

Will the Affordable Care Act Be a Job Killer?

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Introduction

The question of whether the Affordable Care Act (ACA) will lead to job loss was revisited this month during the first presidential debate. Previously, the Congressional Budget Office (CBO) estimated that job loss under the ACA will be minimal, less than half of one percent nationally, and that it will stem mostly from individuals who will choose to work fewer hours or retire.¹ Nonetheless, charges that the ACA will kill jobs were a talking point for Governor Romney during the debate and have been made consistently by opponents of the law. In this paper, we summarize the findings of earlier work assessing the potential link between the ACA and job loss and review the evidence from the Massachusetts health reform initiative, the template for the ACA. Both economic theory and the actual experience under reform in Massachusetts suggest that the ACA will have little impact on employment.

Why might reductions in employment be expected under reforms such as the ACA or the Massachusetts health reform? Economists almost universally agree that if employers are required to provide insurance coverage to their employees or pay a penalty if they do not do so, the employers will shift these costs to workers in the form of lower wages or reductions in other benefits. If workers have wages near the minimum wage or if collective bargaining prevents employers from altering wages and benefits, employers may employ fewer workers or employ workers for fewer hours. Similarly, if wages are lowered, workers who do not value the insurance coverage they receive as much as they value wages may choose to work less. At the same time, some workers who value health insurance coverage and have remained in the labor force only to obtain it may choose to retire early or work fewer hours when other coverage options become available.²

Why might any reductions in employment be small under such reforms? The incremental costs of coverage born through employer penalties as well as the increased taxes under the ACA are quite small

relative to the size of the economy. Holahan and Garrett argued previously that while new revenues needed to pay for health reform would be \$439 billion between 2014 and 2019, the cumulative GDP over the same period would be \$116 trillion. The revenues needed for reform are only 0.4 percent of GDP and therefore are unlikely to have much of an effect on the overall level of employment.³ Further, the ACA has spending and revenue effects that are essentially offsetting. For example, the new revenues needed to pay for the Medicaid expansion and income-related subsidies could by themselves adversely affect the economy and employment. But the coverage expansion means these funds will be infused into the economy and result in increased spending and employment in health care and insurance sectors. Finally, very few firms are actually affected by the coverage requirements of the ACA – fully 74 percent are exempt due to their size and 96 percent of the firms that are not exempt already offer coverage to their employees.⁴

The Evidence from Massachusetts⁵

In April of 2006, Massachusetts enacted its own version of health reform that became the model for the ACA. The ACA and the Massachusetts health reform are complex initiatives that are similar in the way they affect the costs to an employer for each worker including the expansion of coverage of dependents up to age 26, health insurance and small group market reforms, and penalties for not offering any or affordable coverage to workers.⁶ While there are differences in the specifics of the ACA and Massachusetts' reform, the broad tenets of the two reform plans are quite comparable and we would expect to see patterns in the nation that are similar to those experienced in Massachusetts once the ACA is fully implemented. We first present the evidence on whether employer-sponsored coverage and employer offers of coverage increased under the Massachusetts health reform law and then provide evidence on whether reform reduced employment and economic growth.

Employer-Sponsored Insurance Coverage Expanded in Massachusetts. As has been documented in numerous surveys and studies, uninsurance in Massachusetts dropped significantly under reform and has stayed quite low despite the recession that began in 2007.⁷ A key part of the drop in uninsurance has been an expansion of employer-sponsored insurance in the state. As can be seen in figure 1, employer-sponsored coverage among the non-elderly working age population was declining prior to the health reform law in both Massachusetts and the rest of the nation. Employer-sponsored coverage increased following reform in Massachusetts from 70.1 percent in 2006 to 75.1 percent in 2008. By contrast, the rest of the nation saw a continuing decline in employer-sponsored coverage over this period.

