Insight

The Problem with ACA’s 30 Hour Work Week

BEN GITIS | MARCH 30, 2014

One of the most bitterly debated (and frequently delayed) features of the Affordable Care Act (ACA) is the law’s employer mandate – requiring employers with more than 50 full-time employees to offer affordable health coverage. Originally slated to go into effect January 2014, the mandate will now begin in 2015 for employers with 100 or more workers, by 2016 businesses with 50 or more will have to do the same. Contradicting the conventional 40 hour work week, the law defines full-time employment as working at least 30 hours per week. While this provision’s exact impact on labor markets will be difficult to gauge until the employer mandate is fully implemented, it does open the door for a potentially dramatic reduction in work hours and earnings. Changing the definition of full-time work to 40 hours per week, however, would mitigate these issues and prove to be much more beneficial to workers than the current law.

Consider the distribution of work hours in the United States. The chart below reveals that ACA’s definition of “full-time” as 30 hours per week is far from reality in the labor market.[1] According to Current Population Survey (CPS) data, in 2012, 71.1 percent of employees worked 40 or more hours per week, with 49.1 percent working 40 or 41 hours.[2] As a result, with the full-time threshold at 30 hours per week, the employer mandate could result in a dramatic reduction in work hours for millions of workers.

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The employer mandate could be particularly costly, for a full-time employee who works 40 hours per week and does not receive health insurance through the job. To avoid the cost of the mandate, the employer may opt to reduce the worker’s hours so as to reclassify him or her as a part-time worker. However, since ACA requires employees that work less than 30 hours per week to be defined as part-time, the employer would have to cut the employee’s hours dramatically just to avoid paying for health insurance. If the worker’s hourly earnings rate is $24.31[3], (the February 2014 national average) going from a 40 hour work week to a 29 hour work week would cost that employee $267.41 per week or $13,370.50 per year.

According to CPS data, 59.3 percent of those who worked at least 40 hours per week in 2012 already received health insurance through their employer. Given this, the number of workers vulnerable to this scenario today is about 39.9 million. In current form, the employer mandate could impose a large pay cut to 29 percent the labor market. In total, 37.6 percent of the workforce or 51.7 million employees work 30 or more hours per week without employer health insurance and could lose hours.

Changing the definition of full-time to 40 hours per week would more accurately reflect the labor market. Consequently, it would mitigate the decrease in hours due to the employer mandate. First, anyone currently working between 30 and 40 hours per week who does not receive health insurance from their employer would no longer be vulnerable to losing hours. In 2012, this population represented 8.6 percent of the workforce, which today are about 11.8 million workers who would immediately be protected. In this way, changing the mandate to 40 hours is a benefit to low-income workers who desire to work as many hours as possible.

Second, it would reduce the number of hours that full-time workers without employer provided health insurance could potentially lose. Instead of dramatically cutting back hours, employers could avoid the mandate simply by reducing workers hours from 40 to 39 hours per week. The worker discussed above would only lose $24.31 per week or $1,215.50 per year. Moreover, since most businesses that employ full-time workers already offer affordable health insurance, the number of workers who would actually see a slight reduction in hours would be small.

Indeed, overall work may rise. By minimizing the impact of the mandate, small businesses will be able to focus their resources on hiring more workers instead of insurance and penalty costs.

The benefits of conforming to reality are quite clear. Changing ACA's definition of full-time employment from 30 hours to 40 hours per week to mirror the actual labor market would dramatically reduce the negative side-effects of the employer mandate. Obviously, the employer mandate's actual impact on employment will be difficult to estimate until the mandate is fully implemented – something the administration has been loath to do. However, the policy has clear incentives and the risk of devastating costs for some workers. Not only would a 40 hour work week mitigate the potential reduction in work hours experienced by uninsured workers, but the number of workers who do see their hours fall slightly would remain limited.

[1] Author's analysis of Current Population Survey (CPS), 2013 Annual Social and Economic Supplement, available athttp://www.nber.org/data/current-population-survey-data.html