Testimony

The Affordable Care Act and the Labor Market

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**The views expressed here are my own and not those of the American Action Forum, the Partnership for the Future of Medicare or the Center for Health & Economy. I thank Ben Gitis and Christopher Holt for their assistance.*

Chairman Alexander, Ranking Member Murray, and members of the committee, thank you for the opportunity to speak with you today regarding the Affordable Care Act's (ACA) definition of full-time work and its impact on the labor market. I would like to make two main points today regarding the ACA's employer mandate and the definition of full-time work as 30 hours per week:

- The definition of full-time employment as a 30 hour workweek has unintended consequences in the labor market, is at odds with labor market norms, and creates incentive to reduce hours and pay; and
- The ACA will cause many who would otherwise have employer sponsored health insurance to lose it, no matter how "full-time" work is defined.

Consequences of the Employer Mandate and Distorting Full-Time Work

When evaluating the ACA, the employer mandate, and the 30 hour workweek, there are two central concerns. The primary concern is the unintended labor market consequences it creates for those who do not already have health insurance. The second concern is the potential for employees who already have employer sponsored insurance (ESI) to be dropped from their plans, which some believe could be exacerbated by increasing the ACA's definition of full-time work to 40 hours per week.

Let's first examine the primary concern. When employers are required to provide health insurance for workers who do not already receive it, their business costs will naturally rise and companies are more likely to offset those costs by cutting jobs or compensation. Employers may also opt to avoid the mandate by reducing hours and substituting part-time for full-time work. However, since the ACA defines full-time as 30 hours per week, it gives employers an incentive to potentially dramatically cut hours to avoid the mandate.

In 2014, American Action Forum (AAF) research revealed significant evidence that the employer mandate and other ACA regulations have been negatively impacting employment and pay. The employer mandate and other ACA regulations have made employers more sensitive to health care costs, which they offset by reducing pay and employment. As a result, since ACA's passage, the rise in premiums has cost employees an average $935 per year and has reduced employment by 350,544 jobs nationwide.[1]

AAF also found evidence that the labor force was absorbing these detrimental costs before the government began enforcing the most stringent ACA regulations. These costs likely understate the consequences of these regulations and are a result of businesses preparing for the employer mandate, providing health insurance to workers, and losing access to low-cost coverage.

Instead of paying for the mandate by cutting worker pay or reducing hiring, other employers may decide to avoid the mandate altogether by reducing their employees' hours and reclassifying them as part-time. The chart below (using 2013 data) reveals that the ACA's definition of "full-time" work as 30 hours per week is at odds with the empirical realities. AAF found that 72 percent of employees in 2013 worked at least 40 hours per week. Further, 50.2 percent worked exactly 40 hours per week. As a result, with the full-time threshold at 30 hours per week, the employer mandate could subject millions of workers to a dramatic reduction in hours.[2]

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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 employer. If the employer wants to avoid the cost of the mandate and decides to reduce the worker's hours to reclassify him or her as part-time under the ACA, it would cost the employee 11 hours to go from 40 hours to 29 hours per week. If the worker's hourly earnings rate is $24.57 (the December 2014 national average), this means the employee would lose $270.27 per week or $14,054.04 per year.[3]

While it is possible that some workers would see such a large decline in their weekly hours, those most likely to lose hours are those who are just above the ACA's "full-time" threshold and work 30 to 35 hours per week. AAF found that only 27 percent of that population already receives health insurance from their employer. Therefore, the vast majority or 73 percent are very likely to lose hours. This group is composed of 9.8 million workers and represents 7 percent of the workforce. For someone working 35 hours per week, going to 29 hours would on average cost $147.42 per week or $7,665.84 per year.

Changing the ACA's definition of full-time employment to 40 hours per week to more accurately reflect the labor market would significantly mitigate the negative consequences of the employer mandate. First, anyone 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, pay, or their jobs. In 2013, this population represented 8.3 percent of the workforce, which today are about 11.6 million workers who would immediately be protected.

Second, it would shield most full-time workers without health insurance from being subjected to the possibility of losing 11 or more hours per week. Instead of having to dramatically cut back hours, employers could avoid the mandate simply by reducing the workers hours from 40 to 39 per week. The average worker discussed above would only lose $24.57 per week or $1,277.64 per year.

