

HEALTHCARE REFORM'S ROLE IN THE LABOR MARKET





Given that most Americans obtain health insurance coverage from their employers, health insurance plays an important role in people's employment decisions. Some economists argue the relationship between health insurance and paid-employment has hampered entrepreneurship in the United States, as obtaining health insurance may be more costly and difficult for self-employed individuals in comparison to employees.

The Patient Protection and Affordable Care Act, commonly referred to as the Affordable Care Act, implements changes to the U.S. healthcare system in an effort to decrease the number of uninsured people in America. Some economists say the reform could increase the self-employment rate in the United States because it breaks the link between paid-employment and health insurance by making the latter more accessible.

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addressed the relationship between health care reform and self-employment by analyzing the effects of the Massachusetts Health Care Reform Act, which the Patient Protection and Affordable Care Act is loosely based upon. What they found is that the uninsured rate for the self-employed decreased and the share of self-employment in total employment has stayed flat after Massachusetts adopted the reform. This is in contrast to the national self-employment rate, which has declined steadily.

Health insurance and self-employment

Self-employment in the United States has decreased over the past 30 years. Taxes and regulations could explain the decline—it's more burdensome for a small business to address taxes and legal issues than a big corporation. Also, paid-employment could be more attractive than self-employment due to the affordability and accessibility of health insurance.

In 2012, 64 percent of the self-employed had either private or public insurance coverage; however, 85 percent of private-sector employees worked for employers who offered health insurance.

Previous research has shown that employees with access to employer-provided health insurance are 25 percent less likely to leave their jobs than those without, largely due to the fear of losing insurance coverage. Another study finds that, during the 1983-89 period, among the 25-54 year old males, 89 percent of those employed had some form of private insurance coverage, while only 49 percent of those who left their jobs remained insured with a private insurance plan.

Also, people may be reluctant to start their own businesses when they have no alternative insurance options or if they have pre-existing medical conditions, which makes obtaining health insurance difficult.

The effects of healthcare reform

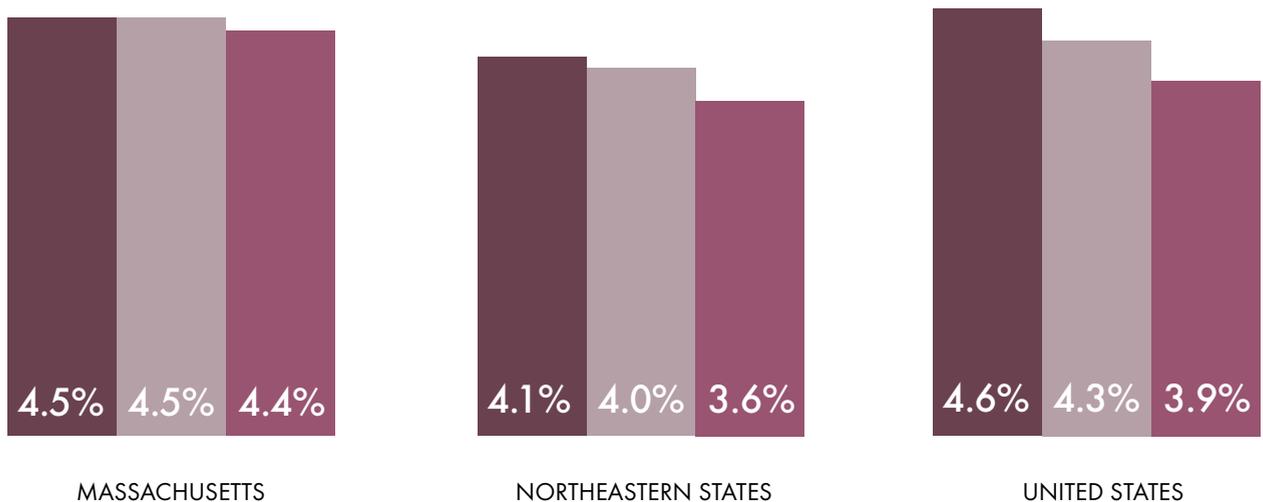
Massachusetts Health Care Reform took effect in 2007. The key components of the reform were forming a state health insurance marketplace, enforcing new coverage requirements for employers and individuals, expanding public health coverage and establishing new rules for insurers.

Due to the reform, enrollment in private health insurance increased as the pool of firms that sponsored health insurance expanded and the state provided individuals with subsidized insurance options. Similarly, Medicaid expansion led to increased enrollment in public insurance in the state.

Using data from the Current Population Survey's Annual Social and Economic Supplement, Tüzemen and Becker show that the percentage of working-age Massachusetts residents without insurance dropped significantly from 14 percent in 2006 to

SELF-EMPLOYMENT RATE

SHARE OF THE SELF-EMPLOYED IN TOTAL WORKING AGE POPULATION



■ 2004 - 06 ■ 2007 - 09 ■ 2010 - 12

Since enacting healthcare reform, Massachusetts self-employment rate has remained steady while other Northeastern states and the nation have experienced a decline.

Source: Current Population Survey's Annual Social and Economic Supplement

5 percent in 2012. Over the same period, the average uninsured rate in the rest of the Northeastern states, none of which adopted the same health care reform, moved from 16 percent in 2006 to 15 percent in 2012. Similarly, the uninsured rate in the nation increased, rising from 20 percent of the population in 2006 to 21 percent in 2012.

The reform also led to increased enrollment for the self-employed. Pre-reform, the average uninsured rate for the self-employed was 20 percent. During the first two years of the reform, 2006-07, the uninsured rate fell to 18 percent. It dropped to 10 percent by 2008-12—a net decrease of 10 percentage points. Notably, the decrease occurred during the financial crisis and recovery. During this time, however, the national uninsured rate among the self-employed increased from 31 percent to 36 percent.

Reform supports self-employment

In the past decade, self-employment in the United States has declined. In the 2004-06 period, the average share of the self-employed in the total working-age population was 4.6 percent nationwide, excluding Massachusetts. This average share declined to 3.9 percent in the 2010-12 period. The Northeastern states, excluding Massachusetts, followed a similar pattern, as the average share of the self-employed in the total working-age population declined from 4.1 percent in the 2004-06 period to 3.6 percent in the 2010-12 period.

Massachusetts' experience differed from other Northeastern states and the nation as a whole. The share of the self-employed in the total working-age population did not change appreciably in the post-reform period, remaining around 4.5 percent.

Because the share of self-employment did not decline significantly in Massachusetts, Tüzemen and Becker's analysis concluded that there has not been a definitive shift from self-employment to paid-employment.

Therefore, the reform does not appear to have any detrimental effects on self-employment in Massachusetts.

Instead, the results suggest that easier access to both private and public health insurance might have been an underlying support to self-employment in Massachusetts.

The effects of national reform

Given the similarities between the health care reform in Massachusetts and the ongoing national reform, Massachusetts' experience can be a case study for the possible effects of the Affordable Care Act on the nation's uninsured rate and self-employment. Based on Tüzemen and Becker's analysis, the Affordable Care Act can be expected to decrease the uninsured rate among the working-age population and among the self-employed in the nation.

Additionally, Massachusetts' experience does not suggest any negative effects of the reform on the self-employment rate. Therefore, the Affordable Care Act may also support self-employment as it removes a barrier to self-employment by expanding health insurance options for the self-employed.



KEVIN WRIGHT, EDITOR

FURTHER RESOURCES

"Does Health Care Reform Support Self-Employment?"

By Didem Tüzemen and Thealexa Becker
Visit the Kansas City Fed's website at KansasCityFed.org/publications/research/er/index.cfm

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