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Obamacare and a Minimum Wage Hike Pricing Many Unskilled Workers Out of Their Jobs

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The government has already effectively raised the minimum wage above $10 per hour—without benefitting workers. President Obama's health care law requires employers to offer full-time employees health benefits that meet certain "minimum standards" criteria. Otherwise, they pay a penalty. In 2015, this mandate will raise the minimum productivity necessary to hold a full-time job to $10.30 per hour.[1] Employers will lose money if they hire employees who produce less than this amount.

The President now proposes raising the national minimum wage to $10.10 per hour. Coupled with the employer penalty and existing taxes, this would raise the minimum cost of hiring a full-time worker to $12.71 per hour. Employers would respond by eliminating jobs and cutting workers to part-time status, making it significantly more difficult for unskilled workers to get ahead.

Higher Employment Costs. Obamacare requires many employers with 50 or more employees to offer qualifying health coverage[2] to their full-time workers.[3] This health coverage is expensive. In 2015, it will add $2.24 per hour to the cost of employing a worker with single coverage.[4] Those that do not provide coverage face a fine of $2,000 per employee per year (after the first 30 workers) that comes out of after-tax dollars. This equates to a $3,279 increase in pre-tax payroll costs—$1.64 per hour.[5] The Administration has delayed the mandate's implementation until 2015. When it takes effect, it will increase the cost of hiring unskilled workers.

These costs are on top of other government mandates. Businesses must also pay the minimum wage, the employer share of payroll taxes, and unemployment insurance (UI) taxes. Normally, businesses defray these costs by reducing workers' wages by an offsetting amount. However, employers cannot reduce the pay of minimum-wage employees, so they must pay these payroll costs themselves or forgo hiring.

Table 1 shows minimum hourly employment costs for full-time workers in 2015, the year the employer mandate takes effect. Full-time employees with qualifying health benefits will cost their employers at least $10.92 per hour (with single coverage). Employers who opt to pay the penalty instead will nonetheless pay at least $10.30 per hour for labor.[6]

From an employer perspective, the government has already raised the minimum wage above $10 per hour. In 2015, full-time workers who produce less than $10.30 per hour will, on net, cost their employers money. This will make it much harder for inexperienced and unskilled workers to find full-time employment. Businesses will not hire workers at a loss.

Proposed Minimum Wage Hike. President Obama and some Members of Congress want to raise the minimum cost of hiring a worker even further. They support raising the minimum wage to $10.10 per hour—higher than any existing state rate—over slightly more than two years.

