

How Will the Affordable Care Act's Employer Mandate Affect Kentucky Businesses?

Dr. Aaron Yelowitz

Associate Professor of Economics
Gatton College of Business and Economics
University of Kentucky
January 31, 2012

Introduction

- Effective January 1, 2014, the Affordable Care Act requires large businesses to either:
 - Provide “affordable” insurance to full-time employees (but not their dependents)
 - Pay a \$2000 per employee tax penalty
- Large business is defined as 50 or more employees, and full-time workers are defined as those that work 30 or more hours per week.

Introduction

- Relative to the (now) well-known individual mandate, very little economic discussion of the employer mandate
- Yet, there is much political discussion
 - Heritage Foundation: “Why the Employer Health Insurance Mandate is a Job and Wage Killer”
 - White House: “The Affordable Care Act does not include an employer mandate.”

Introduction

- This provision of the ACA can be thought of as a “pay-or-play” employer mandate. Some recent *state-level* pay-or-play proposals:
 - **Massachusetts’s “Chapter 58”** (effective 2006) – employers with >10 workers who don’t offer health insurance pay \$295 annually per uninsured worker
 - **Maryland’s “Fair Share Health Care Fund Act”** (aka the “Wal-Mart bill”) was overturned by US Court of Appeals for the Fourth Circuit – would have required firms with 10,000 or more employees to spend at least 8% of payroll on health benefits or pay into state Medicaid fund
 - **New York’s “Fair Share for Health Care”** (proposed in 2006, never implemented). Would have imposed tax as high as \$3/hour on firms with 100 or more employees who did not offer health insurance.
 - **California’s “Health Insurance Act of 2003”** (overturned by California voters in 2004 prior to taking effect). Would have imposed single-worker and family coverage mandates on firms based on employment thresholds of 50 or 200 workers.

Introduction

- Why so little attention to employer mandate?
 - Central problem is lack of good data
 - Ideally, one would like to gather information on a firm-by-firm basis, and examine employee earnings, health insurance take-up and firm size, across a representative sample of firms in the US (or KY)
 - Such data is likely hard (or impossible, or expensive) to obtain
 - Instead, this analysis relies on 2 sources of free, publicly available data sources to “piece together” the answer to the question: **What types of firms might be most impacted by the mandate in Kentucky?**

Introduction

- I've previously computed the impact of proposed pay-or-play employer mandates in California and New York
 - Yelowitz, A., “The Cost of California’s Health Insurance Act of 2003,” *Employment Policies Institute*, October 2003.
 - Yelowitz, A., “The Economic Impact of Proposition 72 on California Employers,” *Employment Policies Institute*, September 2004.
 - Yelowitz, A., “The ‘Fair Share for Health Care Act’ and New York’s Labor Market”, *Employment Policies Institute*, April 2006.
 - Yelowitz, A., “Pay or Play Health Insurance Mandates: Lessons From California,” *California Economic Policy* (Public Policy Institute of California), October 2006.

Data Sources

- 2010 *American Community Survey (ACS)*
- 2009 *County Business Patterns (CBP)*

Details on the 2010 ACS

- Surveyed 43,564 people in KY over the entire 2010 calendar year (1% sample)
- Participation is mandatory
- 14-page questionnaire, Census Bureau estimates that it take 38 minutes to complete
- Asks questions about employment, industry and health insurance sources, and sub-divides KY into 30 distinct regions (“PUMAs”, mostly grouping contiguous counties together)
- *Does not ask respondents about **firm size**, which is a critical component in the ACA legislation*

Critical Questions from ACS Questionnaire

16 Is this person **CURRENTLY** covered by any of the following types of health insurance or health coverage plans? Mark "Yes" or "No" for EACH type of coverage in items a – h.

