COMMENTARY

How Has Covid-19 Affected Health Insurance Offered by Small Businesses in the U.S.? Early Evidence from a Survey

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As the Covid-19 pandemic stretches toward its third quarter, loss of health insurance coverage has not figured prominently in the public debate. Data in this report demonstrate why that is, but also suggest that the apparent stability is fragile, with potentially profound implications for the health care delivery system. We analyze results of a survey of small U.S. businesses conducted in late June 2020. We find 60% offered health insurance coverage before the Covid-19 pandemic, and virtually all of those (95%) continued to do so as of June 15. However, nearly one-third of these respondents indicated they were not sure they could continue to pay premiums beyond another 2 months, raising the specter of significant coverage disruption by early fall. Only 5% reported receiving relief from insurers in the form of premium reductions. Additional steps by insurers and policymakers are necessary to forestall a large reduction and disruption in coverage.

More than 40% of the private U.S. labor force is employed by small businesses, defined as those employing fewer than 500 workers.1 The Covid-19 pandemic led nearly half of small businesses to pause or cease operations within weeks of the March 13, 2020, national emergency declaration.2 While surveys have documented unprecedented numbers of wage cuts and furloughed workers, the effect of the pandemic on employee benefits remains understudied and of utmost public importance. Given that more than 60% of the working-age population relies on employer-sponsored health insurance, the economic crisis is poised to spark an insurance coverage crisis.3

Indeed, two recent studies raised substantial concerns along this front. Using historical data on the relationship between unemployment and insurance, the Urban Institute and Robert Wood Johnson Foundation predicted nearly 18 million people would lose coverage through employer-sponsored plans if the unemployment rate reached 15%, as it nearly did in April 2020.4 Absent
policy changes, they estimated 13 million would gain coverage through other sources (primarily Medicaid and Marketplace plans), leaving 5 million newly uninsured. Using a shorter time-series of historical data, Families USA estimated 5.4 million workers were already newly uninsured by mid-July. However, given the unique nature of this economic downturn — as well as the extraordinary measures taken to combat it — these predictions are accompanied by more than the usual level of uncertainty. Real-time data on insurance coverage and instability is essential for federal and state authorities, as well as insurers, to develop solutions.

Historically, small businesses are much likelier than large businesses to be on the margin with respect to offering insurance coverage: For example, the 2019 Kaiser Family Foundation (KFF) Health Benefits Survey found that only 50% of smaller businesses (3–199 employees) offered coverage to their employees, as compared to 99% of larger businesses (200 or more employees). Thus, any economy-wide disruption in employer-sponsored coverage might plausibly be expected to manifest most quickly in the small business sector. To assess the situation to date, we analyzed the results of a survey emailed to a large sample of small business owners on June 20, 2020.

Study Data and Methods

The survey was conducted by Alignable, an online referral network of small businesses across North America, with the authors playing an advisory role in survey content and design. Alignable regularly sends out polls via email to its 5 million U.S. members, who are either owners or senior managers of small businesses. Recently, Alignable has partnered with academic researchers to assess how the pandemic is affecting small businesses. The poll we analyze was distributed on June 20, 2020 to Alignable’s U.S.-based members; responses were collected through June 27, 2020. It contained a series of questions about health insurance offerings both before the pandemic and as of June 15. For firms reporting an offer of coverage before the pandemic, a range of questions allowed us to assess the status and vulnerability of health insurance offerings, and to estimate changes in the number of benefits-eligible employees and the “take-up rate” or share who enroll in that coverage. Businesses also reported whether they had received or were aware of any relief offered by their insurers in the form of premium credits or extensions in payment periods. Where possible, we supplemented data from this survey with responses to prior Alignable surveys administered during the pandemic. No funds were paid to Alignable, and Alignable did not place any restrictions on our analysis.

