

**Statement of Richard Frank, Ph.D.**  
**Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services**  
**“Impact of the ACA on Small Businesses”**  
**U.S. Senate Committee on Small Business and Entrepreneurship**  
**May 18, 2016**

Chairman Vitter, Ranking Member Shaheen, and members of the Committee, thank you for the opportunity to discuss the progress that has been made in reforming our health care system through implementation of the Affordable Care Act (ACA). The ACA is producing benefits to our citizens, health care providers, local economies and—most significant to today’s discussion—small businesses and their employees. In the time I have with you today I will touch on the accomplishments of the ACA and the specific impacts on small firms and their employees and some of the economic issues that have been raised about the ACA.

In the past, although many small employers wanted to offer health benefits to their employees, they faced many challenges. Historically, small businesses were charged more for the same benefits compared to large employers.<sup>[1]</sup> Small businesses employing women or workers with chronic or high-cost illnesses, or with pre-existing conditions, faced higher insurance rates in most states. Because small firms have fewer employees to spread risk across than do larger firms, premiums varied dramatically from year to year due to changes in workers’ health status.

The ACA has helped small businesses and their employees in a number of ways. These include coverage expansions, small employer tax credits, and the creation of the Small Business Health Options Program (SHOP). We judge success on the impact of these policies.

**What has the ACA accomplished?**

Today, consumers enjoy better access to affordable health insurance, stronger consumer protections in the case of illness or changes in employment, and a competitive Marketplace that allows them to choose from and enroll in insurance coverage that is right for them. In the years since the passage of the Affordable Care Act, we have seen more choices for consumers,<sup>[2]</sup> dramatic progress in reducing the number of uninsured Americans and historically low rates of increase in health care spending—accomplishments that directly benefit small businesses and their employees

*Insurance Coverage*

Let me begin by recalling that in 2013, prior to the implementation of the ACA’s coverage expansions, more than 44 million Americans were uninsured.<sup>[3]</sup> In 2012, it was estimated that about 61% of uninsured workers were employed by firms with 100 or fewer employees.<sup>[4]</sup> Since then, we have made historic progress in reducing the size of the uninsured population. In the years since the ACA passed, the nation’s uninsured rate has fallen below 10 percent for the first time ever since data collection began over five decades ago.<sup>[5],[6]</sup> We estimate that 20 million Americans that were previously uninsured have gained health insurance coverage.<sup>[7]</sup> This includes over six million young adults ages 19 to 25 who have gained health insurance coverage because of the Affordable Care Act.<sup>[8]</sup> The expansion of Medicaid has resulted in 15 million people enrolling in Medicaid or CHIP coverage since the beginning of the Affordable Care Act’s first open enrollment period.<sup>[9]</sup> Furthermore, during the third open enrollment that concluded at the end of January, 12.7 million Americans selected health plans for 2016 through the Marketplaces, and another 400,000 signed up for coverage

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<sup>[1]</sup> Gabel J, McDevitt R, Gandolfo L, Pickreign J, Hawkins S, Fahlman C. Generosity and adjusted premiums in job-based insurance: Hawaii is up, Wyoming is down. *Health Affairs* 2006;25:832-43.

<sup>[2]</sup> [www.hhs.gov/about/news/2015/07/30/competition-and-choice-in-the-health-insurance-marketplace-lowered-premiums-in-2015.html](http://www.hhs.gov/about/news/2015/07/30/competition-and-choice-in-the-health-insurance-marketplace-lowered-premiums-in-2015.html)

<sup>[3]</sup> Health Insurance Coverage: Early Release of Estimates From the National Health Interview Survey, 2013.

<sup>[4]</sup> Fronstien, Paul. “Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2013 Current Population Survey.” Employee Benefits Research Institute. September 2013.

<sup>[5]</sup> <http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201602.pdf>; <http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201605.pdf>

<sup>[6]</sup> <http://www.cdc.gov/nchs/data/nhsr/nhsr017.pdf>

<sup>[7]</sup> <https://aspe.hhs.gov/pdf-report/health-insurance-coverage-and-affordable-care-act-2010-2016>

<sup>[8]</sup> <https://aspe.hhs.gov/pdf-report/health-insurance-coverage-and-affordable-care-act-2010-2016>

