

# Firms Expect Health Act to Raise Labor Costs

By Amy Jordan and Pia Orrenius

Federal and state regulations govern many aspects of health insurance, which 159 million U.S. residents obtain through an employer. The Affordable Care Act (ACA), signed into law in 2010, imposed conditions that include a requirement that companies employing 50 or more full-time-equivalent workers provide affordable, broad-based insurance.<sup>1</sup>

The act stipulates that coverage be of “minimum value”—paying at least 60 percent of medical costs—and affordable—with a premium representing no more than 9.5 percent of a worker’s annual earnings. It also imposes fines on companies of 50 or more workers that fail to offer coverage for full-time employees starting in January 2015 and on individuals who go without health insurance.<sup>2</sup>

For small companies—those with fewer than 50 full-time-equivalent employees—the law provides incentives to offer coverage, including a tax credit and access to a small-business health insurance exchange.<sup>3</sup>

Some employers and legislators are concerned that the ACA’s provisions will drive up labor costs, which could damp hiring and economic

growth. Others worry that the law may distort the labor market, providing incentives to convert full-time workers to part-time or trim payrolls to below the 50-employee threshold. However, the impact on hiring could be muted if employers shift compensation from wages to health benefits, leaving total compensation unchanged. To discern the sentiments of area firms, the Federal Reserve Bank of Dallas asked respondents to its Texas Business Outlook Surveys (TBOS) a series of special questions about the act.

More than 400 Texas businesses in manufacturing (Texas Manufacturing Outlook Survey), services (Texas Service Sector Outlook Survey) and retail (Texas Retail Outlook Survey) participate in the monthly TBOS surveys, and 262 responded to questions regarding how health care reform will affect their labor costs, wages and benefits, and staffing decisions.<sup>4</sup> The great majority of respondents—77 percent—said they expect labor costs to increase. By sector, the results were 81 percent in manufacturing, 75 percent in services and 77 percent in retail.

To counteract new cost pressures, more than half (54 percent) indicated they would adjust compensation struc-

tures. Of those anticipating adjusting compensation, 28 percent said they will likely pass on some or all additional health care costs to employees, while 12 percent said they will likely reduce employee wages or other benefits to offset the costs (*see chart for results by sector*).

The Dallas Fed also asked companies to report on planned staffing changes. A majority (64 percent) said they expect no change or are uncertain. However, 28 percent anticipate reducing the number of full-time employees, with 18 percent planning to increase part-time, contract or temporary workers.<sup>5</sup>

Implementation of the ACA employer mandate may not significantly affect large companies that already offer workers health insurance.

Initially, some employers may experience increased labor costs as more workers sign up for coverage. This surge could temporarily hurt profits and hiring. However, according to the TBOS survey, the increased cost may cause firms to shift compensation from wages to health care, which is what happened in Massachusetts following implementation of a similar law there.

## Notes

<sup>1</sup> The ACA defines full-time workers as those working at least 30 hours per week. Under the law, combinations of part-time employees count toward the threshold; for example, two half-time employees (15 hours per week) are equivalent to one full-time employee.

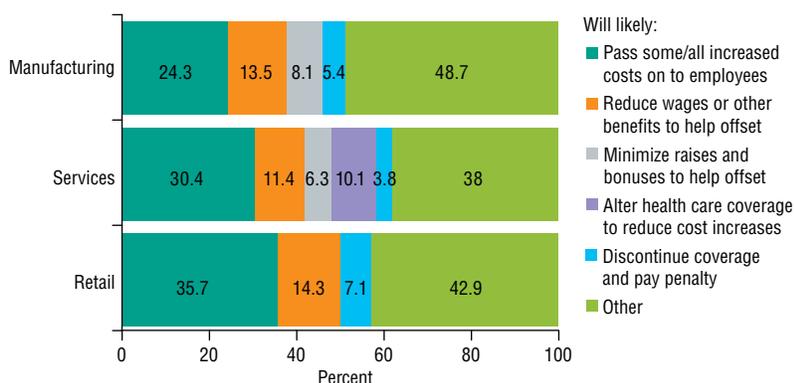
<sup>2</sup> The government announced July 2 that it would implement the employer mandate in January 2015, one year later than originally planned. Plans are still on track for uninsured individuals to sign up for coverage through individual insurance exchanges starting Oct. 1, 2013, for coverage beginning Jan. 1, 2014. Fines for individuals who decline coverage will begin in 2014 and become payable in 2015.

<sup>3</sup> Under the ACA individual mandate, everyone must have medical insurance, obtained through their own or their spouse’s employer, the government (Medicaid and Medicare) or health insurance exchanges.

<sup>4</sup> See current and historical releases of TBOS as well as the results of the April 2013 special questions at [www.dallasfed.org/research/surveys/index.cfm](http://www.dallasfed.org/research/surveys/index.cfm).

<sup>5</sup> Respondents were asked to select all options that apply, so percentages sum to more than 100 percent.

Employers Likely to Alter Compensation Structures Under Act



SOURCE: Texas Business Outlook Surveys, Federal Reserve Bank of Dallas.