 50 or fewer workers or between 51 and 100, small firms will pay less in premiums under PPACA. Companies with 51-100 employees will experience offsetting increases in taxes and penalties, but such offsets will be greatly outweighed by these employers' premium savings (Figures 1 and 2).

Figure 1. Effects of PPACA on Connecticut firms with 1-50 full-time employees: 2014-2019 (millions)



Source: Gruber Microsimulation Model, July 2010. Note: the displayed projections for taxes take into account payroll tax increases, offset by tax credits. During the first few years, tax credits for these firms exceed estimated increases in payroll taxes.

Figure 2. Effects of PPACA on Connecticut firms with 51-100 full-time employees: 2014-2019 (millions)

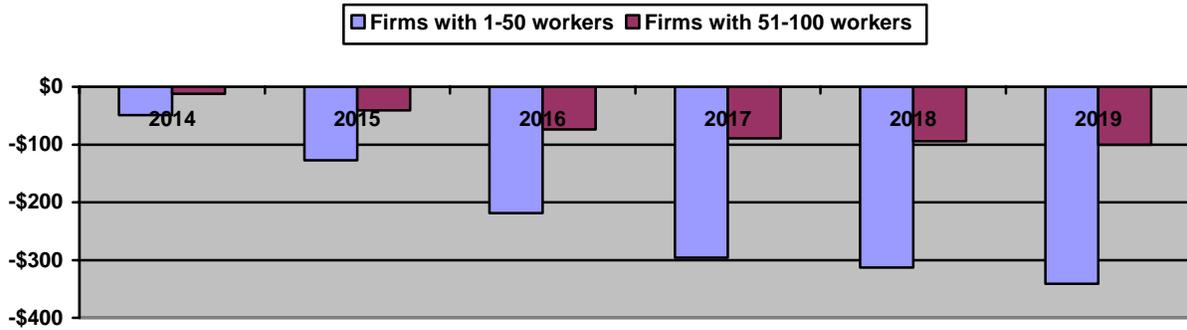


Source: Gruber Microsimulation Model, July 2010.

PPACA's overall financial impact is thus positive for both sets of small firms. The smallest firms will receive more help in absolute dollar terms, simply because they are far more numerous. In 2009, 59,548 Connecticut establishments employed fewer than 50 workers, compared to only 3,320 with 50 to 99 employees.² However, the percentage savings, relative to total firm taxes and health care costs, is greatest for the slightly larger companies with 51 to 100 employees (Figure 3 and 4).

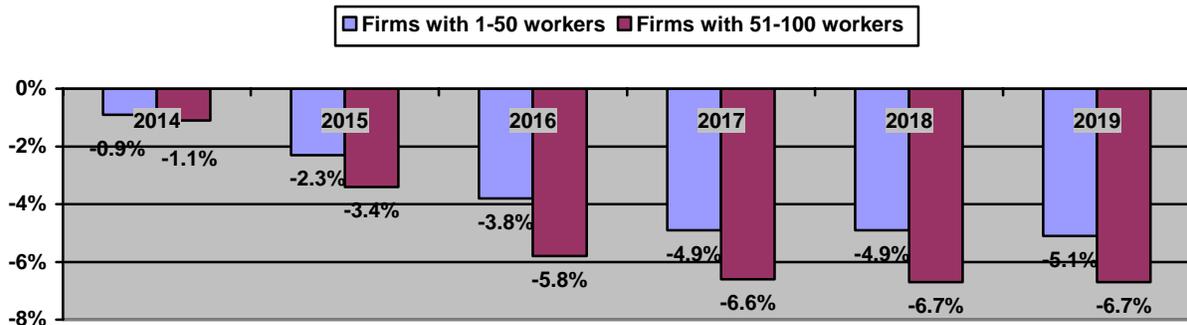
² Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. *2009 Medical Expenditure Panel, Survey-Insurance Component* (Calculations by author).

Figure 3. Net effects of PPACA on health care costs, taxes, and penalties, by firm size: 2014-2019 (millions)



Source: Gruber Microsimulation Model, July 2010.

Figure 4. Net effects of PPACA relative to total health care costs, taxes, and penalties, by firm size: 2014-2019

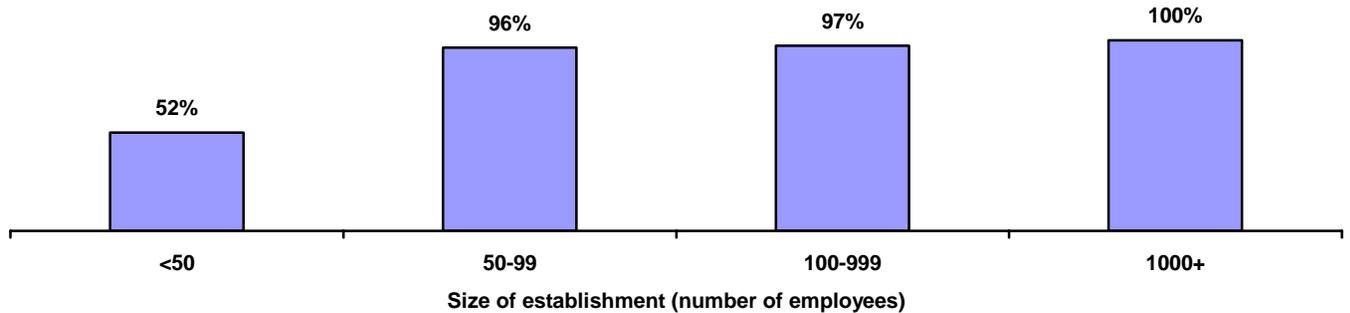


Source: Gruber Microsimulation Model, July 2010.

