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Obamacare Will Price Less Skilled Workers Out of Full-Time Jobs

James Sherk

President Obama's health care law requires employers to offer health benefits to full-time employees. This employer mandate will price many unskilled workers out of full-time employment.

After paying the new health premiums, the minimum wage, payroll taxes, and unemployment insurance taxes, hiring a full-time worker will cost employers at least \$10.03 per hour. Full-time workers with family health plans will cost \$13.75 per hour. Employers who hire workers with productivity below these rates will lose money. Businesses employing less skilled workers will probably respond by dumping their employees onto the federally subsidized health care exchanges and replacing full-time positions with part-time jobs.

Employer Mandate. A major concern with the health care law is that, in response to the massive expansion in Medicaid eligibility and the new premium subsidies offered through the federally designed exchanges, employers will stop offering employer-sponsored coverage. To help mitigate this and to hold down the cost of these provisions, Obamacare penalizes businesses that do not provide health insurance covering at least "minimum essential benefits."

Businesses with 50 or more full-time workers must pay a \$2,000 penalty for each employee, beyond the first 30 workers, who qualifies for subsidies and does not have employer coverage. Part-time workers also count toward the number of employees in the firm (and thus toward the

50-employee threshold), but the government does not penalize firms for not offering them qualifying insurance.

Beginning in 2014, many employer-sponsored plans will be required to provide a minimum essential benefits package.² Although the essential benefits are intended to reflect what typical employer-sponsored plans offer, the Congressional Budget Office (CBO) has estimated that they will likely be more expensive than the plans covering many workers and their families today.³ The minimum essential health benefits will be determined by the Secretary of Health and Human Services (HHS) after "notice and an opportunity for public comment" and will define a minimum level of coverage benefits and limits on cost-sharing for certain types of coverage.⁴

The CBO has estimated that the minimum national premium for single coverage will be \$5,000 and \$12,500 for family coverage.⁵ Furthermore, to avoid being fined the employer must not only offer coverage, but also restricts the share of premiums that employees contribute to 9.5 percent of their family income.

This paper, in its entirety, can be found at: http://report.heritage.org/wm3390

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Minimum Employer Costs Rise. The employer er mandate will substantially raise employers' minimum hiring costs. The government currently requires employers to pay the minimum wage, the employer share of payroll taxes, and unemployment insurance taxes.

The employer premiums for a single plan, distributed across a full-time work year, will add \$1.79 per hour to these labor costs. The premiums for a family plan will add \$5.51 per hour. Nationwide minimum labor costs will rise to an average of \$10.03 per hour for full-time workers with a single

health plan and \$13.75 per hour for workers with family coverage.⁸

Employer Response. Moderately and highly skilled workers already cost more than this minimum to employ. Their employers will likely respond to the law by spending more on health benefits and reducing wages by a corresponding amount. The health care law will not increase their total compensation costs.

But it is an entirely different story for unskilled workers. Employers cannot reduce cash pay below the minimum wage. However, employers will not

