JOHNS HOPKINS
BLOOMBERG SCHOOL
of PUBLIC HEALTH

The Long-Term Decline in Small Firms Offering Health Insurance: Drivers, Coverage Dynamics, and Costs

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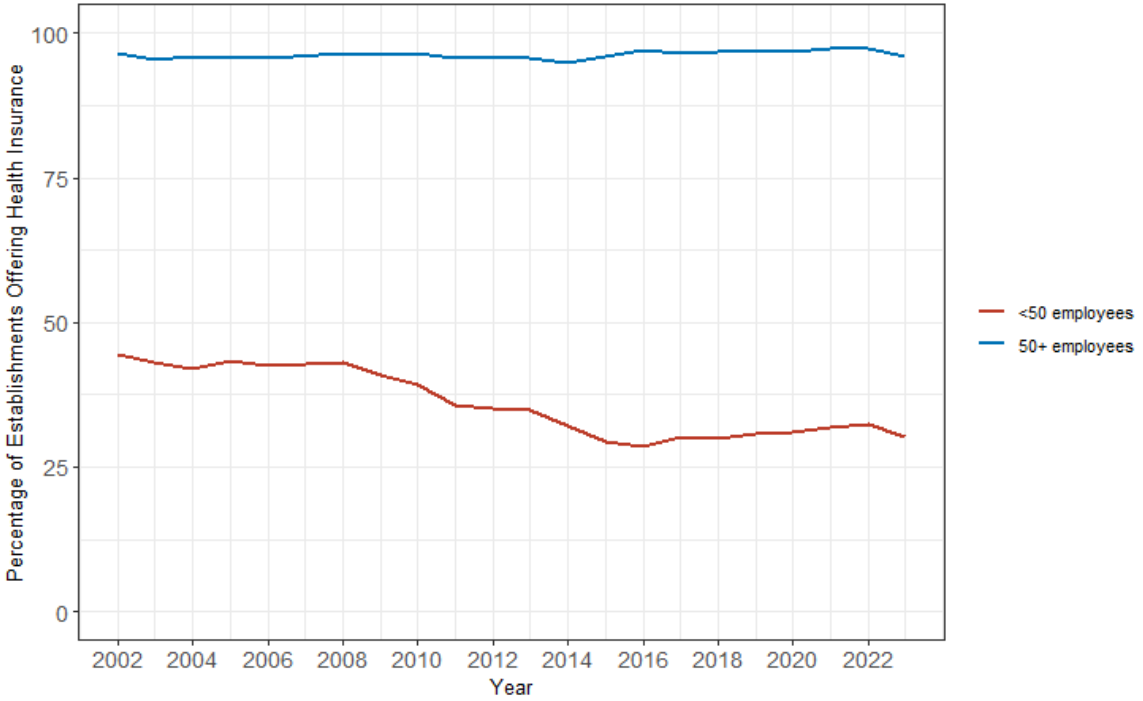
***The Long-Term Decline in Small Firms Offering Health Insurance*:**

Background and Implications

Background: long-term decline in small group market

- In the US, the predominant form of health insurance is employer-sponsored health insurance [KFF, 2023]
- Roughly one-third of the private workforce in the US is in small firms [BLS, 2023]
- 12 million people in the US are enrolled in the small group market [MEPS-IC, 2023]
- There is a long-term decline in the percent of firms offering health insurance
- Yet, its drivers and consequences are not well-understood or documented



Source: Author's analysis of 2002-2023 MEPS-IC data

Research focus of this project

- **Describe trends**
  - Provide detailed accounting of state-to-state variation in the long-term decline in small firm offer rate
  - Investigate relationship between decline in the pre- vs. post-ACA period
  - ***Findings:*** substantial variation across states, pre- and post-ACA changes not correlated
- **Investigate possible drivers of the trend**
  - Investigate influence of state policies and ACA-related regulations
  - Summarize the extent to which these policies explain the decline
  - ***Findings:*** Minimum wage increases, stop loss regulation, and pre-ACA community rating regulations all linked to declines
- **Document dynamics**
  - Study how declines in small firm offer rates affect people's coverage
  - How do changes in coverage translate to state expenditures?
  - ***Findings:*** linked to decreases in employer-sponsored coverages, increased Medicaid (and expenditures) and individual coverage, and increases in uninsurance in non-expansion states

Prior literature and contributions

- Descriptive evidence of the decline in small group health insurance
  - Long-term decline has been noted by many with concerns and attention towards to ACA [CBO, 2012; Buchmueller et al., 2013; Levin et al., 2015; Vistnes et al., 2017; David and Arensmeyer, 2018; Hall and McCue, 2018; Miller and Keenan, 2021; Banthin and Grazevich, 2022]
  - Mostly, finding that ACA has not led to the total collapse of the small group market
- Policies and regulation and small group health insurance
  - Small firms offers decline in face of price increases, regulation, and wage increases [Gruber and Lettau, 2004; Abraham, Feldman, and Grave, 2016; Hall and McCue, 2018; Meiselbach and Eisenberg, 2023; Meiselbach and Abraham, 2023]
  - Medium-to-large firms avoid regulation by self-funding [Jensen, Cotter, and Morrisey 1995; Park 2000; Garfinkel 1995, Nathenson, 2020; Robinson, 2023] and some evidence that this occurs among small firms as well [Trish and Herring, 2018; Fleitas, Gowrisankaran, and Lo Sasso, 2022; Meiselbach and Eisenberg, 2023]
- Market interactions between employer-sponsored insurance and Medicaid
  - Mixed evidence on whether Medicaid expansion has led to crowd out of employer-sponsored insurance [Wagner, 2015; Abraham et al., 2019; Ellis and Esson, 2021; Lennon, 2023]

