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Small Business's Introduction to the Affordable Care Act
Part II

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The **NFIB Research Foundation** is a small business-oriented research and information organization affiliated with the **National Federation of Independent Business**, the nation's largest small and independent business advocacy organization. Located in Washington, DC, the Foundation's primary purpose is to explore the policy-related problems small business owners encounter. Its periodic reports include *Small Business Economic Trends*, *Small Business Problems and Priorities*, and the *National Small Business Poll*. The Foundation also publishes ad hoc reports on issues of concern to small business owners.

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Executive Summary

- Self-assessed familiarity with the Affordable Care Act (ACA) continues to grow among small employers. Seventy-eight (78) percent now claim familiarity with the ACA, 12 percentage points more than in mid-2013. Those employing 50 – 100 people have greater familiarity, 40 percent "very" familiar and 56 percent "somewhat" familiar, than those employing fewer people.

- Industry sources, particularly health insurance industry sources, have become an increasingly important place for small employers to obtain information about the ACA. Still, the general news media is the single most important source for more small employers than is any other followed by the health insurance industry and the healthcare industry (providers, hospitals, etc.). Small employers currently offering health insurance are much more likely to rely on industry sources while those who do not offer lean heavily on the general news media.

- Twenty-five (25) percent of small employers visited Healthcare.gov in the last 12 months, 13 percent to search for personal insurance, 4 percent for business insurance and 8 percent for both. Just 4 percent consider government as their most important information source on ACA.

- A majority of small employers are satisfied with the information they have obtained about the ACA by a 61 – 38 percent margin, a 5 percentage point tick upward from the prior year. Some sources yield more satisfactory information than others. Those most satisfied cite a business advisor, such as a lawyer or accountant, a trade/business association, and an insurance carrier (in that order) as their most important information source.

- Fifteen (15) percent of small employers did not carry health insurance on themselves in mid-2013. The Affordable Care Act requires everyone (with limited exemptions), including small-business owners, to be covered, effective January 1, 2014 (delayed), or pay a penalty. The number of uncovered small employers dropped to 8 percent in mid-2014.

- Forty-three (43) percent of the small employer population carrying personal health insurance obtain their coverage under their firm's employer-sponsored health insurance plan, 39 percent under an individual insurance market plan, and 19 percent under a spouse's plan.

- Nine percent of all small employers report that their personal health insurance had been terminated or cancelled (for any reason other than non-payment) in the prior 12 months. Terminations, therefore, affect about one-half million small employers on a personal level. Most appear able to find insurance coverage elsewhere, but the new policies come with a comparatively hefty price increase.

- Non-offering small employers are receiving little employee pressure to offer health insurance despite employees now being required to have coverage or to pay a fine. Just 4 percent received a request from five percent or more of employees (usually no more than one person) in the last six months to institute an employer-sponsored health insurance plan, the same number as last year at this time.

- Fourteen (14) percent of small employers not offering health insurance reimbursed or otherwise provided employees financial support to help them pay for health insurance that they purchased on their own, about the same number as in the prior year. However, 21 percent of those offering, but not currently providing financial incentives have considered, 9 percent seriously, helping employees pay for purchasing their insurance on the open market in lieu of the business offering it. Financial incentives to help employees purchase health insurance as a substitute for an employer sponsored plan is an employer option substantially more likely to be pursued than it is as a means to help employees newly acquire insurance on their own.

- Small employers perceive little change in insurance carrier competition for their health insurance business over the last two years. If anything, they perceive less (net 12 percentage points less) competition for it. The perceived competitive situation among health insurers does not differ between offering and not offering small employers.

- Forty (40) percent of small employers report offering employer-sponsored health insurance, down 6 percentage points from the prior year. Firm size is closely associated with offer rates. Small employers with 50 or more employees increased their offer frequency while those with 20 or fewer employees saw theirs decline.

- Few small employers now self-insure and there is no stampede to do so. Even among those with 20 or more employees, the group most likely to be able to purchase re-insurance, just 10 percent of the offering population pursue this course. Another one in ten projects switching from fully-insured to self-insured in the coming year. However, equivalent projections last year yielded no net increases in self-insured small businesses.

- Change among individual firms is much greater than net change across the small business population. Eleven (11) percent changed offer status within the last year, more dropping their employer-sponsored health insurance than adding it. Those percentages represent an 4 percentage point escalation (both adds and drops) in offers status change over the last 12 months.

- About 12 percent of offering small employers adjusted their insurance renewal date in order to avert higher premium costs and/or loss of a plan due to ACA rules that were effective January 1, 2014.

- Eighty-nine (89) percent of small employers offer just one type of health insurance plan. That falls to 70 percent among firms with 50 - 100 employees. The most common type of plan used is a conventional PPO (40%), an increase of 8 percentage points over the last year. The use of HMOs as the most used type in small businesses fell 7 percentage points in a year to 19 percent. However, small employer choices among primary types of health insurance blur as plan types lose their distinctiveness and morph into one another.

- A recurrent theme in this report is a recent emphasis on employee-only (individual) coverage over the past year and a de-emphasis on family and employee plus-one coverages. The evidence for these changes appear in the relative frequency of offers, employee take-up, employer premium contribution, premium costs, and even the decline in employers who obtain their personal coverage from a spouse's plan. The employee appears increasingly the focus of coverage and family members less so.

- The size of the employer cost-share fell notably for family and employee plus-one coverage over the past year while rising modestly for employee-only coverage. The number contributing 75 percent or more of premium fell 7 percentage points for family and 4 percentage points for employee plus-one coverage. Meanwhile, contributions of that size for employee-only coverage increased 4 percentage points.

- Employer-sponsored health insurance premium costs per employee continue to climb for small employers, though at a reduced rate. Sixty-two (62) percent claim per employee premium costs were higher in mid-2014 than in mid-2013 compared to 64 percent the prior year. Another 31 percent experienced no change (29 percent the prior year) and 8 percent premium decreases (6 percent the prior year). *Per employee* premium costs rose more for family than for employee plus-one coverage, but declined for employee-only coverage. These data do not account for benefit changes, either desired by the small-employer plan sponsors or forced on them by the ACA.

- Employee participation in employer-sponsored health plans appears to be rising. Sixty (60) percent of offering firms have 75 percent or more participation among full-time, non-seasonal employees compared to just 54 percent one year ago. Greater employee participation (more people) in addition to premium increases caused the *per firm* cost of health insurance to rise substantially.

- Small employers faced with health insurance premium increases took an average of 2.4 business actions to offset (pay for) them, the number increasing as the size of the premium increase rose. The most frequently taken actions were swallowing the increase (lower profits), delayed, postponed or reduced business investment, and raising productivity. Forty-five (45) percent resorted to measures that affected employee pay checks.

- Between 35 and 40 percent of small employers reduced benefits in their employer-sponsored health insurance; somewhat less than 10 percent increased them. That net frequency of benefit cuts was offset by ACA compelled benefit increases, increases that small employers may not have known about, let alone approved. The result likely approximates intent rather than actual outcomes of which no one can be certain.

- Small employers who added health insurance as an employee benefit within the prior 12 months report that sustained business profitability allows them to now offer. Market competition for employees is a second important reason for their action.

- Small employers who dropped health insurance as an employee benefit within the prior 12 months most often report the cost of insurance was an important reason for doing so. A notable number from that group dropping their insurance also indicated that employees were better off purchasing it on their own.

- About 90 percent of small employers in mid-2013 accurately forecast on a longitudinal basis whether they would carry employer-sponsored health insurance in the following 12 months. Thirty-eight (38) percent in mid-2014 expected to sponsor an employee health insurance plan in mid-2015 and 60 percent did not. Expectations dropped 10 percentage points in the last year.

- This is the second of three surveys conducted for the NFIB Research Foundation by Mason-Dixon Polling & Research on the introduction of small business to the Affordable Care Act. Nine hundred (900) small employers participated in this year's edition, 288 having also participated the year before. The survey sample was selected using a random stratified pattern with the approximately four equal strata representing small employers having 2 – 9 employees, 10 – 19 employees, 20 – 49 employees, and 50 – 100 employees.

Small Business's Introduction to the Affordable Care Act, Part II

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The Affordable Care Act (ACA) began its administrative public life with a troubled and glitch-filled Web site roll-out one year ago. The Web site, HealthCare.gov, the heart of the Act's administrative apparatus to enroll subsidized applicants, functioned very poorly when it functioned at all. Small business was not generally impacted by that debacle, except to the extent that some small employers and self-employed business owners approached the exchange marketplaces to purchase health insurance (subsidized and not) and met the same success that others did. However, small business had its own set of issues.

The bulk of small business issues were indirect, stemming from requirements that limited the policies that health insurers could sell to small employers. One visible result was market turmoil evidenced by large numbers of policy cancellations, shifting renewal dates to obtain better rates, changes in employer cost-sharing, and adoption of different, though not necessarily more desirable, health insurance plans. In addition, obvious policy U-turns and failure to implement publicized aspects of the ACA created confusion among small employers and their advisors. SHOP (Small Business Health Options Program) exchange marketplaces, a parallel to the shopping function of the individual exchange marketplaces, intended to help small-business owners transparently and competitively purchase their health insurance, did not get off the ground. Relatively few states launched a SHOP for 2014; only 12,000 employers and 76,000 individuals purchased insurance through a SHOP; and 18 states have already delayed additional offering arrangements again to 2016.[1] Since only small employers purchasing their insurance through SHOP are eligible for the small business health insurance tax credit, the credit's already limited eligibility fell to a trickle. Confusion even reigned over established policies. Could small business keep its existing, noncompliant insurance? The answer was not always clear. Some could; some could not; and, some could, but only for a limited time. The employer mandate was administratively delayed and then modified, good news for larger small employers. But then those most affected offered anyway and the delay may simply align the employer mandate deadline with the minimum essential health benefits package and community rating requirements to which they remain subject beginning in 2016. Perhaps the most consequential result of the mandate's delay was the effective elimination, at least temporarily, of the highly complex and largely unknown aggregation rules.

The following pages document the turmoil caused by the ACA and many of the changes occurring within the last twelve months. Some of those changes result in noticeable net shifts in population totals. For example, the employer cost-share for family and employee plus-one plans fell notably. Small employers, as a group, are simply contributing less for them. However, a key to appreciating the turmoil and other challenges small employers face is individual firm change even when the population totals do not. For example, the net percent of all small employers changing offer status moved somewhat lower from the prior year. That reduction conceals the fact that one in ten changed offer status over the last 12 months. Adding and/or dropping employer-sponsored health insurance is a significant change to a business with repercussions throughout the firm. Thus, even when matters seem publicly calm, they often are not within individual firms.

While one assumes that much of the turmoil created for small business by the ACA will ebb as the compliant/noncompliant policy issue resolves itself, that is not necessarily true. The status of SHOP exchange marketplaces and the employer mandate implementation remain unsettled. Perhaps more important is the consequences of the 2016 consoli-

[1] Small Business Health Insurance Exchanges: Low Initial Enrollment Likely due to Multiple, Evolving Factor (2014). United States Government Accountability Office Report to the Chairman, Committee on Small Business, House of Representatives. GAO-15-15. November; Harrison, JD (2014). July 14. http://www.washingtonpost.com/business/on-small-business/why-we-still-dont-know-how-many-small-businesses-signed-up-through-obamacare/2014/07/10/773d0cb6-0859-11e4-a0dd-f2b22a257353_story.html.

dation of the fewer than 50 employee and 50 – 99 employee groups into a single small group market. It is not known how, if at all, combining the two will affect the rates of different size firms. Healthcare cost pressures will continue to force insurance rates higher requiring small employers to make more painful choices between employee wages and benefits, between higher deductibles and cost-shares, between lower earnings and greater contributions to their employer-sponsored health insurance. The Cadillac tax provision of ACA (2018) is likely to affect a limited number of small employers initially, and the remainder of those offering long after large employers have adapted to it. The impact of subsidies to individual and families through the exchange marketplaces is likely to alter the offer pattern of small employers long before large. And then, there is always the possibility of further administrative change – even legislative change – for good or ill.

Familiarity with the Affordable Care Act

It has been four years since the Affordable Care Act (ACA) became law. Millions of words have been written about the Act and likely more have been spoken of it during that time. Much has been polemical, obfuscating the Act's content and impact. Yet, in mid-2014 just 24 percent of all small employers claim to be "very" familiar with the ACA (Q#68). Fifty-four (54) percent say that they are "somewhat" familiar with it. The remainder describe themselves either as "not too" familiar (15%) or "not at all" familiar with the Act (7%).

Small employers with 50 to 100 employees, those presumably most affected by the new law, claim greater familiarity with the Affordable Care Act than do those with fewer employees. Forty (40) percent of that group assert that they are "very" familiar with it and another 56 percent maintain that they are "somewhat" familiar with that law. Self-assessed familiarity among small employers declines gradually with the number of employees in the business. However, a noticeable gap occurs between owners employing fewer than ten people and those employing ten or more. The proportion claiming familiarity ("very" and "somewhat") among those with fewer than ten employees is 76 percent while 24 percent do not claim familiarity ("not too" and "not at all") compared to 88 percent and 12 percent respectively among those with ten or more employees. The gap is most noticeable in the "very familiar" response, 21 percent among the former group and 37 among the latter.

Familiarity is not related to health insurance offers. Offering small-business owners are no more likely to claim familiarity than those not offering. However, familiarity is modestly associated with recent premium cost increases. Small employers incurring premium increases in the last year are 9 percentage points more likely to claim familiarity than those either incurring premium decreases or premium stability (84 percent to 75 percent).

ACA exchange marketplaces for individuals can be divided into three groups: state-run, partnership, and federally-run.[2] (SHOP exchange marketplaces for small businesses cannot be similarly grouped because few states effectively operate one and because the federal government has postponed its participation in their operation.) As a general rule, states with state-run exchange marketplaces have embraced Obamacare more enthusiastically than have partnership states and partnership states more enthusiastically than federal-run states. It is reasonable to speculate that more enthusiasm results in more information available about ACA and hence greater small business familiarity with the Act. Some relationship does exist. Small employers in state-run states most frequently claim familiarity (84%) followed by partnership states (77%) and federally-run states (76%). But as will be shown shortly, few small employers use government as their primary source of information about the Act. Few small employers not relying on government for information does not negate the possibility that the relevant agencies provide more information to the general news media, etc., which in turn transmit it to business owners.

Small employers in the Central region and to a lesser extent the Mid-western region report familiarity with ACA less often than do those in the Northeast, Southeast, and Pacific regions. The latter three report familiarity ranging from 81 to 83 percent.

Self-assessed familiarity with the Affordable Care Act rose between mid-2013 and mid-2014. The proportion claiming familiarity ("very" and "somewhat") rose 12 percentage points while those not claiming familiarity ("not too" and "not at all") declined the equivalent amount. That increase is somewhat larger than the one experienced in the two year interval, mid-2011 to mid-2013, when the familiarity of small employers with fewer than 50 employees rose from 58 to 66 percent.[3]

The change in familiarity appears broadly based. For example, 96 percent of employers with 50 to 100 employees claim familiarity with the Act compared to 89 percent in the year prior. At the other end of the size scale, 76 percent with 2 to 9 employees claim familiarity compared to 65 percent twelve months earlier.

