

UC Berkeley Center for Labor Research and Education
May 2017

California's Self-Employed and Small Business Employees Experienced Large Health Coverage Gains under ACA

By Rachel Siemons, Laurel Lucia, and Ken Jacobs

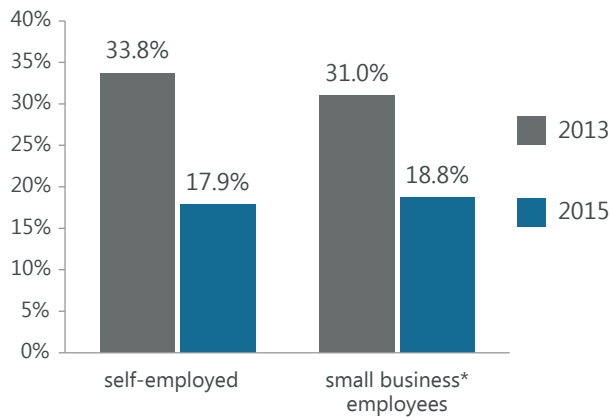
Overview

While most Californians have health insurance through their employer, the self-employed generally do not have that option through their own work, and small business employees have historically been less likely to have an offer of affordable employer-sponsored insurance (ESI) compared to those who work for large employers. The Affordable Care Act (ACA) expanded Medicaid eligibility and created health insurance marketplaces where income-eligible individuals can receive subsidies to purchase coverage. As Congress continues to debate the effects the ACA has had, this brief highlights the ways in which California's self-employed and small business employees who lack ESI were affected by the expanded coverage options under the ACA.

Analysis of California Health Interview Survey (CHIS) data shows substantial coverage gains between 2013 and 2015 among self-employed Californians and those working for small businesses (defined as having 50 or fewer employees). Among both groups, approximately one in five workers lacked insurance in 2015, compared to one in three in 2013 (Exhibit 1, page 2).

Approximately one in five self-employed Californians (21.4%) and small business employees (20.0%) relied on ACA coverage—either the Medi-Cal expansion or subsidized coverage through Covered California—in 2015 (Exhibit 2, page 2). In total, 567,000 self-employed and more than 1.0 million employees of small businesses were estimated to be enrolled in ACA coverage in 2015, according to analysis of CHIS data. Restaurants, family-owned motels, independent grocery stores and drugstores, gas stations, clothing stores, and tax, accounting, bookkeeping and legal firms are among the types of small businesses that have employees enrolled in the Medi-Cal expansion.

Exhibit 1:
Percentage of Uninsured Self-Employed and Small Business Employees, California, 2013 and 2015

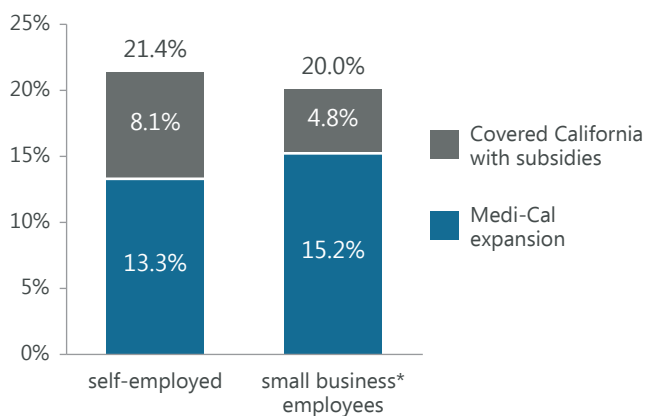


*employers with 0–50 workers

NOTE: Data include only adults ages 19-64. Self-employed and government workers are excluded from the small business employee estimates.

Source: California Health Interview Survey 2013 and 2015

Exhibit 2:
Percentage of Self-Employed and Small Business Employees Enrolled in ACA Coverage, 2015



*employers with 0–50 workers

NOTE: Data include only adults ages 19-64. Medi-Cal expansion population includes only childless adults who do not have a disability that prevented them from working, and are not legally blind. Covered California population includes only adults with household income at or below 400% of the Federal Poverty Level. Self-employed and government workers are excluded from the small business employee estimates.

