



THE AFFORDABLE CARE ACT AND THE NEW ECONOMICS OF PART-TIME WORK

Starting this year, the United States' working population will face three major employment disincentives resulting from the very benefits the Affordable Care Act (ACA) provides: (1) an explicit tax on full-time work, (2) an implicit tax on full-time work for those who are ineligible for the ACA's health insurance subsidies, and (3) an implicit tax that links the amount of available subsidies to workers' incomes.

A new study published by the Mercatus Center at George Mason University advances the understanding of how much these ACA taxes will reduce overall employment, and why. It concludes that the reduction will be nearly double that projected by previous analyses. Labor markets ultimately will reduce weekly employment per person by about 3 percent—translating to roughly 4 million fewer full-time-equivalent workers.

Below is a brief summary of this important update. Please see [“The Affordable Care Act and the New Economics of Part-Time Work”](#) to read the entire study and to learn more about author [Casey B. Mulligan](#), a professor of economics at the University of Chicago.

Key Findings

Much of the ACA's tax effect resembles unemployment insurance: both encourage layoffs and discourage people from returning to work. The ACA's overall impact on employment, however, will arguably be larger than that of any single piece of legislation since World War II.

- The ACA's employment taxes create strong incentives to work less. The health subsidies' structure will put millions in a position in which working part time (29 hours or fewer, as defined by the ACA) will yield more disposable income than working their normal full-time schedule.

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- The reduction in weekly employment due to these ACA disincentives is estimated to be about 3 percent, or about 4 million fewer full-time-equivalent workers. This is the aggregate result of the law’s employment disincentives, and is nearly double the impact most recently estimated by the Congressional Budget Office.
- Nearly half of American workers will be affected by at least one of the ACA’s employment taxes—and this does not account for the indirect effect on others as the labor market adjusts.
- The ACA will push more women than men into part-time work. Because a greater percentage of women work just above 30 hours per week, it is women who will be more likely to drop to part-time work as defined by the ACA.

Summary

DISTORTING THE WORKWEEK

The ACA’s subsidies create disincentives to work that act as taxes on employment.

ACA Provisions Creating the Largest Disincentives to Work

- The ACA imposes a \$2,000 penalty for each full-time employee imposed on large employers (generally those with 50 or more workers) that do not offer health insurance. Due to this penalty’s unfavorable tax treatment, it is effectively a \$3,000 employment tax and can be expected to reduce full-time employment.
- The ACA denies health insurance subsidies to full-time workers and their families unless their employer fails to offer “affordable” coverage. Because these workers would qualify for insurance subsidies by cutting their weekly work hours to part time, this provision creates an implicit tax that reduces the benefit of working full time.
- The ACA phases out health insurance subsidies as workers’ income increases. This compounds the escalated federal and state tax liabilities workers already face for earning more income.

Incentives to Reduce Work Hours Below Full Time

- The ACA may put millions of Americans in a position in which working part time yields more disposable income than working full time.
- This occurs when the ACA’s generous assistance to part-time workers for health insurance premiums and out-of-pocket expenses offsets much of the income they forgo by working fewer hours. The lack of this insurance assistance for full-time workers amounts to a tax on full-time work.
- A comparison of two hypothetical workers illustrates this effect. Each worker represents the same hourly cost to the employer, but one works full time (in this case, 40 hours per week) and one part time (29 hours per week). In addition to salary, the full-time worker receives a partial employer subsidy for health insurance. The part-time worker has lower

total compensation, mainly due to fewer hours worked, and no employer-sponsored health insurance, but is eligible for government-subsidized health insurance through the ACA's exchange. After accounting for taxes, health expenses, and work expenses (e.g., child care and commuting), this part-time worker actually nets more per year than the full-time worker.

Prevalence and Magnitude of the ACA's New Taxes

- Nearly half of the workforce will experience significant changes in work incentives due to the ACA.
- For 20 percent of the labor force—some 33 million workers—their family's eligibility for exchange subsidies hinges entirely on their employment status. In any month they work part time or not at all, they can obtain subsidized coverage; in any month they work full time, they do not qualify for these subsidies. Members of this group would, on average, have to work an additional 5.5 hours per week to make up for the subsidies they forgo by working full time.
- Because of the penalty on employers who do not offer health insurance, 5 percent of the workforce faces a new implicit income tax. These workers, who are left to obtain coverage from the ACA exchanges, would have to work at least four hours a week for free if they were to compensate their employer for the \$2,000-per-employee penalty the ACA imposes.
- An additional 21 percent who work for employers not offering coverage will find that their employers are less willing or able to pay their workers because of the ACA's employer penalty. These workers, on average, would have to work four hours a week for free if they were to compensate their employers for the non-coverage penalty.

PUSHING WORKERS TOWARD FEWER WORK HOURS

The magnitude of the ACA effects will vary with the magnitude of the taxes. Still, the ACA's benefits to part-time workers will push many to reduce their work hours to 29 per week or fewer. The effect can be summarized as follows:

- Those who would otherwise work just above 30 hours per week will be induced to cut their weekly work hours to part-time. This effect will be especially pronounced for those working 30–35 hours per week; for them, dropping to 29 hours a week is a relatively small adjustment.
- Those who continue to work full-time despite the taxes will tend to reduce the number of weeks they work per year (because in those periods they can obtain subsidized coverage) by more than they will increase their weekly work hours. In other words, some of those who continue to work full time will work for fewer weeks per year, and be unemployed for more weeks, than they otherwise would.
- Income taxes reduce weekly hours worked and weekly employment rates.

PREDICTIONS FOR WORK SCHEDULES AND EMPLOYMENT UNDER THE ACA

This analysis, combined with lessons from labor market history, leads to an estimate that the ACA will reduce employment and aggregate hours by slightly more than 3 percent, or about 4 million full-time-equivalent workers. This is nearly double the contraction indicated in prior studies, mainly because some previous work underestimated the size of the ACA's employer penalty and did not consider the full range of tax effects.

- The ACA adds an average of 1.9 percentage points to the marginal earnings tax rates. It also adds a full-time-employment tax equivalent of 2.2 hours per week, or almost 6 percent of a full-time schedule. This is on top of non-ACA taxes, and is akin to doubling the employee Social Security payroll tax. It is the main driver of the 3 percent labor market contraction.
- Roughly 3.6 percentage points more of the workforce will drop to 26–29 hours per week than would do so in the absence of the ACA.
- The elderly's labor is much less affected by the law, because the Medicare program makes them ineligible for the new exchange subsidies, so that they are not subject to the implicit income and full-time-employment taxes that go with the subsidies.
- Women (regardless of marital status) are especially likely to reduce their hours to below 30 per week because they represent a greater percentage of those currently working 30 to 35 hours, and thus can drop to 29 hours with comparatively little cost.
- The study does not assume or predict that employment and work schedules are especially sensitive to taxes. Rather, the study's results derive from the sheer size of the taxes that the ACA has created.