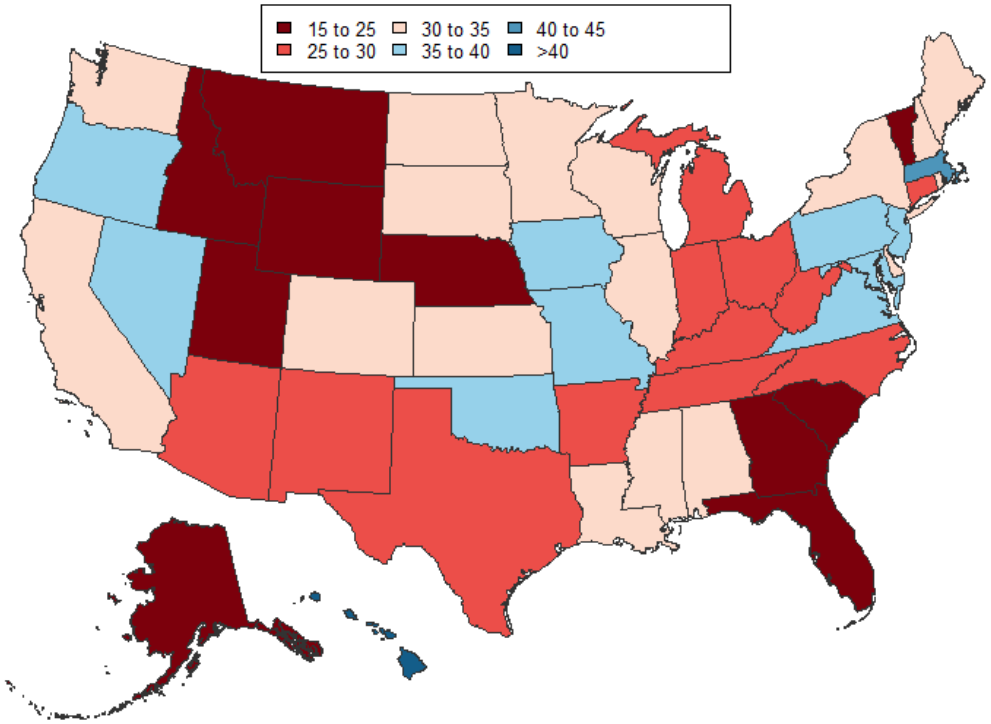
***The Long-Term Decline in Small Firms Offering Health Insurance*:**

Trends

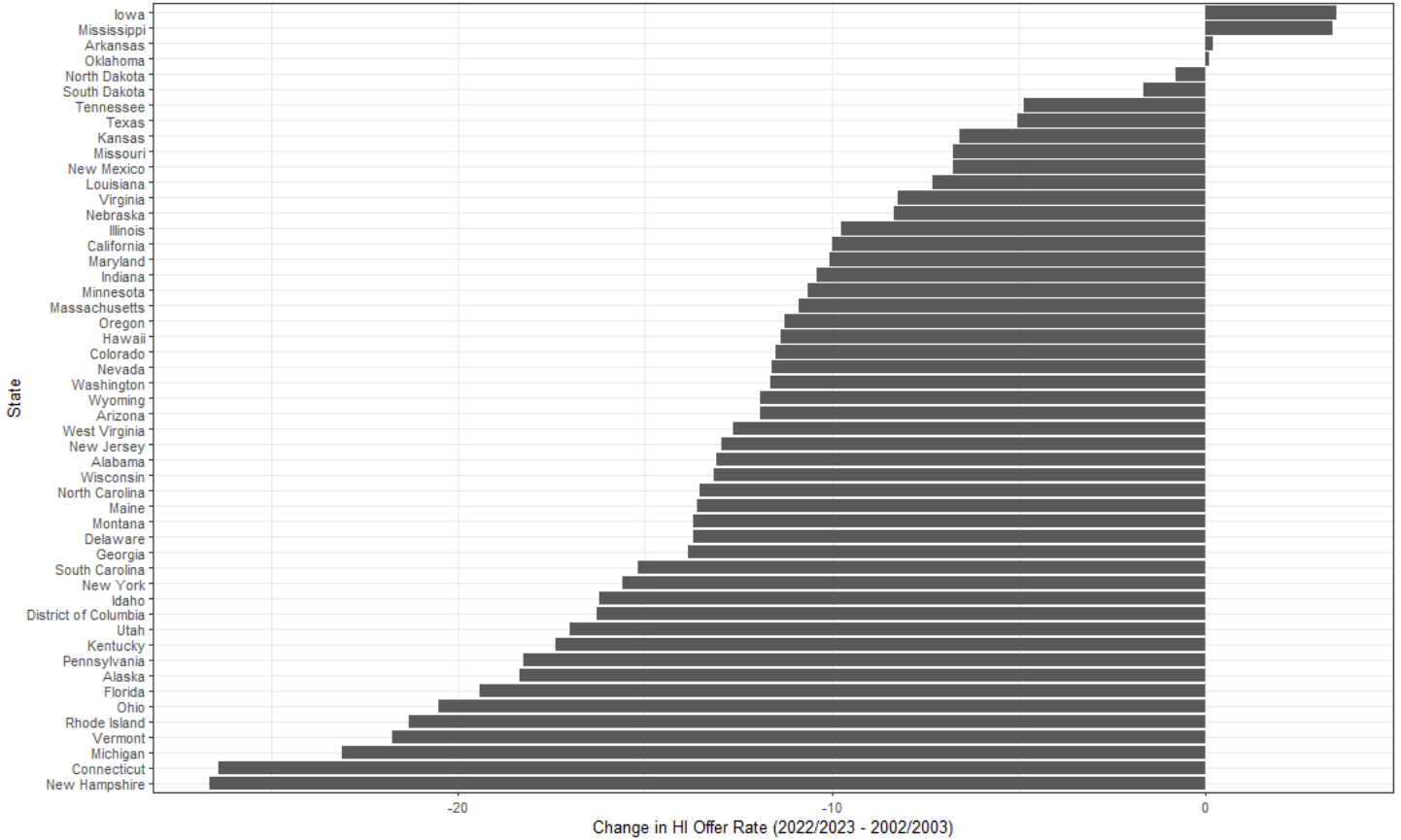
Data: Medical Expenditures Panel Survey – Insurance/Employer Component

- We use 2002-2023 state-year estimates from the Medical Expenditure Panel Survey – Insurance/Employer Component (MEPS-IC)
- Largest, most comprehensive survey of ESI (40,000+ establishments per year)
- Sampling designed for making state level estimates
- Stratified by firm size (<50 vs. 50+), low-wage distribution (<50% vs. 50+% low-wage employees), industry grouping
- Focus on state-year estimates for firms with 50 or fewer employees

