

Does Health Care Reform Support Self-Employment?

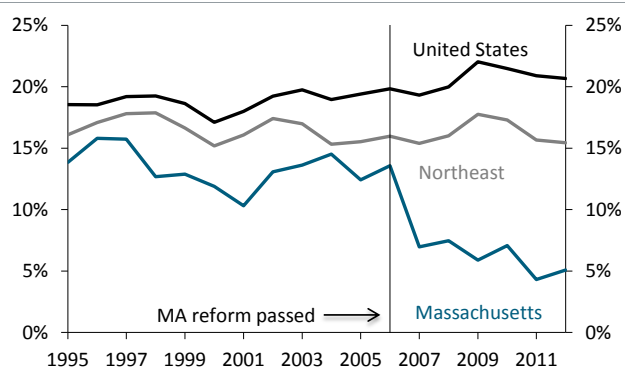
By Didem Tüzemen and Thealexa Becker

The Patient Protection and Affordable Care Act (PPACA) aims to reduce the nation's uninsured rate and broaden access to health insurance. The reform may also influence individuals' decisions to remain or become self-employed. Using the Massachusetts Health Care Reform Act as a case study for the PPACA, we find the reform in Massachusetts lowered the uninsured rate and might have supported self-employment in the state amidst the downward trend in the nation.

Health insurance has a strong link to paid-employment, as a majority of workers obtain health insurance through their employers. The prevalence of employer-provided insurance could be a barrier to self-employment, as obtaining non-group coverage can be more difficult or expensive for the self-employed. The Patient Protection and Affordable Care Act (PPACA) aims to ease access to health insurance for all individuals, and therefore might influence self-employment in the country.

This Bulletin addresses the possible effects of the PPACA on self-employment by examining a similar reform in Massachusetts, the Massachusetts Health Care Reform Act, signed in 2006. Both reforms included individual and employer mandates, subsidized health insurance exchanges, expansions of public health insurance programs, and reforms to private insurance markets.

Chart 1: Uninsured rates (ages 16-64)



Source: Authors' calculations from the CPS ASEC.

To examine changes in Massachusetts' uninsured rate and self-employment share, we used data from the Current Population Survey's (CPS) Annual Social and Economic Supplement (ASEC) for the 1996-2013 period, which reference the 1995-2012 period. The Census Bureau administers the CPS and surveys approximately 60,000 households per month about their demographic characteristics and labor force status. In addition to the standard CPS questions, the ASEC asks a subset of CPS respondents about their health insurance coverage from the previous year. We used this large dataset to examine changes in the uninsured rate and self-employment in the state.

Uninsured rate. The primary outcome from the reform in Massachusetts was a decline in the state's uninsured rate. Following the reform, the uninsured rate for the civilian nonagricultural working-age population (ages 16 to 64) in Massachusetts decreased substantially, dropping from 14 percent in 2006 to 5 percent in 2012 (Chart 1). In contrast, the uninsured rate declined only 1 percentage point, from 16 to 15 percent, in other Northeastern states (Vermont, New Hampshire, Maine, Connecticut, Rhode Island, New York, New Jersey, and Pennsylvania) over the same period. More notably, the uninsured rate in the United States (excluding Massachusetts) increased from 20 percent in 2006 to 21 percent in 2012.

Table 1: Self-employed uninsured rates

	Before reform (2000-2005)	During reform (2006-2007)	After reform (2008-2012)
Massachusetts	20%	18%	10%
Northeastern States	26%	25%	28%
United States	31%	33%	36%

Source: Authors' calculations from the CPS ASEC.

Insurance among the self-employed. Because self-employed individuals have to obtain their own health insurance, a significant share of the self-employed in Massachusetts were uninsured prior to the reform. Those who did have insurance relied heavily on private market plans as policyholders or as dependents. As a result of the reform, the uninsured rate among the self-employed in Massachusetts declined from 20 percent in the pre-

reform period (2000-05) to 10 percent in the post-reform period (2008-12). The share of self-employed individuals on private insurance plans as dependents and the share on public insurance programs rose. In contrast to Massachusetts' experience, more self-employed individuals became uninsured in other states. The uninsured rate for the self-employed rose 5 percentage points in the rest of the country and increased 2 percentage points in other Northeastern states (Table 1).