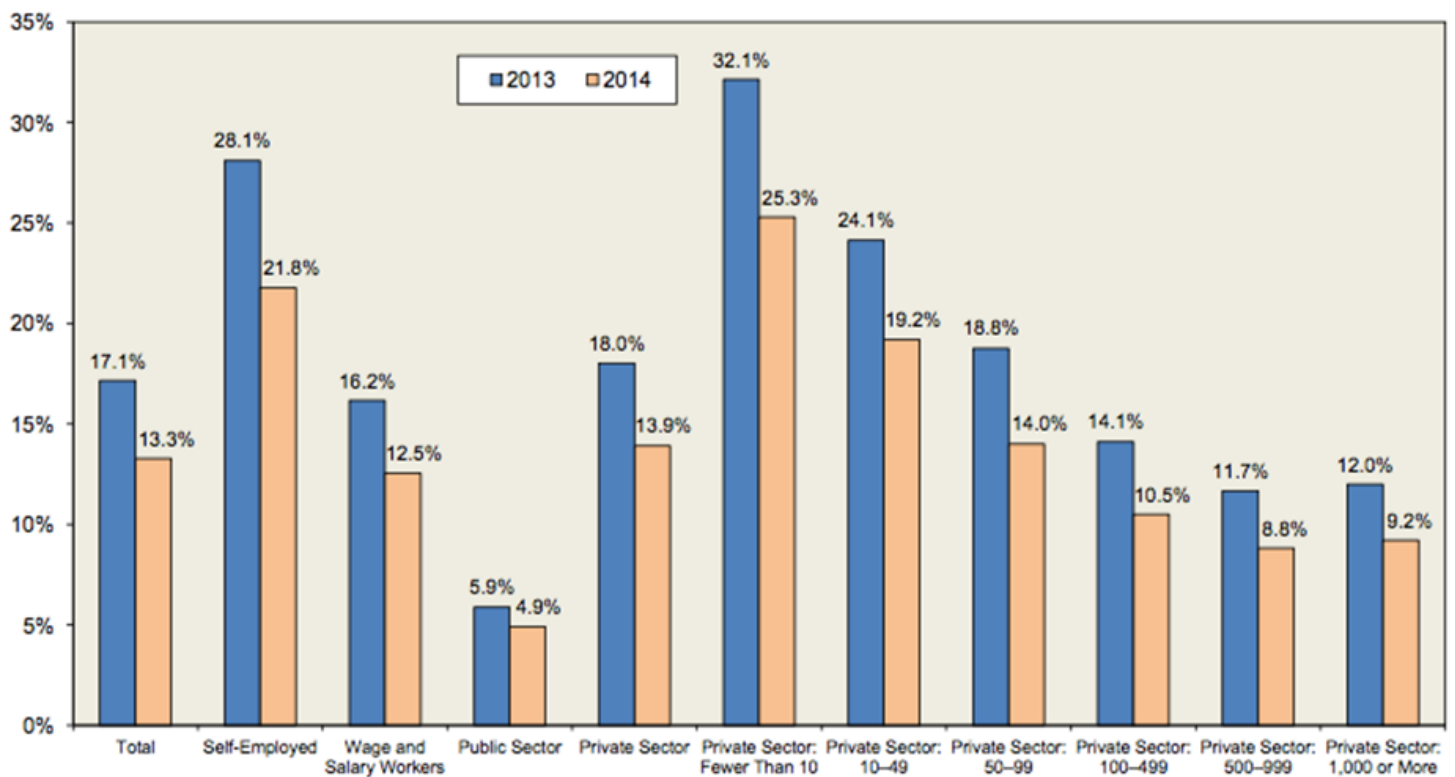
<sup>[9]</sup> <https://www.medicaid.gov/medicaid-chip-program-information/program-information/medicaid-and-chip-enrollment-data/medicaid-and-chip-application-eligibility-determination-and-enrollment-data.html>

through New York and Minnesota’s Basic Health Programs, state based programs supported by the Affordable Care Act that provide health insurance coverage to low income individuals.<sup>[10]</sup>

These coverage gains are particularly notable for employees of small businesses. Data from the Current Population Survey highlight the overall gains in coverage among workers employed by small firms (with 100 or fewer employees). Figure 1 shows changes in the percentage of workers employed by smaller firms that did not have insurance coverage before and after the ACA’s coverage expansion began. For firms with 10 or fewer employees the percent of workers with no health insurance fell by 6.8 percentage points from 32.1% to 25.3%. The declines in the percent uninsured were also substantial for employees of firms with 10 to 49 employees (4.9 percentage points) and those with 50 to 99 employees (4.8 percentage points). Employees in small businesses are more likely to be covered now than before the ACA’s coverage expansions took in 2014.<sup>[11]</sup> These gains have been realized through significant increases in coverage by Medicaid (see Appendix) and individual market private insurance.<sup>[12]</sup>

**Figure 1**

### Workers Ages 18–64 Without Health Insurance Coverage, by Firm Size, 2013–2014



Source: Employee Benefit Research Institute estimates from the Current Population Survey, March 2014–2015 Supplements.

<sup>[10]</sup> <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2016-Fact-sheets-items/2016-02-04.html>

<sup>[11]</sup> Fronstein, Paul. “Sources of Health Insurance Coverage: A Look at Changes Between 2013 and 2014 from the March 2014 and 2015 Current Population Survey.” Employee Benefit Research Institute. October 2015.

<sup>[12]</sup> Fronstein, Paul. “Sources of Health Insurance Coverage: A Look at Changes Between 2013 and 2014 from the March 2014 and 2015 Current Population Survey.” Employee Benefit Research Institute. October 2015.

The data I just cited highlight the increased number of people that now have health insurance in the United States. The provisions of the ACA also improve the quality of health insurance coverage. The ACA created new consumer protections such as those that eliminate pre-existing conditions as a reason for coverage denials and prohibit lifetime dollar limits on essential health benefits. The ACA also prohibits rescissions of insurance just because someone gets sick. Recommended preventive services, including wellness visits and certain cancer screenings are now covered without cost sharing. In conjunction with the Mental Health Parity and Addiction Equity Act of 2008, the ACA has also ushered in an era of increased access to mental health and substance use disorder benefits—benefits that must meet parity requirements with regard to medical-surgical benefits. These are key provisions that are being enlisted to address the opioids epidemic and the alarming growth in suicides.