Source: California Health Interview Survey 2015

Background on California’s self-employed and small business workers

Self-employed

Of the 17.9 million workers in California in 2015, nearly 2.7 million, or 14.8%, reported being self-employed, according to an analysis of data from the 2015 California Health Interview Survey (CHIS).¹ The self-employed include small business owners, as well as consultants and independent contractors. The ACA was predicted to increase opportunities for entrepreneurship by reducing “job-lock,” or the phenomenon of workers staying in jobs that are not well-matched to their skills and interests in order to maintain health coverage for themselves or family members.² Sufficient evidence is not yet available to determine if and by how much self-employment has increased under the ACA.³

Self-employed Californians were as likely (21.1%) as all other workers (21.7%) to be low income in 2015, as indicated by having household income at or below the Medi-Cal income eligibility threshold, according to analysis of CHIS data. The proportion of self-employed Californians with household income that would potentially make them eligible for Covered California with subsidies was lower (27.3%) than the proportion of all other workers in that income range (33.6%).

Small business employees

An additional 5.1 million Californians who are not self-employed work for small businesses with no more than 50 employees, according to the CHIS. This brief defines small businesses as those with no more than 50 employees because under the ACA employers with more than 50 full-time equivalent employees are required to offer affordable coverage to full-time employees or pay a penalty. Until December 31, 2015, California’s small-group health insurance market was limited to businesses with no more than 50 employees; however, as of January 1, 2016, the small-group rules changed to include

businesses employing no more than 100 employees. There are 6.3 million California workers who are employed by small businesses using this broader definition. Throughout this brief data for small employees is broken down by firm size to illustrate how the trends vary by firm size.

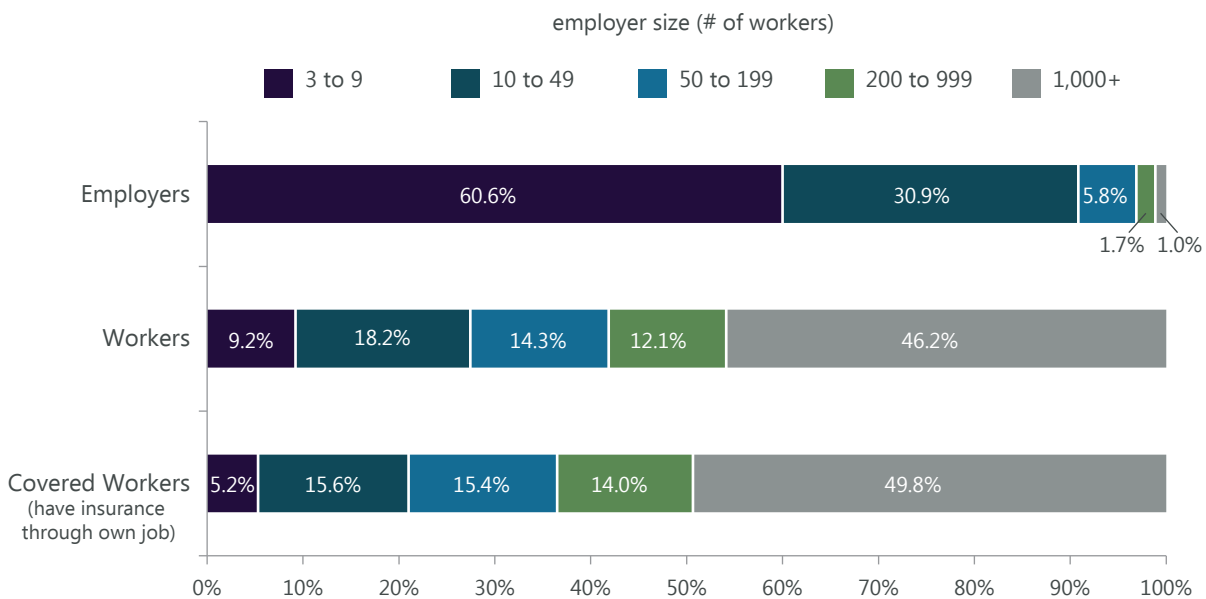
As of 2015, small businesses with fewer than 50 workers comprised 91.5% of all businesses in California, with 60.6% employing 3 to 9 workers, and an additional 30.9% employing 10 to 49 workers. Although there are far more small employers than large employers in California, a greater percentage of workers (72.7%), as well as the majority of workers covered by ESI (79.2%), work for businesses with 50 or more employees (Exhibit 3), according to the California Employer Health Benefits Survey.

