RESEARCH SUMMARY

The Cost of the Affordable Care Act's Employer Mandate for Small Businesses—Firms Shrunk, Jobs Lost

The Affordable Care Act's (ACA) employer mandate requires all large businesses to provide health insurance for their employees. The ACA defines “large” as 50 or more full-time-equivalent employees (FTEs). This has led to a prevalence of “49er” businesses. These are firms near the 50-FTE threshold that did not voluntarily offer employer-sponsored insurance and have reduced their hiring to avoid being penalized for failing to do so.

Casey B. Mulligan makes this case in “The Employer Penalty, Voluntary Compliance, and the Size Distribution of Firms: Evidence from a Survey of Small Businesses.” Using new survey data, Mulligan shows how the ACA has distorted the labor market. He concludes that the legislation is one of the reasons for the slowdown in the recovery of that market several years after the 2007–2008 recession had ended.

QUANTIFYING THE ACA’S IMPACT

• On the small-business employer. The stakes for employers are considerable. For those not offering employer-sponsored health insurance, crossing the 50-FTE threshold from below means they pay the salary equivalent of almost $70,000 per year. This is in addition to the salary and benefits for the new employee.

• On the small-business employee. Nationwide, between 28,000 and 50,000 small businesses appear to have reduced their number of full-time employees to fewer than 50 because of the mandate. This represents an extraordinary jump in the proportion of 49er businesses beginning in 2015—the year when the mandate to provide health insurance took effect for all firms that employed at least 50 FTEs.

• On the economy as a whole. About 250,000 positions have been eliminated from small businesses because of the ACA. Mulligan considers this “economically significant.” He cites other studies that claim the employer mandate also resulted in up to one million positions being scheduled as part time (working fewer than 30 hours per week) rather than full time.

IT COULD GET WORSE

Businesses continue to adjust their employment over time. As a consequence of the ACA, many have hired fewer workers (or at least fewer full-time workers) but have tried not to adjust the situations of their existing employees. If the ACA and its employer mandate remain in place, the prevalence of 49er businesses might well increase.