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[2] State-based Exchange Marketplaces – CA, CO, CT, DC, HI, ID, KY, MD, MA, MN, NV, NM, NY, OR, RI, VT, AND WA. Partnership Marketplaces – AR, DE, IL, IA, MI, NH, AND WV. Federally-facilitated Exchange Marketplaces: AL, AK, AZ, FL, GA, IN, KS, LA, ME, MS, MO, MT, NE, NJ, NC, ND, OH, OK, PA, SC, SD, TN, TX, UT, VA, WI, AND WY.

[3] Dennis, WJ, Jr. (2013). Small Business's Introduction to the Affordable Car Act, Part I. NFIB Research Foundation: Washington, DC. http://www.nfib.com/Portals/0/PDF/AllUsers/research/studies/ppaca/nfib-aca-study-2013.pdf

Information Sources

More small employers cite the general news media (34%) as their most important source of information about ACA than any other (Q#69). The insurance industry ranks second (22%) followed by the healthcare industry (13%). Small employers identified every other source in less than 10 percent of cases. Trade associations or business groups prove the prime source for 9 percent; a business advisor, such as an accountant or lawyer, account for another 8 percent; government, 4 percent; other sources and no answer, 2 percent. Seven percent do not have a single most important source.

The most important sources small employers use to obtain information about ACA changed somewhat over the past year. The most notable change was an 8 percentage point reduction in reliance on general news media and a 9 percentage point increase in the number identifying the health insurance industry. Five percentage points more identified the healthcare industry (providers, hospitals, etc.) this year than last. Primary reliance on other sources remained relatively stable. For example, 4 percent cited government in mid-2013 and 4 percent cited it in mid-2014 despite the flurry of information surrounding the opening of the exchange marketplaces (much of it negative, encouraging small employers to look elsewhere); 10 percent cited business advisors in mid-2013 and 8 percent in mid-2014; trade associations/business groups declined from 12 percent to 9 percent. Seven percent claimed to have received no useful information this year compared to 1 percent last, a discouraging commentary on the country's ability to transfer useful information about a major government initiative.

The smallest employers continue to be the size group most reliant on the general news media (42%) for information about the ACA. They are also the group most likely to think that they have not received any useful information about it (8%). Owners of the largest businesses are the most reliant on the health insurance industry (38%).

The major difference in information sources about the ACA falls along the divide between those who offer employer-sponsored health insurance and those who do not. Fifty-eight (58) percent of small employers offering report their most important information source as the insurance industry (40%) or a healthcare provider (18%). Just 21 percent of those not offering name one of those two industry sources. In contrast, 18 percent of offering small employers cite the general news media compared to 45 percent among small employers not offering. These results logically follow from the greater exposure that offering small business owners have to industry sources.

Just less than one in four (24%) rely principally on a single source for most their information. Those who did identify a second source as important were distributed much as were the most important source. The noticeable difference is that the insurance industry and healthcare industries switched places. Twenty (20) percent identified the general news media; 12 percent a provider; 11 percent a carrier; 11 percent a trade association/business groups; 10 percent a business advisor; 7 percent "other"; and, 6 percent government (Q#70).

Four combinations of sources (first and second choices) prove most common among those citing more than a single source. The most frequent (14%) is the general news media and insurance carriers, followed by a provider(s) (healthcare industry) and the media (10%), trade/business associations and the media (8%), and trade associations/business groups and insurance carriers (6%).

HealthCare.gov

HealthCare.gov is the government Web site that the public can visit both to gather information about the ACA as well as to sign-up for its benefits (during open enrollment). While plagued by a disconcertingly problematic roll-out, the site remains the single most visible place to learn about the Act's exchange marketplaces and the insurance available to individuals. It is also the place where small employers were supposed to take advantage of the SHOP provisions of ACA, a prospect now restricted to a small number of businesses operating in a few states and businesses that enrolled directly through an insurer or an insurance agent/broker.

Small employers typically find no reason to visit HealthCare.gov. Sixty-five (65) percent report that they did not visit the site in the last year and another 10 percent say that they did so out of simple curiosity (Q#72). Still, one in four (25%) did visit HeathCare.gov for its intended purposes. The largest share visiting the site did so to inquire about the purchase of personal insurance (13%). Four percent visited the site about business insurance and another 8 percent visited to inquire about both business and personal coverage. Those percentages translate into a non-mutually exclusive 21 percent visiting HealthCare.gov for personal reasons and 12 percent for business reasons. Given that just 4 percent named government as their most important information source about ACA, HealthCare.gov apparently did not provide a great deal that small employers found helpful.

As a general rule, small employers looking for business insurance on Healthcare.gov currently offer (66% - 34%) and those looking for personal insurance do not (32% - 68%). Those looking for both business and personal are more evenly divided (56% - 44%). Seventy-seven (77) percent visiting for any insurance purpose expect to offer next year as do 98 percent of those visiting out of curiosity. Virtually no one (0 of 70 cases) who does not expect to offer next year visited the site for either business or personal insurance. Healthcare.gov therefore appears to be a shopping tool for small

employers already offering rather than a persuasive tool for those who do not. Once an affirmative offer decision has been made, small employers search for the best deal, often on the public Web site. If that decision is negative, they do not bother to search it. The unknown is whether the poor (or lack of a) SHOP roll-out will discourage small employers from using the tool in the future or whether greater site visibility will encourage them to try again.

The number who visited the Healthcare.gov is likely somewhat higher than reported doing so. Nearly half of those who claim to have purchased their personal health insurance though government also said that they had not visited HealthCare.gov (N=33). It is possible that some accessed the exchange marketplace using a different address, particularly in states with state–run exchange marketplaces. Or, it is possible that some simply did not recognize the site's name/address. Still, the inconsistency demonstrates the confusion many small-business owners have dealing with the ACA, its specific provisions, and its terminology.

Information Satisfaction

More small employers are satisfied than not with the information they have received to date about the Affordable Care Act. But, they are far from completely happy. Nineteen (19) percent say that they are "very" satisfied (Q#71). Another 42 percent say that they are "somewhat" satisfied, yielding a total of 61 percent on the satisfied side of the ledger. Thirty-eight (38) percent fall on the other side with 16 percent "not at all" satisfied with the information that they have received.

With a single exception, little association appeared between information satisfaction and either size-of-business or offer status. The exception appeared among the group having the most employees, 50 – 100. It is noticeably more satisfied with the information received (78%) than are the other three size group individually or combined (59%). It is likely that ACA requirements made them get satisfactory answers to more questions and their size provided them the resources to do so. Offer status showed no relationship to information satisfaction.

Satisfaction is slightly higher in mid-2014 than it was in mid-2013. A net 5 percent more are now satisfied than last year and the same number not. The largest change came among those "not at all" satisfied, which fell 6 percentage points between mid-2013 and mid-2014.

Some most important information sources yield greater satisfaction than others (Exhibit 1). Small employers who rely on business advisors and trade association/business groups, for example, are usually more satisfied than those relying on other sources. Sixty-six (66) percent primarily sourcing business advisors are satisfied with the information they have received and 24 percent are "very" satisfied with them. Sixty-five (65) percent primarily sourcing trade association/business groups are satisfied with the information they have received and 28 percent are "very" satisfied with them. Insurance carriers also produce a 66 percent satisfaction level, but only 15 percent of affected small employers give them the highest mark. The general news media and the healthcare industry produce least satisfaction, particular the healthcare industry. As many relying on it for ACA information are as dissatisfied with the information received as are satisfied. Just 8 percent relying on the industry are "very" satisfied.

Exhibit 1
Information Satisfaction by Most Important Information Source

	Most Important Information Source					
Satisfaction	**Health Insurance Industry**	**Health Care Providers**	**Business Advisors**	**Trade/ Business Groups**	**General News Media**	**Total†**
Very	15%	8%	24%	28%	21%	19%
Somewhat	51	42	42	37	38	41
Not too	23	33	17	18	21	22
Not at all	12	17	17	17	21	18
(DK/Ref)	*	*	*	*	*	*
Percent	100%	100%	100%	100%	100%	100%
N	277	157	89	111	143	818

† *Includes sources with too few cases to report – Government (N = 36) and Other (N = 5).*

The frequency of citations as the single most important source does not indicate overall satisfaction. The general new media, one of the two most common sources, receives relatively low satisfaction marks while insurance carriers, the other most important source receives, moderate satisfaction marks. Just 9 percent identify a trade association or a business group as their most important source and another 8 percent identify a business advisor, such as an accountant or lawyer. Yet, small employers are likely to be more satisfied with these two ACA information sources than those more frequently relied upon.

Every source has a significant number of small employers relying on them who are "not at all" satisfied with the information received from it. The health insurance industry has the fewest who are "not at all" satisfied with its efforts (12%) while the general news media has the most (21%). The other three listed sources each have 17 percent who are "not at all" satisfied. One in six suggests all sources could do a better job producing relevant information about the ACA for small employers.

Personal Insurance

Fifteen (15) percent of small employers did not carry health insurance on themselves in mid-2013. The Affordable Care Act requires everyone (with limited exemptions), including small-business owners, to be covered, effective January 1, 2014, or pay a penalty. By mid-2014, the number of uncovered small employers dropped to 8 percent, almost half the number uncovered one year prior (Q#5).

Nine of ten (90%) small employers have personal health insurance (2% did not respond). A plurality (39%) have individual coverage (43% of the covered population). Another 34 percent obtain (38% of the covered population) their coverage from their firm's health plan. Nineteen (19) percent obtain their insurance through a spouse's plan (21% of the covered population). The key difference in the distribution of sources for personal coverage from last year is the greater importance of individual plans. It would appear that a substantial share of those moving from an uninsured to an insured status buy an individual plan rather than sponsoring an employee plan and joining it or obtaining a plan through a spouse. The number with individual plans rose 9 percentage points while the number with business plans fell 4 percentage points and the number covered by a spouse's plan was unchanged.

Particular interest falls on the 39 percent purchasing individual market health insurance plans because that market has been volatile, suffering severe disruptions, typically due to the government imposition of mandated minimum essential health benefit requirements. Small employers searching for non-employer-sponsored (individual) health insurance can purchase this non-group insurance directly in the private market or through a government-sponsored individual exchange marketplace. Seventy-two (72) percent who purchased individual market insurance (28 percent of covered small employers) claim they bought it directly through the market and 19 percent bought it through an exchange marketplace (Q#6). The remaining 9 percent are not certain. That relatively high uncertainty is understandable given the consumer-opaque relationships between the exchange marketplace and the non-exchange individual market.

The individual exchange marketplace is the location where people sign up for ACA subsidies when purchasing their health insurance. While almost one in five (18%) of the 39 percent who purchased an individual policy through the exchange marketplace (7 percent of the covered small employer population), too few cases are available (N=33) to estimate the proportion who obtained a subsidy (Q#7). However, the limited cases available suggest that a substantial portion of small employers who went through the individual exchange marketplace did receive one.

Complaints are common from people holding individual health insurance policies that their plans have been terminated despite assertions from the President that people could keep their insurance if they liked it. Nine percent of all small employers claim that their personal health insurance was terminated or cancelled (for any reason other than non-payment) in the prior 12 months (Q#8). One in ten translates into about one-half million small-business owners who lost insurance in this manner. The data do not show the source of insurance among those who lost policies (at least temporarily) due to their plan's termination.

Virtually all who lost their personal insurance in this manner were able to replace it, but typically at a higher cost. Over 70 percent replaced their terminated policies with more expensive ones; 28 percent were able to find a cheaper product (Q#9). Though the number of cases is small (N=78), actual price changes appear substantial. Only 14 percent experienced price changes between plus 10 percent and minus 10 percent.[4] Both the median increase (between 25 and 30 percent) and the average increase proved considerably higher than the median and average decrease. Factors, such as benefits, deductibles, etc., are not included thereby yielding a change in cost, but not necessarily in policy value. Given that many of the terminated plans were also likely to have been plans with relatively modest benefits, the steep price increases reported are not implausible. Additional benefits will raise the cost regardless of whether the purchaser wanted them or not.

[4] If less than plus or minus 10 percent is classified as no change, 60 percent experienced a price increase, 18 percent no change, and 23 percent experienced a price decrease.

Virtually all of those who are currently without personal coverage did not have a plan cancelled in the last 12 months (N=42). That implies members of the current uncovered small-employer group have probably been uncovered for more than a single year.

Two Incentives

The ACA created or changed numerous incentives affecting health insurance buying decisions; some were intended, some not. The author isolates two that may have significant effects on small business, but which will likely take some time before their impacts are known fully. One has received considerable public attention; the other has not. The under-publicized incentive appears first.

Increased Employee Demand for Insurance

With Americans required to have health insurance by January 1, 2014 (with limited exceptions), non-offering small employers are likely to face increased pressure from uninsured employees to offer a health insurance plan. This is particularly true of employees who cannot receive a subsidy from an individual exchange marketplace, or who do not understand that they will be eligible to receive one. The situation creates two questions: how much pressure can and/or will employees exert on non-offering small employers to offer a health insurance benefit? After all, an employer-sponsored health insurance plan could lower employee out-of-pocket expenses for many, though not all, simply because the employer typically shares the cost. The second question is: how will non-offering small employers respond to employee requests? Only the first can addressed directly, in large part because there are so few cases of reported requests.

Four percent of non-offering employers report that in the last six months more than five percent of their employees or representatives of more than five percent of their employee asked that the business institute an employer-sponsored health insurance plan (Q#10). The current level represents no increase from the prior year. Noteworthy is that the time frame used to gauge the change covers the period in which for the first time individuals must purchase health insurance or pay a penalty. Employee interest in obtaining an employer-sponsored plan logically would spike at this time (and perhaps in the next twelve months).

Five percent of employees, the threshold for answering affirmatively about employees requesting health insurance, likely mean no more than a single employee in a small business. In a 40 employee firm, the threshold means requests from just two employees, or one employee speaking on behalf of himself and one other. Since that is an insignificant portion of the workforce, the data capture a minimal expression of interest.

No increase in employee requests for health insurance from a small base during a period when a strong expression of interest might be expected, combined with a modest definition of employee request (usually a single person), indicates that uncovered employees are putting little pressure on non-offering employers to make health insurance part of the employee benefit package. That situation could change as more uncovered and formerly uncovered employees look for a place to lay-off their health insurance costs or experience non-coverage penalties. Change could also occur as a result of a stronger economy and employees having a more advantageous bargaining position. But, the fact that demand remains modest questions whether pressure on small, non-offering employers will ever rise substantially. That leads to a search for the reason why. Topping the list of candidates is composition of the workforce and its attachment to a specific workplace (turnover). Increased participation among full-time, non-seasonal employees in offering small businesses, a topic discussed subsequently, supports these possibilities.

