




1-19-2017

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Abraham, Jean PhD and Royalty, Anne Beeson PhD. How Has the Affordable Care Act Affected Work and Wages?. LDI Issue Briefs. 2017; 21 (3).

<https://ldi.upenn.edu/brief/how-has-affordable-care-act-affected-work-and-wages>

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How Has the Affordable Care Act Affected Work and Wages?

Abstract

In a review of the evidence, the authors find that the ACA had minimal effect on employment, hours of work, and compensation. This brief provides critical perspective on the effects of reforms on labor markets for federal and state policymakers as they consider changing or repealing the law.

Keywords

Affordable Care Act, ACA, insurance, wages, labor market

Disciplines

Health Economics | Labor Economics

Comments

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SUMMARY

In a review of the evidence, the authors find that the ACA had minimal effect on employment, hours of work, and compensation. This brief provides critical perspective on the effects of reforms on labor markets for federal and state policymakers as they consider changing or repealing the law.

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ACA Impact Series

HOW HAS THE AFFORDABLE CARE ACT AFFECTED WORK AND WAGES?

Jean Abraham, PhD and Anne Beeson Royalty, PhD

One of the most contentious issues around the Affordable Care Act (ACA) was how it would influence labor supply and demand, the structure of jobs, and compensation. Whether the ACA is revised, repealed, replaced, or remains intact, it is important to understand how federal health reform affects the U.S. labor market. In this issue brief, we summarize the evidence regarding the impact of the ACA on these employment outcomes, and identify challenges and opportunities for further research.

ACA PROVISIONS THAT COULD INFLUENCE EMPLOYMENT OUTCOMES

The ACA increased individuals' access to insurance through a variety of mechanisms that could also affect employment outcomes. The law expanded access to private insurance for young adults; broadened eligibility criteria for Medicaid in states that chose to expand; introduced subsidized private insurance in newly-created Marketplaces; and created a new regulatory environment for private insurance markets.

Young Adults. Adopted in September 2010, the young adult dependents provision allows individuals up to age 26 to enroll in their parents' health plan. The provision could affect young adults' employment in a number of ways: it might alter their incentives to work in jobs that offer employer-sponsored insurance (ESI); it might reduce their labor supply if they can work [fewer hours](#) and maintain the same standard of living because they don't explicitly pay for their own health insurance; and it might increase wages if they move to jobs without insurance or if employers with many young adult workers drop coverage and compensate by raising wages.

Income-based coverage expansions. In January 2014, 25 states and the District of Columbia expanded eligibility for Medicaid to individuals with incomes below 138% of the Federal Poverty Level (FPL). Access to private coverage also expanded with the introduction of income-based premium and cost-sharing subsidies for individual coverage offered in newly-created Marketplaces. These coverage expansions could encourage individuals to reduce their labor supply and incomes to either qualify for Medicaid or increase their subsidies on the Marketplace. In addition, because of improved access to health insurance separate from the employer-based system, workers might have greater mobility and flexibility, including the choice to work at small firms, which are less likely to offer health insurance, or self-employment.

Employer incentives. The ACA included several provisions designed to maintain or expand the existing employer-based system. The employer shared responsibility requirement (ESRR) hedged against the possibility that employers would drop health insurance they offer and send their workers to the Marketplace. Specifically, firms with at least 50 full-time equivalent workers face an annualized penalty of \$2,000 per full-time employee receiving a premium tax credit on

KEY PROVISIONS OF THE ACA DESIGNED TO INCREASE EMPLOYER INCENTIVES TO OFFER INSURANCE COULD ALSO AFFECT THE DEMAND FOR LABOR AND THE STRUCTURE OF JOBS.

the Marketplace. The ESRR also includes financial penalties for large employers that offer “unaffordable” coverage based on a measure of out-of-pocket premiums relative to a worker’s household income. The ESRR was delayed and revised in terms of its phase-in for mid-sized (50-99 workers) and large firms (100 or more workers). To encourage insurance offers among small, low-wage firms, the ACA included a small business tax credit. While these provisions were meant to affect employers’ economic incentives to offer insurance, two other possible employer responses include changing their demand for labor (e.g., reducing the number of workers and firm size) and modifying the structure of jobs (e.g., shifting from full-time to part-time workers or using more temporary or contract workers).

New Regulatory Environment. Several new regulations were introduced for the individual and small employer market segments in 2014, including essential health benefits, standardized products (“metal levels”), modified community rating (rating only on age, tobacco use, family composition, and geography), and a prohibition on insurers denying coverage to individuals with pre-existing conditions. The employment effects of this new regulatory environment span both labor supply and compensation. Notably, they might increase the likelihood that older workers choose to retire prior to age 65, when most become eligible for Medicare. They might also affect workers’ wages if small employers face higher premiums because of a broad set of essential health benefits or modified community rating. Finally, the ACA included an excise tax on the high cost health plans (“Cadillac Tax”) to discourage employers from offering extremely generous policies that most economists believe encourage overconsumption of medical care by individuals. Originally proposed for 2018, the Cadillac Tax is now delayed until 2020. If implemented, it is likely that affected employers would reduce the generosity of health insurance offerings and possibly increase other forms of compensation such as wages.