This paper, in its entirety, can be found at
http://report.heritage.org/ib4095

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TABLE 1

Minimum Hourly Labor Costs in 2015, by State

						TOTALS WITH HEALTH COVERAGE			
	Minimum Required Labor Costs			Health Care Coverage		Single Health Coverage		Employer Paying Penalty	
	Minimum Wage	*UI Taxes*	*Payroll Taxes*	*Single Health Plan*	*Employer Penalty*	*Hourly*	*Annually*	*Hourly*	*Annually*
National Average	$7.87	$0.18	$0.60	$2.26	$1.64	$10.92	$21,842	$10.30	$20,592
Alabama	$7.25	$0.14	$0.55	$2.24	$1.64	$10.18	$20,361	$9.58	$19,160
Alaksa	$7.75	$0.21	$0.59	$3.83	$1.64	$12.38	$24,766	$10.19	$20,389
Arizona	$8.18	$0.10	$0.63	$2.39	$1.64	$11.29	$22,588	$10.54	$21,084
Arkansas	$7.25	$0.27	$0.55	$1.79	$1.64	$9.87	$19,733	$9.71	$19,424
California	$9.00	$0.15	$0.69	$2.16	$1.64	$12.00	$23,999	$11.47	$22,950
Colorado	$8.16	$0.12	$0.62	$1.93	$1.64	$10.83	$21,666	$10.55	$21,091
Connecticut	$9.00	$0.34	$0.69	$2.66	$1.64	$12.69	$25,382	$11.67	$23,342
Delaware	$7.25	$0.19	$0.55	$2.19	$1.64	$10.18	$20,370	$9.63	$19,269
District of Columbia	$8.25	$0.15	$0.63	$2.30	$1.64	$11.33	$22,657	$10.67	$21,340
Florida	$8.17	$0.14	$0.62	$2.04	$1.64	$10.97	$21,942	$10.57	$21,137
Georgia	$7.25	$0.15	$0.55	$2.28	$1.64	$10.24	$20,471	$9.60	$19,193
Hawaii	$7.25	$0.32	$0.55	$2.37	$1.64	$10.50	$20,993	$9.76	$19,524
Idaho	$7.25	$0.27	$0.55	$1.83	$1.64	$9.90	$19,810	$9.72	$19,431
Illinois	$8.25	$0.31	$0.63	$2.39	$1.64	$11.58	$23,166	$10.83	$21,658
Indiana	$7.25	$0.15	$0.55	$2.55	$1.64	$10.50	$21,005	$9.59	$19,181
Iowa	$7.25	$0.14	$0.55	$2.33	$1.64	$10.27	$20,541	$9.58	$19,161
Kansas	$7.25	$0.19	$0.55	$2.01	$1.64	$10.00	$20,001	$9.63	$19,264
Kentucky	$7.25	$0.15	$0.55	$2.36	$1.64	$10.32	$20,644	$9.60	$19,195
Louisiana	$7.25	$0.10	$0.55	$1.86	$1.64	$9.76	$19,527	$9.54	$19,079
Maine	$7.50	$0.21	$0.57	$2.28	$1.64	$10.56	$21,129	$9.93	$19,852
Maryland	$7.25	$0.14	$0.55	$2.21	$1.64	$10.16	$20,311	$9.58	$19,165
Massachusetts	$8.00	$0.23	$0.61	$2.79	$1.64	$11.63	$23,263	$10.48	$20,955
Michigan	$7.40	$0.16	$0.57	$2.11	$1.64	$10.23	$20,466	$9.76	$19,523
Minnesota	$7.25	$0.29	$0.55	$2.15	$1.64	$10.24	$20,476	$9.73	$19,462
Mississippi	$7.25	$0.11	$0.55	$2.24	$1.64	$10.15	$20,299	$9.55	$19,105
Missouri	$7.35	$0.26	$0.56	$2.32	$1.64	$10.49	$20,982	$9.81	$19,616
Montana	$8.18	$0.19	$0.63	$1.89	$1.64	$10.88	$21,758	$10.63	$21,258
Nebraska	$7.25	$0.14	$0.55	$2.23	$1.64	$10.17	$20,342	$9.58	$19,168
Nevada	$8.25	$0.27	$0.63	$1.22	$1.64	$10.37	$20,745	$10.79	$21,584
New Hampshire	$7.25	$0.29	$0.55	$2.52	$1.64	$10.62	$21,232	$9.73	$19,462
New Jersey	$8.45	$0.29	$0.65	$2.75	$1.64	$12.13	$24,265	$11.02	$22,047
New Mexico	$7.50	$0.18	$0.57	$1.78	$1.64	$10.04	$20,071	$9.89	$19,782
New York	$8.75	$0.17	$0.67	$2.69	$1.64	$12.28	$24,559	$11.23	$22,462
North Carolina	$7.25	$0.12	$0.55	$2.51	$1.64	$10.43	$20,853	$9.56	$19,118
North Dakota	$7.25	$0.13	$0.55	$2.58	$1.64	$10.51	$21,026	$9.57	$19,141
Ohio	$7.85	$0.15	$0.60	$1.96	$1.64	$10.56	$21,123	$10.24	$20,479
Oklahoma	$7.25	$0.10	$0.55	$1.77	$1.64	$9.67	$19,344	$9.54	$19,089
Oregon	$9.38	$0.34	$0.72	$2.15	$1.64	$12.59	$25,181	$12.08	$24,159
Pennsylvania	$7.25	$0.19	$0.55	$2.22	$1.64	$10.21	$20,421	$9.63	$19,258
Rhode Island	$8.00	$0.22	$0.61	$2.35	$1.64	$11.19	$22,380	$10.48	$20,952
South Carolina	$7.25	$0.16	$0.55	$2.10	$1.64	$10.07	$20,136	$9.60	$19,209
South Dakota	$7.25	$0.11	$0.55	$2.28	$1.64	$10.19	$20,375	$9.55	$19,100
Tennessee	$7.25	$0.15	$0.55	$2.05	$1.64	$10.00	$20,008	$9.59	$19,187
Texas	$7.25	$0.15	$0.55	$2.33	$1.64	$10.29	$20,574	$9.59	$19,187
Utah	$7.25	$0.14	$0.55	$1.80	$1.64	$9.74	$19,490	$9.59	$19,170
Vermont	$9.02	$0.11	$0.69	$2.16	$1.64	$11.97	$23,949	$11.45	$22,910
Virginia	$7.25	$0.16	$0.55	$2.69	$1.64	$10.65	$21,303	$9.60	$19,202
Washington	$9.64	$0.20	$0.74	$1.75	$1.64	$12.32	$24,650	$12.21	$24,421
West Virginia	$7.25	$0.19	$0.55	$2.73	$1.64	$10.72	$21,448	$9.63	$19,268
Wisconsin	$7.25	$0.28	$0.55	$2.12	$1.64	$10.20	$20,403	$9.72	$19,448
Wyoming	$7.25	$0.26	$0.55	$1.86	$1.64	$9.93	$19,858	$9.71	$19,412