Reimbursement/Financial Incentives

Incentives exist within the ACA for employers, particularly small employers with relatively low paid employees, to dump their employer-sponsored health insurance, reimburse or otherwise adjust employee wages upward to compensate for the lost insurance, and let employees purchase their health insurance, often with subsidies, in the government exchange marketplaces. Over time the incentive to adopt this course is likely to become stronger. Still, inertia, uncertainty over the quality and cost of insurance in the individual exchange marketplaces, fear of adverse employee reaction when confronted with the change, etc., gives many small employers pause.

In the months between mid-2012 and mid-2013, 14 percent of small employers not offering health insurance reimbursed or otherwise provided employees financial support to help them pay for health insurance that employees purchased on their own. That figure is the same one year later. However, 18 percent of the entire population (offering and not) afforded incentives (Q#11).

A larger percentage (25% compared to 14%) of those offering insurance claim to offer financial incentives for employees to help them purchase health insurance on their own than do those who do not offer. Discrimination rules generally do not allow separating employees for purposes of providing tax subsidized employee benefits. However, these small employers may be using financial incentives to help full-time employees with family coverage when not offered by

the firm or, to help part-time employees, that typically are not covered, or even to purchase associated types of services, such as dental or vision insurance. Those not offering family coverage (but offering insurance) are about three times as likely to provide such financial incentives as those offering family coverage. A substantial number of small employers may therefore being using the financial incentive to help employees with their familiar obligations. The part-time hypothesis has less have merit. Less than 20 percent of offering firms with part-time employees have a reimbursement policy. Since the survey collected no data on health benefits beyond insurance, it is not possible to determine whether these financial incentive from offering firms are intended for such purchases. Other sources indicate, however, that many small employers give such benefits.[5] The result leaves a sizeable number of offering firms providing unexplained reimbursement or financial incentives to purchase health insurance or uncovered healthcare outside the business.

Employees earning wages/salaries are directly related to financial incentives or reimbursement to purchase health insurance. If a firm's average wages are $12.50/hour or less (annual salary equivalent of $25,000), 15 percent receive this additional benefit; if averages wages are $27.50/hour or more (annual salary equivalent of $55,000), 44 percent do. The middle wage group receives the benefit in 26 percent of cases.

One would think that non-offering firms would be the ones giving employees incentives to purchase health insurance outside the firm. Fourteen (14) percent do. However, providing financial incentives to purchase insurance outside the firm *in lieu of* the firm offering health insurance is even more popular among those who currently offer, at least conceptually, than those who do not. Twenty-one (21) percent of offering small employers who do not already provide some additional financial incentive to purchase insurance have considered one in lieu of offering, 9 percent "seriously" (Q#13). Small employers not offering health insurance and not already providing some incentive are less attracted to financial incentives to help employees make the purchase. Just 2 percent in that group have "seriously" considered the move and another 8 percent have considered it. The result is that financial incentives to purchase health insurance or reimbursement for having purchased insurance is an employer option substantially more likely to be pursued as a means to drop an existing benefit than it is as a means to help add a non-existent one.

If those small employers who have considered providing a financial incentive and do not now offer one were to proceed, the most likely way (41%) they would implement the change is to offer a flat amount per employee (Q#14). The flat-amount method is the most equitable, most transparent, easiest to administer, and provides minimal incentives for over-insuring. It is also one that higher paid employees and those with dependents would be least likely to favor. The second most likely method is a percent of the employee's health insurance premium (23%). Percent of premium would be more popular with employees expending more on insurance. The remaining methods had negligible numbers with the employee's length of service (5%) and a percent of the employee's wages or salary (2%) trailing. Twenty-nine (29) percent have not thought about the switch seriously enough to consider a method to implement it. The depth of consideration this latter group has given to a switch is likely superficial.

The downside of such financial incentives is their tax status. The Internal Revenue Service (IRS) issued sub-regulatory guidance prohibiting employers from reimbursing employees with tax-preferred contributions in order to purchase health insurance. Penalties for violating this prohibition can be severe. In the past, many small employers, in lieu of offering expensive employer-sponsored health insurance, were able to provide employees with tax-free contributions to reimburse healthcare costs. The reimbursement was commonly provided in the form of stand-alone Health Reimbursement Accounts [HRAs] or Section 125 plans. Now, any reimbursement must be subject to payroll taxes for the employer and the employee and individual income taxes for the employee, significantly reducing the value of the contribution, particularly for better paid employees.

Health Insurance Offers

Forty (40) percent of small employers with 2 - 100 employees offer employer-sponsored health insurance; 61 percent do not (Q#15). That number is six percentage points fewer than one year ago. The decline was associated with small employers having fewer than 20 employees.

Employee size-of-firm continues to be highly associated with offers. Ninety-six (96) percent of small-business owners employing 50 – 100 people offer employer-sponsored health insurance and 81 percent in 20 – 49 employee group offer as well. One year ago, 92 percent of the largest offered as did 80 percent of the second largest. The number owning the largest small businesses, those originally covered by the employer mandate, raised their propensity to offer four percentage points, while small employers with 20 – 49 employees did not change theirs. The two size groups with less than 20 employees presented a very different look. Two-thirds (66%) in the 10 - 19 employee group offered in

[5] Kaiser Family Foundation (2014). 2014 Employer Health Benefits Survey. Scetion 2, p. 50. September 10. http://kff.org/private-insurance/report/2014-employer-health-benefits-survey/.

mid-2014 in contrast to 74 percent the year before for a drop of 8 percentage points. Employers with the smallest businesses are least likely to offer. Twenty-eight (28) percent did among those employing 2 – 9 people compared to 34 percent twelve months year earlier, meaning a fall of 6 percentage points. Just one in five (20%) of the numerous 2 – 4 employee group sponsored a plan in mid-2014.

Because owners of larger, small firms offering insurance increased in number while the owners of smaller, small firms offering decreased in number, the net total of employees offered employer-sponsored health coverage did not change as dramatically as the net total offering firms. It is even possible that the number of employees offered coverage in small businesses did not change. The data available here cannot answer that question.

Average wages paid in small businesses are not associated with employee size-of-firm. However, higher average wages paid in a small business are highly associated with health insurance offers. If a firm's average wages are $20.00/hour or less (annual salary equivalent of $40,000), there is a 33 percent chance the firm offers employer-sponsored health insurance; if averages wages are more than $20.00/hour or more, there is an 86 percent chance the firm offers.

Small employers offer health insurance in the Northeast region more frequently than in other regions. Those sponsoring employee insurance plans are about 20 percentage points fewer in the four remaining regions. The remaining four, the Mid-west Southeast, Central, and the Pacific, trail in that order. The 2 – 9 employee group generates the gap. Forty-seven (47) percent of the smallest employers offer in the Northeast compared to the low to mid-20s elsewhere.

Eighty-three (83) percent offer health insurance to full-time employees only (70 percent have full-time employees exclusively), the same percent as the prior year (Q#20). Fifteen (15) percent theoretically offer it to both full- and part-time people, four percentage points more than 12 months earlier. However, 19 percent with part-time employees actually do. The smallest businesses appear modestly more likely to offer health insurance to part-time people, 16 percent among those with fewer than 20 employees and 11 percent among those with 20 employees or more. The reason for this unexpected relationship may be due to the inclusion of family members working part-time in the smallest firms.

Renewal

January 1, 2014, was more or less a magic date for the Affordable Care Act. Everyone required to do so was to have signed up for an insurance plan by that date (eventually postponed three months). Newly issued and renewed health insurance plans were required to comply with all of the new ACA requirements. Renewal of employer-sponsored health insurance prior to January 1 could thereby provide many small employers at least some temporary financial advantages.

If renewal/purchase were random, one would expect about 25 percent of small employers to renew their health insurance each quarter. That did not occur. Renewals bulged in the last quarter of the year, just prior to the deadline. Thirty-six (36) percent of offering small employers purchased their health insurance in the fourth quarter of 2013 (Q#18). Similar percentages purchased in each of the other three quarters – 16 percent in the third quarter, 2013; 19 percent in the first quarter, 2014; and 22 percent in the second quarter, 2014. Seven percent could not recall their quarter of purchase. Over one in eight (11%, 14% adjusted for "don't know" responses) who purchased therefore renewed earlier than expected.

Sixty-eight (68) percent of small employers renewing in the fourth quarter report doing so because it was the normal renewal time (Q#19). The remainder renewed in the fourth quarter apparently to beat the January 1 deadline. Eighteen (18) percent renewed at that time to keep their existing policy for at least another year. Fourteen (14) percent renewed at the time because their premiums would be cheaper than if they waited until the new year with the new requirements imposed on insurers. The latter two reasons are likely not mutually-exclusive.

The ability to retain one's existing, noncompliant health plan (and save costs) continues to be a moving target, like many aspects of ACA implementation. So, it is possible some small employers will be able to take advantage of existing, noncompliant, and more affordable policies either directly or by making it administratively unfeasible for insurers to offer them. If given the opportunity small employers are likely to continue to do as they did at the end of 2013. How long that will continue is another matter. Many states will not permit further extensions on plans that do not meet minimum benefits requirements.[6] It is therefore possible that another, smaller round of "beat the deadline" will factor into many small employer insurance purchase decisions in the next few months.

Competition

The rationale for Small Business Health Options Program (SHOP) exchange marketplace is to increase competition and transparency in the health insurance market for small employers. One can argue that the small group market is already

[6] AHIP Coverage (2014). October 2. http://www.ahipcoverage.com/2013/11/20/map-of-the-day-state-decisions-on-administrations-policy-on-coverage-extensions/.

highly competitive,[7] but many small employers would not have agreed, let alone concur that the existing small group market is transparent. SHOP was effectively been put "on ice" (postponed for at least a year) in 2014 and questions have arisen even among ACA supporters about its utility.[8] Still, with competition such a crucial element in controlling costs, it is important to understand that small-business owners are not impressed with what has transpired in the small group market over the last two years.

Thirteen (13) percent of small employers think that competition for their firm's health insurance has risen over the last two years (4% "much more" and 9% "slightly more") (Q#73). In contrast, almost twice as many (25%) think competition has decreased (15% "much less" and 10% "slightly less"). A plurality (38%) see no change and another 16 percent do not think the question is relevant to their situation. Eight percent did not respond. The overwhelming majority of the latter two responses come from small employers who do not offer and are likely out of the market. Regardless, the ACA has failed to this point, at least to the extent that it was intended, to increase competition in the small group market.

The perceived competitive situation among health insurers does not differ between offering and not offering firms. Once eliminating the response "not relevant to my business" the distributions are similar. Small employers purchasing insurance perceive no more or less change in competition for their health insurance business than do those who do not offer.

A change in competition is not the same as the level of competition. It is possible that small employers enjoy a high, but declining level of competition for their health insurance. While that is not likely, it is also beside the point. The issue is change, and small employers perceive competitive change as negative.

Self-Insurance

The potential for large numbers of small employers with relatively healthy labor forces self-insuring still concerns many, particularly supporters of Obamacare who prefer community rating to experience rating and do not want it threatened. Their fear is that by self-insuring, the best risks will opt-out of the small group market thereby increasing risk within the remaining pool and forcing premiums higher for pool members. Yet, their concern, at least in the short-term, appears more theoretical than practical. The number of self-insured remains small and stable, and interest in switching from a fully-insured product to self-insurance appears more wishful than practical.

The small group market currently consists of those with fewer than 50 employees. The market will be redefined in 2016 to include groups with fewer than 100 employees. That change makes the two size groups (fewer than 50 employees and 50 – 99 employees) noteworthy in a discussion of self-insurance. However, state insurance regulation effectively sets a minimum lower bound on group size for self-insurance through its requirements for re-insurance. Those rules vary from state to state. Reinsurers also impose minimum size requirements to avoid adverse selection. These lower bounds tend to cluster around 20 employees, making 20 employees an arbitrary, but reasonable minimum for discussion of self-insurance.

The 50 to 100 employee size group is more likely to self-insure than is the 20 to 49 employee size group, 9 percent compared to 8 percent, totaling 8 percent for the two groups combined in mid-2014 (Q#23).[9] One year prior, 14 percent of the larger group and 6 percent of the smaller group reported self-insuring, a rounded total of 8 percent for the two groups combined. The result is no net change occurred in the number self-insuring during the period.

These data do not account for businesses entering (formed) and exiting (dissolved). Nor do they account for a small employer moving directly from non-coverage to self-insurance or from self-insurance to non-coverage. The chances either dynamic has an appreciable impact on the totals is doubtful. Only a small fraction of total starts begin with more than 10, let alone more than 20 employees, the practical threshold for self-insurance.[10] Further, just 3 of 48 cases

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[7] See, Karaca-Mandic, P, JM Abraham, K Simon, and R Feldman (2013). Going into the Affordable Care Act. Working Paper 19719. National Bureau of Economic Research: Cambridge, MA., December.

[8] Ezekiel Emanuel, one of the architects of the ACA, and a continuing advocate, thinks that "…few small businesses will join the SHOP exchanges set up for them…" See, Mandelbaum, R (2014). March 26. http://boss.blogs.nytimes.com/2014/03/26/why-employers-will-stop-offering-health-insurance/?_r=0.

[9] A few owners employing fewer than 20 people, even some employing fewer than 10 people, report that they, too, self-insure. But those reports are not likely accurate. Firms with fewer than 20 employees let alone fewer than 10 typically small cannot buy reinsurance either because state regulators prohibit it and/or insurers refuse to it. Without reinsurance, firms self-insuring with such a thin capital base borders on the edge of financial irresponsibility.

[10] Seventy-six (76) percent of starts with employees have 1 – 4 and another 13 percent have 5 – 9. Bureau of the Census Business Dynamic Statistics, Firm Characteristics Data Tables. http://www.census.gov/ces/dataproducts/bds/data_firm.html

(unweighted) for which there are data in mid-2013 and mid-2014 were a non-offering firm last year and a self-insured firm this year. Still, a rough one-half million businesses enter and exit every year, about one-tenth of the population. Average exit size is somewhat larger than average entry size. The self-insured estimate for the static population is therefore not likely to be influenced significantly by annual population dynamics. But if they do influence the number, it is likely to be downward.

Small employer projections point to little change in the number of self-insured small businesses in the immediate future. Fifteen (15) percent in the 50 and over employee group say that it is "highly" likely or "somewhat" likely that they will switch and self-insure in the next 12 months. Seven percent say the same among the smaller group for a combined total of 10 percent (Q#24). Those projections are one percentage point lower, effectively, no different, than last year's.

Two hundred and eighty-eight (288) cases, about 30 percent of sample, responded to the survey in both mid-2013 and mid-2014. That allows examination within the group of expressed intentions (last year) and subsequent follow-through (this year). Unfortunately, just eight cases qualify. But of the eight cases indicating that it was likely they would switch from fully-insured in 2013 to self-insured in 2014, just one actually changed.