The following table summarizes these key provisions and their hypothesized effects on employment outcomes.

TABLE 1.

Employment Category	ACA Provision(s) that can affect this employment category	Employment Outcome (Hypothesized Overall Effect)	Summary of Published Literature
Labor Supply	<ul style="list-style-type: none"> • Young adult dependent coverage expansion (2010) • Medicaid eligibility expansion (2014) • Subsidized Marketplace coverage (2014) • Individual market regulations (e.g., modified community rating, ban pre-existing conditions) (2014) 	Any employment (-) Usual hours per week (-) Part-time (+) Retirement (+)	None of the hypothesized effects were detected. The one exception was Antwi et al. (2013) found a decline in usual hours per week for young adults.
Job Mobility	<ul style="list-style-type: none"> • Young adult dependent coverage expansion (2010) • Medicaid eligibility expansion (2014) • Subsidized Marketplace coverage (2014) 	Switching jobs (+) Self-employment (+)	None of the hypothesized effects were detected. Insufficient evidence for self employment outcomes.
Labor Demand	<ul style="list-style-type: none"> • Employer shared responsibility requirement (2015/2016) 	Percentage of part-time workers (+) Number of workers at firm (-)	Insufficient evidence to establish labor demand effects of the ACA.
Compensation	<ul style="list-style-type: none"> • Young adult dependent coverage expansion (2010) • Small employer health tax credit (2010) • Essential health benefits and modified community rating regulations (2014) • Employer shared responsibility requirement (2015/2016) • Individual mandate (2014) • Cadillac Tax (2020) 	Wages (+/-) ESI Offers (+/-) ESI Eligibility (-)	WAGES: no impact on wages from the young adult dependent coverage mandate and Insufficient evidence for 2014 coverage expansion provisions. OFFERS: Stable ELIGIBILITY: no association detected

MANY OF THE ANTICIPATED EFFECTS OF THE ACA ON EMPLOYMENT DID NOT MATERIALIZE.

CURRENT EVIDENCE ON ACA AND EMPLOYMENT OUTCOMES

Employment and Hours of Work

Three studies have utilized difference-in-difference estimation techniques to compare changes in employment outcomes in response to the young adult mandate for those affected by the policy (e.g., 19-25 years old) to those who are similar but not affected. Antwi, Moriya, and Simon (2013) found that the policy was associated with no effect on employment, a 3% reduction in usual hours of work, and a 5.8% reduction in the probability of working full-time. However, the authors acknowledged that the results were suggestive, since employment outcomes were not the focus of the paper. Using longitudinal tax records from 2008-2012 and difference-in-differences models, Heim, Lurie, and Simon (2015) linked tax records of parents and children to identify parents with access to ESI, and found no changes in employment and wages linked to the young adult provision. Bailey and Chorny (2016) used monthly Current Population Survey (CPS) data from May 2008 to June 2013 to examine whether the young adult mandate encouraged individuals' propensity to change jobs, and found no effect.

Three studies investigated the impact of the 2014 coverage expansion provisions on employment and hours of work. Moriya, Selden, and Simon (2016) used the 2005-2015 CPS to look at trends in part-time work. Overall, they found no evidence of a shift toward part-time work, but note some imprecise evidence of a shift for those with less education and older workers 60 to 64 years of age. Using the 2008-2014 CPS, Mathur, Slovo, and Strain (2016) examined the impact of the ACA on part-time work (defined as working 25-29 hours versus 31-35 hours) for industries and occupations most likely to be affected by the coverage expansion, and again, found no effects. However, their data extended only to 2014, before the employer mandate went into effect. Using 2005-2015 CPS data, Gooptu et al. (2016) investigated whether individuals in Medicaid expansion states exhibited changes in any employment, part-time employment, or job switching, and found no evidence of any employment responses overall or for those in lower income groups (versus higher income groups).

Several working papers have also examined hours of work. Kaestner et al. (NBER Working Paper 2015) analyzed usual hours of work and the probability of full-time work (> 30 hours per week) for a sample of 22-64 year olds with a high school degree or less. They found almost no effects on either employment outcome in the post-coverage expansion period, a result in line with most of the published work. On the other hand, two working papers focus on part-time employment and found substantially different results. Unlike the published papers, these studies distinguish between voluntary part-time employment and involuntary part-time employment (the result of employers shifting workers from full-time to part-time). Even and Macpherson (2016) use data 1994-2015 CPS data on non-elderly workers without a college degree to estimate the average percentage that are in involuntary part-time employment and whether this percentage is higher than expected in 2014. Dillender, Heinrich, and Houseman (2016) examine involuntary part-time employment as well, but their design relies upon the fact that Hawaii already had in place an employer mandate and therefore could serve as a comparison group to other U.S. states. Both studies find evidence of increases in involuntary part-time employment in occupations and industries that are most likely to be affected by the ESRR. Notably, these papers have to assume that employers were already responding to the ESRR before it went into full effect.

