Congressional report: Obamacare to reduce workforce by two million

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The Affordable Care Act (ACA) is projected to reduce the full-time labor force in the US by the equivalent of 2.3 million positions by 2021, according to a report released Tuesday by the Congressional Budget Office. The CBO also projects that 2 million fewer people will be insured this year under the ACA than previously estimated, largely due to the botched rollout of the HealthCare.gov web site.

Previous CBO estimates placed the labor force impact of the ACA at around 800,000 during this timeframe. The federal government agency reports that some workers may reduce their hours, while others may delay or forego employment. Low-wage workers are the most likely to be affected, and the law's impact on jobs would be felt most after 2016.

The CBO estimates that the legislation popularly known as Obamacare will cause a reduction of roughly 1 percent in aggregate labor compensation over the 2017-2024 period compared to what it would have been without the ACA. This represents a projected decline of the equivalent of about 2 million full-time jobs in 2017, rising to about 2.5 million in 2024.

According to the CBO, the projected reduction "stems almost entirely from a net decline in the amount of labor that workers choose to supply, rather than from a net drop in businesses' demand for labor," thus appearing as a reduction in labor force participation and in hours worked. The estimates do not represent individual full-time jobs lost, but the equivalent of full-time jobs based on total projected working hours.

The report cites tax credits to defray the cost of premiums and cost-sharing to reduce out-of-pocket costs for coverage purchased through the ACA as the main reason for the projected reduction in labor force participation. It does not, however, discount the impact of penalties the legislation will impose on employers that do not offer insurance coverage to their full-time employees.

Other factors contributing to the reduction in labor compensation, according to the CBO, include the expansion of eligibility for Medicaid in some states, as well as provisions of the ACA that may combine to affect workers' retirement decisions.

Beginning this year, individuals and families who qualify will be eligible for tax credits and subsidies to purchase insurance offered for sale by private insurers on the exchanges set up under Obamacare. It is important to note that the largest financial assistance is offered to those near the federal poverty level (FPL), and that the subsidies decline with rising income.

The FPL is set abysmally low. In 2013, the FPL was $11,490 for a single person and $23,550 for a family of four. If such an individual were to work an unlikely 40 hours a week, 52 weeks of the year, this would work out to just over $5.50 an hour.

According to the CBO report, a single person or family with an income of 150 percent of the FPL and eligible for subsidies will pay 4 percent of their income for a typical "silver" [mid-range] health plan purchased through an ACA exchange. Households at 200 percent of the FPL would pay 6.3 percent of that income for the same plan. People with income exceeding 400 percent of the FPL (about $46,000 for an individual) are ineligible for premium subsidies altogether.

According to the CBO's projections, some people may make the decision to reduce their hours, or stop working, in order to maintain their eligibility for subsidies. These individuals, who are overwhelmingly low-income, may find themselves in the position of being forced to reduce their working hours in order to afford health coverage for themselves and their families. This "voluntary" reduction in working hours

is the main driver of the projected decline in the labor participation rate.

Of course, under the ACA, individuals and families who are not insured through an employer or through a government program such as Medicare or Medicaid are required by law to obtain insurance or pay a penalty. Plans purchased on the health care exchanges also carry high premiums and deductibles and other out-of-pocket costs that are only partially defrayed by tax credits and subsidies. Coverage varies widely by region, and in many states, particularly in rural areas, provider networks are severely limited.

The expansion of Medicaid eligibility is another factor the CBO projects will affect the labor participation rate. In those states that have adopted the expansion, non-elderly people earning below 138 percent of the FPL ($15,856 in 2013 dollars) will be eligible for Medicaid. This includes childless adults who previously were not eligible in most states for the government program.

In states that have not expanded Medicaid, those with incomes between 100 percent and 138 percent of the FPL become eligible for subsidies through the exchanges. People in these extremely low-income brackets may make a decision to reduce their working hours to obtain health insurance through Medicaid or the ACA exchanges.

Another factor cited by the CBO as potentially contributing to the decline in workforce participation is the so-called employer mandate. Beginning in 2015, businesses with 50 or more full-time employees will face a penalty if they do not offer insurance to their workers.

Although the CBO does not quantify the impact of this ACA mandate, the report notes that “the costs of the penalty eventually will be borne primarily by workers in the form of reductions in wages or other compensation.” The report concludes, “Because the supply of labor is responsive to changes in compensation, the employer penalty will ultimately induce some workers to supply less labor.”

Beginning in 2018, the ACA will also impose a “Cadillac tax” on certain higher-quality, more costly insurance plans. The report projects that the “burden of that tax will, over time, be borne primarily by workers in the form of smaller after-tax compensation,” resulting in a slight decline in the supply of labor.

Provisions of the ACA that prohibit insurers from denying coverage to individuals with preexisting conditions, or that restrict variability in premiums on the basis of age or health status, may also prompt older workers to retire earlier than they might have otherwise. While not quantifying the impact, the CBO projects a reduction in the supply of labor as these workers retire and purchase health plans outside the workplace.