Note: Figures are averages for rates across U.S. states, weighted by private-sector employment in each state.
Source: Authors' calculations using data from the U.S. Department of Labor and Medical Expenditure Panel Survey. See footnotes 4 and 6 for details.

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If this happened, by 2016, employers that provide health insurance would have to pay at least $13.27 per hour for workers with the required single health coverage. If employers pay the penalty instead, each full-time employee would still cost them at least $12.71 per hour.

Negative Consequences for Workers. These costs would make hiring unskilled workers full time uneconomical for many businesses. Relatively few workers in minimum-wage positions create over $12 per hour worth of value for their employers. In many cases, paying that much would cost businesses more money than the worker produces.

Businesses would respond by finding new ways to lower their labor costs. Part of this would involve replacing labor with capital, shifting to automated systems wherever possible. This could take many forms, such as increasing the use of the automated cashiers that have become common in stores across the country. Or it could involve the widespread adoption of newer inventions such as the Alpha, a robotic hamburger maker that cooks over 300 gourmet burgers per hour.[7] Such changes would lower labor costs by reducing overall employment.

Businesses would also look for ways to lower the labor costs of employees they do hire. It costs less for a business to pay the employer penalty than to offer inexperienced workers health care plans that are deemed "minimum essential health benefits" by Obamacare (see table), so most employers of low-wage workers would pay the fine and dump their workers onto the government health care exchanges.

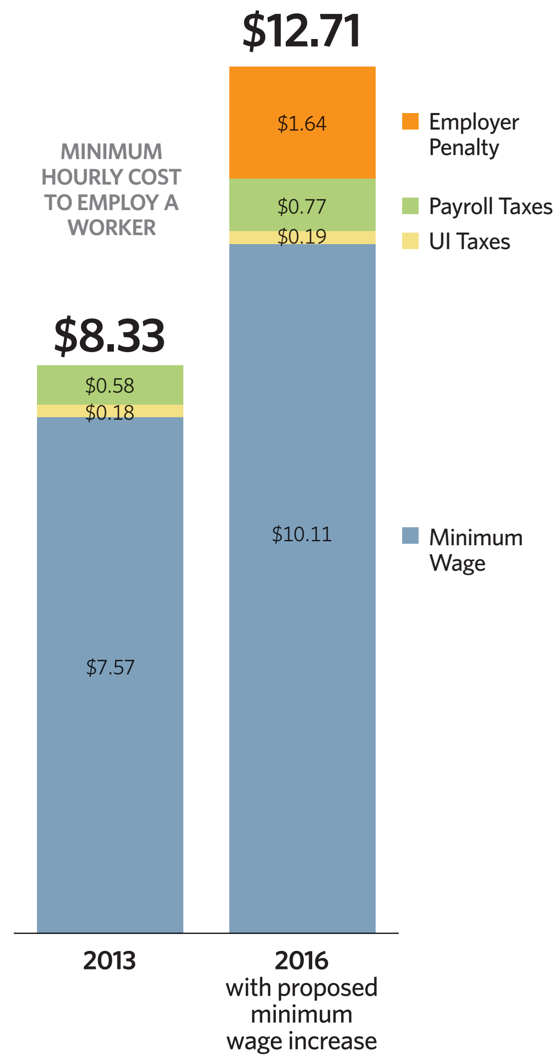
Employers can further avoid the penalty for doing this by cutting employees' hours below 30 per week. Under Obamacare, that qualifies employees as part-time workers and exempts their employers from the penalty. Many firms have already announced plans to cut hours below the Obamacare threshold.[8] When the mandate takes effect in 2015, such announcements will become widespread. This will make getting a full-time job far more difficult for unskilled workers.