Rate of self-employment. The health care reform in Massachusetts might have influenced individuals' decisions to remain or become self-employed in two opposing ways. On the one hand, the reform might have boosted self-employment by reducing individuals' reliance on their employers for obtaining health insurance. The reform might have removed a barrier to self-employment as subsidized private insurance became available on the exchange and dependent coverage increased through spouses gaining employer-provided insurance. On the other hand, the reform might have led to a decline in self-employment as the mandates increased the cost of doing business for the previously uninsured self-employed. In addition, the pool of jobs with employer-provided insurance expanded as more employers were required to offer insurance to their employees. These changes might have encouraged individuals to choose paid-employment over self-employment.

Evidence suggests the reform might have supported self-employment rather than depressed it. To see this, we compare the average share of the self-employed in the total working-age population in Massachusetts, in the rest of the country, and in other Northeastern states during three time periods. The first period is from 2004 to 2006, the years prior to the reform's implementation. The second period is from 2007 to 2009, covering the initial years immediately after the reform and the Great Recession. The last period is from 2010 to 2012, the early stages of the recovery and the last years before the PPACA took effect.

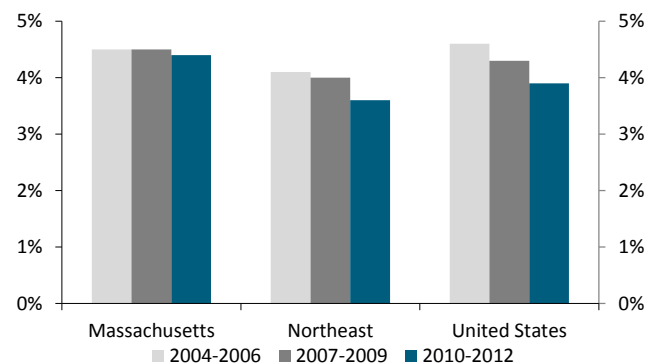
Since the 2004-06 period, the average share of the self-employed in Massachusetts has stayed mostly flat (Chart 2). Meanwhile, the average share of the self-employed in the rest of the United States and in other Northeastern states declined markedly. At the national level, the average share of self-employment dropped from 4.6 percent in the 2004-06 period to 3.9 percent in the 2010-12 period. For the Northeastern states, the average share of self-employment decreased from 4.1 percent to 3.6 percent over the same periods.

Although the rate of self-employment declined in the rest of the country and in other Northeastern states, it remained flat in Massachusetts. The health care reform in Massachusetts could be an underlying reason why the state's self-employment rate didn't decline. In particular, improved access to health insurance might have

supported self-employment in Massachusetts, preventing a definitive shift from self-employment to paid-employment and averting a decline in the self-employment rate.

Possible effects of the PPACA. Massachusetts' experience offers valuable insights into the PPACA's implications for self-employment, given the similarities between the two reforms. Both the PPACA and the Massachusetts reform required individuals to obtain health insurance, either through their employers or through health insurance exchanges, which offer subsidized coverage indexed to income and family size. Both reforms also included an employer mandate requiring firms to offer insurance to their full-time employees. In Massachusetts, employers with more than 10 full-time equivalent employees were required to offer health insurance. The PPACA will require employers with more than 50 full-time equivalent employees to offer insurance. The Massachusetts health care reform and the PPACA both expanded public coverage, specifically through the Medicaid program. In Massachusetts, the program was expanded for children and other qualifying adults. However, the PPACA offered a blanket Medicaid expansion to all states for individuals with up to 133 percent of the federal poverty level. Finally, both reforms disallowed discrimination by the private market against individuals with pre-existing conditions.

Chart 2: Shares of the self-employed in total working-age population (ages 16-64)



Source: Authors' calculations from the CPS ASEC.

Although the PPACA will not be in full effect until 2016 due to delays in the implementation of some of its provisions, the national uninsured rate has already begun to fall. The uninsured rate dropped from 18 percent in the fourth quarter of 2013 to 13.4 percent in the second quarter of 2014 (Gallup Poll, July 2014). The uninsured rate for the self-employed is also expected to decline as they obtain insurance through the private market and public insurance programs. Massachusetts' experience suggests the employer and individual mandates might not have deterred self-employment. In fact, the reform seems to have supported self-employment in the state amidst the downward trend in the country. As such, the PPACA might also encourage self-employment at the national level as the self-employed gain better access to health insurance.

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