With this change, instead of those working 30 to 35 hours per week being the most likely to lose hours, those working 40 to 45 hours would be the most likely to lose. Some are concerned that since far more people work between 40 and 45 hours each week (55.6 percent of workers or 77.9 million people) than 30 to 35 hours per week, a much larger number could see a reduction in hours. According to the payroll processing firm ADP, however, 88 percent of full-time workers are already offered health insurance.[4] So the population of workers who could potentially see this reduction would fall to 9.3 million. That's 500,000 less than the 9.8 million directly impacted if full-time were defined as 30 hours per week. As a result, changing the definition of full-time to 40 hours per week would save most workers from a potentially massive loss in hours, while the number of workers who are still directly impacted by the mandate is less. The employer mandate would still hurt worker pay and hours, but it would be a vast improvement from current law.

Workers Will Lose Insurance Regardless of the Workweek Definition

No matter how "full-time" work is defined under the ACA, the law gives employers strong incentive to drop already covered workers from their health plans or, more likely, never begin to offer health insurance. The second concern that changing the ACA's definition of full-time work to 40 hours per week would make it easier for employers to drop existing coverage is a secondary consideration because it overlooks evidence that the ACA's large health exchange subsidies already provide employers with the incentive to drop insurance.

Roughly one-half of the $900 billion of spending in the ACA is devoted to subsidies for individuals who do not receive health insurance from their employers. These subsidies are remarkably generous, even for those with relatively high incomes. For example, a family earning about $59,000 a year in 2014 could receive a premium subsidy of about $7,200. A family making $71,000 could receive about $5,200; and even a family earning about $95,000 could receive a subsidy of almost $3,000.

By 2018, subsidy amounts and the income levels to quality for those subsidies would grow substantially: a family earning about $64,000 would receive a subsidy of over $10,000, a family earning $77,000 would receive a subsidy of $7,800, and a family earning $102,000 would receive a subsidy of almost $5,000.

So the obvious question is how employers will react to the presence of an alternative, subsidized source of insurance for their workers, which can be accessed if they drop coverage for their employees. The simplest calculation focuses on the tradeoff between employer savings and the $2,000 penalty (per employee) imposed by the ACA on employers whose employees move to subsidized exchange coverage. Consider a $12,000 policy in 2014, of which the employer would bear roughly three quarters or $9,000. A simple comparison of $9,000 in savings versus a $2,000 penalty would seemingly suggest large-scale incentives to drop insurance.

Unfortunately, the economics of the compensation decision are a bit more subtle than this simple calculation. Health insurance is only one portion of the overall compensation package that employees receive as a result of competitive pressures. Evidence suggests that if one portion of the package is reduced or eliminated – health insurance – then another aspect – wages – will ultimately be increased as a competitive necessity to retain and attract valuable labor. Thus, the key question is whether the employer can keep the employee "happy" – appropriately compensated and insured – *and* save money.

AAF has found that the answer is frequently "yes" – thanks to the generosity of federal subsidies. Specifically, if employers were to drop workers from their health plans, the exchange subsidies limit the pay hike employees require to remain as well off as they were with ESI. In many cases, the money employers save from dropping insurance (employer contribution to health plan less the $2,000 penalty), far outweighs the wage hike workers require to stay "happy." As a result, many employers on net would save money by dropping workers from their health plans.

AAF concluded that the incentives for dropping insurance are quite powerful for workers with incomes up to 250 percent of the federal poverty level. Only for higher-income workers do the advantages of untaxed health insurance make it infeasible to drop insurance and re-work the compensation package.

So how many workers could be dropped due to the subsidies? AAF found that there are about 43 million workers for whom it makes sense to drop insurance.[5] While CBO estimated that only 19 million people would receive subsidies, AAF's research suggests that number could easily triple. As a result, the CBO's cost estimate could grow from $450 billion over the first 10 years to $1.4 trillion.[6]

Clearly, concerns that changing the definition of full-time work to 40 hours would lead to dropped coverage are superfluous. Due to the ACA, employers will have motives to drop coverage for workers who already have health insurance, whether full-time work is defined as 30 hours per week or 40 hours per week.

Conclusion

The ACA's 30 hour workweek risks imposing substantial costs on the workers it aims to help. So, it is necessary that Congress revise this inappropriate definition which is clearly out-of-touch with the norms of the labor market. Moreover, the benefits of conforming to that reality are quite clear. Changing the ACA's definition of full-time employment from 30 to 40 hours per week to mirror the actual labor market would dramatically reduce the harm caused by the employer mandate.

[1] Ben Gitis, Conor Ryan, & Sam Batkins, "Obamacare's Impact on Small Business Wages and Employment," American Action Forum, September 2014, http://americanactionforum.org/research/obamacares-impact-on-small-business-wages-and-employment