This brief finds that small business employees rely more heavily on Medi-Cal and Covered California insurance with subsidies than workers at larger businesses. This is due in part to small business

employees' lower income. Employees of small businesses with 50 or fewer workers were approximately twice as likely to have low household income (i.e., as indicated by having income at or below the Medi-Cal income eligibility threshold) as employees at larger businesses (34.5% v. 17.6%), according to analysis of 2015 CHIS data. The proportion of employees with household income that would potentially make them eligible for Covered California with subsidies was relatively similar for employees of small business (38.1%) compared with their counterparts at larger firms (35.4%).

In addition, California small businesses are less likely than larger businesses to offer employer-sponsored health insurance to their workers, making employees of small firms more likely to enroll in Medi-Cal and Covered California with subsidies. As of 2015, 46.4% of employers with 3 to 9 workers and 66.2% of employers with 10 to 49 workers offered coverage to their employees, whereas offer rates were above 90% among California employers with more than 50 workers,

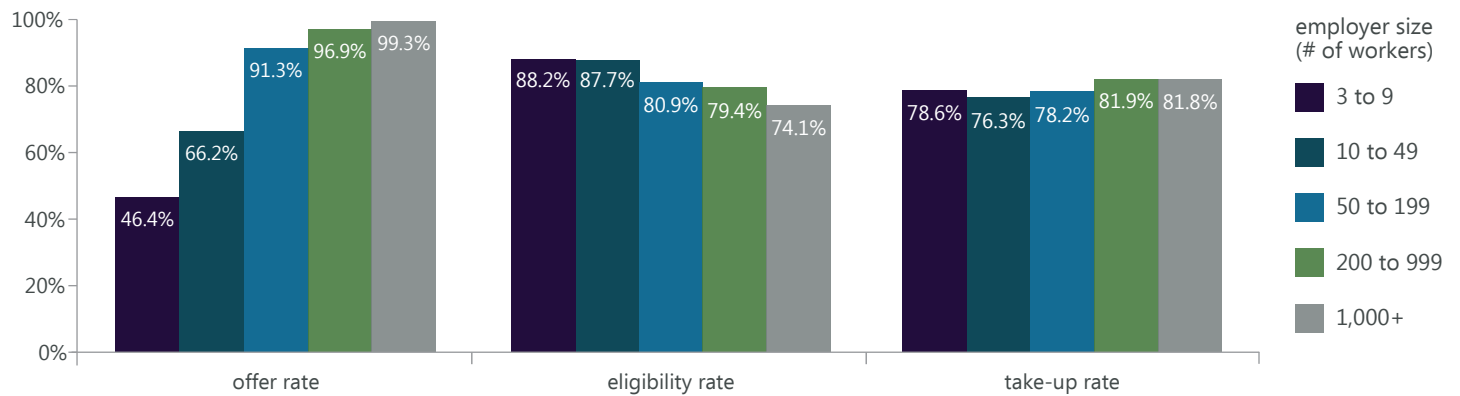
**Exhibit 3:
Business Demographics by Employer Size, California, 2015**



Source: California Health Care Foundation/NORC at the University of Chicago, California Employer Health Benefits Survey 2015. The survey excludes self-employed individuals, except those that own small businesses with at least 3 employees.

Exhibit 4:

Employer-Sponsored Insurance Offer, Eligibility, and Take-Up Rates, California, 2015



Source: CHCF/NORC, California Employer Health Benefits Survey 2015

according to the California Employer Health Benefits Survey. The gap in offer rates by firm size existed prior to the ACA.⁴ The disparity in coverage rates by business size is due more to the disparity in offer rates than differences in eligibility rates, which were higher for small firms, or take-up rates, which were relatively consistent by firm size (Exhibit 4). Smaller employers are less likely to offer coverage, primarily due to greater affordability

concerns. According to a Kaiser Family Foundation survey, which defines small firms as those with fewer than 200 employees, the most important reason among small firms for not offering coverage was cost (41%). The next most common reason given by employers was that employees often had another source of coverage such as through a spouse's job (26%).⁵

Background on the Affordable Care Act

Through the Affordable Care Act's (ACA) Medicaid expansion in California, citizen and lawfully present childless adults with income at or below 138% of the federal poverty level (FPL) became newly eligible for Medi-Cal, the state's Medicaid program. Parents with income between 108% and 138% FPL also became newly-eligible for Medi-Cal. (In 2015, 138% of the federal poverty level was equivalent to \$16,240 for a single individual.) Under the ACA, citizens and lawfully present immigrants with incomes at or below 400% FPL who are not offered coverage through an employer, or whose employer-sponsored insurance is unaffordable (costs more than 9.69% of worker's household income) or does not meet a "minimum value" standard of benefits, are eligible for subsidies to help them afford coverage through Covered California, the state Marketplace. (In 2015, 400% of the federal poverty level was equivalent to \$47,080 for a single individual.)