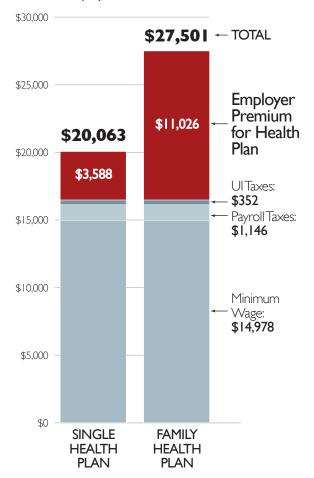
- 1. The portion of the health care law on the employer mandate explicitly states that firms with more than 50 employees are required to offer "full-time employees (and their dependents) the opportunity to enroll in minimum essential coverage under an eligible employer sponsored plan." The Department of Treasury, however, has issued a proposed rule linking both the affordability of employer-sponsored insurance and compliance with the individual mandate to single coverage only. Since the employer is not penalized unless an employee enrolls in the exchanges, it is possible that if this proposed rule is adopted, employers will either drop family coverage or be indifferent to the affordability of the workers' family coverage. Alternatively, the government may ultimately require employers to provide family coverage to workers with dependents. See Patient Protection and Affordable Care Act, Public Law 111-148, § 4980H.
- 2. Self-insured plans, large employer-sponsored group plans, and employer-sponsored plans that have been grandfathered will not be required to provide minimum essential health benefits.
- 3. Congressional Budget Office, "An Analysis of Health Insurance Premiums Under the Patient Protection and Affordable Care Act," November 30, 2009, at http://www.cbo.gov/ftpdocs/107xx/doc10781/11-30-Premiums.pdf (October 6, 2011).
- 4. Patient Protection and Affordable Care Act, § 1302(b).
- 5. Congressional Budget Office, letter to Olympia Snowe, January 11, 2010, at http://www.cbo.gov/ftpdocs/108xx/doc10884/01-11-Premiums_for_Bronze_Plan.pdf (October 6, 2011).
- 6. This assumes 2,000 hours of work in a full-time work year.
- 7. The law states that the employee share of health care premiums may not exceed 9.5 percent of family income. This figure is based on the assumption that the employer can charge employees premiums of 9.5 percent of their individual income. This will be the case for those who are either single or the sole income earner in a family. For a two-income family, employers can charge higher premiums to employees with employed family members. However, employers cannot discriminate against workers on the basis of the earnings of other family members. Consequently, employers will be forced to make decisions on the assumption that the employee share will not exceed 9.5 percent of individual income. These figures represent the minimum costs that employers must assume that they will incur when they hire a worker.
- 8. Figures were calculated for each state by taking the minimum wage in that state and adding to it the 7.65 percent share of employer payroll taxes and the unemployment insurance (UI) taxes paid by a newly formed business hiring a minimum-wage worker. In states for which UI tax rates for new firms are calculated separately by industry, the average employer rate for the entire state was used. To calculate the variation in insurance premiums between states, we comprised an index of individual and family employer-sponsored premiums for workers in the bottom earnings quartile from the 2010 Medical Expenditure Panel Survey—Insurance Component. The post-Obamacare costs of \$5,000 and \$12,500 for single and family plans were multiplied by the ratio of average state costs to national costs to estimate the state-specific cost of health insurance. From the total premiums was subtracted 9.5 percent of the income of an employee working full-time at the minimum wage to yield the employer share of premiums. That figure was divided by 2,000 hours to yield the hourly cost. The national average was calculated by taking the weighted average of the state-specific costs with the states' total private employment in 2010. The minimum national premium covering the essential benefits package is from the Congressional Budget Office's letter to Senator Olympia Snowe on January 11, 2010.
- 9. See Jonathan Gruber, "The Incidence of Mandated Maternity Benefits," *American Economic Review*, Vol. 84, No. 3 (June 1994), pp. 622–641.



Obamacare Makes Hiring Full-Time Workers More Expensive

The federal health care law significantly increases the costs of hiring full-time workers. In addition to minimum wages, unemployment and payroll taxes, employers will have to spend nearly \$3,600 for single employees and more than \$11,000 for employees with families to meet the health care law's requirements.

Minimum Yearly Costs Incurred by Employers per Full-Time Employee, Based on 2,000 Hours of Work



Note: Figures are weighted averages based on state private-sector employment.

Source: Authors' calculations based on data from the U.S. Department of Labor, Congressional Budget Office estimates of premiums in 2016 under PPACA, and the 2010 Medical Expenditure Panel Survey—Insurance Component. See Footnote 8 for methodology.

Chart I • WM 3390 Theritage.org

pay workers more than their productivity. No businesses will pay \$14 per hour to employ a worker whose labor raises earnings by just \$9 per hour. Businesses that pay workers more than their productivity quickly go out of business.

Employers hiring unskilled workers will respond to these higher costs in two ways. Many employers will forgo providing health benefits and dump workers onto the government health care exchanges. Doing so will incur a \$2,000 penalty per full-time worker—far less than the cost of health premiums but still a \$1 per hour increase in full-time employment costs.

The employer mandate will also encourage employers to replace full-time jobs with part-time positions. Obamacare does not penalize employers for not providing health benefits to part-time employees, so part-time positions will cost much less to fill than full-time positions.

Federal law gives employers a further incentive to hire unskilled workers only part-time. The law requires employers to offer the same health benefits to all full-time employees. If employers dump their less productive full-time employees into the government exchanges, they must dump the rest of their employees as well. However, hiring less skilled workers for part-time jobs does not restrict employers' ability to offer health benefits to other workers. Many unskilled and inexperienced workers—those who produce less than \$10.03 per hour—will find that employers will only offer them part-time jobs.

Hurts Unskilled Workers. Obamacare hurts less skilled workers. It raises the minimum productivity required for them to hold a full-time job, particularly workers with families. Workers who cannot produce at least \$20,000 per year (single plan) or \$27,500 per year (family plan) of value to employers will have serious difficulty finding full-time jobs. Many of these workers will have to either live off reduced income from part-time hours or juggle the schedules of multiple part-time jobs.