No stampede to self-insurance appears eminent. However, premium increases will continue to place pressure on small employers with young and healthy workforces to self-insure. A more immediate issue may be the pending consolidation of the larger (50 – 99 employees) and smaller (< 50 employees) groups into an expanded small group market in 2016. What type of incentives will the consolidation generate to either encourage or discourage self-insurance? Given prior relative stability, the probable answer is that incentives for individual firms will not change enough to make a noticeable difference in self-insurance totals. But that outcome is not a certainty.

Type of Plan

The principal type of health insurance plan small employers offer changed notably over the last 12 months and the reason is not obvious. The number subscribing to HMO plans declined 7 percentage points to a 19 percent market share while those subscribing to regular PPO plans increased by 8 percentage points, leaving regular PPOs with 40 percent of the market (Q#21). High-deductible PPOs have a 27 percent share, climbing 2 percentage points in the last 12 months. POS (point of service) plans control 5 percent, no change from the prior year. Thirteen (13) percent of small employers are not able to identify which plan type they have, a single point higher than in the previous measuring period. There is good reason for the large number who are uncertain about their plan type as will be discussed subsequently.

Except for POS plans which are more common as firm size increases, the principal type of health insurance plan was not associated with employee size-of-firm.

Eleven (11) percent of offering small employers sponsor more than a single type of plan (Q#22), down 4 percentage points from the prior year. Among small businesses with 50 or more employees, the percentage rises to 30 percent. A change in the relative use of plans within firms offering more than one plan could impact the percentages identifying a plan type as the one used by most employees. Still, with only one in eight offering multiple plan types, the change in emphasis within firms offering more than one is at best a modest, partial explanation for the shift.

The real question is whether these plan type categories are even relevant any longer. As PPO deductibles become higher, what is the difference between a high-deductible PPO and a PPO? As PPO networks shrink and the size of medical practices expand, what is the difference between a PPO and an HMO? Traditionally, HMOs were the low cost alternative, and the one often selected by budget-conscious consumers. High deductible PPOs began to change the relative cost difference while regular PPOs gravitated toward their high-deductible brethren. With all plan types now morphing into variants of one another, it is not obvious that the current terminology meaningfully categorizes health insurance plans generally, let alone from a small employer (health insurance consumer) perspective.

Examine type of plan by per employee premium cost, for example. The median cost of an employee-only or a family HMO and high-deductible PPO plan are similar, though the median conventional PPO plan does cost somewhat more. However, 64 percent whose employees principally subscribe to historically cheap HMOs report that their per employee premiums rose in the last year. Sixty-two (62) percent with most employees in high deductible PPOs experienced increases and 64 percent in conventional PPOs did. In terms of cost and cost change, blending of types is apparent.

Coverage Type

One can address coverage in two ways: the first assesses whether a small employer offers a plan; the second assesses whether any employee(s) takes (subscribes to) it. The conceptual difference is that the offer of a plan is hypothetical until an employee is covered by it. An offer in this context means that the employer has it in the package should the demand

arise. Take-up simply means that one or more employees use the type of plan offered.[11] The objectivity of take-up makes it the better measure for most purposes, and will be the principal one employed in the following paragraphs.

Exhibit 2 presents a summary of offers and take-up for family, employee-only (individual), and employee plus-one health insurance offerings for the years ending mid-2013 and mid-2014. Two points stand-out on the exhibit.

Exhibit 2
Health Insurance Availability and Employee Take-Up by Health Insurance Plan Type and Year

		2012/2013		2013/2014	
Plan Type		**Availability**	**Take-Up**	**Availability**	**Take-Up**
Family	Yes	79%	63%	73%	59%
	No	21	36	27	40
	(DK)	1	1	*	1
	Total	100%	100%	100%	100%
	N	664	584	620	532
Employee-Only	Yes	75%	70%	76%	71%
	No	21	29	18	28
	(DK)	5	1	6	1
	Total	100%	100%	100%	100%
	N	664	539	620	518
Employee Plus-One	Yes	40%	26%	42%	30%
	No	55	73	55	69
	(DK)	6	1	3	1
	Total	100%	100%	100%	100%
	N	664	329	620	335

First, a substantial numerical gap exists between small businesses that offer each type and small businesses that have at least one employee subscribing to it. For example, 73 percent of small employers claim to offer a family coverage, but just 59 percent have employees who subscribe it. Those differences between availability and take-up suggest that many small employers can be flexible and respond favorably should a new employee's needs be different than those chosen by current employees. Yet, a somewhat greater number of small employers would require an employee with different health insurance demands either to adjust his or her demands or request his employer to adjust the firm's offerings (100% minus availability).

Second, 73 percent offered family coverage (Q#26) and 76 percent offered employee-only coverage in mid-2014 (Q#30). Substantially fewer (42%) offer employee plus-one plans (Q#34). Both availability and take-up increased for plus-one plans over the last year, did not change for employee-only plans, but declined for family plans. Plus-one plans are relatively new to the small business market and may substitute for family plans in some cases. But on balance, those offering employer health insurance appear to be offering their employees plans in the same proportion that they did in the prior year and employees are taking them up with the same frequency.

[11] The take-up measure is calculated by subtracting the percentage reporting no employees taking the insurance type from the percentage reporting that they offer it.

The principal year-over-year difference in the plans offered appears to be the employer contribution to family and employee plus-one coverage; they declined notably (Exhibit 3). Yet, employer contributions did not change for employee-only plans. At least three reasons are likely associated with change in employer contributions: premium cost of family and employee plus-one coverage increased (measured by 25th, 50th, and 75th percentiles) while employee-only plans declined (see, Health Insurance Costs). Second, employee-only premiums cost less in absolute terms than family or employee plus-one premiums. Third, contributing less to multi-person plans can reduce costs substantially without affecting employee coverage as will be shown subsequently. Reducing employer contributions on family and employee plus-one coverage reduces employer insurance costs, maintains coverage for people working in the firm and does not intrude on insurer-imposed minimum employee participation requirements while still giving employees the option to carry multi-person coverage, albeit at a higher cost.

Exhibit 3
Employer Contribution for Family, Employee-Only, and Employee Plus-One Plans by Year

	2012/2013			2013/2014		
	Family	Employee-Only	Employee Plus-One	Family	Employee-Only	Employee Plus-One
100 Percent – All	27%	40%	20%	28%	42%	16%
75 – 99 Percent	19	23	34	11	25	33
50 – 74 Percent	29	27	20	27	27	17
1 – 49 Percent	11	6	9	19	4	20
0 Percent – Nothing	8	2	13	11	1	11
(DK)	6	2	5	5	1	3
Total	100%	100%	100%	100%	100%	100%
N	512	517	265	474	494	277

Family Coverage

A noticeable difference in family plans from the prior year is the size of the employer contribution. While more than one in four (28%) small employers continued to pay the entire premium (Q#27), the number who contributed between 75 and 99 percent declined 8 percentage points from one year earlier. The decline increased to 10 percentage points including those contributing 50 percent or more (48% compared to 38%).

Eight-one (81) percent of small businesses that offer family coverage have at least some employees who subscribe to it. However, a relatively small and declining share of employees within those firms subscribe to the product. Sixty-one (61) percent with any family coverage subscribers have fewer than half using family coverage (Q#29), 8 percentage points more than in the prior year (Exhibit 4).

Exhibit 4
Employee Participation in Health Insurance Plan by Type of Coverage and Year

	2012/2013			2013/2014		
	Family	Employee-Only	Employee Plus-one	Family	Employee-Only	Employee Plus-One
Percent of Offering Firms With Full-Time Employees Participating	79%	75%	40%	73%	77%	42%
N	664	664	664	620	620	620
Portion of Full-Time Employees Participating						
All	14%	30%	6%	11%	28%	2%
Most	19	24	9	14	34	5
Half	12	12	4	13	13	12
Some	53	33	77	61	24	79
(DK/Refuse)	2	1	4	1	1	4
Total	100%	100%	100%	100%	100%	100%
N	523	525	227	474	494	277

Employee-Only Coverage

The employer cost share for employee-only coverage edged higher from the prior year. More than two of five small employers (42%) pay the entire health insurance premium for an employee only plan (Q#31), about the same number as one year ago. The number contributing 75 – 99 percent of the premium was also similar at the two points in time. The year-to-year change for the two groups amounted to a 4 percentage point increase as the proportion contributing 50 – 74 percent remained constant. Of the three types of coverage, employee-only proved the type for which small employees increased support.

Employee-only is the workhorse of small business employer-sponsored health insurance. Ninety-three (93) percent of small businesses that offer employee-only coverage have employees who subscribe to it. Twenty-eight (28) percent report that all of their employees use employee-only coverage with another 34 percent reporting most of them do (Q#33). The 62 percent with all or most of their employees using employee-only coverage represents a substantial increase, 8 percentage points, from the prior year. Part of the reason for the increase is employee choice and part of the reason is the amount the employer offers (or contributes to).

Employee Plus-One

Employee plus-one plans are a cross between employee-only and family coverages, a kind of mini-family plan. Small employers are choosing to treat them as such for purposes of employee cost share, that is, more favorably than family plans and less favorably than employee-only plans. Just 16 percent of small employers pay the entire premium of employees using it and another 34 percent contribute between 75 and 99 percent (Q#35). One year ago the equivalent numbers were 20 percent and 34 percent, a 2 point difference. However, contributions of between 50 and 74 percent were also 3 points less representing a 5 percentage point decline.

Seventy-one (71) percent of small businesses that make available plus-one insurance have employees who subscribe. Employee-plus coverage is the least common coverage small businesses offer. Not only is it offered least frequently, it is subscribed to less frequently when available. Seventy-nine (79) say that just "some" of their employees, meaning less

than half, use the product, similar to the prior year's number. However, the percent of small firms experiencing substantial subscription fell by half over the same time.

Change in Coverage Distribution

The percentage of employees choosing one type of health insurance coverage compared to another has remained relatively stable over the last year or two. Eighty-eight (88) percent of offering small employers report that the distribution has not changed while 9 percent report that it has (Q#39). Three percent do not know. Of those who indicate that the distribution has changed, 54 percent identify the shift as toward employee-only coverage (Q#40). Another 13 percent identify a shift to family coverage and 12 percent employee to plus-one coverage. Just over one in five (21%) who report a change do not know its direction.

Nine percent of offering small employers in mid-2013 also reported changes in their workforce coverage distribution. But differing from mid-2014 when the changes heavily tilted toward employee-only and away from family plans, the change one year ago showed no direction. Forty-six (46) percent who experienced a distribution change witnessed a move towards family plans and 41 percent witnessed a move to employee-only plans.

The reasons for the change in employee choices appear many and varied, but cost is never far away. Twenty-six (26) percent of affected small employers say the primary reason for type of coverage change is the change in employee costs (Q#41). Higher costs are incentives for employees to make different choices. A greater employee cost share for a family plan may encourage an employee with a working spouse, for example, to drop the family plan for an employee-only plan and have the spouse enroll in an employee-only plan in his or her place of employment. Twenty-eight (28) percent attribute the change to employees just making different choices. Fourteen (14) percent point to a changing composition of the workforce. However, 16 percent say the reason is more employees participating in the plan. Eight percent say the reason for change in the coverage distribution within their firms is fewer employees participating in the plan. In effect, 38 percent think the reason is associated directly or indirectly to changing employee profiles.

Employee Participation

The ACA's individual mandate requires virtually all Americans to carry health insurance or pay a penalty. The effective date of this requirement was January 1, 2014. The result is that one would expect uninsured people working in non-offering firms to approach their employer about offering an employer-sponsored health insurance plan while uninsured people working in an offering firm would simply sign up for coverage. The former group of employees as reported earlier (see, Increased Employee Demand for Insurance) did not respond as expected. They did not often ask their employer for insurance. But the latter group did respond as expected. They often signed up.

More employees are participating in their employer's plan this year than last, though the data are not always consistent. Sixty-two (62) percent of offering small employers have 75 percent or more of their full-time, non-seasonal employees participating their firm's plan; 40 percent have everyone (Q#25). The equivalent figures in mid-2013 were 52 percent with 75 percent or more full-time, non-seasonal participation and 32 percent with complete participation. These data would appear to be contradicted by the number of small employers reporting more and less participation. Just 5 percent say that participation increased from the prior year, 10 percent say it was less, and 86 percent report no change (Q#56). The latter measure is driven by the 2 – 9 employee size firms. Just 4 percent of that group report greater participation and 23 percent report less. The skew is even greater in the 2 – 4 employee size group. Owners of larger firms meanwhile report greater participation.

Health Insurance Costs

The cost of health insurance has been the principal concern of small-business owners during healthcare debates over the last 25 years or so. High cost led to lesser demand for health insurance over the last 10 to 15 years which exacerbated the coverage (uninsured) problem. The ACA and its supporters chose coverage rather than cost as its central focus. Presumably, the cost problem would be addressed later. And so, small business is still left with a cost problem that shows more signs of getting worse than of getting better.

The cost of healthcare and hence health insurance is rising more slowly today than it has in a long time. But it is still rising, and rising faster than the rate of inflation. Ominously, CMS actuaries[12] expect healthcare costs to accel-

[12] Centers for Medicare & Medicaid Services (2014). National Health Expenditure Projections 2012-2022. http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/downloads/proj2012.pdf.

erate and outstrip the cost-of-living and GDP growth, implying increases at unsustainable rates. They are not alone. Outside experts do as well.[13]

The data collected for this report generally find insurance costs lower than do other sources, but rising faster. These data are not always consistent, particularly with respect to size (in contrast to direction) of the cost changes. The author gives greater credence to reports that require less precise estimates, recognizing that all information supplied has value. This unfortunate lack of consistency in insurance cost reports suggests considerable market turmoil, not just in terms of actual outlays for premiums, but in terms of new and eliminated policies, and the benefits purchased in each. In fact, a substantial share of the rate discrepancy may lie with cost increases associated with additional, unwanted benefits that the ACA requires.

Premium Increases

Sixty-two (62) percent of offering small employers report that the per employee premiums for their current health plan rose between mid-2013 and mid-2014 (Q#44). On the other side of the ledger, 8 percent now experience lower per employee premiums. Twenty-nine (29) percent report no change and 1 percent are not sure. On top of the 6+:1 ratio of premium increases to premium decreases, the size of change proved larger on the increased side than on the decreased. The median premium increase ran in the 13 – 14 percent range, while the median decrease was just over 10 percent (Q#45). The result is an average per employee premium growth well above any measure of real wealth increase.

The frequency of per employee premium cost increases was less in the mid-2014 data than in the mid-2013, but marginally so. The number reporting increases fell 2 percentage points (from 64 percent to 62 percent) while the number reporting decreases rose 2 (from 6 percent to 8 percent). However, the prior year's median increase was somewhat lower.

Monthly Per Employee Premiums by Coverage

The course of premium cost diverged over the year by type of coverage. Employee-only coverage costs actually fell while family and plus-one coverage costs rose. This assessment is based on comparisons of premiums at the 25th, 50th, 75th percentiles for the years ending in mid-2013 and mid-2014. The comparison is not exact. While these estimates include both the employee and employer shares, they do not account for net benefit changes either chosen or ACA mandated.