A final working paper focuses on the effect of the ACA coverage expansion on part-time work and retirement decisions among older workers. Levy, Buchmueller, and Nikpay (2015) found no evidence to suggest either an increase in part-time work or an increased probability of retirement among those 55-64 years of age in states that expanded Medicaid versus those that did not.

THE ACA HAS HAD VIRTUALLY NO EFFECTS ON EMPLOYMENT, HOURS WORKED, ESI OFFERS, JOB MOBILITY, OR WAGES.

Compensation

Evidence on the impact of the ACA on workers' compensation, including health insurance and wages, is more limited. Blavin et al. (2015) examined trends in access to ESI between June 2013 and September 2014, and found no changes in rates of ESI offers overall as well as by firm size or family income level. Recent work by Abraham, Royalty, and Drake (2016) uses the 2014 Medical Expenditure Panel Survey-Insurance Component to examine changes in health insurance offers among private-sector U.S. employers. The authors found that more than 95 percent of establishments either continued offering coverage or continued not offering coverage between 2013 and 2014. Fewer than 3.5 percent of establishments dropped coverage and 1.1 percent added coverage. Establishments that dropped coverage were disproportionately small and low-wage. The authors found no effects of state-level ACA policy variables (e.g., Medicaid income eligibility changes, modified community rating in the small group market, and Marketplace type) on the probability of dropping or adding health insurance offers.

Thus far, little evidence exists on the effect of ACA on workers' wages. Heim, Lurie, and Simon (2015) found that the young adult mandate had no significant effect on the wages of young adults. On the other hand, a working paper by Goda, Farid, and Bhattacharya (2016) compared states that had mandated young adult dependent coverage before the ACA, with states newly implementing the ACA mandate, and found a negative effect of the ACA young adult mandate on wages. Surprisingly, the estimated effect was significant only among non-parents.

Summary

In summary, with only one exception, the literature published to date finds virtually no effect of the ACA on employment, hours of work, ESI offers, job mobility, or wages in the first two years. Some working papers are in accord with the published literature while at least two come to different conclusions about the effect of the ACA on involuntary part-time employment. Research will continue as more data become available, and estimated effects may change over time.

CHALLENGES FOR THE RESEARCH COMMUNITY

Researchers evaluating the impact of the ACA on employment outcomes face a number of challenges. We briefly describe three of them below.

Isolating the Effect of Specific ACA Provisions on Employment Outcomes. Since many ACA provisions were enacted on a national level at the same time, it is often challenging for researchers to design studies that can provide estimates of the causal effect of the policy, and difficult if not impossible to isolate the effect of any one provision on an outcome of interest.

Data and Measurement Challenges. Measurement issues persist with respect to key outcomes (e.g., hours of work that tend to have "heaping" at round numbers) and a lack of standardization regarding how one classifies full-time versus part-time status. Researchers also face challenges in measuring how policies are implemented. For example, while researchers studying the impact of Marketplaces on employment outcomes may be able to capture structural measures about type (e.g., federally-facilitated versus state-based), it may be more difficult to measure how well or poorly a Marketplace was implemented, which might influence outcomes.

Uncertainty in the Environment and Timeframe. It is hard to know the extent to which many "null" or small results are driven by the political uncertainty related to ACA implementation, including the Supreme Court decisions, delay in implementation of the ESRR, and the continued volatility of Marketplaces in these initial years. As time passes, it will become increasingly difficult to evaluate the ACA impacts as new legislation and/or regulations begin to confound employer and

ABOUT LDI

Since 1967, the Leonard Davis Institute of Health Economics (LDI) has been the leading university institute dedicated to data-driven, policy-focused research that improves our nation's health and health care. Originally founded to bridge the gap between scholars in business (Wharton) and medicine at the University of Pennsylvania, LDI now connects all of Penn's schools and the Children's Hospital of Philadelphia through its more than 200 Senior Fellows.

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individual decisions. Uncertainty about the future of the ACA has only become more acute after Trump's victory in the Presidential election and the Republicans' continued control of the Senate since it is unclear what exactly will replace the law if, as expected, the current law is repealed.

DISCUSSION AND FUTURE RESEARCH NEEDS

Our review of the current evidence suggests that the effect of the ACA on employment, hours of work, and compensation have been negligible, to date. However, the published work, of necessity, used only early years of data, so additional research is needed to follow up on these studies. If the ACA remains in place at least in the short run, useful future work would include investigation of how employment and hours of work are affected by Marketplace functioning over time. Second, full implementation of the ESRR did not occur until 2016. Work will be needed to understand employers' responses, including whether firm sizes are changing around the 50 full-time equivalent threshold and whether insurance provision (e.g., offers and eligibility) is changing based upon longer-run Marketplace functioning or regulatory changes such as states choosing to alter the definition of a small firm from 50 to 100 workers.

If the ACA is repealed, past and future research evaluating features of the law will still be informative for states interested in implementing a state-level health care reform, assuming they are given the chance to implement their own changes by a federal law replacing the ACA. Notably, states will be able to use past research reviewed here and future research to understand whether and to what extent the ACA affected work and wages. State policymakers can use that evidence to inform state-level decisions about a new, more decentralized form of health care reform.

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