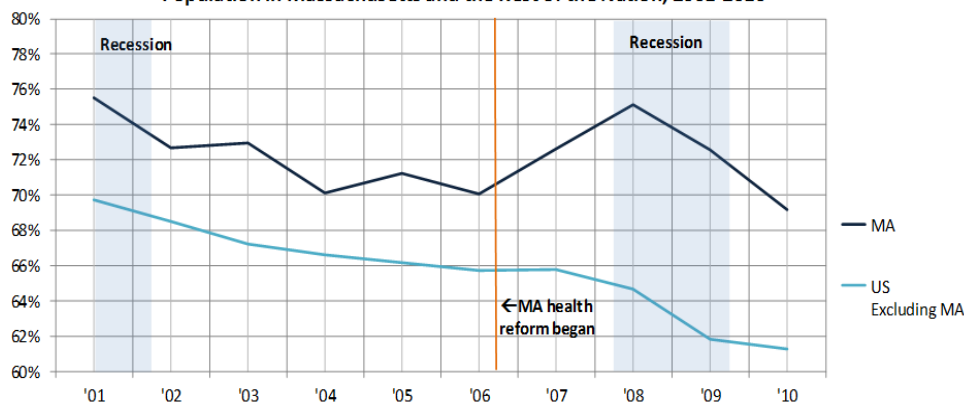
The worsening of the recession in 2008 and beyond led to a decline in employer-sponsored coverage in both Massachusetts and the rest of the country. However, by 2010 the gap in employer-sponsored coverage between Massachusetts and the rest of the

nation that had existed prior to health reform had widened, growing from 4.3 percentage points in 2006 to 7.9 percentage points in 2010, as shown in figure 1. Contrary to the notion of harming workers in Massachusetts, health reform may have mitigated the full impact of the recession on employer-sponsored coverage in Massachusetts relative to the rest of the country.

Massachusetts' relative increase in employer-sponsored coverage was due in part to an increase in employers offering coverage under reform. Prior to reform, the share of employers in Massachusetts offering health insurance was relatively flat while the rate for the nation as a whole was falling. Between 2006 and 2008, the share of employers who offered coverage to their workers remained more or less constant nationally (table 1). Massachusetts, by contrast, saw an increase of 2.5 percentage points in employer offer rates across firms as a whole under health reform.⁸ For firms with more than 10 workers that were required to provide affordable coverage or face a penalty under reform in Massachusetts, offer

rates increased both between 2006 and 2008 and beyond, a pattern that was not observed for the nation as a whole (table 1). Gabel and colleagues attribute the increased demand for insurance coverage by workers, a result of the individual mandate, as one factor in employers' response to health reform in the state. Employers in the state may need to offer insurance coverage to remain competitive in the labor market.⁹

Figure 1: Employer-Sponsored Insurance Among the Non-Elderly Working-Age Population in Massachusetts and the Rest of the Nation, 2001-2010



Source: Urban Institute analysis of data from the 2002-2011 Annual Social and Economic Supplements to the Current Population Survey (CPS).

Table 1: Percent of Private-Sector Establishments that Offer Health Insurance by Firm Size in Massachusetts and the Nation, 2001-2010

Firm Size	Region	Share by Year				Percentage Point Change By Time Period		
		2001	2006	2008	2010	2001-2006	2006-2008	2006-2010
All Firm Sizes	MA	66.6%	66.2%	68.7%	65.7%	-0.4	2.5	-0.5
	US	58.3%	55.8%	56.4%	53.8%	-2.5	0.6	-2.0
0-9 Employees	MA	48.7%	50.3%	50.7%	44.8%	1.6	0.4	-5.5
	US	38.6%	35.1%	35.6%	31.8%	-3.5	0.5	-3.3
10-24 Employees	MA	82.9%	74.7%	78.8%	79.8%	-8.2	4.1	5.1
	US	67.4%	63.2%	66.1%	60.9%	-4.2	2.9	-2.3
25-99 Employees	MA	90.9%	83.6%	95.9%	96.0%	-7.3	12.3	12.4
	US	83.2%	81.6%	81.3%	80.6%	-1.6	-0.3	-1.0
100-999 Employees	MA	99.4%	91.9%	99.3%	97.9%	-7.5	7.4	6.0
	US	95.4%	94.1%	95.4%	94.9%	-1.3	1.3	0.8
1000+ Employees	MA	100.0%	100.0%	100.0%	100.0%	0.0	0.0	0.0
	US	99.4%	98.4%	98.9%	99.5%	-1.0	0.5	1.1