Employee-only costs at the 25th percentile stood at an identical $380 per month for both years. But they differed at the 50th (median) and 75th percentiles. The median declined from $555 a month (Q#32) to $515 a month, the equivalent of a 7 percent drop. The decline at the 75th percentile was even greater, part of a pattern for both employee-only and family coverage that shows the largest premiums changing the most on a percentage basis and the smallest the least. Reported premium costs for employee-only coverage at the 75th percentile fell from $800 a month to $635 a month, a 19 percent decline.

The cost of family coverage took the opposite path. It rose from the period ending in mid-2013 to the one ending in mid-2014 at all three measuring points. The change at the 25th percentile was a 15 percent escalation, from $550 to $630 a month. The percent change at the median was 16 percent, from $810 to $940 a month (Q#28). Lastly, the percent change at the 75th percentile was an even larger, 19 percent. The increase was from $1,155 to $1,370 a month or $215.

The plus-one premium estimates fall between estimates for the other two types of coverage, but do on balance rise. The principal difference between plus-one costs and the other two coverages is that change decreases as premiums grow rather than the opposite. At the 25th percentile, costs increased from $450 a month to $575 a month or 28 percent. At the 50th percentile, costs increased from $790 a month to $850 a month or 11 percent. But at the 75th percentile, costs actually declined. They fell $15 a month, from $1,075 to $1,060, just 1 percent, but they went down nonetheless.

Premiums rose for two types of coverage, family and employee plus-one, and declined for the third, employee-only. Apparently, the more people covered by a policy type, the greater the percent increase. Family coverage increased most, employee plus-one coverage increased, and employee-only coverage declined. That pricing pattern can be explained on an absolute dollar basis, but it is much more difficult on a percentage basis. Even if the cost estimates collected for this report are less precise than desirable, they strongly suggest a pricing shift underway among smaller firms. The price structure is tied to the package of benefits, deductibles, and co-pays, data which are not available here, and that obfuscates much. Still, the question is why premium costs of various plan types are changing in different directions. The data offer no obvious answers. Nor do they provide obvious answers to the question why the smallest premiums do not have the largest percentage rise (they do for plus-one). After all, the least costly packages should be the ones most often

[13] Chandra, A, J Holmes, and J Skinner (2013). Is This Time Different? The Slowdown in Healthcare Spending. NBER Working Paper 19700. National Bureau of Economic Research: Cambridge, MA., December; Roehrig, C (2013). U.S. Health Spending as a Share of GDP – Where Are We Headed? Altarum Institute Health Policy Forum, July 16. http://altarum.org/health-policy-blog/u-s-health-spending-as-a-share-of-gdp-where-are-we-headed.

subject to the minimum essential health benefits requirements. On the other hand, the ACA's modified community rating encourages cross-subsidization and cross-subsidies may provide part of the explanation.

The NFIB premium estimates appear substantially lower than those produced by the Kaiser Family Foundation[14] and the Medical Expenditure Panel Survey (MEPS).[15] Part of the explanation is that Kaiser and MEPS use averages rather than medians as NFIB does. Average health insurance prices tend to inflate as the distribution is skewed to the high side; percentiles do not skew. NFIB does not ask respondents to consult records to obtain precise premium figures. Rather it asks for best estimates. Given the small employer outcry over health insurance costs, the assumption might be that they would exaggerate the premiums they pay. However, should NFIB data underestimate small employer health insurance costs as is likely, small employers do not fully recognize the cost impacts that provision of this employee benefit has on them.

Monthly Firm Premiums

Median monthly premiums *per offering firm* rose between mid-2012/mid-2013 and mid-2013/mid-2014. They amounted to about $3,800 per month ($45,600 per annum) this year compared to about $3,420 the prior year ($41,040 per annum) (Exhibit 5). The premium at the 25th percentile was about $2,150 per month ($25,800 per annum) compared to about $1,850 per month the year before ($22,200 per annum). The premium at the 75th percentile was $8,030 per month ($96,360 per annum) compared to $8,070 per month ($96,840 per annum) the prior year. About 1 percent report spending more than $20,000 a month, about the same as last year. Thus, while spending is going up at the bottom, it has leveled, at least temporarily at the top. That pattern suggests owners of large offering firms can control their health insurance costs more readily than can owners of small offering firms.

The reported increases underscore three points: health insurance premiums paid by small employers and their employees continued to increase above the rate of inflation even in times when healthcare cost increases are at an ebb. Note on Exhibit 5 that the percent with monthly premiums of less than $2,000 per month declined 20 percent in the last year. More affordable policies are being phased out, usually due to ACA mandates, and that appears in the per firm premium cost. To continue offering, a small employer must pay more. Second, the number of employees signing up for employer-sponsored health insurance is increasing when offered. Those newly insured do not affect the per employee cost of insurance (other factors equal), but they do affect its per firm cost and per firm cost is the issue here. Third, reductions in the number of firms offering coverage come from among smaller, small businesses; increases come at other end of the scale. The implication for present purposes is that the average firm offering is larger and a larger offering firm by definition has more people covered.

Combination Coverage

Twenty-three (23) percent of offering firms have employees who use each of the three types of coverage discussed above. Twenty-nine (29) percent use two of the three types and 48 percent use only a single coverage type. Breaking down those offering two types of coverage, 20 percent use the employee-only and family coverage combination, 6 percent the family and employee plus-one coverage combination, and 4 percent employee-only and employee plus-one coverage combination. However, 31 percent subscribe to employee-only coverage exclusively, 16 percent to family coverage only, and 1 to percent employee plus-one coverage only. If the choice had been made to define coverage in terms of its availability rather than its take-up (see, Exhibit 2), the distribution would have been quite different. For example, 36 percent have all three available, but only 23 percent have employees using all three. Similarly, 33 percent make just one type of plan available, but 48 percent have employees using only one.

The number of coverage types offered varies sharply by employee size-of-business. Half (50%) of the largest (50 – 100 employees) firms have employees using each type. Just 14 percent in that group have employees who use just one type. The situation among the smallest (2 – 9 employees) is the opposite. Seventy-two (72) percent of that group have employees use just one type of coverage while 11 percent use all three. There are two likely causes for such coverage distribution. The first is simple probabilities. A larger workforce is more likely to have people in different situations than a smaller one, creating a broader set of employee demands/needs for health insurance. The second reason is more closely tied to the business. The smallest firms can find it relatively expensive and administratively difficult to offer more than a single coverage type and the smallest firms tend to be the most price sensitive. A single coverage type, most prominently employee-only coverage, also allows the small employer to forgo the cost-share for a more expensive family and/or employee plus-one plan types while complying with insurer minimum participation requirements.

[14] Kaiser Family Foundation (2014). op. cit., Section 1, pp. 14-33.

[15] http://meps.ahrq.gov/mepsweb/data_stats/MEPS_topics.jsp?topicid=7Z-1

Monthly Firm Premiums

Median monthly premiums *per offering firm* rose significantly between mid-2012/mid-2013 and mid-2013/mid-2014. They amounted to about $5,000 ($60,000 per annum) this year compared to about $3,400 the prior year (Exhibit 5). The premium at the 25th percentile was about $2,600 per month ($31,200 per annum) compared to about $1,800 per month the year before ($21,600 per year). The premium in the 75th percentile was $10,000 ($120,000 per annum) compared to $7,500 ($90,000) the prior year.

These data indicate premium costs *per offering firm* rose almost one-third over the period, an increase that is not plausible. Yet, the substantial reported increase underscores three points: health insurance premiums paid by small employers and their employees continued to increase substantially above the rate of inflation even in times when health-care cost increases were at an ebb. Note on Exhibit 4 that the percent with monthly premiums of less than $2,000 was halved in the last year. More affordable policies are being phased out usually due to ACA mandates and that appears in the per firm premium cost. To continue offering, a small employer must pay more. Second, the number of employees signing up for employer-sponsored health insurance is increasing when offered. Those newly insured do not affect the per employee cost of insurance (other factors equal), but they do affect its per firm cost and per firm cost is the issue at stake. Third, reductions in firms offering coverage come from among smaller, small businesses; increases come at other end of the scale. The implication for present purposes is that the average firm offering is larger and a larger offering firm by definition has more people covered.

Paying for Premium Increases

Small employers experiencing employer-sponsored health insurance premium increases took an average of 2.4 actions to offset expense increases (Exhibit 6). The greater the average premium increase, the more actions small employers took in response. Those reporting a 20 plus percent increase, for example, say they took an average of 3.3 actions to offset their cost increases compared to 2.2 actions among those with increases of less than 10 percent.

The most frequent single action taken was absorbing the higher costs with lower profits/earnings. Sixty-seven (67) percent, two-thirds of those experiencing an increase, paid for at least part of that increase out-of-pocket (Q#49). That is a generous but unsustainable response. The next most frequent action (37%) was delayed, postponed, and/or reduced business investment (Q#50). The future of the business therefore was at least temporarily mortgaged to pay for higher premiums. The remainder of possible actions were taken less frequently.

Exhibit 5
Total Monthly Health Insurance Premiums Per Small Business by Year

Monthly Per Firm Premium (Employer and Employee Shares)	Year	
	Mid-2012/Mid-2013	Mid-2013/Mid-2014
<$1,000	12%	9%
$1,000 - $1,999	13	11
$2,000 - $2,999	15	17
$3,000 - $3,999	11	11
$4,000 - $4,999	5	7
$5,000 - $7,499	10	12
$7,500 - $9,999	5	5
$10,000 - $12,499	4	5
$12,500 - $14,999	1	3
$15,000 - $19,499	5	3
$20,000 - $24,999	2	2
$25,000 - $49,999	3	5
$50,000+	1	1
(DK)	13	9
Total	100%	100%
N	664	620

Forty-five (45) percent of small employers faced with higher premium costs took one or more actions that directly affect employee wages and/or benefits. These actions became notably more frequent as average premium increases grew larger. Cuts in employees or employee hours were confined to a relatively small 2 percent if the premium increases were under 10 percent, but their frequency grew to 27 percent if premium increases rose to 20 percent or more (Q#47). The same pattern, though more extreme, appears with frozen or reduced wages and reduced non-health employee benefits. The former rose from 14 percent to 46 percent as the premium increase accelerated (Q#51) and the latter from 5 percent to 32 percent (Q#52). Small employers tended to take the three actions directly affecting employee compensation in concert. If they took one, there was a high likelihood that they would take one or more of the others as well. For example, if employee wages were frozen, there was a high likelihood that a job(s) or hours would also be lost.

A fourth action associated with the three employee compensation actions is delay, reduce, postpone, or reduce business investment. Thirty-seven (37) percent scrimped on capital investment/reinvestment, 73 percent when premiums increases reached 20 percent or higher. When premiums rise, small employers draw resources from their productive capacities, which ultimately have a long-term adverse effect on their businesses.

Increasing an employee's cost share is an indirect way to effectively reduce or freeze wages. One in four (25%) with rising premiums raised employee cost-shares (Q#48). These data correspond with the generally falling employer cost-share appearing on Exhibit 3. Increasing an employee's cost share is treated somewhat differently than other forms of employee compensation. It is not associated with action on any other form of compensation. Rather, when small employers do not raise the employee's cost-share, they tend to absorb the greater cost of employer-sponsored health insurance premiums, and vice versa.

Becoming more productive/efficient and/or raising prices are more attractive options than damaging productive capacity. However, they are not always possible. Thirty (30) percent said that they made their businesses more productive (Q#53). Greater productivity is a positive development. However, efficiency gains were more likely when cost increases were small. That atypical relationship between frequency of action taken and size of cost increase indicates that only small productivity gains were realized. Moreover, failure to take those efficiency actions previously begs the questions, why those steps had not been taken previously and what else is there to be done. Twenty-five (25) percent chose to raise selling prices (Q#46). About the same percentage raised prices regardless of their premium increase amount. The latter fact suggests small employers will take the price increase option when they can. But inflation is very low, customers are resistant to price increases, and competition is keen. Over the last several years, small employer plans to raise prices have significantly outstripped their ability to do so.[16] A fortunate 13 percent experiencing premium cost hikes in the last year were able to both raise prices and increase productivity to (help) offset them.

Exhibit 6
Actions Taken to Defray Costs of Health Insurance Premium Increases By Percent Taking Them and Average Premium Increase

		Average Premium Increase		
Cost Defraying Action	**% Took Action**	**<10%**	**10 – 19%**	**20+%**
Raised Prices	25%	22%	29%	24%
Cut Employees/Reduced Hours	12	2	10	27
Increased Employee Cost-Share	25	17	32	25
Took Lower Profit	67	50	75	75
Delayed, Postponed, Reduced Business Investment	37	18	32	73
Froze or Reduced Wages	26	14	25	46
Reduced Non-Health Employee Benefits	14	5	10	32
Became More Productive/More Efficient	30	45	32	25
Ave. Number of Action Taken	2.4	2.2	2.5	3.3
N	366	146	141	66

[16] Dunkelberg, WC and H Wade (series). Small Business Economic Trends. NFIB Research Foundation: Washington DC.

Responses to health insurance increases that small employers reported in mid-2014 mirror those reported in mid-2013. Effectively, they took the same actions with about the same frequency in both years. That is reasonable. Economic conditions at both points in time were similar. Under those circumstances, one expects small employers as a group to react in much the same way. Some differences in emphasis did appear, however. More average actions were taken one year ago, 2.7 actions compared 2.4 actions, and the spread between actions taken when premiums rose less than 10 percent and 20 percent or more was somewhat smaller. The number able to defray costs with greater productivity also dropped from 48 percent to 30 percent. Perhaps much of the "low-hanging fruit" was picked previously.

The Benefit Side

Health insurance policies provide a series of benefits. The more benefits in the plan, the more costly the plan, other factors equal. But other factors are not equal. The ACA undermines the actuarial value of benefits in two ways: it requires one set of consumers to subsidize another set (community rating) and requires many customers to purchase benefits that they otherwise would not (essential health benefits), creating more demand for them than would otherwise be the case. Thus, the small-employer consumer may pay more for benefits than actuarially warranted.

Small employers on balance consciously offered fewer benefits in their health insurance package this year than last. Twenty-three (23) percent claim fewer benefits were offered in the mid-2013 to mid-2014 period than the year before (Q54). Seven percent claim their benefit package contained more benefits. A substantial majority (69%) indicate that there was no change. The current figures show a considerable decline from the prior year when 5 percent reported more benefits, 9 percent reported fewer and 75 percent reported the same benefits level. It would appear therefore that small employers increasingly are consciously reducing the benefits they can (not ACA deemed essential health benefits), almost certainly as a premium reduction mechanism.