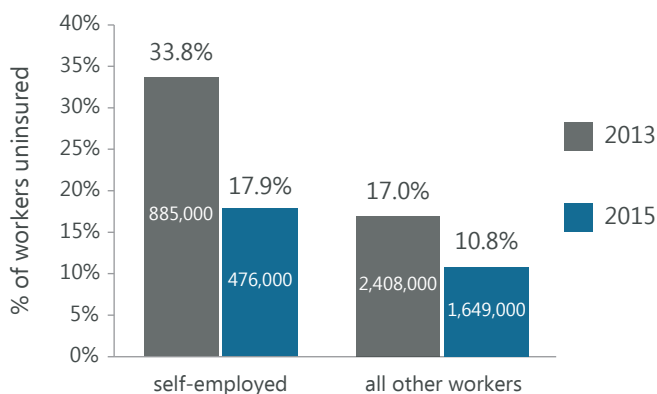
The ACA includes an individual mandate, whereby individuals are required to have health insurance or pay a penalty, with exemptions for individuals who do not have access to affordable coverage, have low income, or face other hardships in purchasing coverage. The ACA also requires large employers with at least 50 full-time equivalent employees to offer affordable coverage with "minimum value" to full-time employees or pay a penalty. Unless they qualify for an exemption, self-employed Californians and small business employees who remain uninsured would be subject to the penalty, even if they are not offered affordable employer-sponsored insurance.

The uninsured rate among California's self-employed and small business employees declined sharply under the ACA

Self-employed

While self-employed Californians still had a higher rate of uninsurance (17.9%) than other workers (10.8%) in 2015, the number and rate of self-employed Californians lacking coverage substantially declined under the ACA, according to analysis of CHIS data. In 2013, 885,000 self-employed Californians, or 33.8%, were uninsured. In 2015, with the implementation of the ACA and the new availability of affordable individual-market health insurance options, the uninsured rate among the self-employed declined substantially to 17.9% (476,000). These data indicate that 409,000 more self-employed Californians gained coverage under the ACA. While all other workers also experienced in a decline in the uninsured rate from 17.0% to 10.8% between 2013 and 2015 (Exhibit 5), the self-employed saw a far greater drop in the uninsurance rate.

Exhibit 5:
Percentage and Number of Uninsured Self-Employed Compared to All Other Workers, California, 2013 and 2015



NOTE: Data include only adults ages 19-64.
Source: California Health Interview Survey 2015

Small business employees

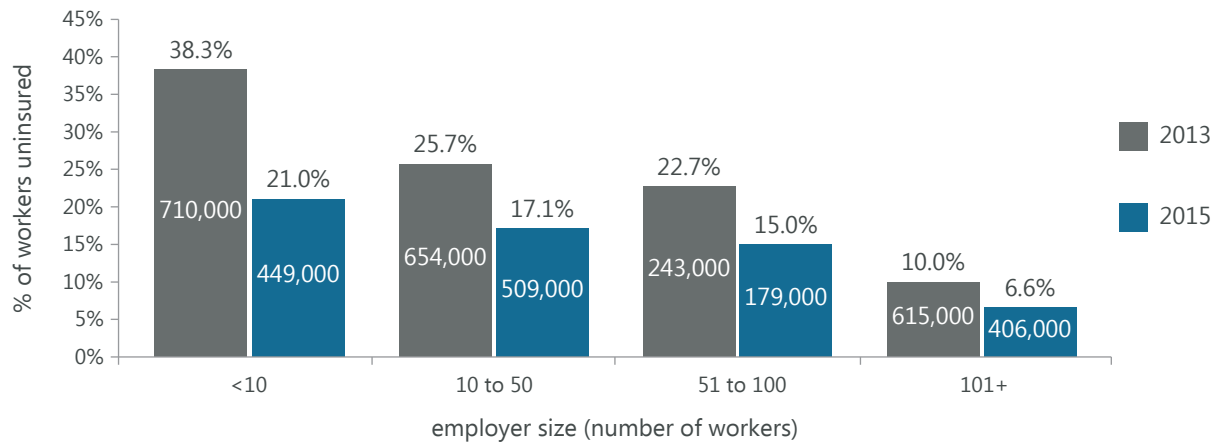
Like the self-employed, small business employees also saw a substantial decline in their uninsurance rate under the ACA. While the percentage of uninsured workers declined significantly across all business sizes, the greatest declines were found among employees of businesses at the smallest end of the size spectrum. Specifically, between 2013 and 2015, the uninsured rate fell from 38.3% to 21.0% for employees at businesses with fewer than 10 workers and from 25.7% to 17.1% for employees at businesses with 10 to 50 workers, according to analysis of data from the CHIS. In all, 405,000 California small business employees gained coverage after implementation of the ACA (Exhibit 6, page 6). In comparison, the uninsured rate among workers at larger businesses (those with at least 51 employees), while already low, saw a smaller decline under the ACA, from 11.9 to 7.9% (not shown). Although employees of businesses with 50 or fewer employees still have a higher uninsured rate (18.8%, not shown) than employees of larger businesses, the gap in health coverage between workers at firms of different sizes has narrowed significantly.