- | | Yes | No |
|---|--------------------------|--------------------------|
| a. Insurance through a current or former employer or union (of this person or another family member) | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Insurance purchased directly from an insurance company (by this person or another family member) | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Medicare, for people 65 and older, or people with certain disabilities | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Medicaid, Medical Assistance, or any kind of government-assistance plan for those with low incomes or a disability | <input type="checkbox"/> | <input type="checkbox"/> |
| e. TRICARE or other military health care | <input type="checkbox"/> | <input type="checkbox"/> |
| f. VA (including those who have ever used or enrolled for VA health care) | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Indian Health Service | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Any other type of health insurance or health coverage plan – <i>Specify</i> | <input type="checkbox"/> | <input type="checkbox"/> |

40 During the **PAST 12 MONTHS**, in the **WEEKS WORKED**, how many hours did this person usually work each **WEEK**?

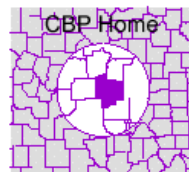
Usual hours worked each WEEK

43 **What kind of business or industry was this?**
Describe the activity at the location where employed. (For example: hospital, newspaper publishing, mail order house, auto engine manufacturing, bank)

Details on the 2009 CBP

- For each of KY's 120 counties, the CBP breaks out, by industry, the number of establishments by firm size:
 - Overall, there were 90,661 establishments in KY in 2009
 - Firm size groupings from 1-4, 5-9, 10-19, 20-49, 50-99, 100-249, 250-499, 500-999, 1000-1499, 1500-2499, 2500-4999, and 5000+ employees
 - Most firms are small, but most of the employment is concentrated in larger firms

2009 County Business Patterns (NAICS)



Kentucky

Without noise flag With noise flag

State:
 Areaname:
 Year:

		NAICS code	NAICS code description	Number of establishments by employment-size class									
				Total establishments	1-4	5-9	10-19	20-49	50-99	100-249	250-499	500-999	1000 or more
	<input type="button" value="Compare"/>	-----	Total for all sectors	90,661	45,385	18,879	12,751	8,571	2,739	1,679	439	147	71
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	11----	Forestry, fishing, hunting, and Agriculture Support	270	201	39	16	8	3	3	0	0	0
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	21----	Mining, quarrying, and oil and gas extraction	663	232	101	107	128	37	38	16	4	0
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	22----	Utilities	340	131	58	71	32	26	19	3	0	0
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	23----	Construction	8,166	5,122	1,438	859	515	151	69	10	2	0
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	31----	Manufacturing	3,894	1,169	637	594	604	362	338	130	48	12
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	42----	Wholesale trade	4,328	2,024	895	678	484	125	97	20	3	2
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	44----	Retail trade	15,653	6,554	4,265	2,876	1,334	307	234	71	10	2
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	48----	Transportation and warehousing	2,962	1,568	505	369	301	109	67	21	12	10
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	51----	Information	1,506	710	275	225	177	67	32	7	12	1
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	52----	Finance and insurance	6,589	3,742	1,730	645	317	89	39	17	3	7
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	53----	Real estate and rental and leasing	3,651	2,554	733	239	90	28	5	1	1	0
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	54----	Professional, scientific, and technical services	8,077	5,425	1,316	772	393	96	52	17	5	1
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	55----	Management of companies and enterprises	675	253	110	101	113	46	31	14	5	2
<input type="button" value="Detail"/>	<input type="button" value="Compare"/>	56----	Administrative and Support and Waste Mang and Remediation Svcs	4,016	2,225	631	454	353	182	127	33	10	1

Details on the 2009 CBP

- Based on data that is considerably richer than the state aggregates, created algorithm to impute the likelihood that a worker is in a firm with 50+ employees
- Step 1: On a county-by-county basis, econometrically estimate a model relating total employment to firm size counts at the 2-digit NAICS level
 - Use quantile regression methods, following the work of Yelowitz (EPI, September 2004)

Details on the 2009 CBP

- Step 2: Quantile regression model yields median number of workers in each firm size category
 - For example, the median number of workers in the 500-999 category was 763, while the median number of workers in the 5000+ category was 7035.
 - From the model's estimates, compute the fraction of employment concentrated in firms with 50 or more workers, for each 2-digit NAICS code and for each KY county

Details on the 2009 CBP

- Step 3: Aggregate these county-industry level estimates up to the PUMA level (e.g., the 30 sub-regions identified in KY in the ACS)
 - As shown in the next table, this likelihood varies from one industry to another, and also across regions in KY
 - For example, a worker in “Accommodation and Food Services” is twice as likely to work for a large firm in Jefferson or Fayette county, relative to a similar worker in Eastern KY.

