

Small Businesses and Health Reform: Results From a Survey of Five States

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Small businesses, especially those with fewer than 25 employees, are less likely than larger businesses to offer health insurance to their workers, often citing high premiums as the main barrier. Increasing the percentage of small businesses that do offer coverage is a focus of the Affordable Care Act (ACA). Businesses with 50 or fewer full-time-equivalent (FTE) employees are exempt from the employer mandate, a provision of the ACA that requires larger businesses to provide coverage, but there are several provisions in the act designed to reduce the cost of providing coverage or otherwise add value. One provision is a tax credit for firms (1) that have 25 or fewer FTEs with average wages of less than \$50,000 and (2) that pay at least half the cost of single coverage for their employees. Another is the Small Business Health Options Program (SHOP), designed to offer new coverage choices to small businesses with up to 50 FTEs and their employees, providing them with side-by-side comparisons of health plans that offer a minimum set of benefits and a premium lower than commonly available.

To gain insight into the early and likely future effects of the ACA on small businesses, Mathematica Policy Research conducted the Small Business Health Insurance Survey, an online and telephone survey that took place from November 2012 to September 2013. The survey was administered in 5 of the 11 states in the Robert Wood Johnson Foundation's State Health Reform Assistance Network: Alabama, Colorado, Minnesota, New York, and Oregon. These states used a range of strategies to implement the ACA; combined with our survey results, these strategies provide a valuable window into how the ACA has already affected small businesses and give us a baseline to compare with future impacts.

Data

We randomly selected small employers of various sizes (between 3 and 100 employees) in each state from a sample provided by Dun & Bradstreet. We weighted the responses in each state to reflect the population of businesses in each size category and to account for potential nonrandom response to the survey (Table 1). Our response rate was 46 percent.

Table 1. Unweighted and Weighted Sample Sizes, by State

State	Unweighted Sample Size	Weighted Sample Size
Alabama	135	31,945
Colorado	131	38,009
Minnesota	163	39,529
New York	110	140,946
Oregon	168	37,948

Which Small Businesses Offer Coverage?

We asked employers key questions about their employees, including the numbers of full-time and part-time employees, employees younger than 26 or older than 49, and employees earning less than \$50,000. Small businesses in Minnesota and New York had the highest shares of part-time workers across the five states (Table 2). On average, small firms in Colorado and New York had the smallest percentage of older employees, compared with firms in the other states, whereas Alabama had the largest percentage of employees earning less than \$50,000. We also asked employers whether they offered any kind of health insurance and, if so, whether they self-insured or had a plan underwritten by an insurer. New York had the largest percentage of firms that self-insure; Colorado had the smallest (Table 2).

Table 2. Descriptive Statistics for Employers With 3 to 100 Employees, by State

State	Percentage Offering Health Insurance	Percentage That Self-Insure	Average Percentage of Employees Who:			
			Work Part Time ^a	Are Less Than 26 Years Old	Are More Than 49 Years Old ^b	Earn Less Than \$50,000 a year ^c
Alabama	64%	9%	20%	13%	29%	85%
Colorado	58%	5%	24%	20%	25%	76%
Minnesota	67%	7%	42%	13%	34%	68%
New York	63%	21%	38%	25%	25%	65%
Oregon	56%	13%	25%	16%	34%	75%

Source: Mathematica calculations based on data from the Small Business Health Insurance Survey.

^a The percentage of part-time workers is significantly higher among small businesses in Minnesota and New York than in Alabama, Colorado, and Oregon, at $p < 0.05$.

^b Employers in Colorado have significantly lower shares of older employees compared with Minnesota, at $p < 0.1$.

^c The percentage of low-wage workers is significantly higher in Alabama than in Minnesota and New York, at $p < 0.1$.

In general, the percentage of employers offering health insurance grew as firm size increased. In all five states, about half of the smallest firms—those with 3 to 9 employees—offered coverage, compared with more than 90 percent of those with 50 to 100 employees (Table 3). The relationship between firm size and the likelihood of offering coverage varied across the states, however. In Alabama and New York, this likelihood was significantly greater among firms with 10 to 24 staff compared to those with fewer staff, whereas in Colorado and Oregon, the biggest difference was between firms with 10 to 24 staff and those with 25 to 49 staff. In Minnesota, there was a steady increase from the smallest to the biggest firm (Table 3).