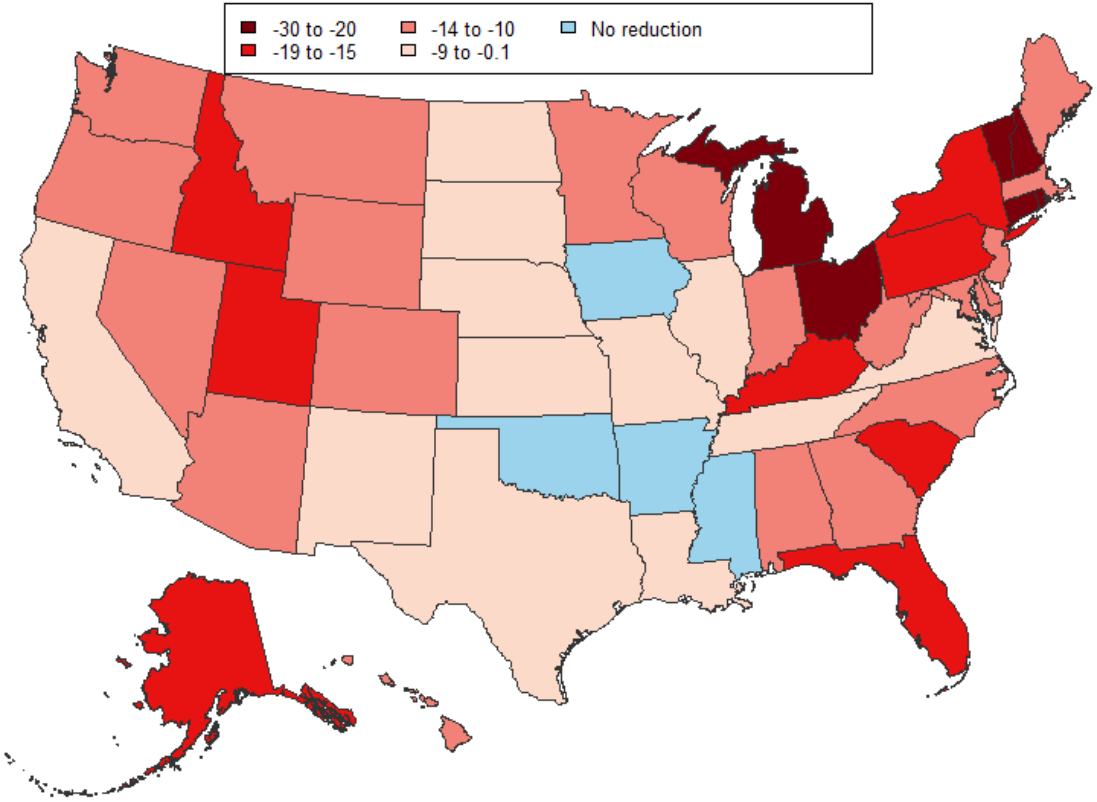
Small firm offer rate by state, 2022/2023



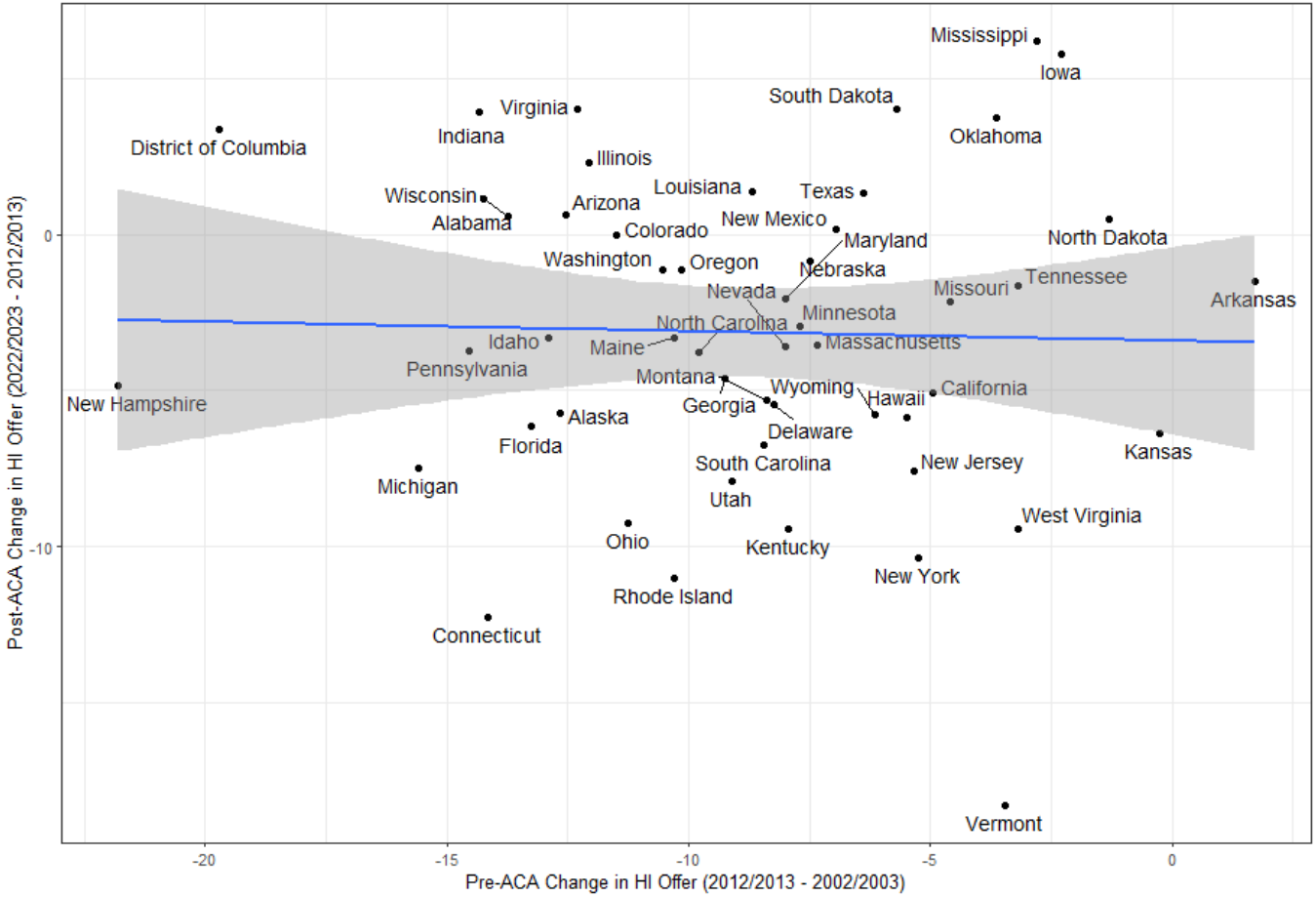
Nearly every state has seen some decline from 2002 to 2023, with substantial variation



Percentage point change in the small firm offer rate by state from 2002/2003 to 2022/2023



Changes in small firm offer rate pre- vs. post-ACA regulations



***The Long-Term Decline in Small Firms Offering Health Insurance*:**

Drivers

Empirical strategy: policy drivers

- Outcome: state-year small firm offer rate from MEPS-IC from 2002-2020
- Linked to state-year and national policy changes from 2002-2020
- For each policy, separately estimate difference-in-differences for state *s*, in year *t*

$$OfferRate_{s,t} = \beta_0 + \beta_1 Policy_{s,t} + \beta_2 X_{s,t} + \alpha_s + \delta_t + \varepsilon_{s,t}$$

- Controls for state-year unemployment rate, Medicaid eligibility threshold for childless adult relative to Federal Poverty Level, and median income
- Regressions are weighted by the number of establishments in a state-year cell
- Estimated using Callaway and Sant'Anna estimator with state clustered standard errors with wild bootstrapping
- Always-treated states are excluded
- Also use the Callaway and Sant'Anna estimates for event study analyses

