Weekly Checkup

The Apple of My ESI

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Last week the public health emergency (PHE) finally expired, and with it, the last remaining traces of the federal government'sCOVID-19 powers. Also **ending with the PHE is Medicaid's continuous coverage provisions** (which technically ended April 1); and a previous brief insight of mine covered how many individuals are expected to be disenrolled and what their options are for coverage post-Medicaid. **This week I published a new insight on how policymakers could improve those individuals' options for coverage by encouraging more small businesses to offer health benefits.** Let's dive into why we should look to small businesses to improve coverage and what policy options are available.

First, **why encourage small businesses to offer employer-sponsored insurance (ESI) instead of, say, pushing individuals toward the Affordable Care Act (ACA) Marketplace?** As my insight notes, even with the enhanced advanced premium tax credits (APTCs), only when an individual made less than 242 percent of the federal poverty level in 2022 do ACA premiums drop below those of small firms. Deductibles tell a similar story: Only individuals making less than $27,180 qualify for Marketplace plan deductibles that are less than what small firms offer, while the median personal income for full-time U.S. workers in 2022 was $57,200. This is before comparing the provider network size advantages of ESI, which has significantly larger networks than ACA Marketplace plans (Marketplace plans closely mirror the notoriously limited Medicaid provider networks). When comparing the per-enrollee cost to the federal government, ESI subsidies cost an average of $2,000 in 2022 while ACA Marketplace subsidies cost $5,820 that same year.

Most important, small businesses have the most room to grow. While small firms (fewer than 50 employees) account for 61.7 million workers (or 46.4 percent of all U.S. employees), less than a third of small businesses offer coverage. In contrast, 91 percent of firms with 50–199 workers offer benefits, and 99 percent of firms larger than that offer benefits.

As my insight makes clear, **there are several ways policymakers could make the cost of providing health insurance cheaper for small businesses**. First, Congress could loosen restrictions on association health plans (AHPs) to make them more practical. AHPs are arrangements where small and medium-sized businesses join together to purchase insurance for their employees, allowing them to provide the benefits of scale in terms of buying power and reducing the regulatory burden. The Paragon Health Institute has a handy briefing on the options for doing this, but essentially it involves significantly loosening current requirements that businesses must have some sort of common interest in order to qualify for an AHP and opening up AHPs to gig workers. Congress could also reform regulations around stop-loss insurance to ensure federal agencies and states can't functionally prevent small businesses and AHPs that self-insure from protecting themselves from financial risk. Additionally, Congress could adjust the ACA's current small business tax credit for health insurance by allowing small businesses with more than 25 employees or those that pay an average salary of more than $64,000 a year to claim it, and by extending the number of years businesses can claim the credit (the current limit is two years). Finally, Congress could continue the PHE policy of allowing employers to offer separate telehealth benefits to employees who don't currently qualify for benefits.

Why does the source of coverage matter? Beyond the clear advantages to the individual beneficiary, increased ESI options are a bulwark against the increasing federal control of health care. The left is constantly working to add more people to government-backed coverage programs, be it through the Marketplace or Medicaid expansions. The more individuals covered by these programs, which are expensive for the individual and have small networks, the more political pressure on the government to increase subsidization and benefits in these programs, making them more attractive and encouraging more businesses to shed coverage. It's not difficult to see how this approach has spiraled into the continued expansion of federally funded, government-managed health coverage. In order to halt this spiral, policymakers need to strengthen available options, which for now means strengthening ESI through small businesses.