California's self-employed and small-business employees rely on the Medi-Cal expansion

Self-employed

Through the ACA's Medicaid expansion in California, low-income adults (those with income at or below 138% of the federal poverty level (FPL)) without minor children living at home became newly eligible for Medi-Cal. (Parents with income between 108% and 138% FPL also became newly-eligible, but due to data limitations this analysis focuses only on the childless adults who make up the largest group of Medi-Cal expansion enrollees.) Data from the CHIS show that in 2015, Medi-Cal enrollment rates—including expansion enrollment—for self-employed Californians were relatively similar to those for all other workers. Nearly a quarter of self-employed Californians (24.7%,

**Exhibit 6:
Percentage and Number of Uninsured Workers by Employer Size, California,
2013 and 2015**



NOTE: Data include only adults ages 19-64. Excludes self-employed and government workers.
Source: California Health Interview Survey 2013 and 2015

656,000) were enrolled in Medi-Cal. Of this population, 13.3% (353,000), became eligible for and enrolled in Medi-Cal through the ACA's expansion of the program to low-income childless adults (Exhibit 7). Among all other workers, 21.4% were enrolled in Medi-Cal as their main source of health insurance, including 11.2% who enrolled through the expansion.

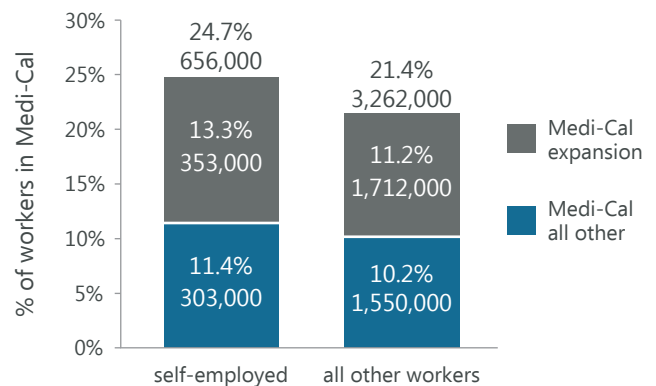
Small business employees

Small business employees in California have a higher rate of Medi-Cal enrollment than other workers. In 2015, 36.7% of employees (783,000) at small businesses with fewer than 10 employees were covered by Medi-Cal, in addition to 27.6% at small businesses with 10 to 50 employees (822,000). Compared to the lower Medi-Cal coverage rate among workers at large businesses with over 50 employees (17.4%), small business employees have a higher reliance on Medi-Cal than those who work for larger employers (Exhibit 8 and 9, page 7).

