



How Health Reform Makes the Job Market More Flexible and Unleashes Entrepreneurs

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Stuck in a corporate job he called “not exactly fulfilling,” a 35-year-old man in Austin, Texas, told an *NBC News* reporter in September 2013 that he looked forward to the advent of Affordable Care reforms on January 1, 2014, because he will be able to quit and start working as an independent consultant. He couldn’t move on earlier because his wife has rheumatoid arthritis, a pre-existing health problem that made his employer benefits indispensable. Insurance companies would have charged him very high premiums for any plan he tried to buy on his own.

About three-quarters of Americans who work full time get health insurance through their employers, so the Austin man is not alone in experiencing what experts call “job lock” – a reluctance to change jobs for fear of losing employer health benefits. It’s a problem not just for would-be entrepreneurs but also for employees who just want to consider changing jobs.

Flexibility will improve now, because the Affordable Care health reform law precludes insurance companies from rejecting applicants with pre-existing health problems or charging them extra, and it also offers tax credit subsidies to help many people with modest incomes pay insurance premiums. As health reform takes hold, U.S. employees will face less risk in switching jobs; and experts estimate that up to 1.5 million may strike out on their own, boosting entrepreneurship.

Inefficiencies and Discontents

Americans who see our country as supremely economically efficient and a hotbed of entrepreneurialism may be surprised by some worrisome facts. Job mobility is reduced by an estimated 25% among workers with health insurance, and the proportion of Americans employed in the small business sector trails behind proportions of people in many other countries – including France, Britain, Germany and Sweden. These facts matter, because job market flexibility and entrepreneurship spur innovation and growth.

Big employers loom large in the U.S. economy for many reasons, but part of their advantage has come from providing affordable health coverage. Until now, larger employers have been able to get better prices on the private market and claim special tax breaks to insure many workers at once. Small businesses and individuals have had to pay extra or go without health insurance.

Is there solid evidence that tying health coverage to employment reduces flexibility in the job market? In recent years, dozens of studies have analyzed different kinds of data to find out.

- In 2011, the Government Accountability Office surveyed ten years of scientifically vetted studies and reported that 29 of 31 “found that workers with employer-sponsored coverage are less likely to change jobs, become self-employed, exit the job market or retire than workers who are not dependent on their employers for coverage.”
- Reluctance to move from jobs with employer-sponsored coverage is especially strong for employees who suffer from pre-existing health problems or have a family member with such problems. All things equal, though, individuals vary in their responses to the possibility of giving up good employer coverage depending on how risk averse they are.
- Researchers at Rand Corporation did a well-designed study comparing business ownership rates for male workers in the months just before and after they became eligible for Medicare at age 65. They found significant jumps in entrepreneurialism at this precise juncture, but not just before or after other age transitions for men between 55 and 75.
- Reforms at the federal level and in some states have taken modest steps to facilitate coverage for small businesses and workers leaving employer plans, but researchers have found that even though such reforms loosen constraints, many people in households with medical problems remain reluctant to change jobs or become self-employed.
- Americans say they worry about job lock. In a 2004 survey by the Employee Benefit Institute, 27% of workers cited health insurance as the primary reason they would not change jobs or retire. And in a fall 2013 Elway survey, one-third of Washington state residents said that either they themselves or someone in their families had stayed in a job they wanted to quit because of the need to keep employer-sponsored health insurance.

A Coming Boost for Self-Employment

In a May 2013 Urban Institute analysis, researchers Linda Blumberg, Sabrina Corlette, and Kevin Lucia used the best recent job lock measurements to estimate how much health reform may boost self-employment in each U.S. state. They project an 11% increase nationwide, but individual states will vary depending on whether their previous laws resemble Affordable Care.

- In 35 states with no insurance rules or subsidies to help individuals or small businesses, self-employment is expected to increase by 13%. That means thousands to tens of thousands of additional self-employed people in each state. Illinois, for example, may gain up to 62,000 entrepreneurs. In relation to population, increases in self-employment will be above average in California, Idaho, Montana, Oregon, South Dakota, and Wyoming.
- Massachusetts and Vermont have already fully instituted insurance reforms and subsidies for low and middle-income residents, so they are not expected to see any further increases.
- Self-employment is expected to grow by 8.7% in Colorado, Connecticut, Delaware, Florida, Hawaii, Maine, Michigan, Mississippi, New Hampshire, North Carolina, Rhode Island, and Washington – states that already allow individuals and small businesses to buy coverage on terms comparable to large employers, but do not offer Affordable Care-type subsidies.

It Won't Happen Overnight

No one should expect droves of Americans suddenly to quit their jobs at corporations, government agencies, or large non-profits. Buoyed by greater health security, some employees are already making new moves. But most workers and families will take their time, because reform is moving forward in a politically contentious

environment and adjustments by states and employers are still in progress. New possibilities will only gradually hit home, yet as they do individuals and the entire U.S. economy will benefit. Critics often decry health reform as an attack on American freedoms, but where job lock is concerned, exactly the opposite is true.