



Research

Changing the ACA's Definition of Full-Time Work

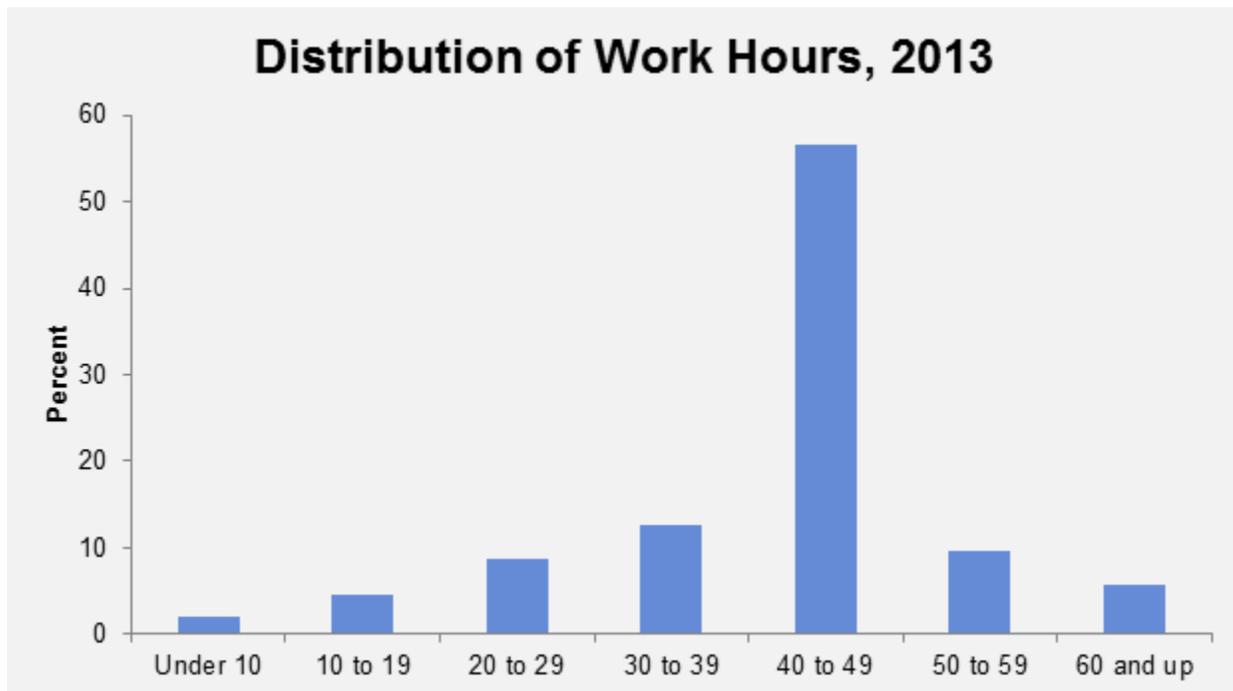
BEN GITIS | JANUARY 8, 2015

The Affordable Care Act's (ACA) employer mandate is one of the more problematic features of the law. Under the ACA, employers with 50 or more full-time employees are required to provide health insurance for their workers or pay a fine. When employers are required to provide health insurance, 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 workers for full-time workers. However, contrary to the conventional 40 hour definition of full-time work, the law defines full-time employment as working at least 30 hours per week. As a result, it gives employers an incentive to dramatically cut hours to avoid the mandate. Changing the definition of full-time work to 40 hours per week, while not perfect, would certainly mitigate the employer mandate's labor market costs.

In 2014, [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.

AAF also found evidence that the labor force has been 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.

While some employers may react to the employer mandate by reducing pay or employment, others may want to avoid the mandate all together by reducing their employees' hours and reclassifying them as part-time workers. However, the chart below reveals that the ACA's definition of "full-time" work as 30 hours per week is nowhere near to reality.^[1] An analysis of Current Population Survey (CPS) data shows that in 2013, 72.0 percent of employees worked at least 40 hours per week. 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 subjects millions of workers to a potentially dramatic reduction in hours.



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 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 \$24.66 (the November 2014 national average) [2], this means the employee would lose \$271.26 per week or \$14,105.52 per year.

According to ADP, 88 percent of full-time employees who work at least 40 hours per week are offered health insurance through their employer. Given this, the number of workers who are actually vulnerable to such a large pay cut is about 12.1 million or 8.6 percent of the workforce. In total, 16.9 percent of the workforce or 23.7 million employees work 30 or more hours per week without being offered health insurance and could lose hours.

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. According to CPS data, 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 \$147.96 per week or \$7,693.92 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 labor market 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 \$24.66 per week or \$1,282 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. However, since 88 percent of full-time workers are already offered health insurance, the population of workers who could potentially see this reduction would fall to 9.3 million. That's slightly 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 remains about the same. The employer mandate would still hurt worker pay and hours, but it would be a vast improvement from current law.

Obviously, the employer mandate's actual impact on employment will be difficult to estimate until the mandate is fully implemented. However, the policy creates clear incentives and it risks imposing devastating costs on the workers it aims to help. So, the benefits of conforming to the reality of America's labor market are quite clear. Changing the 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 harm caused by the employer mandate. Since employers would be able to avoid the employer mandate without significantly reducing hours, changing the definition of full-time work to 40 hours per week would effectively repeal the mandate for most workers. As a result, the negative labor market consequences that we have already started detecting could be avoided.

[1] Author's analysis of Current Population Survey (CPS), 2014 Annual Social and Economic Supplement, available at <http://www.nber.org/data/current-population-survey-data.html>