Table 3. Percentage of Employers Offering Health Insurance in Each State, by Firm Size

State	Number of Employees			
	3 to 9 ^a	10 to 24	25 to 49 ^b	50 to 100
Alabama	52%	81%	93%	99%
Colorado	50%	58%	94%	99%
Minnesota	55%	76%	85%	92%
New York	48%	81%	93%	97%
Oregon	51%	54%	86%	92%

Source: Mathematica calculations based on data from the Small Business Health Insurance Survey.

^a Difference in percentage between 3-9 category and 10-24 category in Alabama is statistically significant at $p < 0.05$. Difference in percentage between 3-9 category and 10-24 category in New York is statistically significant at $p < 0.1$.

^b Difference in percentage between 10-24 category and 25-49 category in Colorado is statistically significant at $p < 0.1$. Difference in percentage between 10-24 category and 25-49 category in Oregon is statistically significant at $p < 0.1$.

Why Do Some Small Businesses Not Offer Coverage?

For businesses that decided not to offer health coverage, we asked about their reasons for that decision and which of those reasons was most important. Cost was a major barrier; in every state, the most important reason for not offering coverage was that the business could not afford to (Table 4). In Colorado, however, the perception that employees do not want or need employer-sponsored insurance was mentioned almost as frequently as cost (43 percent versus 49 percent), and it was also mentioned by more than a quarter of respondents in New York. On the other hand, employers in Alabama were most likely to say that offering insurance was not their responsibility than to respond that employees do not want or need it (17 percent versus 6 percent).

Several ACA provisions are designed to address these concerns, in part by lowering the cost of offering coverage to employees. Other provisions (such as the establishment of individual exchanges, Medicaid expansion, and the availability of subsidies to individuals) may affect whether small business employees want or need insurance through their employers.

Table 4. Most Important Reason Cited for Not Offering Health Insurance, by Percentage of Small Businesses in Each State

State	Business Cannot Currently Afford It	Employees Do Not Want or Need It ^a	Not My Responsibility to Provide This Benefit	Other
Alabama	74%	6%	17%	3%
Colorado	49%	43%	5%	3%
Minnesota	59%	9%	6%	25%
New York	71%	26%	0%	3%
Oregon	70%	16%	1%	14%

Source: Mathematica calculations based on data from the Small Business Health Insurance Survey.

^aPercentage of employers not offering coverage because they say their employees do not want or need it is significantly higher in Colorado than in Minnesota or Alabama, at $p < 0.1$.

Early Effects of the ACA

Employers who offer coverage were asked a number of questions about changes they made in response to the ACA provisions. For example, we asked whether any adult children who would not have been eligible for coverage before the ACA had since been enrolled in the employer's plans. The percentage of employers answering yes ranged from 8 percent in Oregon to 28 percent in New York (Table 5).

Table 5. Post-ACA Changes in the Provision of Health Insurance Among Small Businesses

State	Percentage of Small Businesses That:			
	Enrolled Adult Children Not Previously Eligible ^a	Changed Cost-Sharing Provisions for Preventive Care	Revised List of Preventive Care Services Covered	Considered Rules Limiting Changes in Grandfathered Plans When Deciding Whether to Renew Plan ^b
Alabama	16%	1%	27%	40%
Colorado	12%	5%	20%	34%
Minnesota	17%	4%	21%	34%
New York	28%	4%	14%	28%
Oregon	8%	3%	20%	17%

Source: Mathematica calculations based on data from the Small Business Health Insurance Survey.

^aAmong employers offering health insurance, the percentage that have enrolled adult children is significantly lower in Oregon than in New York and Minnesota, at $p < 0.1$.

^bAmong employers offering health insurance and reporting that ACA requirements for grandfathered plans affected their renewal decisions, the percentage is significantly lower in Oregon than in Alabama and Minnesota, at $p < 0.1$.

We also asked employers whether they had changed the cost-sharing provisions for preventive services or the list of services covered as a result of the ACA. While few changed cost-sharing, the percentage that revised what preventive services were included ranged from 14 percent in New York to 27 percent in Alabama (Table 5). We read employers a short description of a "grandfathered health plan," which is a plan in effect on March 23, 2010, with no significant benefit reductions or cost-sharing increases since that time. We then asked whether rules relating to grandfathered health plans had affected their decision to renew a plan. Most small businesses, particularly those in Oregon, had not taken these provisions into account in renewal decisions.