Of the 9,043 Alignable members who opened the email, 3,450 clicked through to the linked survey and answered at least one question before the survey closed one week later, yielding a response rate conditional on email opening of 38%. Among those, 1,634 respondents reported having at least one full-time employee, not counting immediate family members. As our interest is in estimating the impact of the pandemic on coverage offered by small businesses, for most analyses we focus on respondents with fewer than 500 employees (the size threshold for the Paycheck Protection Program for pandemic aid to small businesses) who also provided information about insurance coverage both before and since the pandemic began (N=1,163). We refer to this group as our primary analysis sample. However, due to attrition as respondents progressed through the survey, the number of respondents varies by question and is reported beneath each figure.
We supplemented the data collected in this survey with data collected in six prior Alignable surveys distributed between March 28 and May 23, 2020. The variables we added include the number of employees as of January, and whether the business had applied and/or obtained approval for funds from the Paycheck Protection Program (PPP), a federal program designed to provide economic relief to small businesses in the wake of the pandemic. PPP, introduced on April 5, delivered loans equal to 2.5 times a firm’s 2019 payroll. The loan was forgivable if recipients satisfied certain conditions; among these was devoting at least 75% (reduced to 60% on June 5) to employee compensation, which included insurance premiums. The match across surveys was performed by unique user IDs assigned and gathered by Alignable. This match is incomplete: About one-third of the primary sample responded to previously fielded questions about PPP, and (a nonoverlapping) one-third previously reported January employment data. In the figures included here, the secondary analysis sample refers to the 370 respondents who previously reported having fewer than 100 employees as of January. (We use 100 as the employee cutoff, rather than 500, because the sample of firms with 100–500 January employees is relatively small, and we report statistics by firm size.)

Representativeness and Selection

There are several limitations of the analysis samples. First, our samples include respondents who reported having at least one non-family FTE as of the survey date. Thus, our estimates of total coverage reductions do not include businesses that had permanently closed by June 15. Unfortunately, it is difficult to estimate the magnitude of the bias arising from closures. The rate of excess firm closures during March–June 15 (relative to typical closure rates) is unknown at this time. However, there are mitigating factors that offset this bias. Employees of newly closed firms may have been able to maintain coverage through COBRA. We also conjecture that businesses closing permanently by June 15 were on weaker financial footing and, therefore, less likely to have offered insurance coverage. Ultimately, we are only able to survey concerns that were ongoing as of June 15.

Second, the survey was distributed to a non-random sample of businesses, namely those in Alignable’s network. In addition, participation was voluntary, and the survey may have elicited more responses from those concerned about health insurance coverage, and/or those more impacted by the pandemic. To assess whether respondents were collectively representative of small businesses as a whole, we performed two checks.

First, we compared the distributions of state and industry (at the 2-digit NAICS-code level) in the primary and secondary samples against data from the 2017 Statistics of U.S. Businesses (SUSB) compiled by the Census Bureau (Appendix Exhibit A1). The geographic distribution of survey respondents was quite similar to that of small businesses as a whole, although New Jersey businesses are over-represented in our sample. The top five and top 10 states in all three groups (primary, secondary, Census) overlap closely, and the share of firms appearing in these states is also similar, i.e., 55.1% of firms in our primary sample and 53.6% in our secondary sample are headquartered in the top 10 Census states, which is in line with the 54.5% of firms in the Census data. For the secondary sample, we were able to explore firm size, and again we find that the distribution matches reasonably well with that in the Census (Appendix Exhibit A2). While the survey respondents covered a broad range of industries, they over-represented the manufacturing, finance and insurance, and other services (except public administration) sectors and
under-represented the accommodation and food services, waste services, and wholesale trades sectors. However, the relative rankings across industries were similar (Appendix Exhibit A3).

Second, to examine whether our respondents had an observably disproportionate interest in health insurance, we compared the propensity to offer coverage, conditional on firm size, with data from the Kaiser Family Foundation (KFF) 2019 Health Benefits Survey. Offer rates in the secondary analysis sample (the sample for which such a comparison can be made) were similar to those reported by KFF (Appendix Exhibit A4).