Workers with productivity near this minimum will also face challenges. The law forces them to consume a substantial portion of their income as health benefits whether they want to or not. Take a full-time worker in Delaware with a family health plan



earning the federal minimum wage. The employee and employer share of health care premiums for that plan will cost an average of \$6.41 per hour. ¹⁰ After paying the employee share of premiums, that worker will earn \$6.56 per hour in cash wages. The law requires unskilled employees who do not get dumped into the exchanges to receive almost half of their compensation as health benefits. Workers who would like higher wages and less expensive health coverage do not get a choice.

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State by State. The minimum productivity necessary for workers to hold full-time jobs with health

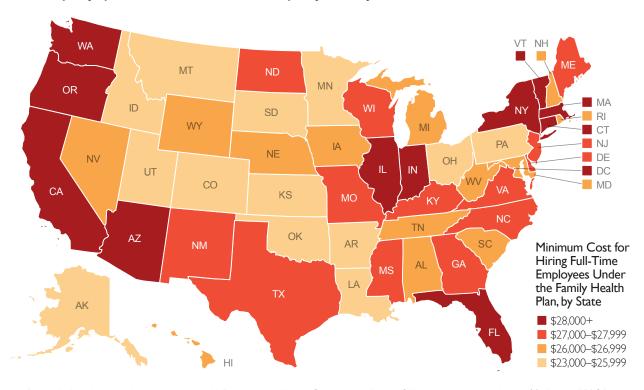
benefits varies across states. While employers in every state must pay the federal minimum wage, some states have raised their minimum wages above the federal rate. State unemployment insurance taxes and health care costs also vary. As a result, the minimum productivity necessary to hold a full-time job with health benefits varies between states.

The most expensive state to employ workers is Connecticut. Full-time workers with single health plans cost their employers \$11.25 per hour, while workers with family plans cost employers \$15.27 per hour. Each full-time worker in Connecticut will

10. Figures assume an average \$12,500 cost for a family plan, increased by the 2.6 percent higher cost of family plans in Delaware and distributed across 2,000 hours of work per year.

Obamacare Raises the Cost of Hiring Workers with Families

The health care mandate in Obamacare will substantially raise the minimum cost of employing full-time workers. Nationally, hiring a full-time employee with a family health plan will cost employers an average of \$27,500 per year. This is more than what many unskilled employees produce. Rather than pay the penalty for not providing health benefits, many employers will hire unskilled workers only for part-time positions.



Source: Authors' calculations based on data from the U.S. Department of Labor, Congressional Budget Office estimates of premiums in 2016 under PPACA, and the 2010 Medical Expenditure Panel Survey—Insurance Component, See Table 1 for cost breakdowns and Footnote 8 for methodology.

Map I • WM 3390 Theritage.org



Minimum Costs for Hiring a Full-Time Worker, by State

Figures are based on 2,000 hours of work a year.