### *Better coverage options for small businesses*

The Affordable Care Act created the Small Business Health Options Program (SHOP) to make it easier for small businesses to obtain health coverage for their employees. Just as in the individual Marketplaces, the SHOP allows eligible small employers to easily compare and select plans that meet the needs of their employees. In most states, SHOP is open to qualified employers with 50 or fewer full-time equivalent employees, and in the few states that have chosen to expand the definition of small employer the program is open to businesses with 100 or fewer full-time equivalent employees.<sup>[34]</sup> In 2015, some 85,000 Americans were covered through SHOP, with about 10,700 small employers participating.<sup>[35]</sup> It is important to remember that, unlike the individual Marketplace, eligible employers may begin participating in the SHOP at any time, and are not limited to a single open enrollment period.

The ACA also offers a Small Business Health Care Tax Credit to otherwise eligible employers with fewer than 25 full-time equivalent employees to assist with up to 50 percent of their premium contributions. Data from 2014 indicate that small employers claimed \$541 million in tax credits due to this provision.<sup>[36]</sup>

The Affordable Care Act's coverage provisions have also encouraged entrepreneurship.<sup>[38]</sup> Individuals no longer have to remain in jobs just to keep their health insurance and now have the flexibility to purchase health insurance outside of the employer-sponsored insurance market. Americans can pursue their professional passions and start their own small businesses with the knowledge that coverage will be available. This is good news for the 22 million self-employed small business owners in this country.

### *Rate review and medical loss ratio*

Other provisions of the ACA have helped save money for small businesses. Thanks to rate review in the small group market, a total of 8.7 million consumers saved \$2.0 billion in premiums from 2012 to 2015 and 7.7 million consumers received a total of \$465 million in medical loss ratio (MLR) rebates for 2012 to 2014.<sup>[13]</sup> These add up to real savings for small businesses and their employees.

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<sup>[34]</sup> <https://www.cms.gov/CCIIO/Programs-and-Initiatives/Health-Insurance-Market-Reforms/state-rating.html>

<sup>[35]</sup> <https://blog.cms.gov/2015/07/02/update-on-shop-marketplaces-for-small-businesses/>

<sup>[36]</sup> GAO "Small Employer Tax Credit." March 2016.

<sup>[38]</sup> The Affordable Care Act: Improving Incentives for Entrepreneurship and Self-Employment. May 2013. Linda J. Blumberg, Sabrina Corlette, and Kevin Lucia

<sup>[13]</sup> ASPE, "Rate Review Annual Report September 2013", accessed at

[https://aspe.hhs.gov/sites/default/files/pdf/178361/ratereview\\_rpt.pdf](https://aspe.hhs.gov/sites/default/files/pdf/178361/ratereview_rpt.pdf)

ASPE, "Rate Review Annual Report September 2014", accessed at

[https://aspe.hhs.gov/sites/default/files/pdf/77041/rpt\\_RateReview.pdf](https://aspe.hhs.gov/sites/default/files/pdf/77041/rpt_RateReview.pdf)

CMS, "Rate Review Annual Report December 2015", accessed at

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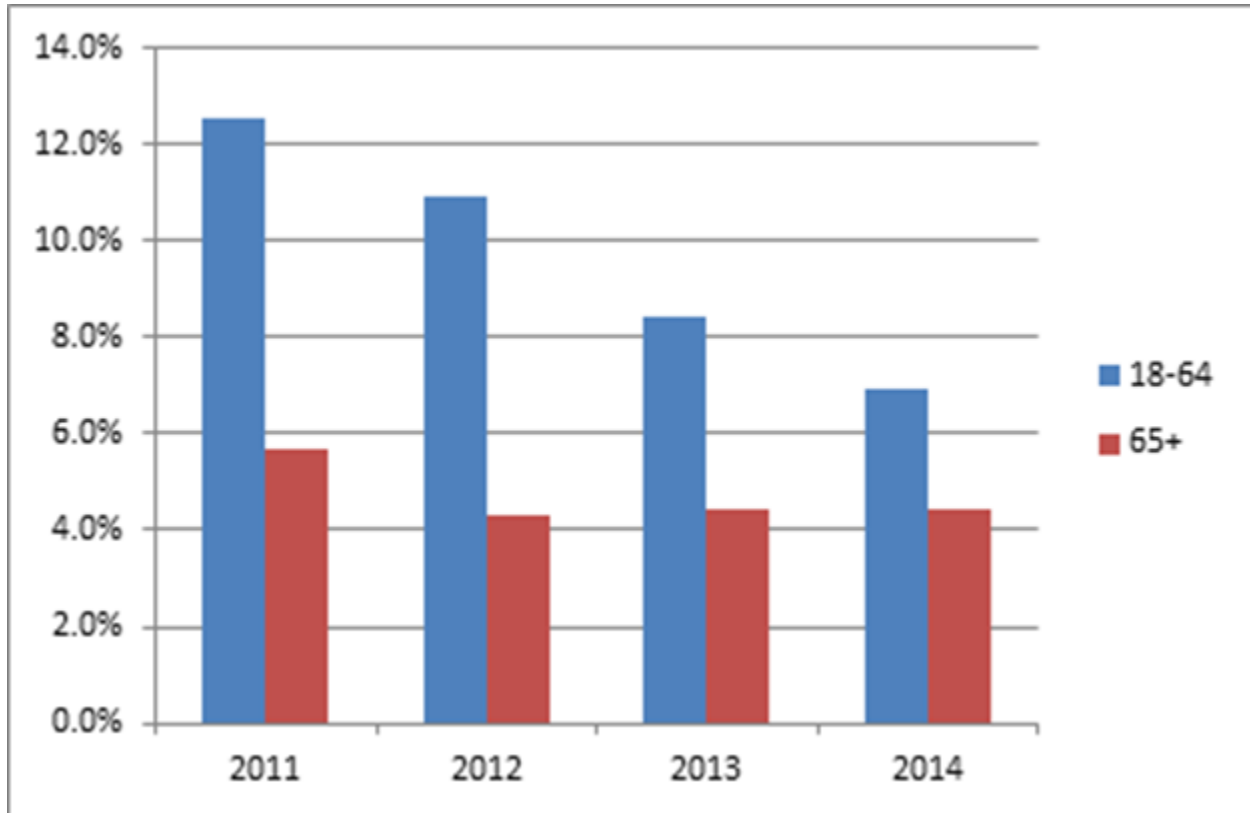
CMS, "2012 Total Rebates", "2013 Total Rebates", "2014 Total Rebates" accessed at