Good Intentions Insufficient. President Obama may have good intentions, but this does not negate the law of unintended consequences. Minimum-wage jobs are entry-level jobs that provide unskilled workers the experience they need to become more productive and command higher pay. That is why two-thirds of minimum-wage workers earn raises within a year.[9] Working more hours helps workers

CHART 1

Obamacare, Minimum Wage Hike Would Increase Labor Costs

A proposal to increase the federal minimum wage, coupled with existing employer mandates from Obamacare, would increase the minimum cost to employ a worker by $4.38 per hour (53 percent).



Note: Figures are averages for rates across U.S. states, weighted by private-sector employment in each state. Several states have minimum wages above the federal level in 2013. Both Massachusetts and the District of Columbia set their minimum wages above the federal rate whenever the federal rate exceeds the previously set state rate. This causes the national average in 2016 to slightly exceed the $10.10-per-hour proposed federal rate.
Source: Authors' calculations using data from the U.S. Department of Labor and Medical Expenditure Panel Survey. See footnotes 4 and 6 for details.

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earn those raises faster. Full-time minimum-wage workers are 10 percentage points more likely to earn a raise than those who work less than 20 hours per week.[10]

Requiring unskilled workers to produce at least $12.71 per hour in value for their employers to break even will make these entry-level jobs far scarcer. But inexperienced workers cannot become skilled workers without the experience and on-the-job training that entry-level jobs provide. Adding the proposed minimum wage hike to Obamacare's employer penalty would cut the bottom rung of many disadvantaged workers' career ladders.

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Endnotes

1. *Full time* is defined here as 2,000 hours per year.
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. The portion of the health care law related to 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 the Treasury, however, has issued a 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 likely that affected employers will either drop family coverage or be indifferent to the affordability of the workers' family coverage.
4. Heritage Foundation calculations using data from the 2013 Kaiser employer health benefits survey, extrapolated to 2015 using an assumed 5 percent growth rate for single plans. Note that 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 employers 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 based 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.
5. The average combined state and federal corporate tax rate in the United States is 39 percent. Payroll costs are deductible from these taxes. Consequently, increasing payroll costs by $3,279 reduces tax obligations by $1,279 (0.39 x $3,279). The increase in payroll costs reduces after-tax earnings by $2,000 ($3,279 – $1,279).
6. 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 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. In states with scheduled future minimum wage increases, the legislated 2015 value was used. Minimum wages for states that index their minimum wages to the cost of living were increased by an assumed 2.4 percent annually to calculate their future rates. 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 2013 Kaiser employer health benefits survey. From the total premiums, we 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 January 2013.
7. See details of the Alpha at the Momentum Machines website, www.momentummachines.com (accessed November 20, 2013).
8. Lisa Scherzer, "Fast-Food Chains Cut Worker Hours, Blame Obamacare," Yahoo! Finance, *The Exchange*, January 9, 2013, http://finance.yahoo.com/blogs/the-exchange/fast-food-chains-cut-worker-hours-blame-obamacare-224911846.html (accessed November 14, 2013); *Investor's Business Daily*, "Obamacare Employer Mandate: A List of Cuts to Work Hours, Jobs," updated November 5, 2012, http://news.investors.com/politics-obamacare/110513-669013-obamacare-employer-mandate-a-list-of-cuts-to-work-hours-jobs.htm (accessed November 20, 2013).
9. James Sherk, "Minimum Wage Workers' Incomes Rise When the Minimum Wage Does Not," Heritage Foundation *WebMemo* No. 1181, July 28, 2006, http://www.heritage.org/research/reports/2006/07/minimum-wage-workers-incomes-rise-when-the-minimum-wage-does-not.
10. William E. Even and David A. Macpherson, "Wage Growth Among Minimum Wage Workers," Employment Policies Institute, June 2004, Table 4, http://www.epionline.org/studies/macpherson_06-2004.pdf (accessed November 20, 2013).