	Minimum Wage	UITaxes	Payroll Taxes	Employer Premium— Family Health Plan	Employer Premium— Single Health Plan	TOTAL COST UNDER FAMILY HEALTH PLAN		TOTAL COST UNDER SINGLE HEALTH PLAN	
	Hourly	Hourly	Hourly	Hourly	Hourly	Hourly	Annual	Hourly	Annual
Alabama	\$7.25	\$0.14	\$0.55	\$5.07	\$1.76	\$13.01	\$26,021.25	\$9.70	\$19,394.64
Alaska	\$7.75	\$0.29	\$0.59	\$4.24	\$2.66	\$12.87	\$25,741.49	\$11.29	\$22,579.72
Arizona	\$7.35	\$0.10	\$0.56	\$6.93	\$2.04	\$14.94	\$29,877.76	\$10.05	\$20,103.49
Arkansas	\$7.25	\$0.26	\$0.55	\$4,24	\$1.51	\$12.31	\$24,610.13	\$9.58	\$19,150.07
California	\$8.00	\$0.15	\$0.61	\$5.91	\$1.67	\$14.67	\$29,332.44	\$10.43	\$20,853.22
Colorado	\$7.36	\$0.11	\$0.56	\$4.83	\$1.45	\$12.87	\$25,736.25	\$9.49	\$18,971.83
Connecticut	\$8.25	\$0.31	\$0.63	\$6.09	\$2.06	\$15.27	\$30,549.53	\$11.25	\$22,497.11
Delaware	\$7.25	\$0.16	\$0.55	\$5.72	\$1.95	\$13.69	\$27,387.23	\$9.92	\$19,842,96
District of Columbia	\$8.25	\$0.15	\$0.63	\$6.05	\$2.04	\$15.08	\$30,156.59	\$11.07	\$22,142.09
Florida	\$7.31	\$0.12	\$0.56	\$6.04	\$1.83	\$14.04	\$28,072,24	\$9.82	\$19,643.84
Georgia	\$7.25	\$0.12	\$0.55	\$5.57	\$1.81	\$13.51	\$27,029.92	\$9.75	\$19,499.96
Hawaii	\$7.25	\$0.32	\$0.55	\$5.21	\$1.66	\$13,34	\$26,674.58	\$9.78	\$19,563.51
Idaho	\$7.25	\$0.27	\$0.55	\$4,49	\$1.39	\$12.57	\$25,134.19	\$9.47	\$18,939.87
Illinois						· ·			. ,
	\$8.25	\$0.27	\$0.63	\$5.60	\$1.92	\$14.75	\$29,498.08	\$11.07	\$22,134.58
Indiana	\$7.25	\$0.15	\$0.55	\$6.10	\$1.99	\$14.05	\$28,099.71	\$9.94	\$19,875.65
lowa	\$7.25	\$0.17	\$0.55	\$5.34	\$1.67	\$13.31	\$26,624.06	\$9.64	\$19,287.34
Kansas	\$7.25	\$0.19	\$0.55	\$4.66	\$1.63	\$12,66	\$25,313.07	\$9.62	\$19,241.61
Kentucky	\$7.25	\$0.14	\$0.55	\$5.74	\$1.71	\$13.68	\$27,366.51	\$9.65	\$19,304.42
Louisiana	\$7.25	\$0.08	\$0.55	\$4.60	\$1.59	\$12.48	\$24,963.86	\$9.48	\$18,952.47
Maine	\$7.50	\$0.21	\$0.57	\$5.27	\$1.93	\$13.55	\$27,096.59	\$10.21	\$20,429.40
Maryland	\$7.25	\$0.14	\$0.55	\$5.39	\$1.69	\$13.34	\$26,671.90	\$9.63	\$19,268.51
Massachusetts	\$8.00	\$0.23	\$0.61	\$5.52	\$2.09	\$14.36	\$28,713.81	\$10.93	\$21,851.75
Michigan	\$7.40	\$0.15	\$0.57	\$5.08	\$1.54	\$13.20	\$26,391.08	\$9.65	\$19,304.85
Minnesota	\$7.25	\$0.24	\$0.55	\$4.90	\$1.70	\$12.94	\$25,882.98	\$9.74	\$19,488.34
Mississippi	\$7.25	\$0.22	\$0.55	\$5.74	\$1.95	\$13.76	\$27,516.42	\$9.97	\$19,945.86
Missouri	\$7.25	\$0.26	\$0.55	\$5.59	\$1.76	\$13.65	\$27,309.10	\$9.82	\$19,638.09
Montana	\$7.35	\$0.20	\$0.56	\$4.08	\$1.39	\$12.19	\$24,387.96	\$9.50	\$18,997.35
Nebraska	\$7.25	\$0.14	\$0.55	\$5.25	\$1.90	\$13.19	\$26,386.57	\$9.84	\$19,683.75
Nevada	\$8.25	\$0.27	\$0.63	\$3.94	\$0.97	\$13.10	\$26,194.32	\$10.12	\$20,238.34
New Hampshire	\$7.25	\$0.25	\$0.55	\$5.16	\$1.95	\$13.22	\$26,439.04	\$10.01	\$20,017.10
New Jersey	\$7.25	\$0.23	\$0.55	\$5.79	\$2.15	\$13.82	\$27,648.61	\$10.19	\$20,375.66
New Mexico	\$7.50	\$0.18	\$0.57	\$5.66	\$1.44	\$13.91	\$27,813.80	\$9.69	\$19,379.80
New York	\$7.25	\$0.20	\$0.55	\$6.38	\$2.07	\$14.39	\$28,772.63	\$10.08	\$20,154.50
North Carolina	\$7.25	\$0.12	\$0.55	\$5.60	\$1.87	\$13.52	\$27,046.34	\$9.79	\$19,583.45
North Dakota	\$7.25	\$0.13	\$0.55	\$5.61	\$1.91	\$13.54	\$27,074,71	\$9.84	\$19,688.88
Ohio	\$7.40	\$0.15	\$0.57	\$4.79	\$1.55	\$12.91	\$25,813.34	\$9.67	\$19,334.22
Oklahoma	\$7.25	\$0.10	\$0.55	\$4.01	\$1.45	\$11.92	\$23,838.40	\$9.35	\$18,706.77
Oregon	\$8.50	\$0.31	\$0.65	\$5.56	\$1.81	\$15.01	\$30,029.43	\$11.27	\$22,538.55
Pennsylvania	\$7.25	\$0.18	\$0.55	\$4,43	\$1.74	\$12,41	\$24,825.77	\$9.72	\$19,440.02
Rhode Island	\$7.40	\$0.21	\$0.57	\$5.29	\$1.97	\$13.47	\$26,941.04	\$10.14	\$20,288.29
South Carolina	\$7.25	\$0.17	\$0.57	\$5,49	\$1.71	\$13,46	\$26,923.97	\$9.69	\$19,373.32
South Dakota	\$7.25 \$7.25	\$0.09	\$0.55 \$0.55	\$4.24	\$1.66	\$12.14	\$24,279.40	\$9.56	\$19,124.95
Tennessee	\$7.25 \$7.25	\$0.09	\$0.55 \$0.55	\$5,14		\$12.14		\$9.59	. ,
					\$1.64	· ·	\$26,186.87		\$19,186.65
Texas	\$7.25	\$0.15	\$0.55	\$5.86	\$1.96	\$13.82	\$27,633.53	\$9.91	\$19,822.40
Utah	\$7.25	\$0.16	\$0.55	\$4.31	\$1.28	\$12,27	\$24,537.72	\$9.24	\$18,480.77
Vermont	\$8.15	\$0.09	\$0.62	\$5.79	\$1.76	\$14.65	\$29,307.70	\$10.62	\$21,248.44
Virginia	\$7.25	\$0.15	\$0.55	\$5.89	\$2.17	\$13.85	\$27,691.58	\$10.13	\$20,262.08
Washington	\$8.67	\$0.24	\$0.66	\$4.84	\$1.42	\$14.42	\$28,833.46	\$10.99	\$21,987.40
WestVirginia	\$7.25	\$0.19	\$0.55	\$5.13	\$1.91	\$13.12	\$26,249.26	\$9.90	\$19,807.93
Wisconsin	\$7.25	\$0.26	\$0.55	\$5.76	\$1.70	\$13.83	\$27,658.51	\$9.76	\$19,528.10
Wyoming	\$7.25	\$0.21	\$0.55	\$5.13	\$1.36	\$13.14	\$26,287.76	\$9.38	\$18,755.37