Effect of PPACA on coverage of workers at small firms

Before addressing the specific question about shifts from small-firm ESI to Medicaid, it is important to establish the context in terms of PPACA's net effects on health coverage for workers at small companies. Today, ESI is much more likely to be offered by large than by small businesses. In Connecticut, ESI is offered by only 52 percent of private establishments with fewer than 50 employees, compared to 96 percent or more for larger companies (Figure 5).

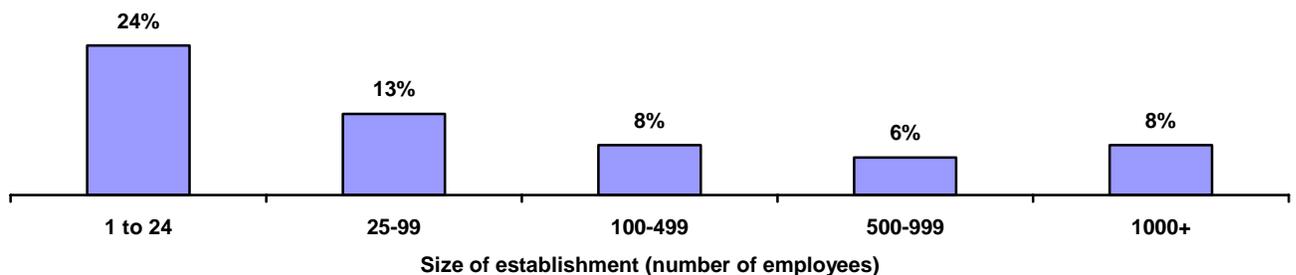
Figure 5: Percentage of private establishments in Connecticut that offer employer-sponsored insurance, by size: 2009.



Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 2009 Medical Expenditure Panel, Survey-Insurance Component (Calculations by author).

Both because of this reduced access to ESI and lower average incomes, workers at small firms are substantially more likely to be uninsured, compared to those at larger companies (Figure 6).

Figure 6. Among Connecticut workers under age 65, the percentage who lack health coverage, by size of employer: 2008



Source: Current Population Survey- Annual Social and Economic Supplement. Calculations by Ian Perry, Massachusetts Institute of Technology, August 2010. Note: These estimates do not include the dependents of small firm employees.

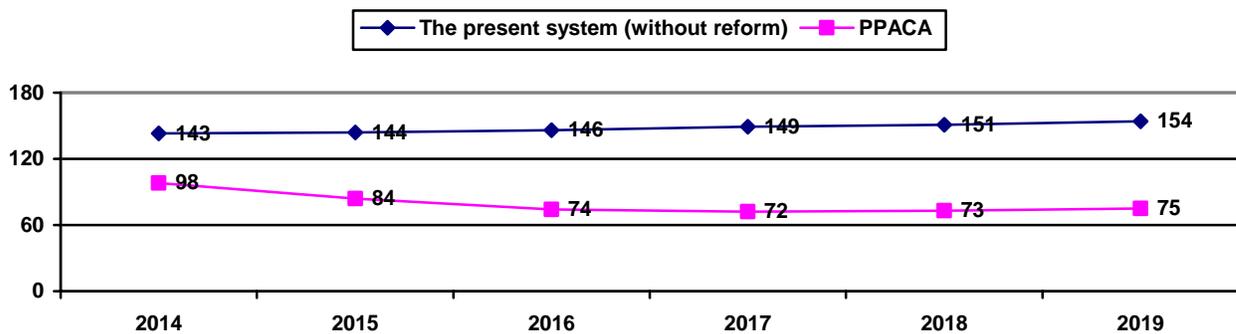
To address this problem, PPACA will expand health coverage for employees of small business, because of three factors:

- At small firms that do not offer coverage, low- and moderate-income workers will qualify for Medicaid or subsidies in the exchange.
- At those same firms, some employees with incomes too high for subsidies will benefit from PPACA's insurance reforms. These are workers whose health problems or those of their dependents, before PPACA, led to higher premiums, preexisting condition exclusions, or denials of insurance in the individual market.

- PPACA’s coverage mandate will increase workers’ willingness to enroll in available insurance, whether it is offered by employers, Medicaid, the exchange, or the individual market outside the exchange.

As a result, the number of uninsured workers at small firms will fall by more than 50 percent, starting in 2017, when PPACA will cut that number from 149,000 to 72,000 (Figure 7)

Figure 7. At Connecticut firms with 100 or fewer full-time employees, workers under age 65 who lack health coverage, with and without PPACA: 2014-2019 (thousands)



Source: Gruber Microsimulation Model, July 2010. Note: These estimates do not include the dependents of small firm employees.

This context puts in perspective the specific question raised at the July Board meeting. Among the employees of small firms whose companies provide them with coverage under the present system, 88 percent—nearly nine in 10—will continue to be covered by their employers under PPACA. Only 2 percent will shift to Medicaid. These proportions apply both to the smallest firms, with 1 to 50 full-time employees, and companies that are slightly larger, with 51 to 100 such workers. This shift is small in magnitude, compared to the overall increase in health coverage among employees of small firms.

Conclusion

PPACA will generate significant net savings for small firms in Connecticut, and very few workers who would have received coverage from small firms will shift to Medicaid or CHIP. In fact, workers at small firms will be much more likely to receive health coverage than in the past.