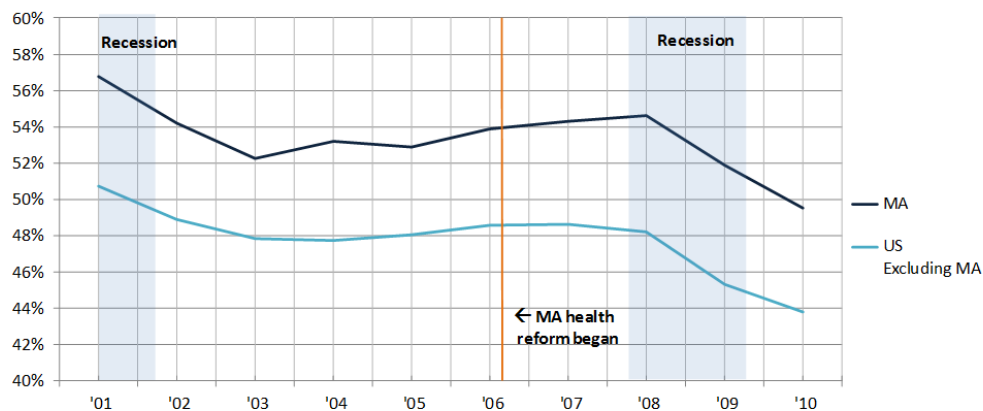
Source: 2001-2010 Medical Expenditure Panel Survey-Insurance Component.

Employment trends in Massachusetts were similar to the rest of the nation, before and after health reform.

Overall, private sector employment in Massachusetts and the rest of the nation dropped sharply over two periods between 2001 and 2010, corresponding to the economic recessions that began in early 2001 and late 2007 (figure 2). Focusing on the period following the implementation of health reform in Massachusetts (2006—2010), there was a net decline in the private sector employment to working age population ratio of 4.4 percentage points in Massachusetts, as compared to a decline of 4.8 percentage points in the rest of the nation.

While the overall trend in private-sector employment suggests little effect of health reform on employment in the state, the overall trends could mask changes for subsets of the market. For example, one might expect that the costs of providing health insurance coverage would have been more of an issue for smaller firms, which were less likely to offer coverage to workers prior to health reform, and firms in industries with large shares of low-wage workers, such as retail trade or accommodation and food service. Dubai, Long and Lawton found that between 2006 and 2010, the changes in employment, which declined in Massachusetts and nationwide, were quite similar for Massachusetts and the rest of nation regardless of firm size. Changes in employment for the retail trade and accommodation and food services industries, sectors in which employment effects from health reform, if they

Figure 2: Ratio of Private-Sector Employment to the Working-Age Population in Massachusetts and the Rest of the Nation, 2001-2010



Source: Urban Institute analysis of data from the 2001-2010 Quarterly Census of Employment and Wages and the 2001-2010 Annual Social and Economic Supplements to the Current Population Survey (CPS).

occurred, would be expected, were also quite similar for Massachusetts and the rest of the nation (data not shown).¹⁰

There is no evidence that Massachusetts employers have cut back on hiring because of health reform. This is consistent with the assessment of business leaders from across the state, including the Associated Industries of Massachusetts, the Greater Boston Chamber of Commerce, the Massachusetts Business Roundtable, and the Massachusetts Taxpayer Foundation.¹¹

The economy in Massachusetts has grown faster than the rest of the nation since reform. Another way to measure economic growth is through changes in Gross Domestic Product (GDP). Massachusetts' GDP continued to grow under health reform and actually increased relative to the rest of the country. As shown in table 2, in the period just prior to health reform (2001—2006), real GDP in Massachusetts grew by 6.2 percent, as compared to a much higher rate of growth in the rest of the country of 13.5

Table 2: Real Gross Domestic Product by Category, Massachusetts and the Rest of the Nation, 2001-2010

Firm Size	Region	Real GDP By Year (in Millions of Chained 2005 Dollars)				Percent Change By Time Period		
		2001	2006	2008	2010	2001-2006	2006-2008	2006-2010
All Industry Total	MA	308,710	327,936	335,809	341,164	6.2%	2.4%	4.0%
	US Excluding MA	11,056,400	12,547,880	12,680,982	12,577,767	13.5%	1.1%	0.2%
Health Care and Social Assistance	MA	24,416	28,789	31,242	32,711	17.9%	8.5%	13.6%
	US Excluding MA	708,610	834,480	890,937	928,601	17.8%	6.8%	11.3%
Total Excluding Health Care and Social Assistance	MA	284,294	299,147	304,567	308,453	5.2%	1.8%	3.1%
	US Excluding MA	10,347,790	11,713,400	11,790,045	11,649,166	13.2%	0.7%	-0.5%

Source: Bureau of Economic Analysis: National Economic Accounts. U.S. Department of Commerce. www.bea.gov

percent. However, between 2006 and 2008, GDP in Massachusetts grew by 2.4 percent while growth in the rest of the nation was only 1.1 percent. Overall, between 2006 and 2010, GDP in the state grew by 4.0 percent while the growth rate in the rest of the nation was essentially flat. While there are many reasons the economy could have grown more steadily in Massachusetts than the rest of the nation, it seems clear that economic growth was not stunted by health reform.