Source: Authors' calculations based on data from the U.S. Department of Labor, Congressional Budget Office estimates of premiums in 2016 under PPACA, and the 2010 Medical Expenditure Panel Survey—Insurance Component. See Footnote 8 for methodology.

Table I • WM 3390 Theritage.org



Overview of Minimum Costs for Full-Time Employment

Figures are based on 2,000 hours of work.

		Highest: Connecticut	Lowest: Oklahoma	Weighted Average
Family	Hourly Costs	\$15.27	\$11.92	\$13.75
Health Plan	Annual Costs	\$30,550	\$23,838	\$27,501
Single	Hourly Costs	\$11.25	\$9.35	\$10.03
Health Plan	Annual Costs	\$22,497	\$18,707	\$20,063

Source: Authors' calculations based on data from the U.S. Department of Labor, Congressional Budget Office estimates of premiums in 2016 under PPACA, and the 2010 Medical Expenditure Panel Survey—Insurance Component. See Footnote 8 for methodology.

Table 2 • WM 3390 Theritage.org

have to produce at least \$30,550 per year in value for his or her employer to hold a job with health benefits.

Oklahoma has the lowest employment costs of any state. Full-time workers with single plans cost employers \$9.35 per hour, while workers with family coverage cost \$11.92 per hour. The minimum costs of employing a full-time worker in Oklahoma with family coverage are only slightly higher than

employing a full-time worker with a single plan in Connecticut.

Hurting Those Who Hurt Most. Obamacare requires employers to provide extensive health benefits or pay a penalty. These premiums raise the minimum cost of hiring a full-time worker with family health coverage to almost \$14 per hour. Unskilled workers who produce less than this will find it very difficult to find full-time jobs. Employers will not hire them at a loss. Instead, businesses will dump these workers into the government exchanges and replace full-time jobs with part-time jobs.

The weak economy has made it very difficult for unskilled individuals to find work. Obamacare will make it even more difficult for them to obtain full-time jobs.

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