<https://www.cms.gov/CCIIO/Resources/Data-Resources/mlr.html>

### Access to Care

Because of the ACA, individuals across the life span have improved access to care. Medicaid expansion is associated with an increase of individuals reporting a usual source of care.<sup>[14]</sup> Low-income adults who gained coverage report that it enabled them to access needed primary and preventive care, while also helping to address their specific health problems.<sup>[15], [16]</sup> Further, the percentage of individuals experiencing problems with access to prescription drugs declined between 2011 and 2014. Approximately 13% of individuals ages 18-64 reported skipping medication doses, taking less medicine, or delaying filling prescriptions because of cost in 2011 compared to 7% in 2014. For individuals ages 65 and older, about 6% reported problems with access to prescription drugs in 2011 compared to about 4% in 2014. (See Figure 2)<sup>[17]</sup>

**Figure 2: Percentage of Individuals Skipping Prescription Drug Doses, Taking Less Medicine or Delaying Filling Prescriptions in past 12 months Because of Cost**



Source: ASPE analysis of National Health Interview Survey (NHIS) 2011 -2014

### Health care spending growth

Health care spending continues to grow slowly by historical standards. According to the Kaiser Family Foundation's Employer Health Benefits Survey, the average premium for employer-based family coverage rose by just 4.2 percent in 2015, and the last four years account for four of the five lowest growth rates recorded since the survey began in 1999.<sup>[18]</sup>

<sup>[14]</sup> Benjamin Sommers, Munira Gunja, Kenneth Finegold and Thomas Musco, "Changes in Self-reported Insurance Coverage, Access to Care, and Health Under the Affordable Care Act," JAMA 2015;314(4):366-374. doi:10.1001/jama.2015.8421

<sup>[15]</sup> Megan J Hoopes, Heather Angier, Rachel Gold, Steffani R Bailey, Nathalie Huguet, Miguel Marino, and Jennifer E DeVoe, "Utilization of Community Health Centers in Medicaid Expansion and Non-expansion States, 2013-2014," Journal of Ambulatory Care Management, January 2016.

<sup>[16]</sup> Laura R. Wherry and Sarah Miller, "Early Coverage, Access, Utilization, and Health Effects Associated with the Affordable Care Act Medicaid Expansions," Annals of Internal Medicine 2016 doi: 10.7326/M15-2234.

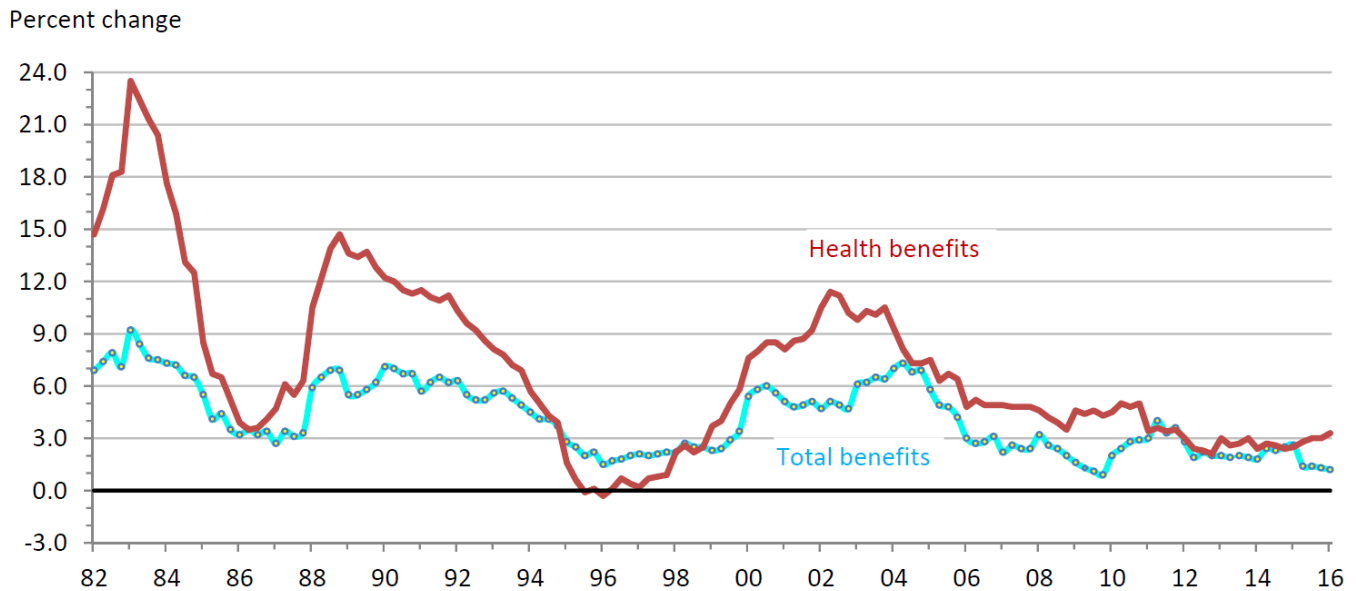
<sup>[17]</sup> Estimates are from National Health Interview Survey (NHIS) 2011 -2014.