The disguised issue influencing the actual benefit package rather than the perceived benefit package is the number of small employers who now have benefits that they involuntarily offer and/or have no idea they are offering because the ACA requires them. As a result, the numbers provided above almost certainly understate benefit package increases. Rather the numbers more likely represent the conscious efforts of small employers to adjust their benefit packages to cost necessities. The effect is to trade the benefits small employers want to offer their employees for the benefits the ACA says that they must offer them.

An indirect way to reduce benefits is to increase employees' cost-share for the benefit. Smaller employer premium contributions, higher deductibles and greater co-pays/co-insurance are examples. Exhibit 6 shows that 25 percent of those reporting premium cost increases also raised the employee cost-share. The question was posed only to those experiencing premium increases. The total therefore is likely even larger than suggested in Exhibit 3.

Thirty-five (35) percent state that they raised deductibles compared to 2 percent who lowered them (Q#55). The majority (61%) did not change them. However, 13 percent of all respondents, and 36 percent of small employers raising deductibles indicate that their plan benefits were unchanged. It is clearly possible that the higher deductibles, which are a form of decreased benefits, could have been offset by benefit increases elsewhere in the package. But that is not likely for many given the small number who report increasing benefits. Adding the reported 23 percent to the 13 percent means the total lowering benefits over the year rises to a minimum of between 35 and 40 percent of those offering. The remaining question is what portion of those reductions are off-set by additional benefit mandates forced on unsuspecting small employers by the ACA.

Small Business Health Insurance Dynamics

The proportion of small employers offering employer-sponsored health insurance typically changes modestly from year to year, perhaps by a percentage point or two. Yet, that picture of slow change conceals a more pervasive dynamic. A notable number add employer-sponsored health insurance as a benefit each year while another notable number drop it. Since adds and drops are similar in number, the net percent of small employers offering employer-sponsored health insurance changes modestly. The number of new firms that offer health insurance and the number of exiting firms that by definition drop it add to the disorder. Since the annual population turnover is about 10 percent or one-half million firms, the changes numerically have the potential to influence the frequency of offers. However, as noted earlier, that is not likely, at least in significant amounts (see, Self-Insurance).

Exhibit 7 presents the offer status of small businesses in mid-2013 and mid-2014 and changes between the two dates. Eighty-nine (89) percent of small employers experienced no change. If they offered health insurance in mid-2013, a high probability existed that they offered it in mid-2014 as well, and vice versa. Eleven percent who currently offer did not offer the prior year. Eleven percent who currently do not offer did offer the prior year. The same number, excluding entries and exits, added as dropped. No net change is the result counting by firm even though at least one-half million businesses changed offer status. While the N is small the number of both adds and drops appear centered among firms in the 2 to 9 employee size group, though drops appear somewhat less so.

Exhibit 7
Change in Offer Status Between Mid-2013 and Mid-2014

Offered Year Before (Mid-2013)	Offer This Year (Mid-2014)		
	Do Offer	Do Not Offer	Total
Did Offer	89%	11%	46%
Did Not Offer	11	89	54
D/K	*	*	*
Total	100%	100%	100%
N	620	280	900

Exhibit 7 raises another consistency question in the data. How can the percent of offering firms fall six percentage points, but the percent of changing offer status show 11 percent offering this year and not last, and vice versa. The answer is that the 11 percent changing to non-offer is on a larger base then the 11 percent changing to offer. In addition, and perhaps more important in this case, are the usual sampling errors.

Changes recorded over the past 12 months are somewhat more frequent than over the prior 12 months, about 4 percentage points higher among both adds and drops. The difference suggests increasing turbulence in small business health insurance markets. While change has been a hallmark of that market since passage of the ACA with its accompanying elimination of various insurance policies and institution of the minimum essential health benefit package, the past 12 months has seen more than its share. But without a longer time series it is not clear whether the data are capturing a particular high-point in the percentage of firms changing offer status, or whether it is simply a measure of constant dynamism among smaller firms and their owners.[17]

Offer Dynamics - Longitudinal Cases

Two hundred and eighty-eight (288) cases, about 30 percent of each of the two the samples, responded to the survey in both mid-2013 and mid-2014. The health insurance offer dynamics of this longitudinal population reinforce the results of the two larger populations, 70 percent of which represent cases in independent samples. Of those who said in mid-2013 that they planned to offer ("definitely" and "probably") in the coming year, 89 percent (177 out of 199 unweighted cases) offered in mid-2014. Of those who said they would not offer ("definitely" and "probably"), 90 percent (75 out of 83 unweighted cases) did not. The result is that these "carry-over" cases, where the survey recorded an individual small employer's plans and subsequently the same small employer's behavior, produced the equivalent outcomes for all intents and purposes as did the two independent samples. One can be reasonably confident, therefore, that a small employer's expectations to offer/not offer health insurance in the coming year will be quite accurate.

Because these longitudinal cases were not weighted, they were divided into two groups, those employing 19 people and fewer and those employing 20 or more. The division led to a curious result. Owners of businesses in the smaller employee-size group were more likely to accurately forecast that they would *not* offer (92% correct) than that they would (80% correct). Meanwhile, owners of businesses in the larger group performed in the opposite manner. Ninety-four (94) percent of those who said that they would offer insurance in the coming year did; 85 percent who said they would not offer, did not. The former population (19 people and fewer) tends not to offer while the latter (20 people and more) does. Small employers do follow-through on their plans for the most part, but they also seem influenced by the status of their peers, who effectively may also be their primary competitors, not only for customers, but for employees.

Adding Insurance

Every year perhaps one in ten small employers adds health insurance as an employee benefit. The reasons for their decision vary. The survey presented small employers who added health insurance in the prior 12 months a series of possible

[17] A 2011 survey of employers with 50 or fewer employees showed that just 1 percent added health insurance in the prior 12 month and 4 percent dropped it. See, Dennis, WJ, Jr. (2011). Small Business and Health Insurance: One Year After Enactment of PPACA. July. http://www.nfib.com/Portals/0/PDF/AllUsers/research/studies/ppaca/NFIB-healthcare-study-201107.pdf

reasons for their decision and asked them to evaluate the importance of each. This approach differs from traditional surveys asking small employers why they offer health insurance to their employees because the current effort focuses exclusively on those who have just introduced the benefit. It does not include those who have offered it for years, and may have different motives for retaining insurance than for introducing it. The number of cases (N=69) from the mid-2013 to mid-2014 survey and the mid-2012 to mid-2013 survey made it necessary to combine eligible employer responses for two years (two surveys) in order to report results.

The reason cited most frequently (63%) as "very" important" for introduction of health insurance is that profitability now allows them to offer the health insurance benefit (Q#57). Presumably these small-business owners had wanted to offer previously, but were constrained by the profitability of their firms. The introduction of employer-sponsored health insurance is a large payroll expense, even with a substantial employee cost-share. Ensuring adequate firm profitability prior to its introduction therefore seems prudent. Besides being "very" important for more than a majority, it is also "somewhat" important for another 23 percent. Just 11 percent did "not" think current firm profitability is an important factor in their decision. This latter group has likely been consistently profitable for some time.

The cost of health insurance is the reason typically associated with the failure to offer it as an employee benefit. The lack of profitability is simply the other side of the coin. If a firm is insufficiently profitable, and its prospects for sustained profitability remain problematic, introduction of a large, fixed cost is a dubious decision. A large fixed cost, in this case health insurance, undoubtedly affects profitability, but is only one of many factors.

The ACA requires employers with 50 or more full-time equivalent employees to offer employer-sponsored health insurance to full-time employees or pay a penalty. (The employer mandate has been postponed or modified twice). Ninety (90) to 95 percent of that group already provides the benefit. That leaves about 5,000 to 10,000 firms without insurance and legally required to add it. An unknown number of others with fewer than 50 employees may also be legally required to offer due to rules requiring multiple businesses to be combined into a single entity for legal purposes (aggregation rules). The total number affected is, therefore, relatively minor compared to the small business population. Yet, 53 percent say that the Affordable Care Act is a "very" important reason for them to introduce employer-sponsored health insurance (Q#58); 15 percent say that it is "somewhat" important; 27 percent say ACA is "not" an important reason. Another 5 percent are undecided.

Fifty-three (53) percent sounds excessive because the ACA will require relative few small businesses to offer. Recall, however, that the 53 percent responding affirmatively are just 53 percent of the roughly 5 percent who added health insurance in the last 12 months. That implies many small employers directly affected by the Act moved into compliance with what was at the time legally required. The sole group of small employers increasing their percentage offering employer sponsored health insurance was the 50 employee and over group, the one presumably most affected by the employer mandate (see, Health Insurance Offers).

The ability to compete for employees is another important reason for many small employers to add the health insurance benefit. Forty-two (42) percent cite the reason as "very" important; 38 percent call it "somewhat" important; 18 percent say that it is "not" important (Q#59). Good employees are difficult to attract and keep despite the number of unemployed and under-employed people. This is particularly true of higher skilled employees who have employment options. Smaller employers introduced the benefit because they thought they needed it to compete for employees. The labor market therefore exercised a strong influence over these employers' decisions to add health insurance.

A non-offering small employer may find himself without good options for personal health insurance. The problem may become particular pressing given the 9 percent who saw their personal insurance terminated in the last year. He (or she) may therefore introduce an employee plan to acquire coverage for the family with more satisfactory terms than would otherwise be the case. Purchase for personal needs would likely be a last resort (on the margin) except in the very smallest businesses because the employer would be only one participant among many. Still, family considerations prove a "very" important reason for adding an employee health policy in 35 percent of cases (Q#60). It is "somewhat" important in another 53 percent, but it is "not" important 12 percent of the time.

The explanations given by the small employer population for maintaining the health insurance benefit for long periods focus on the need to attract and keep good employees and a moral imperative. But those explanations are possible only so long as business profitability allows it. The reasons offered by small employers for instituting an insurance plan (in contrast to maintaining a plan) underscore the sustained profitability issue. Small employers newly introducing a plan can now do so because the firm has become sufficiently profitable. Continuing health insurance premium increases chip-away at that profitability as do a variety of other factors. Yet, business profitability (adequate and continuous) is the floor for offering.

Dropping Insurance

A small employer may drop employer-sponsored health insurance for several reasons. Those who chose that course of action within the prior twelve months evaluated five potentially important reasons that may have stimulated them to do

so. Due to the small number of cases (N=75), the author combined their responses for the past two years (surveys) as was done earlier for those adding insurance. These data are again unique because they interview the individual dropping insurance shortly after they have done so, rather than asking them to reflect over a lengthy period or asking those who do not offer insurance the reason(s) for their reticence.

The most important reason for dropping employer-sponsored health insurance is cost. Insurance simply became too expensive. Sixty-nine (69) percent claim cost was a "very" important reason that led them to drop employer-sponsored health insurance; 18 percent claim it was "somewhat" important; and 11 percent claim it was "not" important (Q#63). With the cost of health insurance rising for small firms overall, and rising dramatically for a subset, this small employer reaction is predictable. The surprise is that more have not dropped insurance due to its cost. Their failure to do so demonstrates small employer reluctance to drop an employee benefit already given. Despite the financial logic, it is poor employee relations. However, there are consequences. The most notable is the reticence, and the built-in inertia accompanying it, that will likely slow the insurance drop rate even when employees would do better purchasing their own insurance through the individual exchange marketplaces.

Another frequently identified reason small employers drop employer-sponsored health insurance is that employees can do better on their own. Fifty-two (52) percent present this reason as "very" important compared to 22 percent presenting it as "somewhat" important, and another 26 percent as "not" important (Q#66). The "do better on their own" response is not necessarily wishful thinking. It is highly possible for low income employees to obtain subsidized health insurance through an individual exchange marketplace at a lower cost than the employee contribution to employer-sponsored insurance. That would be particularly true if the small employer supplements the employee's wages to help pay for subsidized coverage through an individual exchange marketplace. Since employees as a general rule must accept employer-provided insurance if it is affordable (less than 9.5 percent of the employee's income), dropping health insurance allows affected employees to benefit from the individual exchange marketplace. Some small employers appear to have discovered this strategy already. Yet, the number is currently modest, merely a few percentage points.

A corollary of insurance cost is business profitability. Forty-seven (47) percent say that business profitability has taken a turn for the worse and it is a "very" important reason that led to dropping employer-sponsored health insurance (Q#65). Thirty-three (33) percent say it is "somewhat" important, but 18 percent say that decreased profitability is "not" important.

Two other possible reasons for dropping health insurance polled poorly. Relatively few affected small employers thought either of them "very" or "somewhat" important reasons for their decision to drop. The first of the two is a decline in employee participation. Employees might decline to participate because of cost (their cost-share) or they are simply not interested. Even a small decline in participation can mean an insurance carrier will drop a small firm due to adverse selection. Small employers are keen to head-off such employee behavior and its possible consequences, particularly among the very smallest firms as their continuing large percentage contribution of total premiums for employee-only coverage demonstrates. Earlier it was shown that participation is increasing on average (see, Employee Participation). That means participation problems may be easing. However, increases do not occur in every firm as the 28 percent who report the reason is "very" important for dropping insurance illustrate (Q#62). But this reason appears a relatively unimportant one in most instances.

Employees often prefer wages to benefits even though benefits are typically tax sheltered. The ACA with its individual mandate has changed that trade-off for previously uninsured people. Yet, if there is a perceived positive reception, a small employer might drop health insurance and substitute higher wages to attract or retain employees. Relatively few employers (19%) currently think the trade is a "very" important reason for their elimination of the health benefit (Q#64). Another 8 percent think it is "somewhat" important. However, the overwhelming majority (69%) do "not" think it is important. Four percent did not respond.

Profitability and health insurance costs are not surprisingly two important reasons causing small employers to drop their health insurance benefit. The "new" reason intruding on the prior stimulants for dropping insurance is that employees can do better on their own. This is a reason created by the ACA. Few small employers yet appear to drop insurance and justify it on those grounds. Still, employee reimbursement and/or financial incentives are more often associated with their consideration as a strategy to drop insurance than a strategy to help uninsured employees acquire it (see, Reimbursement/Financial Incentives). The association merits continued attention.

Expect to Offer Next Year

Just 58 percent of small employers are definite about their offer status 12 months from now. Twenty-one (21) percent definitely expect to offer next year and 37 percent definitely expect not to offer (Q#67). Forty (40) percent are probable (17% "probably" and 23% "probably not"). Most expect to retain the same offer status they now have. Just over one in 20 (6%) think they will change, 4 percentage points moving from offer to not offer and 2 percentage points moving from not offer to offer (Exhibit 8). No major net changes should therefore result in small employer offer status barring some earthshaking event in the interim.

Expectations are notably lower in mid-2014 than they were in mid-2013. Twelve months ago, 48 percent expected to sponsor a health insurance plan for employees, 48 percent did not, and 4 percent were not certain. Eventually 40 percent took out a plan while 61 percent did not. Thirty-eight (38) percent now think they will; 60 percent do not think they will; 2 percent are undecided. The mid-2014 offer expectations level is 10 percentage points lower than one year ago, and that level yielded a decline in offer rates of six percentage points. This year to year comparison provides a decidedly less favorable outlook than their reported plans.