Empirical strategy: investigated policies

- State minimum wage increases (source: University of Kentucky National Welfare Data)
  - 30 states and DC have minimum wages above the federal
  - Modeled as first implementation of increase and as continuous
- Stop loss regulation (source: National Association of Benefits and Insurance Professionals)
  - Firms can avoid state health insurance regulation by self-insuring their plans
  - Stop loss policy is typically purchased with plan to protect against financial risk to firm
  - States regulate stop loss policies for small group, requiring they take on some amount of risk (i.e., no “level-funding”)
- Pre-ACA community rating regulations (source: KFF pre-ACA archives)
  - Limits premium variation based on health status/experience rating

Empirical strategy: investigated policies (continued)

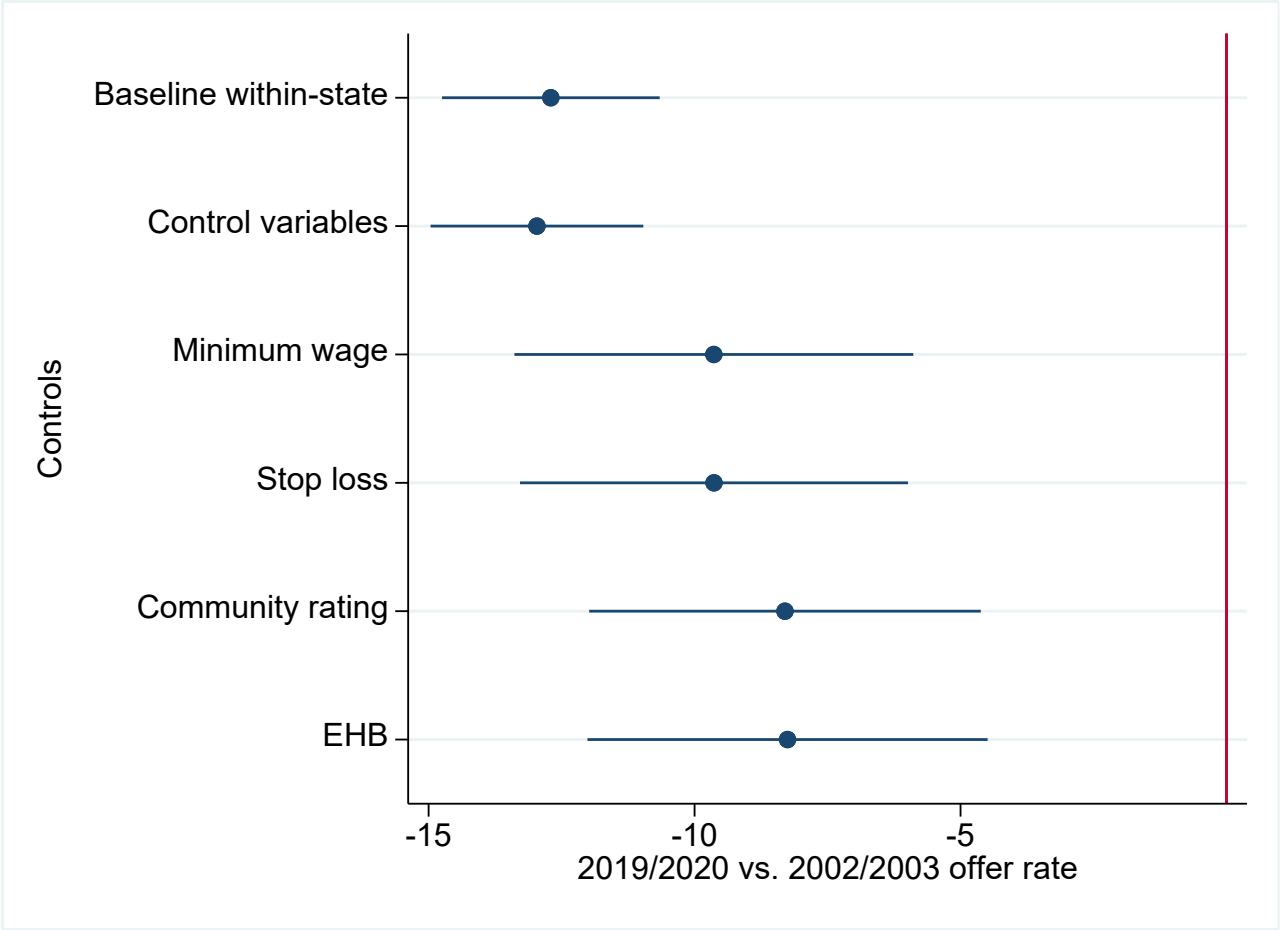
- Pre-ACA benefit mandates (source: BCBS reports)
  - States require small group plans to cover select services (e.g., rehabilitation services)
  - Focus on “costly mandates” following Robinson (2023), with expected impact >1% on premiums
- Post-ACA essential health benefits requirements and community rating (source: CCIO and KFF pre-ACA archives)
  - In 2014, ACA standardized required benefits, but left some discretion to states on specific services included in EHB
  - Also, implemented community rating regulations, but some states already had those policies in place

Difference-in-differences analysis of small firm offer rates vs. individual state policies

VARIABLES	(1) Minimum wage increase	(2) Minimum wage increase	(3) Stop loss regulation	(4) Pre-ACA community rating regulations	(5) Pre-ACA "costly" mandates	(6) Post-ACA EHB includes dental, vision, and habilitation	(7) Post-ACA community rating regulation
Policy ATT	-3.41**		-1.72**	-1.97*	0.63	-0.43	1.07
	(1.63)		(0.82)	(1.14)	(0.77)	(1.86)	(0.86)
Minimum wage ($)		-0.96**					
		(0.45)					
State-year observations	534	910	667	492	307	608	752