<sup>[18]</sup> <https://www.whitehouse.gov/blog/2015/09/22/new-data-show-slow-health-care-cost-growth-continuing>

Recent data indicate that slow growth in employers' health benefits costs is continuing. The most up-to-date data on businesses' costs for health insurance come from the Bureau of Labor Statistics' Employment Cost Index (ECI), which measures the hourly costs of compensating workers. ECI data through the first quarter of 2016 shows 12 month growth in employee health benefit costs of 3.3 percent, extending the recent stretch of unusually low growth in employers' health benefit costs.

**Figure 3**

**Employment Cost Index, private industry, 12-month percent change in employer costs per hour worked, total benefits and health benefits**



Source: Bureau of Labor Statistics

*Economic Benefits*

The Affordable Care Act has also brought a number of economic benefits to the states. In Kentucky, the estimated economic contribution of their Medicaid expansion is projected to be \$30.1 billion from 2014 to 2021. Additionally, Kentucky can expect a net positive impact on their state budget of \$919.1 million and job growth of 12,000 jobs in state fiscal year 2014 and 40,000 jobs from state fiscal year 2014 to 2021.<sup>[19]</sup> States have also gained savings from reductions in expenditures on behavioral health programs, which include mental health and substance abuse services.<sup>[20]</sup> Many other states have commissioned independent studies to estimate the state-specific impacts of expanding Medicaid on their economy. The findings almost universally show job growth and positive economic impacts over time.<sup>[21]</sup>

Since implementation of the ACA, states have experienced decreases in hospital uncompensated care costs related to previously uninsured residents gaining health coverage. Decreases in uncompensated care costs, while present in all states, have been substantially greater in states that have expanded Medicaid. Early data from hospital associations in expansion states have shown up to a 46.5 percent decrease in admissions by uninsured patients and up to a 59.7

<sup>[19]</sup> Deloitte Development LLC. (2015). Medicaid Expansion Report: 2014. Commonwealth of Kentucky. Retrieved from: [http://governor.ky.gov/healthierky/Documents/medicaid/Kentucky\\_Medicaid\\_Expansion\\_One-Year\\_Study\\_FINAL.pdf](http://governor.ky.gov/healthierky/Documents/medicaid/Kentucky_Medicaid_Expansion_One-Year_Study_FINAL.pdf)

<sup>[20]</sup> Dorn, S, et al. (March 2015). Kaiser Family Foundation and Urban Institute (March 2015). The Effects of the Medicaid Expansion on State Budgets: An Early Look in Select States. Kaiser Family Foundation. Accessed at: <http://kff.org/medicaid/issue-brief/the-effects-of-the-medicaid-expansion-on-state-budgets-an-early-look-in-select-states/>

<sup>[21]</sup> <https://aspe.hhs.gov/pdf-report/economic-impact-medicaid-expansion>

percent decrease in hospital uncompensated care costs since ACA implementation.<sup>[23]</sup> In 2014, hospital uncompensated care costs were reduced by an estimated \$7.4 billion, representing a 21 percent reduction in uncompensated care spending. Medicaid expansion states accounted for \$5 billion, or 68 percent, of that reduction.

### *Value*

New incentives to pay doctors and hospitals for improving outcomes are increasing the quality of the health care. Potentially avoidable hospital readmissions within 30 days of discharge account for more than \$17 billion in estimated Medicare expenditures annually. To address this problem, the Affordable Care Act created the Hospital Readmissions Reduction Program, which adjusts payments for hospitals with higher than expected 30-day readmission rates for targeted clinical conditions such as heart attacks, heart failure, and pneumonia. A new study by HHS shows that readmissions fell sharply following enactment of the Affordable Care Act. The study found that readmission rates fell more sharply for conditions that were targeted by the Hospital Readmissions Reduction Program, including heart attack, heart failure, and pneumonia, than for other conditions requiring hospitalizations, such as surgeries and diabetes. Researchers estimate that approximately 565,000 readmissions were prevented across all conditions, compared to the readmission rate in the year prior to the passage of the Affordable Care Act.<sup>[24]</sup>

The Affordable Care Act has helped improve hospital-patient safety, leading to a 17 percent decline in hospital-acquired conditions from 2010 to 2014. That decline translates to 2.1 million fewer hospital-acquired conditions, approximately 87,000 fewer patient deaths in hospitals, and \$20 billion in health care cost savings.<sup>[25]</sup> Gains were particularly strong in 2013 when 800,000 fewer patients experienced harms, 35,000 fewer patients died, and \$8 billion in unnecessary costs were saved compared with 2010.<sup>[26]</sup>

### **The ACA and small businesses**

When the ACA was enacted there were predictions made by some that the ACA would result in shifts from full time to part time work and reductions in total employment. Several studies have been conducted examining the impacts of the ACA on labor markets. These include effects of Medicaid expansion, the employer responsibility requirement, and the overall effects of the ACA.<sup>[27], [28], [29]</sup> Research has concluded that the ACA has had no negative effect on total employment or the mix of part-time versus full time employment.<sup>[30], [31]</sup> Overall trends have also been positive for small businesses under the ACA.