According to 2015 data from the CHIS, small businesses with fewer than 10 employees had the largest percentage of workers (20.1%) enrolled in the Medi-Cal expansion. Among small businesses with 10 to 50 employees, 11.8% of workers enrolled in

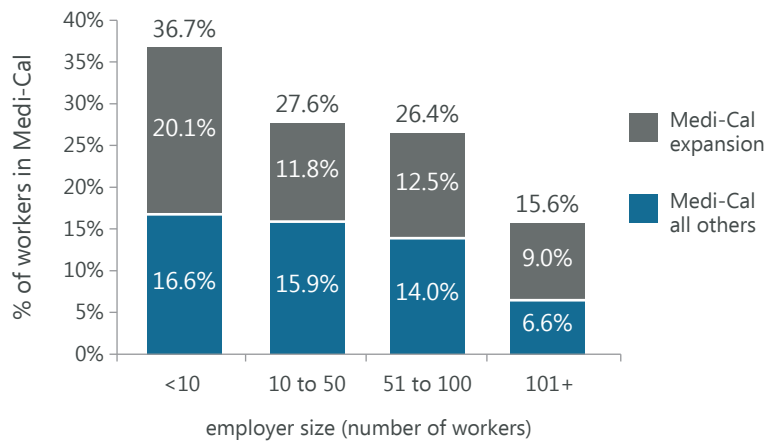
health coverage through the Medi-Cal expansion (Exhibit 8). At larger businesses (51+ employees), a smaller percentage of workers enrolled in the Medi-Cal expansion (9.5%, not shown). Overall, an estimated 15.2% of employees at businesses with 50 or fewer workers (not shown), or 778,000 workers,

**Exhibit 7:
Percentage and Number of Self-Employed Enrolled in Medi-Cal Compared to All Other Workers, 2015**



NOTE: Data include only adults ages 19-64. Medi-Cal expansion population includes only childless adults who do not have a disability that prevents them from working, and are not legally blind.
Source: California Health Interview Survey 2015

Exhibit 8:
Percentage of Workers Enrolled in Medi-Cal by Employer Size, 2015



NOTE: Data include only adults ages 19-64. Medi-Cal expansion population includes childless adults enrolled in Medi-Cal as of 2015 who do not have a disability that prevents them from working, and are not legally blind. Excludes self-employed and government workers.

Source: California Health Interview Survey 2015

Exhibit 9:
Number of Workers Enrolled in Medi-Cal by Employer Size, 2015

	Employer size (number of workers)			
	<10	10-50	51-100	101+
Medi-Cal expansion	428,000	350,000	149,000	556,000
Non-expansion	355,000	472,000	167,000	410,000
Total Medi-Cal	783,000	822,000	316,000	966,000

NOTE: Data include only adults ages 19-64. Medi-Cal expansion population includes only childless adults enrolled in Medi-Cal as of 2015 who do not have a disability that prevents them from working, and are not legally blind. Excludes self-employed and government workers.

Source: California Health Interview Survey 2015

gained coverage through the Medi-Cal expansion put in place by the ACA (Exhibit 9).

Industries with the greatest number of small business employees enrolled in the Medi-Cal expansion include retail; food services, accommodation, and related industries; and professional scientific, and management.⁶ Small businesses in these industries include enterprises such as restaurants, family-owned motels, independent grocery stores and drug-stores, gas stations, clothing stores, and tax, accounting, bookkeeping and legal firms. These findings dovetail previous research that found above-average enrollment in ACA coverage, defined as the Medi-Cal expansion and Covered California with subsidies, in certain industries including agriculture and service industries such as restaurants, retail, auto repair, hair salons, private households, and building services.⁷ Small firms are common in many of these industries.

The self-employed and small business employees experienced significant enrollment gains through subsidized Covered California insurance

Self-employed

Under the ACA, individuals with incomes at or below 400% FPL who are not offered coverage through an employer, or for whom employer-sponsored insurance is unaffordable, are eligible for subsidies to help them afford coverage through Covered California. The availability of these subsidies helped make coverage more affordable for the

self-employed. In 2015, 8.1% of self-employed Californians (214,000) were enrolled in Covered California through the individual market and were estimated to be eligible for premium subsidies based on income, according to analysis of data from the CHIS (Exhibit 10). This is a much larger proportion than the 2.9% of all other workers who were enrolled in Covered California and estimated to be eligible for subsidies.

Analysis of CHIS data indicates that a total of 421,000 self-employed Californians were enrolled in Covered California in 2015, with or without subsidies. The CHIS estimate falls in between the 377,000 enrollees that Covered California officials estimated were self-employed as of the end of 2015⁸ and the 480,000 self-employed sole proprietors/small business owners enrolled in Covered California in 2014 according to estimates by the U.S. Treasury using tax data.⁹ The similarity of these estimates from three different sources suggests that the CHIS is capturing the self-employed enrolled in Covered California well.