Event studies

Difference in 2019/2020 offer rate vs. 2002/2003, conditional on policy controls



National ACA-related changes

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Coverage dynamics

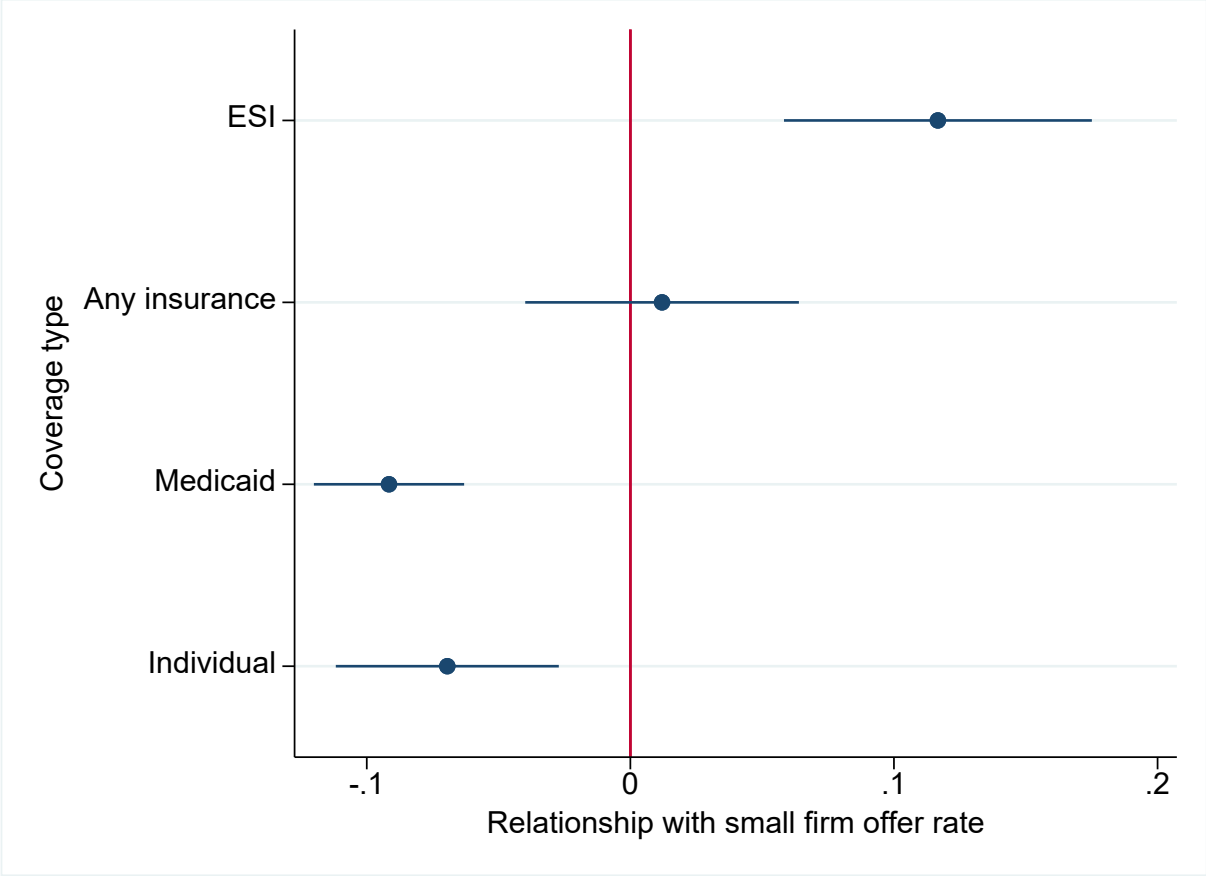
Empirical strategy: coverage dynamics

- Outcome: binary person-year level coverage source (any coverage, employer-sponsored insurance, Medicaid, or individual)
  - Data: 2002-2018 Current Population Survey Annual Social and Economic Supplement (CPS-ASEC)
  - Sample: limited to respondents who work at small firms, between ages 18-64
- Linked to state-year small firm offer rate from MEPS-IC
- For each coverage outcome, for respondent *i,* in state *s*, in year *t*

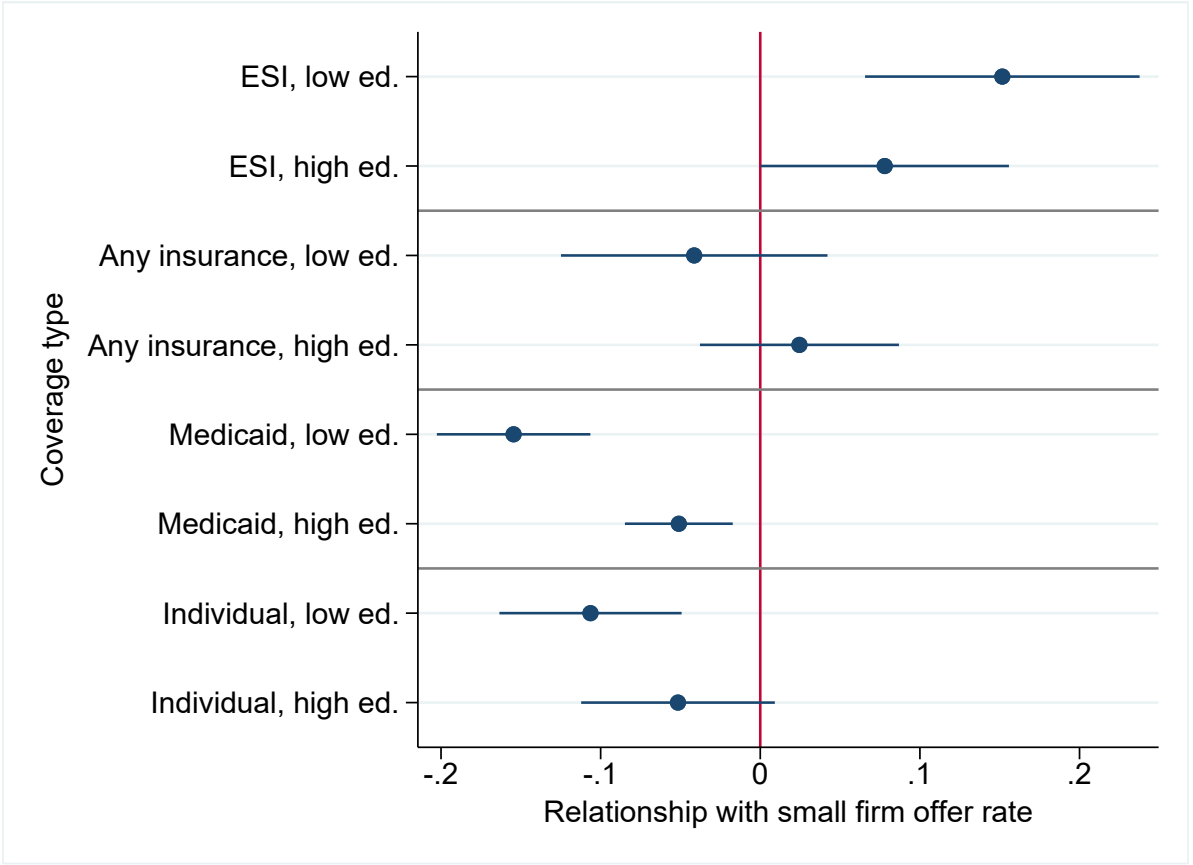
$$Coverage_{i,s,t} = \beta_0 + \beta_1 SmallFirmOfferRate_{s,t} + \beta_2 X_{i,s,t} + \alpha_s + \delta_t + \varepsilon_{i,s,t}$$