Recent data from the National Federal of Independent Businesses (NFIB) shows an increase to 53% in the percentage of small businesses that are hiring or trying to hire.<sup>[33]</sup> Data from the Gallup-Wells Fargo survey shows an increasingly positive view of the financial circumstances of small business owners. Figure 5 shows large gains in the Gallup-Wells Fargo small business index. Likewise there is continued growth in the share of small businesses reporting revenue gains

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<sup>[23]</sup> The Impact of Medicaid Expansion on Uncompensated Care Costs: Early Results and Policy Implications for States.

<http://www.rwjf.org/en/library/research/2015/06/the-impact-of-medicaid-expansion-on-uncompensated-care-costs.html>

<sup>[24]</sup> "Readmissions, Observation, and the Hospital Readmissions Reduction Program," Rachael B. Zuckerman, M.P.H., Steven H. Sheingold, Ph.D., E. John Orav, Ph.D., Joel Ruhter, M.P.P., M.H.S.A., and Arnold M. Epstein, M.D., February 24, 2016, at NEJM.org. DOI: 10.1056/NEJMsa1513024

<sup>[25]</sup> <http://www.ahrq.gov/news/newsroom/press-releases/2015/saving-lives.html>

<sup>[26]</sup> AHRQ Analysis: Hospital-Acquired Conditions Reduced by 17 Percent From 2010 to 2013. November 2015. Agency for Healthcare Research and Quality, Rockville, MD. <http://www.ahrq.gov/news/hac.html>

<sup>[27]</sup> Goopu et al. "Medicaid Expansion Did Not Result In Significant Employment Changes Or Job Reductions In 2014." Health Affairs. January 2016. <http://content.healthaffairs.org/content/35/1/111.abstract>

<sup>[28]</sup> Bowen, Garrett and Robert Keastner. "Recent Evidence on the ACA and Employment: Has the ACA Been a Job Killer?" Urban Institute. August 2015. <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000327-Recent-Evidence-on-the-ACA-and-Employment-Has-the-ACA-been-a-Job-Killer.pdf>

<sup>[29]</sup> Burtless, Gary. "Employment Impacts of the Affordable Care Act." Brookings Institution. March 20, 2015. <http://www.brookings.edu/blogs/health360/posts/2015/03/20-aca-five-years-employment-impact-burtless>

<sup>[30]</sup> Moriya et al. "Little Change Seen In Part-Time Employment As A Result Of The Affordable Care Act." Health Affairs. January 2016. <http://content.healthaffairs.org/content/35/1/119.abstract?=&right>

<sup>[31]</sup> Mathur et al. "Has the Affordable Care Act Increased Part-Time Employment?" Applied Economics Letters. August 2015.