Employee size-of-business has virtually no association with expectations to offer once current offer status has been controlled.

Exhibit 8
Expect to Offer Next Year by Current Offer Status

	Expected Offer Status Next Year					
Current Offer Status	**Definitely Yes**	**Probably Yes**	**Probably No**	**Definitely No**	**DK/Not Sure**	**Total**
Yes	95%	92%	11%	3%	17%	40%
No	5	8	89	97	83	61
Total	21%	17%	23%	37%	2%	100%
N	358	237	122	166	17	900

Reasons Not to Offer

Researchers keep asking small employers who do not offer employee insurance why they do not do so and the answer is always the same: health insurance is too expensive. The data here simply pile on. Forty-nine (49) percent say that the single most important reason not to offer is the cost of health insurance (Q#16). That reason is followed in order by can't get enough employee participation (13%), too many employees are part-time or seasonal (composition of the labor force) (13%), employees can purchase insurance on their own (including in the new exchange marketplaces) (11%), revenue is too uncertain (10%), and the administrative hassles are too great (1%). Four percent did not provide an answer.

Small employers identifying a reason for not offering were asked if they had a second reason as well. Twenty-seven (27) percent said that they had no second reason (Q#17). A majority of that group isolated "too expensive" as their only choice. Nineteen (19) percent of owners who chose a second reason said the cost of insurance is a problem for them. That means 68 percent reported that cost is either the first or second major issue for them. Revenue too uncertain (18%) and employees can purchase on their own (15%) followed as did labor force composition (9%), low employee participation (6%), and administrative hassles (5%). The most frequent combinations of reasons joined too expensive and revenue too uncertain (16% of the total non-offering population), and too expensive and can't get enough employee participation (14% of the total population).

The response that "employees can purchase it on their own, including the new exchange marketplaces" is a questionnaire option intended to help determine the extent to which non-offering employers recognize that employees have an additional, new alternative from which to obtain their health insurance. Pressure (market and social) to offer is reduced to the extent small employers consider the exchange marketplaces a viable option. Twenty-six (26) percent of small employers cite "employees can do better on their own" as either the first or second most important reason for not offering. But, no evidence suggests that this group of respondents is any more or less knowledgeable about the exchange marketplace option than others. That raises the question of whether the reason involves the exchange marketplace or something else.

Profitability was not offered as an option, though it was a prominent reason for introduction of a plan. Yet, it effectively appears here as well. The combination of the revenue too uncertain and insurance too expensive is a product of the same profitability cause.

Conclusion

The world of employer-sponsored health insurance appears tranquil to the public and most policy-makers with only fitful episodes, such as Wal-Mart's elimination of part-time employee coverage, occasionally intruding to remind them of the

sweeping changes that the American healthcare financing system is undergoing. However, beneath the calm one in ten small employers in the last year changed offer status, one in ten had his or her personal health insurance terminated (for reasons other than non-payment), and one in 6 adjusted renewal dates to avoid, temporarily at least, ACA requirements. Another net one in two claims to pay higher insurance premiums, requiring adjustments in employer-sponsored health insurance, other forms of employee compensation, capital investment, and even their own take-home pay. Small employers shop for employer-sponsored health insurance in markets that they see as relatively less competitive with types of insurance evolving so rapidly that conventional PPOs may now have higher deductibles than conventional high deductible PPOs and conventional PPOs may limit networks to a size challenging HMO networks. Owners consciously cut benefits to reduce costs while ACA mandates add benefits, jacking costs through the back door and leaving a very different plan than the purchaser originally envisioned. The rules continue to change, usually affecting small businesses indirectly, through the insurance they can and cannot buy, and the price they must pay for it. The next scheduled potentially significant change will merge the fewer than 50 employee group and the 50 – 99 group into a single small group market. Later, the Cadillac tax kicks in, though it is not likely to affect many small firms for several years, perhaps excepting some professional services businesses. The current small-business health insurance headline therefore is the turmoil, the turmoil that a significant portion of individual firms are now experiencing.

No evidence in this report suggests that small-business owners as a group are moving abruptly in any direction, though the reduction in net offering firms and small employer expectations to offer next year give pause. There is no rush to self-insure or push employees, particularly lower paid employees, to the exchange marketplaces. But there are pressures building, many of which are temporarily dampened by the turmoil and constantly moving regulatory targets. Thus, change is more likely to come from a growing weight tipping and dragging small employers along rather than from any type of eruption. When and how that comes is more uncertain than the fact that small employers have major operating issues yet to confront when they do offer. One thing seems certain – non-offering small employers with minor exceptions are not about to reverse their stance.

The lead for much of the employer-sponsored health insurance world is the slowdown in the rate of premium increases. The slowdown is good news for small-business owners who for years have placed health insurance costs at or near the top on their list of business difficulties. Still, perspective is important. The slowdown is projected to be temporary; premiums are still at an unsustainably high level; and, small employers are not impressed as they continue to report increases above, and at variance, with the estimates officially produced. Cost remains the serious and largely unaddressed pressure impacting smaller firms.

If cost and, to a lesser extent, turmoil are the stimulants for action, what will be the small employer responses? Cost-sharing is already changing and has been for several years. Additional cost-sharing increases for employees may become tricky however, particularly for owners of the smallest and largest, small businesses. Insurer participation requirements often force small employers to pay a substantial share of the premium to keep employees in the group. The ACA's individual mandate could reduce that pressure because it encourages employees to carry health insurance, which in turn relieves pressure on small employer cost-sharing. Larger small firms may be caught by the minimum contribution requirement of the employer mandate should it ever be enforced. Benefits will continue to be pared, though there may be practical limits because of the plans insurers can legally offer. More controversial is the withdrawal of support for family and employee plus-one plan types to compensate for greater support of employee-only plan types and greater employee participation. The evidence presented here to support such a developing trend is not overwhelming, but certainly enough to merit attention. Withdrawal of benefits for part-time small-business employees does not appear to be taking place, in part because so few offer them in the first place and in part because those that do offer part-time health benefits tend to be more profitable firms and pay employees more than average. Many smaller employers meanwhile are considering dropping their insurance plans and substituting some type of financial reimbursement. Yet, this approach to the health insurance benefit remains more conversation than real. At the other end of the spectrum, few non-offering small employers are considering financial incentives or reimbursement to help employees purchase insurance on their own.

The Kaiser Foundation reports that between 1999 and 2014, a 15 year span including the introduction of ACA, the percentage of small businesses (defined as 3 – 199 employees) offering employer-sponsored health insurance declined from 65 percent to 54 percent, a 17 percent drop.[18] The changes in small employer-sponsored health insurance financing suggest further declines. How much, how soon seems to be the question.

[18] Kaiser Family Foundation (2014). op. cit., Section 2, p. 42.

NFIB Health Survey 2014–Frequency Distribution

1. Not including yourself, approximately how many total employees does your business have?

1. 2 – 9 (unweighted)	222
2. 10 – 19 (unweighted)	225
3. 20 – 49 (unweighted)	228
4. 50 – 100 (unweighted)	225
Total	900

2. Not including yourself, approximately how many part-time employees working less than 30 hours a week do you currently have working for you?

0. None	30%
1. 1 – 4	59
2. 5 – 9	8
3. 10 – 19	2
4. 20 – 49	1
5. 50 or more	*
Total	100%
N	900

3. Not including yourself, approximately how many full-time employees working 30 hours or more a week, do you currently have working for you?

1. 1 – 4	61
2. 5 – 9	18
3. 10 – 19	12
4. 20 – 49	8
5. 50 or more	2
Total	100%
N	900

4. Which best describes your full-time employees pay: In wages, salary, tips, commissions, etc., do half of your full-time employees earn more than:?

1. <$25,000 per year or $12.50 per hour	11%
2. $25,000 per year or $12.50 per hour	42
3. $40,000 per year or $20 per hour	23
4. $55,000 per year or $27.50 per hour	7
5. $70,000 per year or $35 per hour	7
6. (DK/Refuse)	10
Total	100%
N	864

5. Do you personally have health insurance, and if so do you get it from your business's health plan, a spouse's health plan, or an individual health plan?

1. Have business plan	31%
2. Have spouse's plan	19
3. Have individual plan	39
4. Do not have health insurance	8
5. (DK/Refused)	2
Total	100%
N	900

6. Was your personal health insurance purchased through the government's new health insurance exchange or directly on the private market?

1. Government Exchange	19%
2. Private Market	72
3. (DK/Refused)	9
Total	100%
N	226

7. Did you receive a reduced rate when you purchased your personal health insurance through the government exchange?

1. Yes	—%
2. No	—
3. (DK/Refused)	—
Total	100%
N	33

8. In the last 12 months did you have your personal health plan terminated or cancelled for any reason other than non-payment?

1. Yes	9%
2. No	90
3. (DK/Refused)	1
Total	100%
N	900

9. Is the cost of your current personal health plan compared to your terminated or cancelled plan:

1. 35 percent or more higher	28%
2. 10 to 34 percent higher	37
3. Less than 10 percent higher	6
4. Less than 10 percent lower	8
5. 10 to 34 percent lower	20
6. 35 percent or more lower	1
Total	100%
N	78

10. In the last 6 months, have more than 5 percent of your employees, or representatives of more than 5 percent of your employees, asked that the business offer an employee health insurance plan?

1. Yes	4%
2. No	96
3. (DK/Refused)	1
Total	100%
N	280

11. Does your business offer any employee reimbursement or financial support to help pay for a health insurance plan that employees purchase on their own?

1. Yes	18%
2. No	81
3. (DK/Refused)	1
Total	100%
N	900

12. Is that financial support based primarily on:

1. A flat amount per employee	—
2. A percent of the employee's health insurance premium	—
3. A percent of the employee's salary or wages	—
4. The employee's length of service	—
5. Something else (specify) _____	—
6. (DK/Refused)	—
Total	100%
N	45

13. Have you seriously considered, considered, or not considered offering your employees a cash payment or a financial incentive to purchase health insurance on their own instead of directly offering the benefit?

1. Seriously Considered	4%
2. Considered	13
3. Not Considered	80
4. (DK/Refused)	3
Total	100%
N	721

14. Would that financial support be based primarily on:?

1. A flat amount per employee	41%
2. A percent of the employee's health insurance premium	23
3. A percent of the employee's salary or wages	2
4. The employee's length of service	5
5. OR, Haven't you thought that far yet	29
Total	100%
N	192

15. Does your business currently offer health insurance coverage to employees?

1. Yes	40%
2. No	61
3. (DK/Refused)	*
Total	100%
N	900

16. What is the most important reason that you don't you offer employee health insurance?

1. Too expensive	49%
2. Can't get enough employees to participate	13
3. Administrative hassle too great	1
4. Many employees are part-time, seasonal, or high turn-over	13
5. Revenue is too uncertain	10
6. Employees can purchase it on their own, including in the new exchanges	11
7. (Other/DK/Refused)	4
Total	100%
N	280

17. Is there a second most important reason?

1. Too expensive	19%
2. Can't get enough employees to participate	6
3. Administrative hassle too great	2
4. Many employees are part-time, seasonal, or high turn-over	9
5. Revenue is too uncertain	18
6. Employees can purchase it on their own, including in the new exchanges	15
7. No second reason	27
8. (Other/DK/Refused)	2
Total	100%
N	280

18. When did you last renew or take out your current health insurance policy? Was it in the:?

1. Third calendar quarter of 2013	16%
2. Fourth calendar quarter of 2013	36
3. First calendar quarter of 2014	19
4. Second calendar quarter of 2014	22
5. (DK/Refuse)	7
Total	100%
N	620

19. Why did you choose that time to purchase your health insurance? Was it because:?

1. It was the normal renewal time	68%
2. Could keep your current policy by renewing in 2013	18
3. Could get a cheaper rate than waiting until 2014	15
4. (Other)	*
5. (DK/Refuse)	*
Total	100%
N	331

20. Is health insurance offered only to full-time employees or to both full-time and part-time employees?

1. Full-time only	83%
2. Both full-time and part-time	15
3. Part-time only	1
4. (DK/Refused)	1
Total	100%
N	620

21. Under which one of the following types of health plans are most of your employees covered?

1. HMO	19%
2. High-deductible PPO	27
3. PPO	40
4. Point of Service	2
5. (DK/Refused)	13
Total	100%
N	620

22. Does your business also offer another type of health plan?

1. Yes	11%
2. No	89
3. (DK/Refused)	*
Total	100%
N	558

23. Which best describes the health plan that covers most of your employees? Is it a:

1. A **Fully Insured Plan** in which you contract with a health plan that assumes financial responsibility for the costs of enrollees' medical claims, OR	87%
2. A **Self-Funded Plan** in which you assume direct financial responsibility for the costs of enrollees' medical claims, but have "stop-loss" coverage from an insurer to protect you against very large claims	7
3. (Self-Funded with no stop-loss)	2
4. (DK/Refused)	7
Total	100%
N	620

24. Is it highly likely, somewhat likely, not too likely or not at all likely that you will switch to a self-funded employee health insurance the next time your policy comes up for renewal, or haven't you thought about renewal yet?

1. Highly likely	6%
2. Somewhat likely	7
3. Not too likely	22
4. Not at all likely	48
5. Haven't thought about renewal yet	16
6. (Not Sure/Refuse)	1
Total	100%
N	528

25. How many of your full-time, non-seasonal employees participate in your health plan?

1. < 25 percent	2%
2. 25 – 49 percent	8
3. 50 – 74 percent	26
4. 75 – 89 percent	19
5. 90 – 99 percent	3
6. 100 percent	40
7. (DK/Refused)	2
Total	100%
N	620

26. There are typically three types of health coverage policies: FAMILY, INDIVIDUAL, that is EMPLOYEE-ONLY, and PLUS ONE, that is, EMPLOYEE and ONE OTHER PERSON. Does your business offer:

Family coverage?

1. Yes	73%
2. No	27
3. (DK/Refused)	*
Total	100%
N	620

27. Approximately, what percentage of the premium does your business pay for a FAMILY health insurance policy?

1. All of it – 100%	28%
2. 90 – 99 percent	2
3. 75 – 89 percent	9
4. 50 – 74 percent	27
5. 25 – 49 percent	14
6. 1 – 24 Percent	5
7. Nothing	11
8. (DK/Refused)	5
Total	100%
N	474

28. Including both employer and employee contributions, what is the average total MONTHLY cost per employee policy?

1. <$500	11%
2. $500-$599	8
3. $600-$699	8
4. $700-$799	5
5. $800-$899	8
6. $900-$999	8
7. $1,000-$1,099	4
8. $1,100-$1,199	5
9. $1,200-$1,299	7
10. $1,300-$1,399	4
11. $1,400-$1,499	2
12. $1,500-$1,749	7
13. $1,750-$1,999	8
14. $2,000+	3
15. (DK/Refused)	12
Total	100%
N	474

29. Do all, most, half, some or none of the employees participating in your health plan have family coverage?

1. All	11%
2. Most	14
3. Half	13
4. Some	61
5. None (see text)	0
6. (DK/Refused)	1
Total	100%
N	474

30. Does your business offer an INDIVIDUAL health insurance option?

1. Yes	77%
2. No	18
3. (DK/Refused)	6
Total	100%
N	620

31. Approximately, what percentage of the premium does your business pay for an INDIVIDUAL health insurance policy?

1. All of it – 100%	42%
2. 90 – 99 percent	8
3. 75 – 89 percent	17
4. 50 – 74 percent	27
5. 25 – 49 percent	3
6. 1 – 24 percent	1
7. Nothing	1
8. (DK/Refused)	1
Total	100%
N	494

32. Including employer and employee contributions for INDIVIDUAL health care coverage, what is the average total MONTHLY cost per policy?