**Study Results**

Figure 1 depicts the percentage of respondents that reported offering health insurance to employees before the pandemic as well as on June 15.
Percentage of Respondents Offering Insurance Coverage, Pre- vs. Since Pandemic

As of June 15, 2020, a majority of small businesses that offered health insurance benefits to their employees before the pandemic continued to do so, although there was a decline of approximately 3 percentage points (amounting to a relative decline of around 5%). This was consistent in both the primary and secondary analysis samples.

The offer rate decreased from approximately 60% to about 57% in both the primary and secondary samples. In the secondary sample, for which total employment data (as of January) are available, we estimate that the *employee-weighted* offer rate among businesses with 1–100 FTEs decreased only modestly, from 72.5% to 69.6%.

Notes: Limited to respondents with FTEs. Primary analysis sample includes respondents reporting insurance status "before the pandemic" and as of June 15. Secondary analysis sample is further restricted to respondents reporting employment data (and fewer than 100 employees) in a prior poll.
Source: Authors’ analysis

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Figure 2 displays the health insurance offer rate by firm size in January, which is available for the secondary sample.

FIGURE 2

Change in Insurance Offering by Firm Size

As of June 15, 2020, fewer small businesses were offering health insurance to employees, relative to the pre-pandemic period. The greatest percentage decline in offering (6.5%) was among the smallest businesses, with fewer than 5 employees.

As is well known, offer rates are lower for smaller firms. There is no clear pattern in the propensity to drop coverage by firm size groups, however. In the Appendix, Exhibit A5, we show that businesses offering coverage reported minimal changes in employment or take-up rates of health insurance. Collectively, these findings suggest most workers of ongoing enterprises that previously
offered insurance retained their employer-sponsored coverage (i.e., remained employed or were furloughed rather than laid off).

Figure 3 provides some insight into the relatively small changes in offer rates. The exhibit summarizes respondents’ ranking of four common financial obligations: wages for employees, health insurance premiums, rent, and a supplier’s invoice.

**FIGURE 3**

**Respondents’ Ranking of Financial Obligations**

Small business owners place a high priority on offering health insurance. This survey data shows that paying health insurance premiums is a top-ranked financial priority, second only to employee wages.

Respondents overwhelmingly reported they would pay wages first, but premiums were the second-most critical bill over all, and clearly ahead of rent. As one respondent put it, “[h]ealth insurance is
so important to my employees that I would even use my personal credit card to pay to make sure my employees are covered.”

To examine whether federal financial assistance enabled businesses to maintain health insurance coverage, we compared offer rates for those reporting PPP approval with rates for those not approved or denied (as of the June 15 survey date). Of the 336 respondents in the primary sample who reported applying for PPP, 234 or 69.6% reported receiving approval. Figure 4 shows firms that received PPP were much less likely to drop coverage than firms that did not.

FIGURE 4

Reduction in Health Insurance Offering Is Greater For Firms Without PPP Approval

Among firms that were approved to receive funds from the Paycheck Protection Program, the rate of offering health insurance to employees fell by 2.6% (relative to the pre-pandemic level). That is considerably smaller than the 12% relative decline in the offer rate among firms that had not received approval for these funds.

Notes: Limited to respondents in the primary analysis sample who reported applying to PPP. The number of respondents with PPP approval is a lower bound, as approval is a rolling measure (N=336)

Source: Authors’ analysis

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Another possible explanation for the relatively small decline (5.4%; see Figure 1) in the health insurance offer rate in our primary sample is relief offered by insurance carriers. Some insurers have announced premium credits and extended grace periods.\textsuperscript{9} However, small businesses in our survey reported receiving very little relief (Figure 5). Just 14\% reported receiving premium credits and/or an extended grace period. The plurality (45\%) replied “don’t know” to queries about both types of insurer relief, but fully 41\% specifically reported receiving neither.