Likelihood that a worker is in a firm with 50 or more employees ...

	Fayette County	Jefferson County	Eastern KY (Pike, Martin, Floyd, Johnson & Magoffin)
Mining, Quarrying, and Oil and Gas Extraction	0.60	0.66	0.73
Utilities	0.77	0.94	0.46
Construction	0.57	0.45	0.29
Wholesale Trade	0.63	0.49	0.40
Finance and Insurance	0.30	0.71	0.40
Professional, Scientific, and Technical Services	0.45	0.50	0.13
Health Care and Social Assistance	0.71	0.70	0.67
Accommodation and Food Services	0.48	0.50	0.25

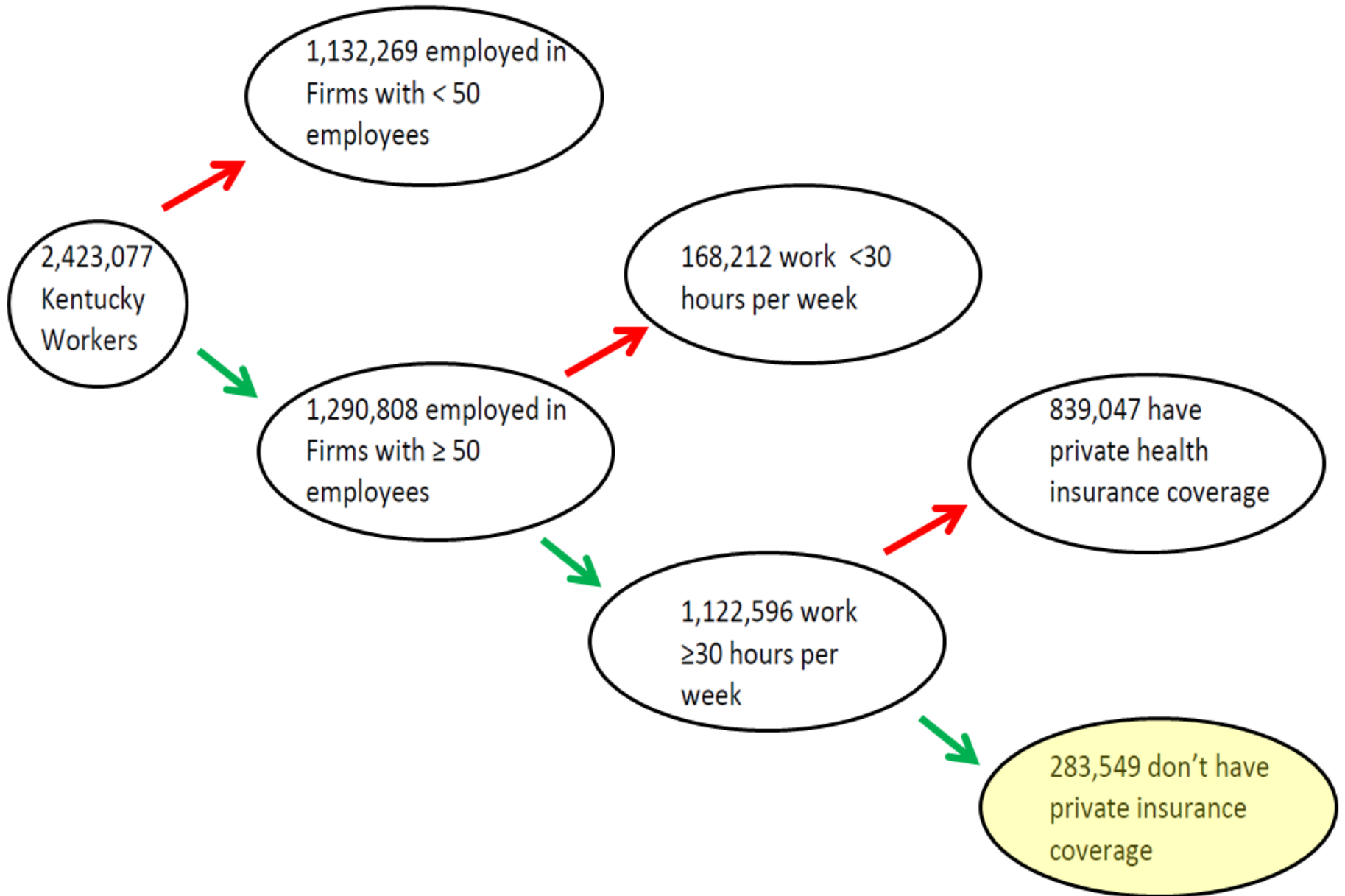
Details on the 2009 CBP

- Step 4: Based on the estimates obtained in the CBP, assign each KY worker in the ACS a likelihood of being in a firm with 50 or more workers, based on their PUMA and 2-digit NAICS code

Results of Analysis: Aggregate Effects

- The flow chart on the next slide first isolates workers that are likely to be affected
 - This assumes “no behavioral response”
 - That is, firm’s don’t respond by laying off employees, consolidating part-time jobs into full-time jobs to get under the 50 employee threshold, or creating 29-hour workweeks
 - In total, more than **283,000 KY workers** are likely to be affected; some of them may currently have a public source of health insurance (Medicaid, Medicare, Tricare)
 - Understates affected workers because of some inherent limitations in the ACS in figuring out whose policy a person is covered under.
 - **Put differently, around 22% of workers are large firms would be impacted by the mandate.**

Tracing Out the Impact of the Employer Mandate



Results of Analysis: By Industry and Region

- Although figuring out the total cost, economic impact, and any “unintended consequences” is beyond the scope of today’s presentation, the following slides show how the ACA differentially affects industries and regions within Kentucky.
- Industries with large firms and many full-time workers who lack health insurance will clearly be affected the most.
 - In some industries, more than 20% of workers will be affected by the employer mandate.

