Fact Sheet

RAND HEALTH

How Will the Affordable Care Act Affect Employee Health Coverage at Small Businesses?

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The recently enacted federal health care reform law (the Affordable Care Act, or ACA) is designed to increase the number of Americans covered by health insurance. One way it does this is by creating health insurance exchanges, which are new markets for purchasing insurance. It also imposes fines on certain employers that do not offer coverage and on individuals who do not have public or private insurance (known as the individual mandate). Employers with 50 or fewer workers are exempt from fines. By 2016, firms with 100 or fewer employees will be allowed to purchase coverage for employees through the insurance exchanges. However, there is considerable debate about the likely effect of these provisions in the law.

A recent RAND Health study assessed the likely impact of the ACA on, among other outcomes, employee health insurance coverage. The analysis used RAND's COMPARE microsimulation model, which was updated and refined to analyze how people and firms will respond to the health insurance exchanges created under the ACA.

RAND found that the ACA will increase employer offer rates (that is, the probability that businesses will offer coverage) to workers. After the new policies have taken full effect, employer offer rates will increase from

- 57 percent under the status quo to 80 percent for firms with 50 or fewer workers
- 90 percent to 98 percent for firms with 51 to 100 workers
- 93 percent to 98 percent for firms with more than 100 workers.

What explains these increases? Firms will increase their offer rates in response to employee preferences, which will change in response to the individual mandate. Specifically, workers will have greater demand for insurance, since there is a penalty associated with being uninsured. In many cases, workers will prefer employer-sponsored coverage to other insurance policies because of the generous tax treatment (health insurance purchased through an employer is generally paid for with pretax dollars, rather than after-tax dollars). Offer rates will increase substantially even among firms with 50 or fewer workers, which are exempt from penalties associated with not offering coverage, because of the greater value employees will have for this benefit.

Employers will remain the primary source of health insurance coverage, but the nature of employer-based coverage will change because of the option to offer insurance through exchanges. Approximately 60 percent of all businesses will offer coverage through exchanges following the reform. Over time, 35 million individuals (13 percent of the nonelderly population) will receive exchange-based coverage through an employer.

The analysis also examined the likely impact of a key design choice that states will face in coming years: whether to open the exchanges to all businesses or limit exchange eligibility to businesses with 100 or fewer workers. Results showed that opening the exchanges to large businesses will have no effect

Continued on back

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on the total number of insured; however, RAND found that this policy will significantly increase the number of people enrolled in exchange-based coverage—from 68 million to 139 million people.

Opening the exchanges to a larger group of employers could also increase Medicaid enrollment. Differences in cost-sharing requirements between exchange plans and traditional employer plans may cause some workers who are eligible for both employer coverage and Medicaid to take Medicaid if their firms switch to the exchange. Although this possibility will not affect the total number of insured, it will shift some costs from employers to states and the federal government.

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