- $SmallFirmOfferRate_{s,t}$ is specified as a proportion
- Controls for state-year unemployment rate, age, firm size
- Regressions are weighted using CPS-ASEC population weights
- Stratified regression models for education levels and state Medicaid eligibility

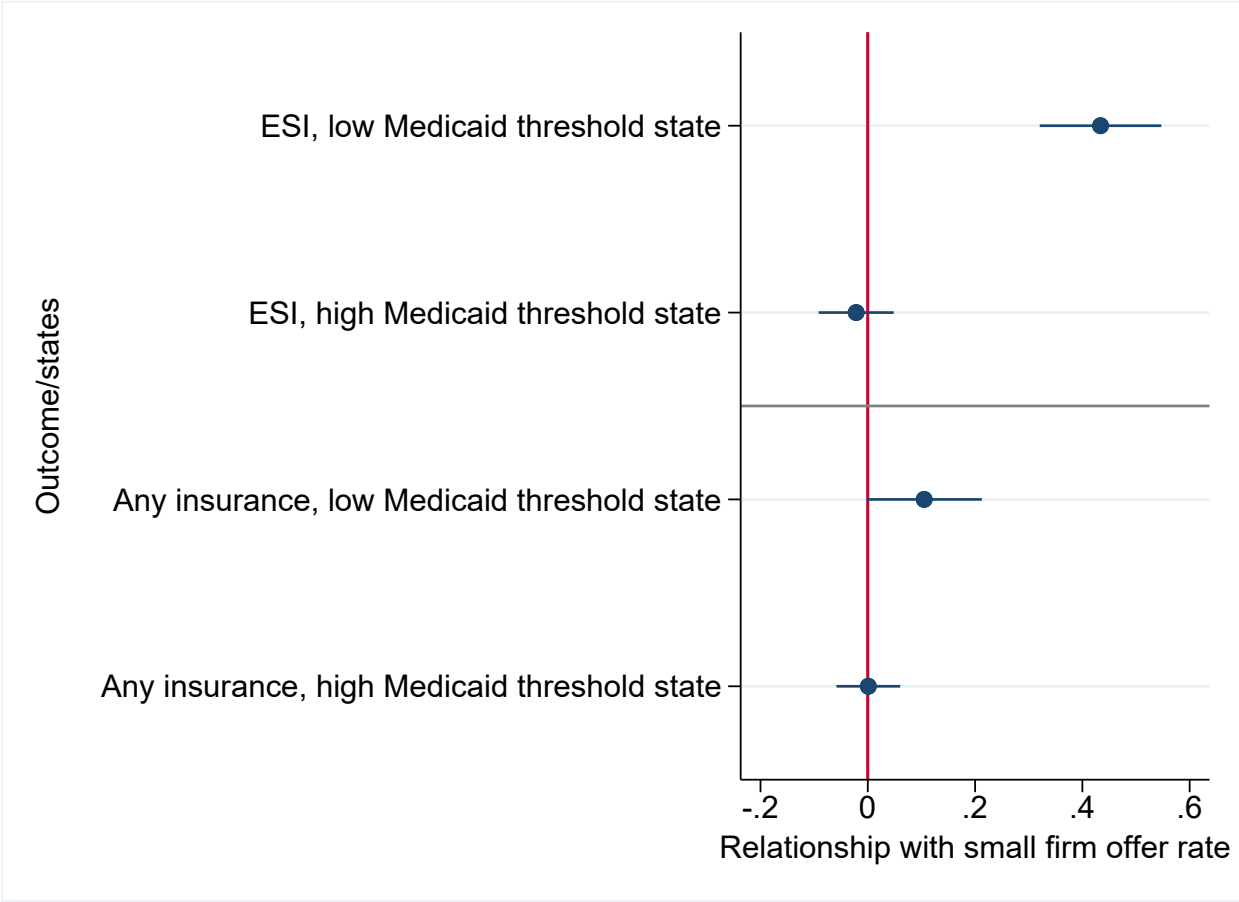
Relationship between within-state changes in small firm offer rate and coverage, 2002-2018



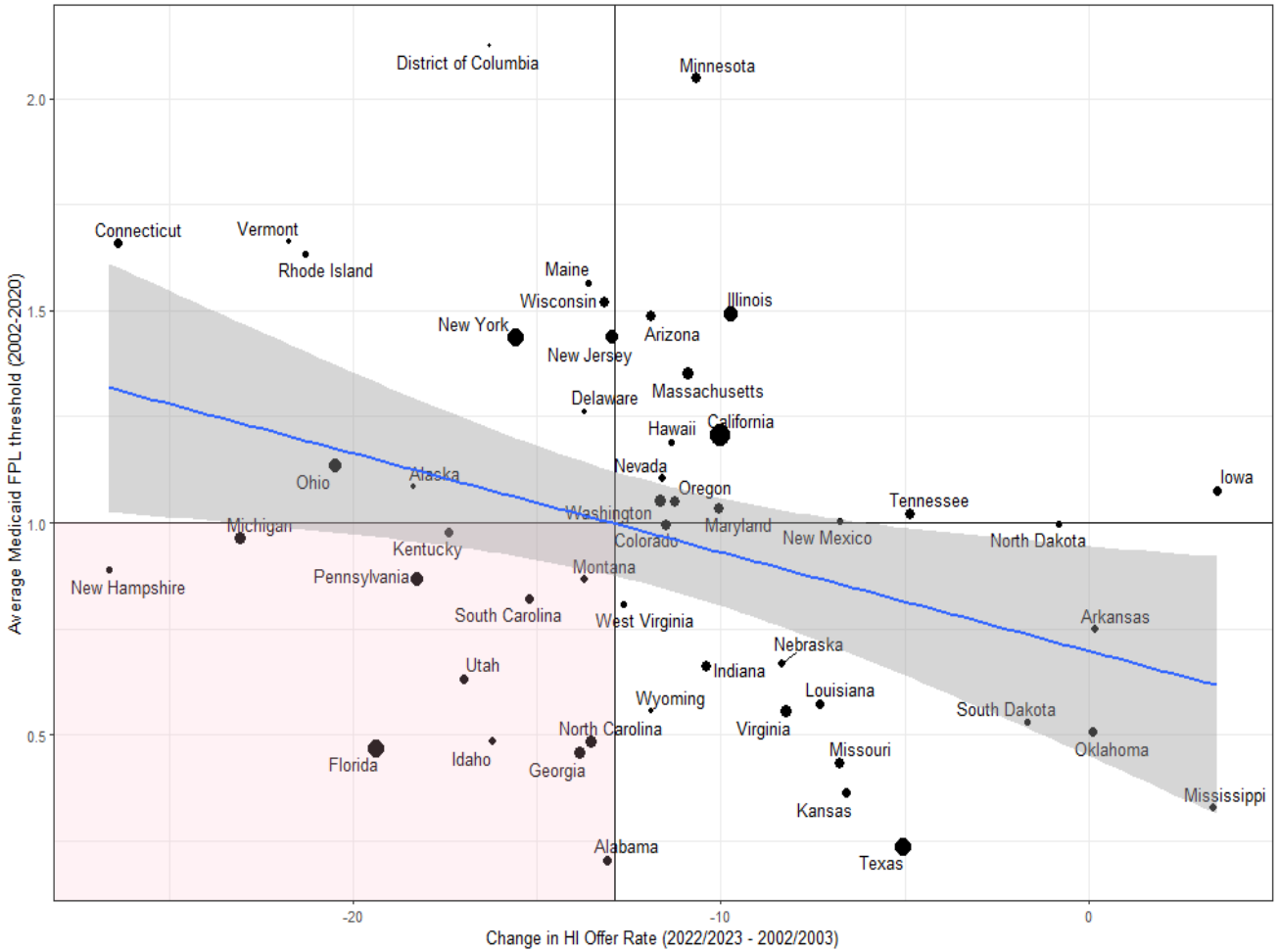
Relationship between within-state changes in small firm offer rate and coverage, 2002-2018, by education status