Small business employees

Small business employees also enrolled in subsidized Covered California plans in the individual market in significant numbers. In total, 246,000 small business employees, or 4.8% (not shown), enrolled in Covered California and were potentially eligible for subsidies in 2015; the rate for workers at large businesses (1.9%, not shown) was less than half that. Larger employers with workers enrolled in Covered California with subsidies would likely be subject to penalties under the ACA if those enrolled worked full time. Analysis of 2015 data from the CHIS indicates that businesses with fewer than 10 employees had the largest percentage of workers (6.0%, 128,000) who were enrolled in the individual market through Covered California and were estimated to be eligible for subsidies based on income. Small businesses with 10 to 50 employees had 4.0% (118,000) of workers enrolled in Covered California with the potential help of subsidies. Among larger businesses with more than 50 employees, 1.9% (138,000) of workers obtained health coverage through Covered California and were potentially eligible for subsidies (Exhibit 11).

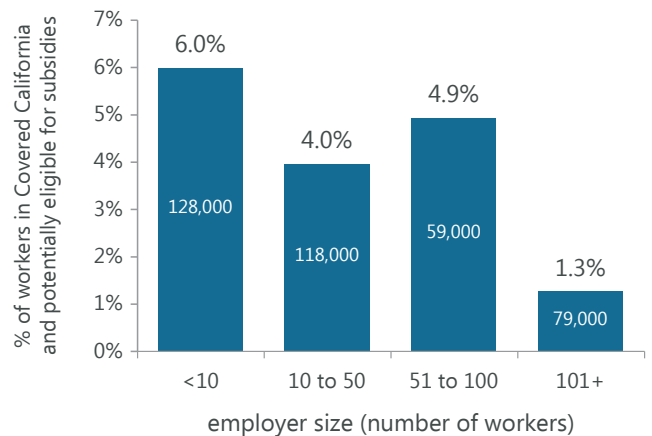
Exhibit 10:
Percentage and Number of Self-Employed Enrolled in Covered California Individual Market Insurance and Potentially Eligible for Subsidies Compared to All Other Workers, 2015



NOTE: Data include only adults ages 19-64 with household income at or below 400% of the Federal Poverty Level.

Source: California Health Interview Survey 2015

Exhibit 11:
Percentage and Number of Workers Enrolled in Covered California Individual Market Insurance and Potentially Eligible for Subsidies by Employer Size, 2015



NOTE: Data include only adults ages 19-64. Excludes self-employed and government workers.

Source: California Health Interview Survey 2015

Conclusion

In California, more than half a million (567,000) self-employed and over 1.0 million small business employees benefited in 2015 from the insurance options made available through the Affordable Care Act, namely the Medi-Cal expansion and subsidies through Covered California.

Compared to other types of workers, self-employed Californians were more likely to obtain health coverage through the ACA, with 21.4% enrolling in the Medi-Cal expansion or subsidized Covered California plans, versus 14.1% of all other workers. The self-employed also saw larger declines in the uninsured rate (from 33.8% to 17.9%) compared to all other workers (from 17.0% to 10.8%).

Similarly, when compared to workers at large businesses, California small business employees had the greatest coverage gains after implementation of

the ACA, with 20.0% of those in firms with 50 or fewer workers enrolled in the Medi-Cal expansion or subsidized plans through Covered California, compared to only 11.4% of those working for large employers.

For California's small businesses, especially for those with lower-income workers, such as restaurants, small retailers, and family farms, the ACA has been instrumental in allowing employees both to remain in their jobs and acquire health insurance. The ACA has also enabled small business owners and other self-employed Californians to more easily obtain affordable health insurance while continuing to pursue their entrepreneurial goals. If the ACA is repealed or weakened, self-employed Californians and small business employees would disproportionately suffer.

Endnotes

¹ California Health Interview Survey (CHIS) respondents are asked about employment on their main job. Respondents can report being employed by a private company, the government, self-employed, or working without pay in a family business or farm. The rate of self-employment indicated by CHIS is higher than in the U.S. Census Bureau's Current Population Survey, which indicates that 12.1% of Californians were self-employed in 2016, including those who had incorporated businesses and those who did not.