In addition, we asked employers who had responded that they were at least a little familiar with the health insurance tax credit for small businesses about whether they had applied for this credit in 2010 or 2011 and, if so, whether their claim was successful (Table 6). Small businesses in Alabama were most likely to apply for the tax credit, but least likely to receive it (Table 6). We do not know why they were not successful—whether they had more than 25 FTEs, had an average salary above \$50,000, or did not pay for at least half of the cost of single coverage. We do know that, across the five states, virtually all of the firms that applied offered coverage in the current year. We also asked employers that offered coverage whether they started offering it in the previous year because of the tax credit. This appeared to be the case for only a few businesses.

Table 6. Percentage of Small Businesses Applying for and Receiving a Health Insurance Tax Credit

State	Applied for Tax Credit ^a	Application for Tax Credit Successful
Alabama	36%	69%
Colorado	21%	77%
Minnesota	18%	97%
New York	23%	99%
Oregon	9%	74%

Source: Mathematica calculations based on data from the Small Business Health Insurance Survey.

^a Percentage that applied for a tax credit is significantly different between Oregon and Alabama at $p < 0.05$.

Awareness of and Reactions to Small Business Provisions in the ACA

We asked all employers, “What is your general impression of the health care reform law passed by Congress in March 2010, known as the Affordable Care Act or Obamacare?” Across all five states, employers in Alabama (the only state in our survey not establishing its own SHOP or individual marketplace) were the least likely to approve of the ACA: only 15 percent had a positive view of the act, compared with 48 percent in both Colorado and Minnesota (Table 7). In all five states, views of the ACA were more positive among employers that were aware of any provisions that could help small businesses, which could include either those targeted specifically at this population, such as the small business tax credit, or those more likely to affect small businesses than large businesses, such as the switch to community rating. Compared with employers that were not familiar with the tax credit or the SHOP, those that were familiar were also more likely to approve of the ACA, but only in Oregon was the difference statistically significant (Table 7).

Table 7. Percentage of Employers With a Positive View of the ACA

State	Overall ^a	Among Those Who Are:		
		Aware of Any Small Business Provisions ^b	At Least a Little Familiar With Small Business Tax Credits ^c	At Least a Little Familiar With SHOP Exchanges ^d
Alabama	15%	31%	12%	13%
Colorado	48%	49%	50%	41%
Minnesota	48%	57%	46%	53%
New York	42%	49%	52%	27%
Oregon	35%	66%	43%	58%

Source: Mathematica calculations based on data from the Small Business Health Insurance Survey.

^a Percentage in Alabama with a positive view was significantly less than in other states, at $p < 0.05$.

^b Percentage of those in Alabama and Oregon that were aware of any small business provisions and that had a positive view was significantly higher than the percentage that were not aware and had a positive view (31 versus 11 percent in Alabama and 66 versus 20 percent in Oregon), $p < 0.1$.

^c Small businesses in Oregon that were at least a little familiar with small business tax credits were significantly more likely to have a positive view of the ACA (43 percent) than those that were unfamiliar (20 percent), $p < 0.05$.

^d Small businesses in Oregon that were at least a little familiar with the SHOP exchange were more likely to have a positive view of the ACA (58 percent) than those that were unfamiliar (21 percent), $p < 0.05$.

Small business tax credit. We asked employers whether they knew about the small business tax credit in the ACA. Most employers in each state had at least heard of it. In Minnesota, employers that offered health insurance were significantly more likely to be at least a little aware of the credit, compared with those that did not offer insurance (Table 8).

We asked employers that knew about the tax credit whether they would apply for it in the future; those in Alabama were much more likely to say yes than those in Minnesota and Oregon. For employers unfamiliar with the credit, we read a brief description of the provision and asked them whether knowing this information made them more likely to apply for the credit in the future. In general, employers currently offering coverage said they were likely to apply for the tax credit after hearing this description, particularly in Alabama, Minnesota, and Oregon (Table 8).

Employers were also asked, “If [your business] qualified for this tax credit, how would it affect whether [your business] provided health benefits in the future?” The majority, in some cases more than three out of four respondents, replied that this would make them more likely to offer benefits (Table 8).