Relationship between small firm offer rate and coverage in states that have never had Medicaid thresholds ≥100 FPL vs. those that have



Medicaid threshold in 2019-2020 vs. change in small firm offer rate over study period



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Costs

Empirical strategy: costs

- Outcome: state-year level Medicaid expenditures per state popualtion (total, state, and federal)
  - Data: 2002-2020 National Association of State Budget Officers (NASBO) expenditure reports
- Linked to state-year small firm offer rate from MEPS-IC
- For each outcome in state *s*, in year *t*

$$MedicaidSpendingPC_{s,t} = \beta_0 + \beta_1 SmallFirmOfferRate_{s,t} + \beta_2 X_{s,t} + \alpha_s + \delta_t + \varepsilon_{i,s,t}$$

- $SmallFirmOfferRate_{s,t}$ is specified as a percentage
- Controls for state-year unemployment rate, Medicaid eligibility threshold for childless adult relative to Federal Poverty Level, and median income
- Include interactions for ACA Medicaid expansion

State Medicaid expenditures per capita vs. small firm offer rate

VARIABLES	(1) Total	(2) Total	(3) State	(4) State	(5) Federal	(6) Federal
Small firm offer rate (%)	-4.32**	0.23	-0.01	0.38	-4.47***	-0.67
	(1.75)	(2.34)	(0.98)	(0.96)	(1.63)	(1.64)
Small firm offer rate X Medicaid threshold ≥ 138 FPL		-13.51***		-0.90		-8.69***
		(2.56)		(0.69)		(1.21)
Observations	995	995	995	995	995	995
Mean Y	1416	1416	396.5	396.5	896.2	896.2

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Conclusions, Implications, and Next Steps

Conclusions and implications

- Though decreasing in nearly all states, there is substantial variation state-to-state in the decline of employer-sponsored insurance from small firms
- Pre-ACA-related decline mostly uncorrelated (or inversely correlated) with post-ACA decline
- Policy choices have likely contributed to the long-term decline of the small group market
- However, when supplemented with robust Medicaid and individual marketplace, declines may not lead to coverage losses
- The total tax/cost implications are not yet clear, as it requires further understanding of the impact to marketplace subsidies and employer tax exemptions
- The welfare implications also depend on patient preferences and cost-sharing arrangements across market segments

Appendix

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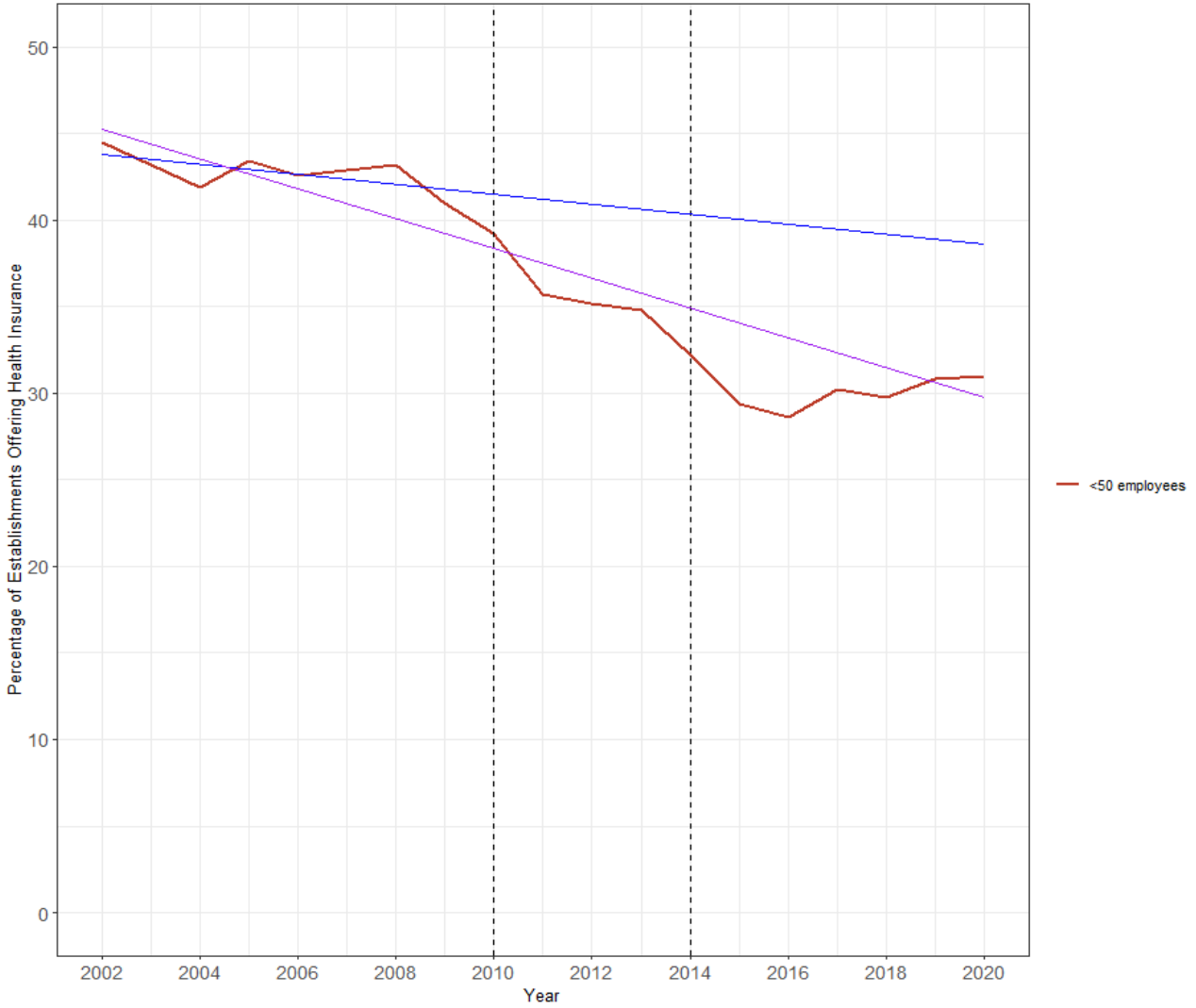
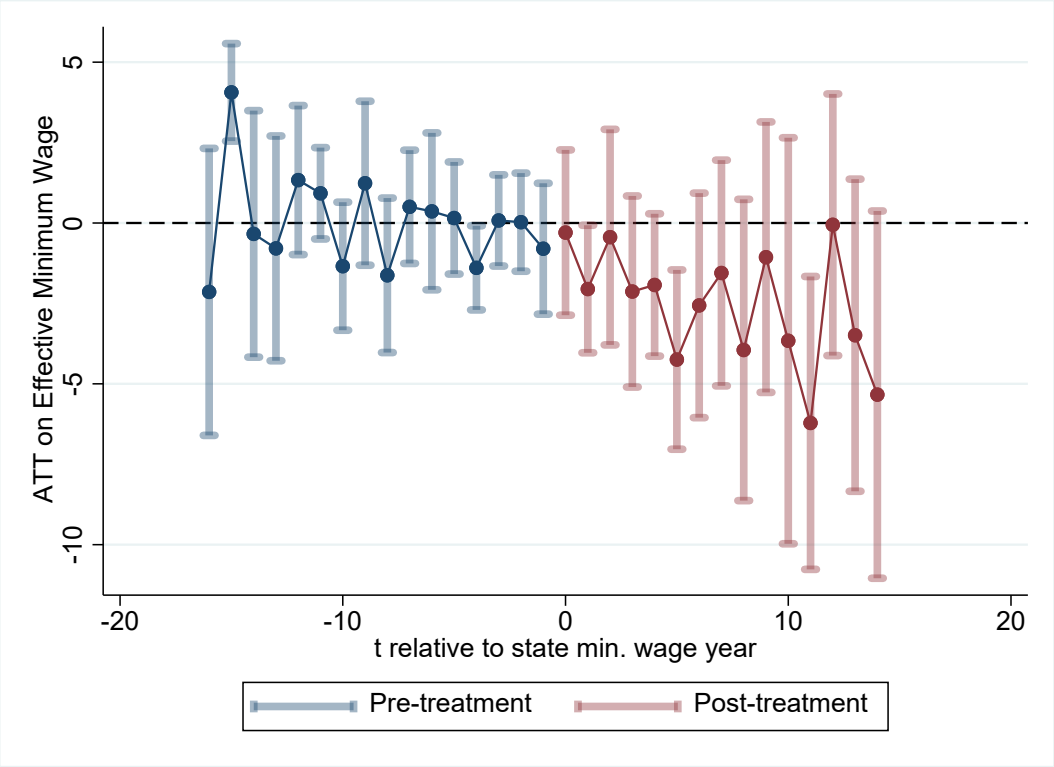
National ACA-relat