Results of Analysis: By Industry

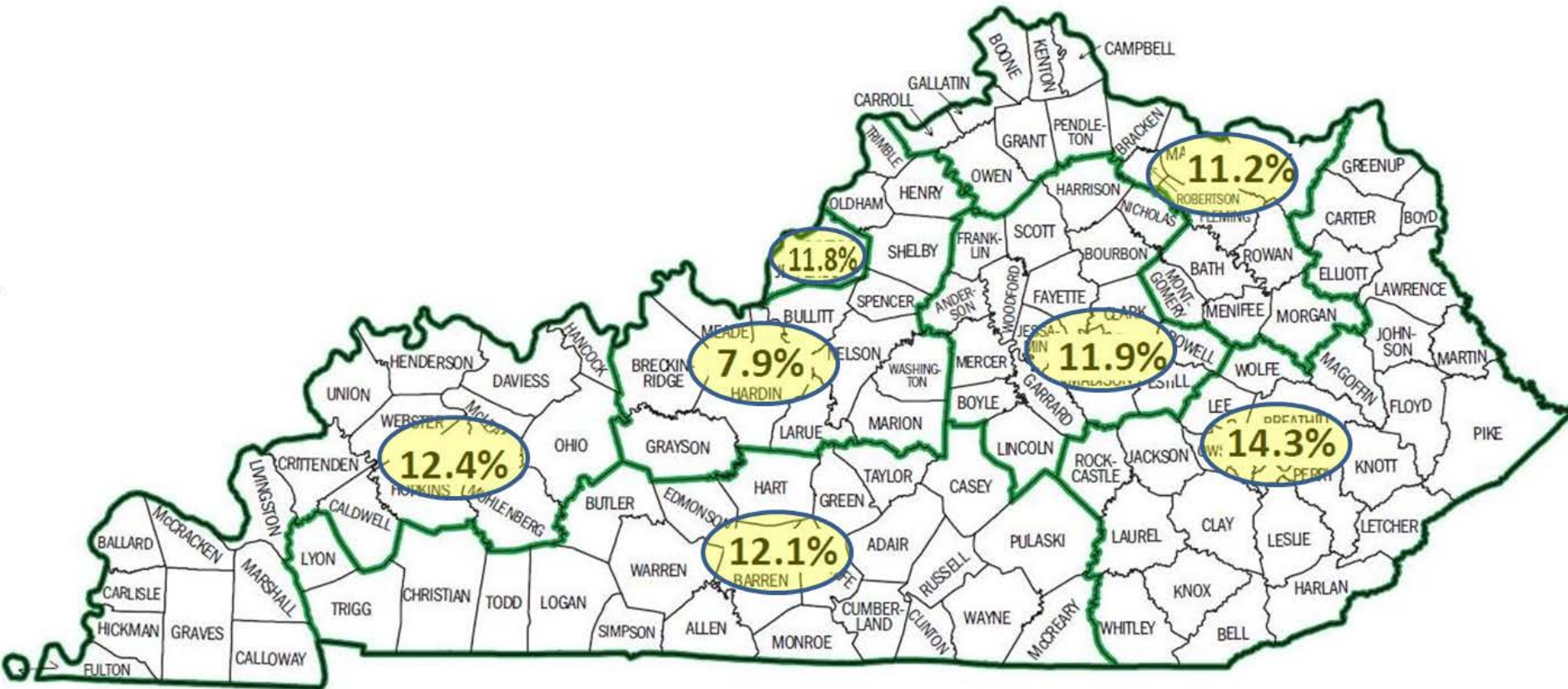
Industry Code	Industry Name	Affected Workers
56	Administrative and Support and Waste Management and Remediation Services	26.5%
31	Manufacturing	20.7%
33	Manufacturing	17.6%
21	Mining	17.4%
48	Transportation and Warehousing	17.4%
32	Manufacturing	16.6%
72	Accommodation and Food Services	15.3%
45	Retail Trade	14.3%
62	Health Care and Social Assistance	12.7%
44	Retail Trade	12.4%
23	Construction	12.1%
51	Information	11.4%
42	Wholesale Trade	10.9%
11	Agriculture, Forestry, Fishing and Hunting	8.1%
71	Arts, Entertainment, and Recreation	7.2%
81	Other Services (except Public Administration)	7.1%
49	Transportation and Warehousing	6.7%
92	Public Administration	5.7%
22	Utilities	5.3%
61	Educational Services	4.9%
54	Professional, Scientific, and Technical Services	4.5%
53	Real Estate Rental and Leasing	3.4%
52	Finance and Insurance	2.8%

Results of Analysis: By Region

- Similarly, firm size, hours of work and the prevalence of health insurance clearly varies within Kentucky.
- For ease of exposition, divide Kentucky into 7 regions defined by the Census Bureau.

Results of Analysis: By Region

FRACTION OF WORKERS AFFECTED BY EMPLOYER MANDATE



Conclusions

- Employer mandate has the potential to greatly affect large employers
- Possible responses:
 - Provide health insurance
 - Pay fines, put employees into health insurance exchanges
 - Modify employment or employment arrangements: reduce firm size under 50 or reduce hours per week under 30

Contact Information

- Dr. Aaron Yelowitz
- Associate Professor in Department of Economics at University of Kentucky since 2001
 - Joint appointment with Martin School of Public Policy & Administration at UK
- Adjunct Scholar at Cato Institute
- Teaches Public Economics, Health Economics, Economics of Housing, and variety of other courses
- Published in Quarterly Journal of Economics, Journal of Political Economy, Journal of Public Economics, Journal of Health Economics, among others
- Ph.D. from MIT in 1994, B.A. from UCSB in 1990
- Email: aaron@uky.edu
- Website: www.Yelowitz.com
- Phone: 859-257-7634