1. Less than $200	4%
2. $200-$299	5
3. $300-$399	18
4. $400-$499	18
5. $500-$599	21
6. $600-$699	13
7. $700-$799	7
8. $800-$899	1
9. $900-$999	2
10. $1,000+	5
11. (DK/Refused)	7
Total	100%
N	494

33. Do all, most, half, some or none of the employees participating in your health plan have individual coverage?

1. All	27%
2. Most	34
3. Half	13
4. Some	25
5. None (see text)	0
6. (DK/Refused)	1
Total	100%
N	494

34. Does your business offer a so-called "plus-one" health insurance option, that is, an option that covers the employee and one other person?

1. Yes	42%
2. No	55
3. (DK/Refused)	3
Total	100%
N	620

35. Approximately, what percentage of the premium does your business pay for a "plus-one" health insurance policy?

1. All of it – 100 percent	16%
2. 90 – 99 percent	12
3. 75 – 89 percent	21
4. 50 – 74 percent	17
5. 25 – 49 percent	10
6. 1 – 24 percent	10
7. Nothing	11
8. (DK/Refused)	3
Total	100%
N	277

36. Including employer and employee contributions for "plus-one" health care coverage, what is the average total MONTHLY cost per policy?

1. Less than $300	2%
2. $300-$399	2
3. $400-$499	4
4. $500-$599	18
5. $600-$699	9
6. $700-$799	5
7. $800-$899	11
8. $900-$999	13
9. $1,000-$1,099	6
10. $1,100-$1,199	3
11. $1,200-$1,299	9
12. $1,300-$1,399	3
13. $1,400-$1,499	1
14. $1,500+	6
15. (DK/Refused)	9
Total	100%
N	277

37. Do all, most, half, some or none of the employees participating in your health plan have plus-one coverage?

1. All	2%
2. Most	5
3. Half	12
4. Some	79
5. None (see text)	0
6. (DK/Refused)	2
Total	100%
N	335

38. What is your business's total monthly health care insurance premium cost, for all types of health insurance offered? (Employer and Employee shares)

1. <$1,000	9%
2. $1,000-$1,999	11
3. $2,000-$2,999	17
4. $3,000-$3,999	11
5. $4,000-$4,999	7
6. $5,000-$7,499	12
7. $7,500-$9,999	5
8. $10,000-$12,499	5
9. $12,500-$14,999	3
10. $15,000-$19,999	3
11. $20,000-$24,999	2
12. $25,000-$49,999	5
13. $50,000 or more	1
14. (DK/Refused)	9
Total	100%
N	485

39. Has the percentage of employees choosing INDIVIDUAL, FAMILY, or "PLUS ONE" options changed over the last year or two, or has the mix held reasonably steady?

1. Changed	8%
2. Steady	90
3. (DK/Refused)	3
Total	100%
N	620

40. Which type of policy option has increased its share of employee participation? (If asked, in ABSOLUTE NUMBERS)

1. Individual policies	54%
2. Family policies	13
3. Plus one policies	12
4. (DK/Refused)	21
Total	100%
N	620

41. What is the primary reason for this change?

1. Change in employee costs	26%
2. Changing composition of the workforce	14
3. More employees participating	16
4. Fewer employees participating	8
5. Employees just making different choices	26
6. (DK/Refused)	10
Total	100%
N	74

42. Was the change in employee cost primarily due to a change in the employee/employer cost share or a change in the total price of the plan, or both?

1. Cost-share	—%
2. Plan price	—
3. Both	—
4. (DK/Refused)	—
Total	100%
N	21

43. Did you offer employee health insurance to any of your employees LAST year at this time?

1. Yes	89%
2. No	11
3. (DK/Refused)	1
Total	100%
N	620

44. Is the PER EMPLOYEE cost of your current health plan more, less or about the same as last year's plan? (Plan cost, not employer's or employee's share.)

1. More	62%
2. Less	8
3. Same	29
4. (DK/Refused)	1
Total	100%
N	582

45. Please estimate the PER EMPLOYEE percent change in cost of this year's plan compared to last year's plan. Was it:

	Increases/More	Decreases/Less	Net More/Less
1. Less than 5%	9%	—	7%
2. 5 – 9%	27	—	29
3. 10 – 19%	36	—	36
4. 20 – 34%	11	—	9
5. 35 – 49%	3	—	3
6. 50% or more	10	—	11
7. (DK/Refused)	5	—	5
Total	100%	100%	100%
N	290	32	322

Did you do any of the following in order to pay for the increase?

	Yes	No	(DK/ Refuse)	Total	N
46. Raise prices?	25%	67%	8%	100%	290
47. Cut employees or reduce their hours?	12	86	3	100%	290
48. Increased employee cost-share?	25	73	3	100%	290
49. Take a lower profit or suffer a loss?	67	32	2	100%	290
50. Delay, postpone or reduce businessinvestment?	37	60	3	100%	290
51. Freeze or reduce wages?	26	73	2	100%	290
52. Reduce non-health employee benefits?	14	83	3	100%	290
53. Became more productive, more efficient?	30	60	10	100%	290

54. Are the benefits in this year's plan more, less, or about the same, as they were in last year's plan?

1. More	7%
2. Less	23
3. Same	69
4. (DK/Refused)	1
Total	100%
N	582

55. Are the deductibles in this year's plan higher, lower, or about the same as they were in last year's plan?

1. Higher	35%
2. Lower	2
3. Same	60
4. (DK/Refused)	2
Total	100%
N	582

56. Did more, less, or about the same number of eligible full-time employees choose to participate in this year's health insurance plan as participated last year?

1. More	5%
2. Less	14
3. Same	86
4. (DK/Refused)	*
Total	100%
N	582

Please tell how important each of the following was in your decision to offer employee health insurance in the last year? (Newly Offering Employers ONLY – Combines Two Years of Data)

57. Profitability now allows me to offer it.

1. Very Important	63%
2. Somewhat Important	23
3. Not Important	11
4. (DK/Refused)	1
Total	100%
N	69

58. The new health care law will soon require me to add it.

1. Very Important	53%
2. Somewhat Important	15
3. Not Important	27
4. (DK/Refused)	5
Total	100%
N	69

59. Need to offer it to compete for good employees.

1. Very Important	42%
2. Somewhat Important	38
3. Not Important	18
4. (DK/Refused)	2
Total	100%
N	69

60. Needed to find a more affordable plan for you and family to participate in.

1. Very Important	35%
2. Somewhat Important	53
3. Not Important	12
4. (DK/Refused)	*
Total	100%
N	69

61. Did you offer employee health insurance to any of your employees LAST year at this time?

1. Yes	12%
2. No	88
3. (DK/Refused)	*
Total	100%
N	280

Please tell me how important each of the following reasons were that led you to drop employee health insurance in the last year?

62. The number of participants in my plan fell.

1. Very Important	29%
2. Somewhat Important	15
3. Not Important	56
4. (DK/Refused)	*
Total	100%
N	75

63. It became too expensive.

1. Very Important	69%
2. Somewhat Important	18
3. Not Important	11
4. (DK/Refused)	1
Total	100%
N	75

64. My employees preferred cash rather than insurance.

1. Very Important	19%
2. Somewhat Important	8
3. Not Important	69
4. (DK/Refused)	4
Total	100%
N	75

65. Business profitability took a turn for the worse.

1. Very Important	47%
2. Somewhat Important	33
3. Not Important	18
4. (DK/Refused)	2
Total	100%
N	75

66. My employees could do better on their own.

1. Very Important	52%
2. Somewhat Important	22
3. Not Important	26
4. (DK/Refused)	1
Total	100%
N	75

67. Do you expect to offer employee health insurance to any of your employees at this time NEXT year?

1. Definitely Yes	21%
2. Probably Yes	17
3. Probably No	23
4. Definitely No	37
5. (DK/Refused)	2
Total	100%
N	900

68. A new health care and financing law, sometimes known as the Affordable Care Act, health care reform, or Obamacare, is being implemented. How familiar are you with this law? Are you:

1. Very familiar	24%
2. Somewhat familiar	54
3. Not too familiar	15
4. Not at all familiar	7
5. (DK/Refused)	*
Total	100%
N	900

69. From what one source have you obtained the MOST useful information about your business's responsibilities and opportunities under the new health care law? Has it been:

1. Health insurance industry or insurer	22%
2. Health care industry or provider	13
3. Business advisor, like accountant or lawyer	8
4. Government	4
5. Trade associations or business groups	9
6. General news media	34
7. (Other)	*
8. Have not received any useful information	7
9. (DK/Refused)	2
Total	100%
N	866

70. Is there a second source that has been useful?

1. Health insurance industry or insurer	11%
2. Health care industry or provider	12
3. Business advisor, like accountant or lawyer	11
4. Government	6
5. Trade associations or business groups	11
6. General news media	21
7. (Other)	7
8. (None/DK/Refused)	24
Total	100%
N	818

71. How satisfied are you overall with the clarity and usefulness of the information received? Are you?

1. Very satisfied	19%
2. Somewhat satisfied	41
3. Not too satisfied	22
4. Not at all satisfied	18
5. (DK/Refused)	*
Total	100%
N	818

72. In the last year, have you visited the ACA or Obamacare Web site, HealthCare.gov, to look for individual health insurance policies, for business insurance policies, for simple curiosity, or have you not visited it?

1. Individual	13%
2. Business	4
3. (Both, individual and business)	8
4. Curiosity	10
5. Not visited	65
6. (DK/Refuse)	1
Total	100%
N	900

73. Compared to two years ago, is there much more, slightly more, about the same, slightly less, or much less competition for your firm's health insurance business or potential health insurance business?

1. Much more competition	5%
2. Slightly more competition	9
3. No change in competition	38
4. Slightly less competition	10
5. Much less competition	15
6. Not relevant to your situation	16
7. (DK/Refuse)	8
Total	100%
N	900

Demographics

The following questions are for classification purposes only

D1. Over the next three to five years, do you want this business to:

1. Grow a lot	48%
2. Grow a little	35
3. Stay the same	11
4. Downsize a little	3
5. Downsize a lot	2
6. (DK/Refused)	2
Total	100%
N	900

D2. Compared to last year at this time, is this business currently:

1. Much more profitable	4%
2. Somewhat more profitable	23
3. About as profitable	42
4. Somewhat less profitable	21
5. Much less profitable	7
6. (DK/Refused)	3
Total	100%
N	900

D3. How old are you?

1. <35 years old	4%
2. 35 – 44 years old	11
3. 45 – 54 years old	28
4. 55 – 64 years old	37
5. 65 – 74 years old	13
6. 75+ years old	2
7. (Refused)	5
Total	100%
N	900

D4. Region of the country.

1. Northeast	20%
2. Southeast	20
3. Mid-west	27
4. Central	22
5. Pacific	11
Total	100%
N	900

D5. Sex

1. Male	61%
2. Female	39
Total	100%
N	900

Methodology

The NFIB Research Foundation engaged Mason-Dixon Polling & Research in late 2012 to help it begin a projected three-year longitudinal survey of small business and the introduction of the Affordable Care Act. The purpose of this research was to follow small businesses as the new law took effect and measure the changes that they experienced over time. It likewise was intended to trace health insurance cost changes and small employer response to them. What the survey will not do was attempt to measure opinion about the Affordable Care Act. The answer to those questions appeared reasonably well-established and well-known and therefore required little additional attention.

The Foundation's research strategy for the project was to draw a nationally representative stratified random sample of small employers and then follow small-employer respondents to the first year's survey for an additional two years. A stratified random sample is necessary to conduct the project due to the distribution of the small employer population. Ninety (90) percent of all small employers have fewer than 20 employees and 60 percent have fewer than five. Although the Affordable Care Act affects all small employers, its major direct impacts was expected to fall on larger, small firms, principally those approaching the 50 employee employer-mandate threshold and larger. It was, therefore, important that the survey contain enough cases to be able to say something about the larger, small business segment of the population. A sufficient number of cases from this group requires over-sampling them. Hence the Foundation targeted a sample size of 225 cases from each of the four employee size strata: 2 – 9 employees, 10 – 19 employees, 20 – 49 employees, and 50 – 100 employees. The choice to cap the definition at 100 employees rather than some other point is arbitrary, but probably not controversial. It is an intuitively satisfying dividing line; virtually all small business above the line offer health insurance; adding another stratum of say between 100 – 250 employees appears to offer little additional informational value; owners of increasingly large firms are increasingly difficult to interview; etc. In the end, Mason-Dixon initially interviewed 921 small employers from mid-June through July 2013, numerically distributed across the four strata from smallest to largest as follows: 231 cases, 224 cases, 238 cases; and 228 cases. Use of a random stratified sample means population totals can only be reached by weighting cases, smaller, small firms (under-sampled) being given a greater weight per case and vice versa. Thus, population totals for a 2 – 100 employee firm size population, or totals for a 20 – 100 employee firm size population are presented using weighted numbers.

A second round of interviewing occurred one year later, from mid-June through July, 2014. Efforts were made to reinterview all initial participants. Two hundred and twenty-eight (228) who participated in 2013 agreed to participate in the second year. They were distributed by firm size as follows: 74 cases, 66 cases, 83 cases, and 65 cases. Not a single case changed firm size classification. Recognizing that not all participating in 2013 would be willing to participate in 2014, on a parallel track Mason-Dixon also began interviewing a new stratified random sample in the same manner as in the prior year. Initial participants supplemented by the new ones yielded 223 cases (2 – 9 employees), 227 cases (10 – 19 employees), 224 cases (20 - 49 employees) and 226 cases (50 – 100 employees) for a total of 900 cases.

Participants in the mid-2013 survey were contacted twice during the next few months, once to advise them of the gift card incentive winners for random participants and once to provide a summary of survey results. They were then contacted for a third time by mail and telephone seeking their continued participation. The gift card incentive was repeated and they were given the choice of participating by telephone or e-mail.

New participants were recruited in the same manner as were those in the first year. The sampling frame for both rounds was the Dun & Bradstreet file, an imperfect frame, but one the best currently available from a non-government source. Mason-Dixon mailed potential members of the new sample an introductory letter outlining the project, asking for cooperation, and announcing gift card incentives for randomly drawn participants. Telephone calls followed the introductory letters and respondents were given the choice of answering by telephone or by e-mail.

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