National ACA-related changes

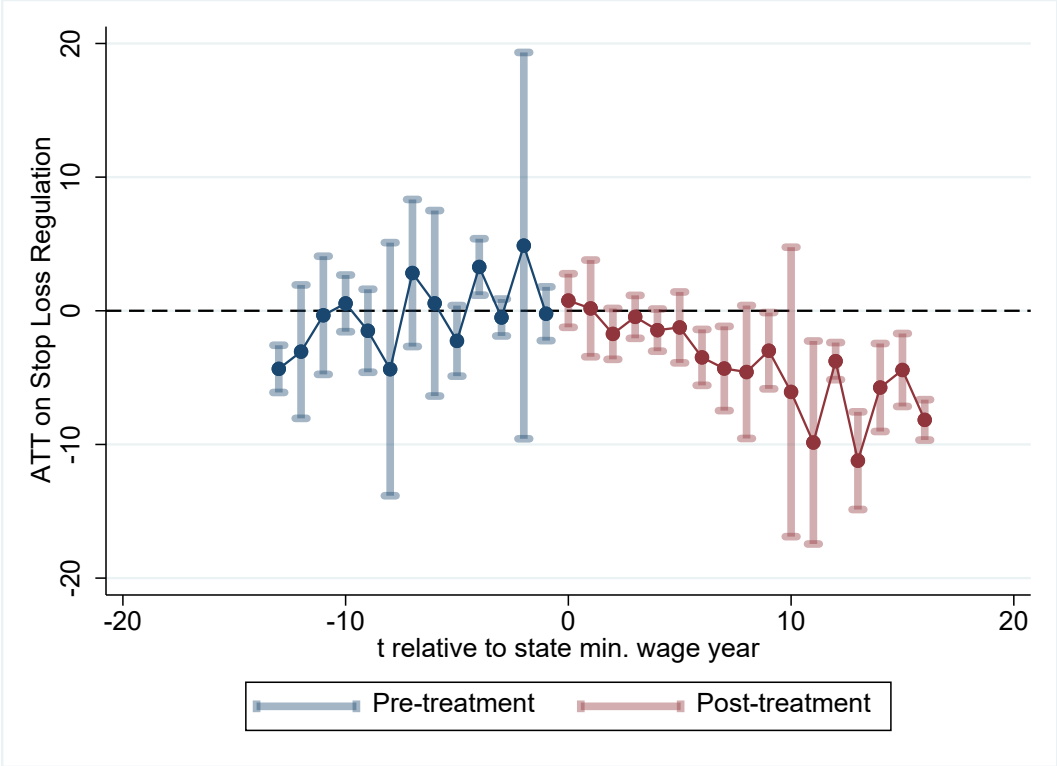
VARIABLES	(1) Small firm offer rate	(2) Small firm offer rate	(3) Small firm offer rate	(4) Small firm offer rate
Small firm X post-2010	-6.61*** (0.53)	-6.43*** (0.49)	-2.92*** (0.68)	-6.45*** (0.49)
Small firm X post-2014	-6.13*** (0.55)	-5.25*** (0.63)	-3.40*** (0.75)	-5.25*** (0.63)
Observations	2,126	2,126	2,126	2,126
R-squared	0.98	0.98	0.94	0.93
Comparison	Above vs. below 50 in same state	Above vs. below 50 in same state	Below 25 vs. 25-99 in same state	Below 25 vs. 25-99 in same state
Time control	Year FEs	Size specific linear trend	Year FEs	Size specific linear time trend

Event study – minimum wage increases



Difference-in-differences

Event study – stop loss regulation



Event study – community rating regulation