<sup>[33]</sup> NFIB Small Business, Economic Trends April 2016

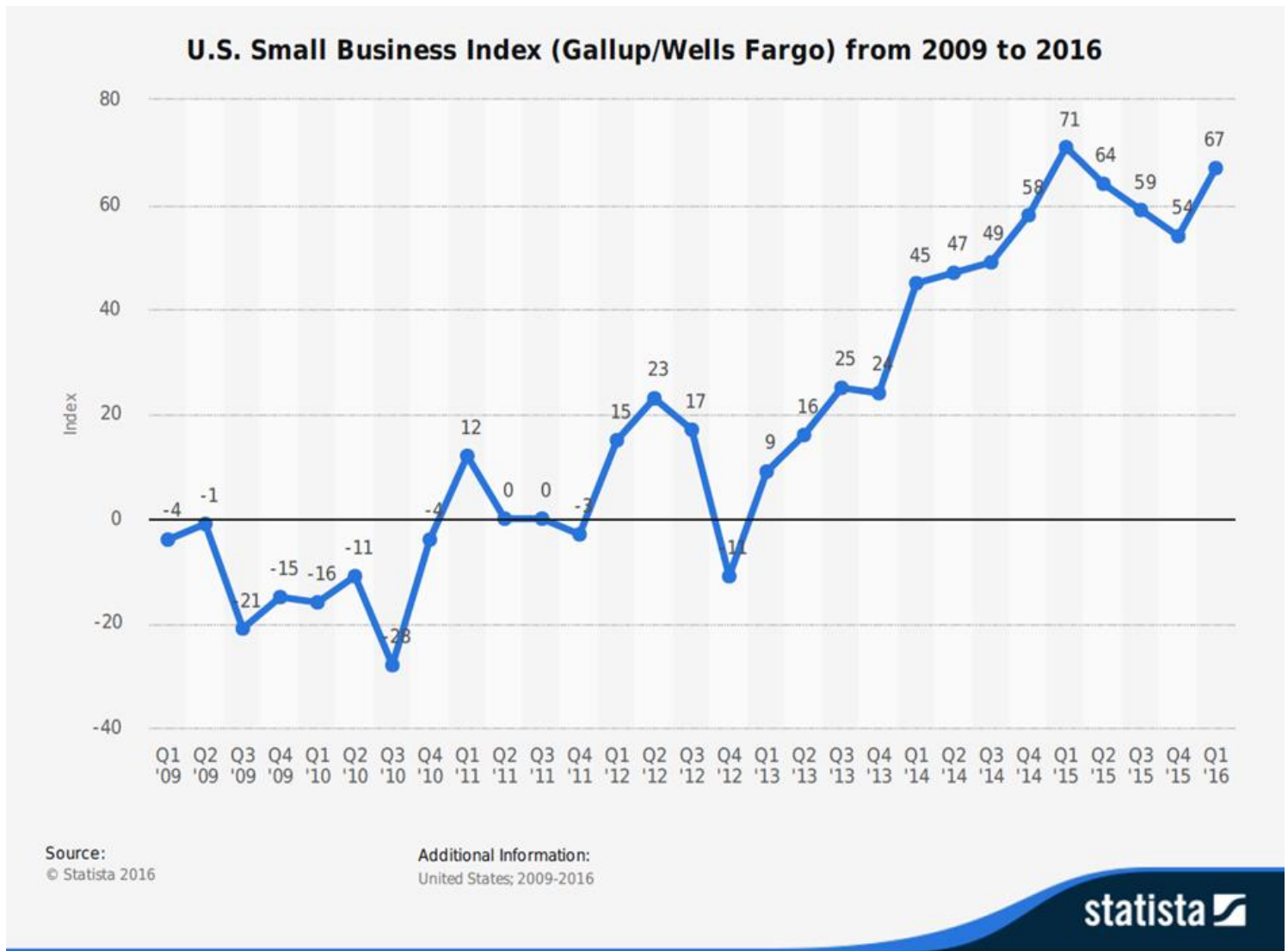


over the prior year. This pattern is shown on Figure 6 that presents data from a U.S. Bancorp survey that is conducted annually.

Some also hypothesized that Medicaid expansion and the financial support available in the Marketplaces would adversely affect employers' incentives to offer health insurance and subsequent worker take-up. However, neither of these rates have declined under the ACA. Both offer and take-up have remained essentially consistent in recent years.<sup>[37]</sup>

Overall the ACA has significantly improved coverage of people that work for small businesses. It created new markets for insurance and expanded demand for medical care and health services. This confers important benefits on the 600,000 small businesses that operate in the health sector.<sup>[39]</sup> Despite a variety of concerns and uncertainties, small businesses have emerged from the recession.

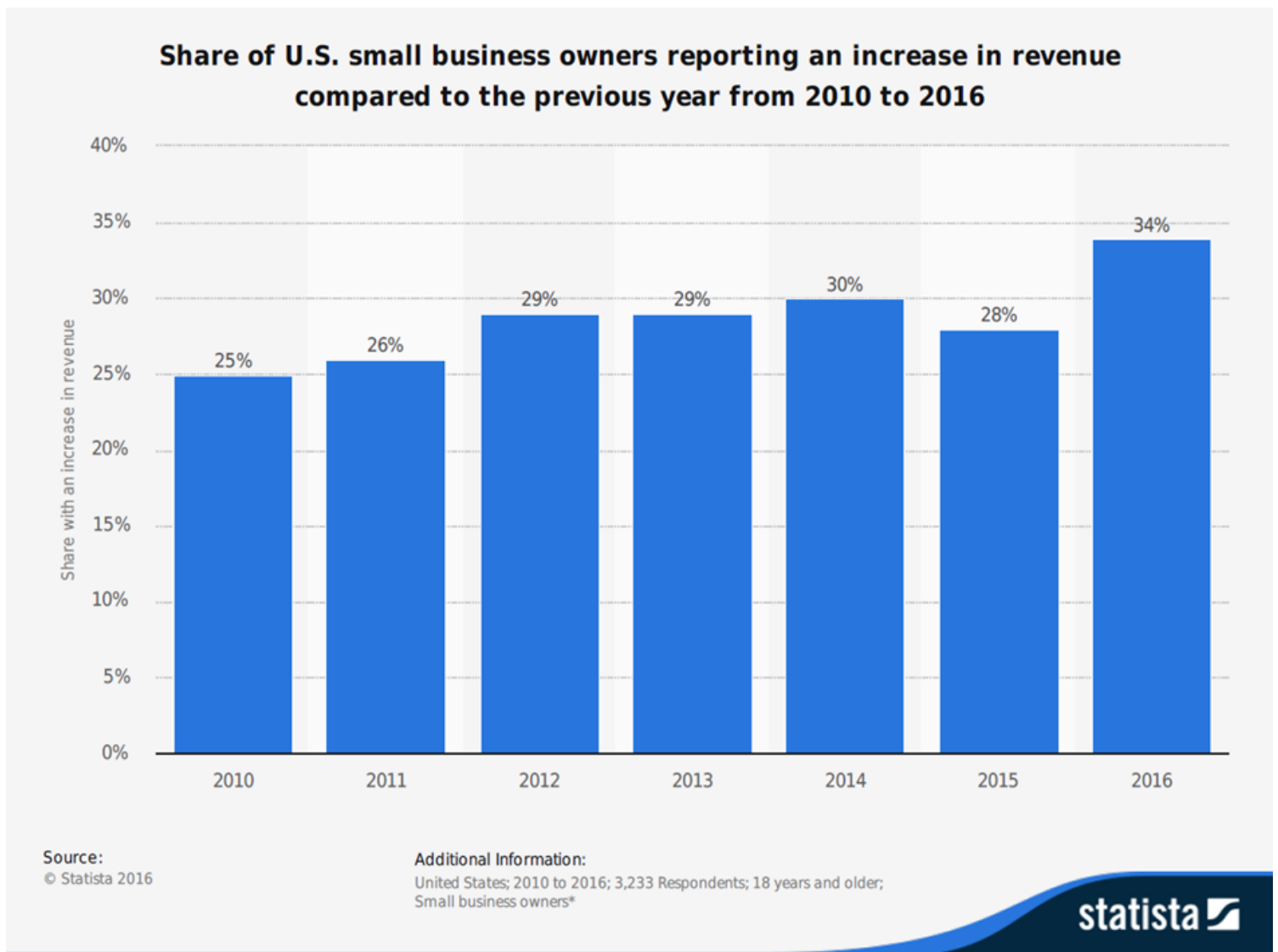
**Figure 4**



<sup>[37]</sup> An Early Look At Changes In Employer-Sponsored Insurance Under The Affordable Care Act, F. Blavin, et. al., Health Affairs 34, NO. 1 (2015): 170–177, 2014