² Blumberg, Linda J., Sabrina Corlette, and Kevin Lucia. *The Affordable Care Act: Improving Incentives for Entrepreneurship and Self-Employment*. Timely Analysis of Immediate Health Policy Issues series. The Center on Health Insurance Reform at Georgetown University Health Policy Institute, Robert Wood Johnson Foundation, and Urban Institute. May 2013. <http://www.urban.org/sites/default/files/publication/23661/412830-The-Affordable-Care-Act-Improving-Incentives-for-Entrepreneurship-and-Self-Employment.PDF>

³ Abraham, Jean and Anne Beeson Royalty. *How Has the Affordable Care Act Affected Work and Wages?* ACA Impact Series issue brief. University of Pennsylvania Leonard Davis Institute of Health Economics. January 19, 2017. <https://ldi.upenn.edu/brief/how-has-affordable-care-act-affected-work-and-wages>

⁴ In 2012, 48.6% of employers with 3 to 9 workers and 71.4% of employers with 10 to 49 workers offered coverage to their employees, compared to more than 90% among larger employers. *California Employer Health Benefits Survey: Fewer Covered, More Cost*. California Health Care Almanac series. California HealthCare Foundation and NORC at the University of Chicago. April 2013. <http://www.chcf.org/~media/MEDIA%20LIBRARY%20Files/PDF/PDF%20E/PDF%20EmployerHealthBenefits2013.pdf>

⁵ Kaiser Family Foundation/Health Research & Educational Trust, Employer Health Benefits Survey, 2015.

⁶ Authors' analysis of California Health Interview Survey (CHIS) 2014 data. The industry variable is not currently available for CHIS 2015. Data include only adults ages 19-64. Medi-Cal expansion population includes only childless adults (ages 19-64) enrolled in Medi-Cal as of 2014 who do not have a disability that prevents them from working, and are not legally blind. Excludes self-employed and government workers.

⁷ Lucia, Laurel, Miranda Dietz, and Ken Jacobs. *Which California Industries would be Most Affected by ACA Repeal and Cuts to Medi-Cal?* Data brief. Center for Labor Research and Education, University of California, Berkeley. February 2017. <http://laborcenter.berkeley.edu/which-california-industries-would-be-most-affected-by-aca-repeal-and-cuts-to-medi-cal/>

⁸ Bartolone, Pauline. *What California's smallest businesses stand to lose with Obamacare Repeal*. KPCC Health coverage. 89.3 KPCC, Southern California Public Radio. February 14, 2017. <http://www.scpr.org/news/2017/02/14/69056/what-california-s-smallest-businesses-stand-to-lose/>

⁹ Jackson, Emilie, Adam Looney, and Shanthi Ramnath. *The Rise of Alternative Work Arrangements: Evidence and Implications for Tax Filing and Benefit Coverage*. Office of Tax Analysis Working Paper 114. U.S. Department of the Treasury. January 2017. <https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/WP-114.pdf>

Institute for Research on Labor and Employment
University of California, Berkeley
2521 Channing Way
Berkeley, CA 94720-5555
(510) 642-0323
laborcenter.berkeley.edu



UC Berkeley Center for Labor Research and Education

The Center for Labor Research and Education (Labor Center) is a public service project of the UC Berkeley Institute for Research on Labor and Employment that links academic resources with working people. Since 1964, the Labor Center has produced research, trainings, and curricula that deepen understanding of employment conditions and develop diverse new generations of leaders.

About the authors

Rachel Siemons is pursuing her MD through the UC Berkeley-UCSF Joint Medical Program. Laurel Lucia is the director of the Health Care Program at the UC Berkeley Center for Labor Research and Education. Ken Jacobs is the chair of the UC Berkeley Center for Labor Research and Education.

Acknowledgments

We would like to thank Richard Figueroa, Carolina Gutierrez, Mark Herbert, and Carolyn Wang Kong for their review of this brief. Thanks to Jenifer MacGillvary for her help in preparation of the brief. Funding for this research was provided by Blue Shield of California Foundation and The California Endowment.

Suggested citation

Siemons, Rachel, Laurel Lucia, and Ken Jacobs. *California's Self-Employed and Small Business Employees Experienced Large Health Coverage Gains under ACA*. Data brief. Center for Labor Research and Education, University of California, Berkeley. May 18, 2017. <http://laborcenter.berkeley.edu/small-business-self-employed-health-coverage-under-aca>.

The analyses, interpretations, conclusions, and views expressed in this brief are those of the authors and do not necessarily represent the UC Berkeley Institute for Research on Labor and Employment, the UC Berkeley Center for Labor Research and Education, the Regents of the University of California, or collaborating organizations or funders.