It is possible that growth in Massachusetts was driven by the expansion in health insurance coverage and the increased demand for health care, while other industries suffered. The evidence does not support that view. GDP from health and social assistance industries, which grew at the same rate for both Massachusetts and the rest of the nation prior to reform, did grow more rapidly after reform—by 13.6 percent in Massachusetts between 2006 and 2010, as compared to 11.3 percent for the rest of the nation.¹² However, growth in other non-health and social assistance industries, which was much slower in Massachusetts relative to the rest of the nation prior to health reform, increased by 3.1 percent between 2006 and 2010. Over the same time period, non-health and social assistance industries GDP decreased by half a percent in the rest of the nation.

While the evidence is clear on how Massachusetts' health reform affected the state's economy, the reform in Massachusetts is not identical to the Affordable Care Act. Given the similarities between Massachusetts' health reform and the ACA, we would expect the experience in Massachusetts to be broadly predictive of the effects of national reform. However, the impacts of the ACA will vary from those in Massachusetts given the many elements of national reform that differ from reform in Massachusetts, including key aspects of the requirements for employers, and the different circumstances of each state.

Beyond the provisions for employers, other aspects of the ACA that were not part of the Massachusetts reform may lead to reduced growth. For example, spending reductions in Medicare and other government programs would be expected to reduce the demand for labor in the health sector. In addition, part of reform is financed by taxes on earned and unearned income of higher income individuals. These taxes will only have a small effect on demand for goods and services because a very small share of the population will be affected and higher income people are the least likely to change their consumption in response to a payroll tax. By

themselves the reductions in Medicare spending and increase in taxes could lead to job loss; however, they are offset by increased spending through the Medicaid expansion and premium tax credits that will increase employment. Finally, new spending under the ACA will be financed through various taxes on insurers and medical device and pharmaceutical manufacturers. Similarly, the potential reductions in demand for these services will be more than offset by the increase in demand as a result of the expansion in coverage.¹³

The Bottom Line

Despite claims that the Affordable Care Act will lead to job loss and slower economic growth, economic theory and the evidence from the 2006 health reform in Massachusetts suggests otherwise. With health reform in Massachusetts, not only did the rate of uninsurance fall substantially, but the rate of employer-sponsored coverage increased relative to the rest of the nation. In addition, offers of coverage increased for firms targeted by the reform, a pattern that was not seen for comparable firms in the nation as a whole.

The increase in employer-sponsored coverage in Massachusetts and the penalties faced by firms that did not make a "fair and reasonable contribution" to employee coverage did not lead to a loss of jobs in the state. Employment trends in Massachusetts have been quite consistent with trends for the rest of the nation. This was the case for all firms affected by the legislation, including firms that would be more likely to be adversely affected under the legislation due to their low-wage workforce and low rates of employer-sponsored coverage. These findings are consistent with recent research by Kolstad and Kowalski, who found little change in employment as a result of health reform in Massachusetts. They conclude that workers in the state appear to value their increased health insurance coverage enough to accept the reduction in wages needed to cover the costs of that coverage.¹⁴

Finally, there is no evidence that Massachusetts health reform slowed economic growth in the state. In fact, despite slower growth in GDP relative to the rest of the country prior to health reform, GDP grew faster in Massachusetts relative to the rest of the nation after the implementation of health reform. This growth was not limited to the health care industry, which would be expected to expand with the increase in insurance coverage under reform, but was both broadly based and more rapid than the growth in the rest of the country. Business leaders in the state echo these findings, reporting that health reform has been good for business in Massachusetts.¹⁵