<sup>[39]</sup> U.S. Bureau of the Census, Statistics of U.S. Businesses, 2015

Figure 5

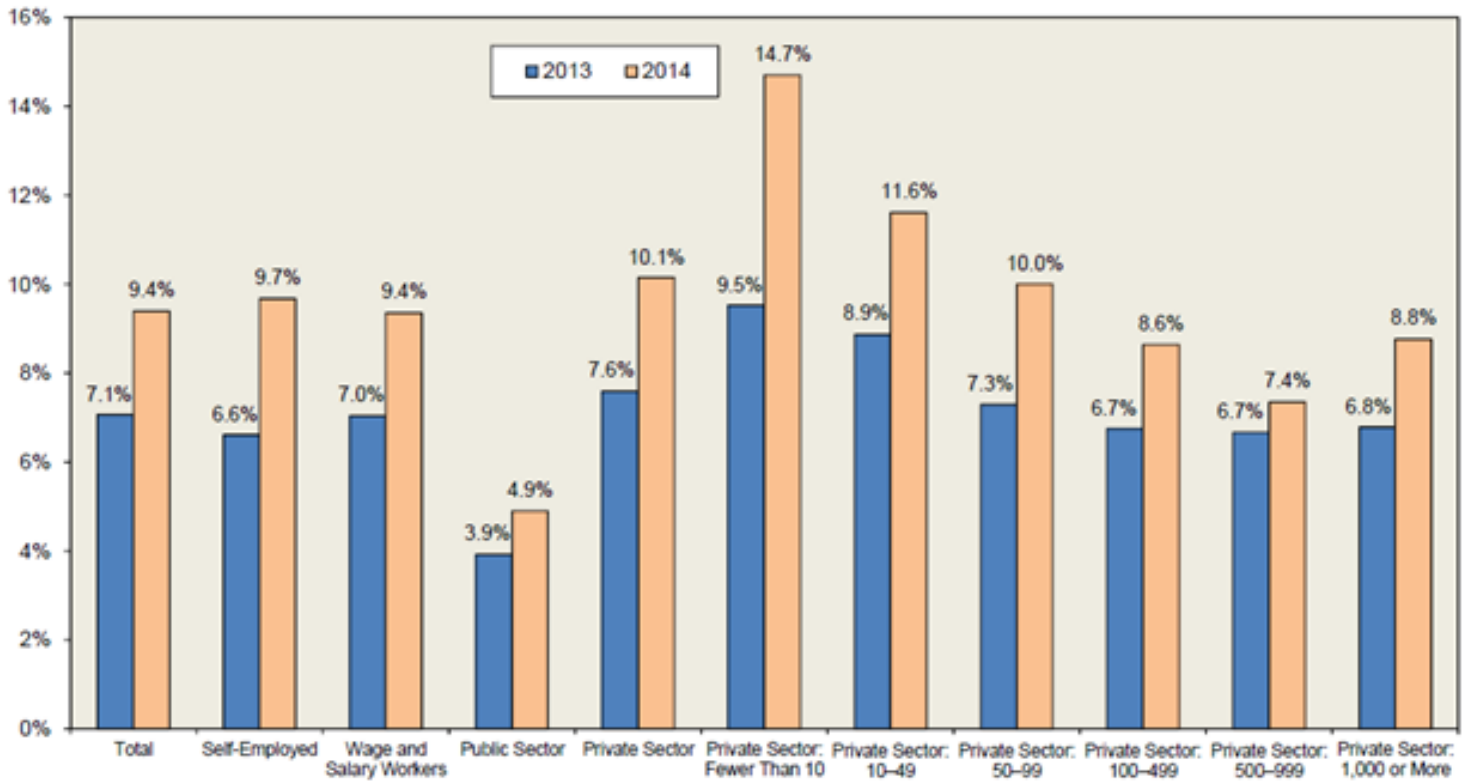


#### Concluding remarks

The Affordable Care Act has helped improve access to coverage and high quality health care for millions of Americans, including small business owners and their employees. The ACA expanded health insurance coverage to millions of Americans who were formerly uninsured and it has improved coverage for millions more who already had health insurance. Connecting workers to coverage, regardless of where they work, helps to improve productivity of the American workforce. The ACA's focus on quality has helped to reduce hospital acquired infections and readmissions, increasing the value of health care spending. Medicaid expansion has infused new dollars into communities, covered vulnerable people, and reduced the burden of uncompensated hospital care on everyone in our communities. This helps local economies. These important milestones have occurred while keeping the rate of growth in health spending unusually low. Thank you for the opportunity to address the important ways the ACA is helping small businesses and their employees. I welcome your questions.



Figure 73  
**Medicaid Coverage, Workers Ages  
 18–64, by Firm Size, 2013–2014**



Source: Employee Benefit Research Institute estimates from the Current Population Survey, March 2014–2015 Supplements.