**FIGURE 5**

**Any Relief from Insurance Carrier**

Small businesses in our survey reported receiving very little relief from their health insurance carriers. Just 14\% percent reported receiving premium credits or extended grace periods. Of that 14\%, about one-third identified premium reductions and about two-thirds identified grace periods, with a minimal share reporting both. The plurality (45\%) percent replied “don’t know” to queries about both types of insurer relief, but fully 41\% percent specifically reported receiving neither.

![Circle diagram showing responses to question about any relief from insurance carrier](image)

Notes: Limited to small business respondents in the primary analysis sample (described in text) who offered a health insurance benefit as of June 15, 2020 (N=612). “Any relief” refers to any premium reduction and/or extension of grace period reported by the survey respondent.

Source: Authors’ analysis

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Notwithstanding the limited effect as of June 15 on employer offer rates, there are warning signs that the current state is unsustainable. Only 1.6\% of respondents offering coverage reported being late to pay premiums before the pandemic; this figure stood at 9.5\% as of June 15. To assess the vulnerability of insurance coverage for small business employees going forward, we asked respondents to project how long they were likely to be able to pay their premiums. The results in Figure 6 reveal great uncertainty about the ability of these employers to sustain coverage: While more than half of respondents (56.5\%) reported in mid-June that they could maintain payments for their health insurance benefit for at least 6 months, a significant share (43.5\%) is unable to make
such a commitment. Nearly 20% could afford no more than 2 months and 13% were unable to even estimate how long they could continue payments for the benefit.

**FIGURE 6**

**Expected Duration of Being Able to Pay Health Insurance Premiums**

Nearly one-third of small businesses are at risk of cancelling employee health insurance within 2 months: 18.9% projected they could continue for no more than 2 months and 13.2% were unsure how long they could continue. Another 11.4% expected they could maintain the benefit for 3 to 6 months. Together, that represents nearly 44% of small businesses reporting the benefit at risk.

The gap between current and projected ability to pay premiums may be due to uncertainty regarding PPP funds, as these are likely running out and might not be renewed. A number of survey respondents explicitly credited the PPP program for helping maintain insurance coverage, with one declaring, “PPP PROGRAM IS THE ONLY WAY WE COULD HAVE KEPT INSURANCE.”

**Looking Ahead**

Small businesses forecasted a 50% decline in demand during the pandemic, placing them under extreme pressure to cut costs. In the month of April, 30% reported they did not make rent or mortgage payments. In spite of cost cutting across the board, small businesses have prioritized health insurance premiums: Our survey shows only 5% have resorted to cutting the health insurance benefit for their employees.

Our survey data suggest that the federal PPP program may have forestalled the need to cut insurance benefits; in our survey, respondents explicitly ranked premium payments as a more important financial priority than rent. However, PPP provided a one-time cash infusion of up to
2.5 times payroll; for many businesses, these funds have been depleted. Indeed, nearly one-third of employers surveyed were not sure they could pay premiums beyond August 15, 2020. Absent additional relief — and soon — providers and policymakers should expect much greater disruption in insurance coverage going forward.

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While small businesses have faced extreme financial pressure, insurers have experienced windfall profits due to unexpectedly low health care utilization. One fair way to balance the financial burden of the pandemic would be to mandate premium credits. While the ideal premium credit regulation should not be uniform, as insurers in areas hard-hit by Covid may not have experienced windfalls, relying entirely on voluntary credits seems insufficient. Indeed, only 5% of surveyed employers reported receiving a premium credit as of June 15. Other avenues that would help to address the looming coverage loss and disruption include a renewal of the PPP, Medicaid expansions, and an expanded enrollment period for public Marketplace plans.

If small employers are the proverbial canary in the coal mine, the ability of providers and policymakers to (largely) ignore issues of insurance coverage is coming to an end. Unfortunately, the disruption in coverage that is likely to ensue will exacerbate providers’ financial challenges and patients’ continuity of care.

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Appendix: Covid-19 Affected Health Insurance Survey Evidence

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