Notes

1. Congressional Budget Office. "The Budget and Economic Outlook: An Update." Washington, DC: Congressional Budget Office, 2010.
2. Dubay L, Long SK and Lawton E. "[Will Health Reform Lead to Job Loss? Evidence from Massachusetts Says No.](#)" Washington, DC: Urban Institute, 2012.
3. Holahan J and Garrett B. "[How Will the Affordable Care Act Affect Jobs?](#)" Washington, DC: Urban Institute, 2011.
4. Agency for Healthcare Research and Quality. *Percent of Number of Private-sector Establishments by Firm Size and Selected Characteristics* (Table I.A.1.a) 2010 (July 2011) Medical Expenditure Panel Survey Insurance Component Tables. Generated using MEPSnet/IC. <http://www.meps.ahrq.gov/mepsweb/data_stats/MEPSnetIC.jsp> (October 16, 2012); Agency for Healthcare Research and Quality. *Percent of Private-sector Establishments that Offer Health Insurance by Firm Size and Selected Characteristics*. Table I.A. 2010 (July 2011). Medical Expenditure Panel Survey Insurance Component Tables. Generated using MEPSnet/IC. <http://www.meps.ahrq.gov/mepsweb/data_stats/MEPSnetIC.jsp> (October 16, 2012).
5. This section draws key findings from Dubay, Long and Lawton (2012) and Holahan and Garrett (2011). More detailed findings and descriptions of data and methods are provided in the source materials.
6. See Dubay, Long, Lawton (2012) for a summary of the similarities and differences between the ACA and Massachusetts reform for employers. For an overview of the broader differences between the ACA and Massachusetts reform, see Seifert RW and Cohen AP. [Re-forming Reform: What the Patient Protection and Affordable Care Act Means for Massachusetts](#). Boston, MA: Blue Cross Blue Shield of Massachusetts Foundation, 2011.
7. See for example, Long SK. "On the Road to Universal Coverage: Impacts of Reform in Massachusetts at One Year." *Health Affairs*, 27(4): 270-284, 2008; Zhu J, Brawarsky P, Lipsitz S, et al. "Massachusetts Health Reform and Disparities in Coverage, Access and Health Status." *Journal of General Internal Medicine*, 25(12): 1356-1362, 2010; Tinsley L, Andrews B and Hawk H. "Short-Term Effects of Health-Care Coverage Legislation—Massachusetts, 2008." *Morbidity and Mortality Weekly Report*, 59(9): 262-267, March 2010; Clark CR, Soukup J, Govindarajulu U, et al. "Lack of Access Due to Costs Remains a Problem for Some in Massachusetts Despite the State's Health Reforms." *Health Affairs*, 30(2): 247-255, 2011; Long SK, Stockley K and Dahlen H. "Massachusetts Health Reforms: Uninsurance Remains Low, Self-Reported Health Status Improves as State Prepares to Tackle Costs." *Health Affairs*, 31: 444-451, 2012; Long SK and Stockley K. "Sustaining Health Reform in a Recession: An Update on Massachusetts as of Fall 2009." *Health Affairs*, 29(6): 1234-1241, 2010; Long SK and Phadera L. *Estimates of Health Insurance Coverage in Massachusetts from the Massachusetts Health Insurance Survey: An Update for 2010*. Washington, DC: The Urban Institute, 2011.
8. Medical Expenditure Panel Survey (MEPS) data on offer rates show somewhat different trends than data collected by Massachusetts. Massachusetts Division of Health Care Finance and Policy (DCHFP) data show employers were more likely to offer health insurance coverage to their workers, with the share of employers offering coverage up from 70 percent in 2005 to 77 percent in 2010. Patterns for firms with over 10 employees are consistent but the Massachusetts surveys show an increase in offer rates among small firms as well, a pattern not seen in the MEPS data. See Massachusetts Division of Health Care Financing and Policy. [Health Care in Massachusetts: Key Indicators](#), May 2011 Edition. Boston, MA: DCHFP, 2011.
9. Gabel JR, Whitmore H and Pickreign J. "Report from Massachusetts: Employers Largely Support Health Care Reform, and Few Signs of Crowd- Out Appear." *Health Affairs*, 27(1): w13-w23, January 2008.
10. In their study, Dubay, Long and Lawton (2012) examined differences in trends for multiple groups of comparison states to make this assessment. See study for the complete results.
11. Raymond AG. [Business Community Participation in Health Reform: The Massachusetts Experience](#). Boston, MA: Community Catalyst, 2012.
12. These results are consistent with work by Staiger, Auerbach and Buerhaus (2011), who examined employment in the health care industry under health reform in Massachusetts as compared to the rest of the country. They found that, between December 2005 and September 2010, employment in the health care industry increased by 9.5 percent in Massachusetts, as compared to 5.5 percent in the rest of the country. See Staiger DO, Auerbach DI and Buerhaus PI. "Health Care Reform and the Health Care Workforce—the Massachusetts Experience." *New England Journal of Medicine*, 365(12):e24, 2011.
13. Holahan and Garrett 2011.
14. Kolstad JT and Kowalski AE. "[Mandate-Based Health Reform and the Labor Market: Evidence from the Massachusetts Reform.](#)" NBER Working Paper No. w17933. Cambridge, MA: National Bureau of Economic Research, March 2012.
15. Raymond 2012.

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