Table 8. Attitudes Toward the Tax Credit Among Small Businesses That Do and Do Not Currently Offer Health Insurance

State	Currently Offer Health Insurance	At Least a Little Familiar With Tax Credit ^a	Likely to Apply for Tax Credit, Among Those Familiar With It	Likely to Apply for Tax Credit After Hearing Description of It ^b	More Likely to Offer Health Insurance if Eligible for Tax Credit
Alabama	Yes	73%	85%	65%	73%
	No	56%	90%	25%	72%
Colorado	Yes	83%	72%	46%	83%
	No	79%	60%	63%	89%
Minnesota	Yes	79%	61%	58%	78%
	No	46%	15%	18%	55%
New York	Yes	31%	76%	53%	76%
	No	63%	11%	36%	54%
Oregon	Yes	76%	67%	64%	72%
	No	65%	43%	13%	72%

Source: Mathematica calculations based on data from the Small Business Health Insurance Survey.

^a Difference in percentages between those that do and don't offer in Minnesota is statistically significant at $p < 0.1$.

^b Differences in percentages between those that offer and don't offer in Alabama, Minnesota and Oregon are statistically significant at $p < 0.1$.

Table 9. Attitudes Toward SHOP Exchanges Among Small Businesses That Do and Do Not Offer Health Insurance

State	Currently Offer Health Insurance	Percentage at Least a Little Familiar With the SHOP	Percentage That Will Definitely or Probably Use the SHOP ^a	Percentage More Likely to Offer Health Insurance as a Result of the SHOP ^b
Alabama	Yes	37%	32%	11%
	No	33%	18%	32%
Colorado	Yes	45%	47%	19%
	No	31%	60%	78%
Minnesota	Yes	62%	38%	19%
	No	31%	16%	18%
New York	Yes	38%	46%	9%
	No	7%	69%	70%
Oregon	Yes	37%	44%	28%
	No	37%	32%	22%

Source: Mathematica calculations based on data from the Small Business Health Insurance Survey.

^a Difference in percentages among those that do and don't offer in Minnesota is statistically significant at $p < 0.05$.

^b Difference in percentages among those that offer and don't offer in Colorado is statistically significant at $p < 0.01$. Difference in percentages among those that offer and don't offer in Alabama is statistically significant at $p < 0.1$.

SHOP exchanges. Compared with the tax credit, awareness of the SHOP was low; in all states except Minnesota, less than half of employers were familiar with SHOP exchanges (Table 9). In New York, those offering health insurance were significantly more likely than other firms to be at least a little familiar with the program. Those that were not familiar were read a brief description of the program. We asked all employers whether they would take part in the SHOP in their state and whether the SHOP would motivate them to provide health benefits (Table 9). Small businesses in Colorado and New York were more likely to say they would participate, compared with Alabama and Minnesota. In Alabama, Colorado, and New York, businesses that did not offer health insurance were more likely than those that offered coverage to say that the SHOP would increase the likelihood that they will offer coverage in the future (Table 9).

Conclusions

Several ACA provisions are designed to help small businesses offer health insurance to their employees, often by directly or indirectly reducing the costs of providing coverage. This is crucial given that affordability is the biggest barrier to offering coverage among the small businesses we surveyed. However, many small businesses were not aware of these provisions; for example, only one in four employers in New York and one in three employers in Alabama, Colorado, and Oregon had heard of the SHOP. Noticeably more had heard of the small business tax credit, ranging from a low of 51 percent in New York to a high of 81 percent in Colorado; however, when asked whether they were aware of any provisions of the health care reform law that would help small business owners provide insurance, only 11 percent of employers in New York said yes, as did only 53 percent in Colorado.

The ACA provisions were ostensibly targeted to small businesses not currently offering health insurance, but these businesses were even less aware of the provisions than other small businesses. However, after they heard a brief description of the tax credit, many firms not offering coverage indicated that they would apply for the credit. This, and the fact that eligibility for the credit increased the likelihood that a firm would offer health insurance in the future, highlights the importance of raising awareness. We saw similar results after reading a description of the SHOP aloud and then asking employers if they would take part in an exchange (eligibility for the SHOP also increased a firm's likelihood of eventually offering health insurance).

Employers' views of the ACA also varied based on their state and degree of familiarity with the act, suggesting some states have more work to do than others if they wish to persuade employers of the potential benefits of health reform.

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This study was funded by the Robert Wood Johnson Foundation.

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