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## **Health Reform Not Causing Significant Shift to Part-Time Work**

### **But Raising Threshold to 40 Hours a Week Would Make a Sizeable Shift Likely**

By Paul N. Van de Water

Congressional Republicans are reportedly considering whether to add — to legislation to reopen the government and raise the debt limit — a measure to raise the threshold for full-time work under the Affordable Care Act (ACA) from 30 to 40 hours. **That's because the ACA** requires employers with at least 50 full-time-equivalent workers to offer health coverage to full-time employees or pay a penalty, and critics claim the requirement creates a disincentive to hire full-timers, prompting a shift to part-time work **that's already evident** in the data.<sup>1</sup>

Recent data, however, provide scant evidence that health reform is causing a significant shift toward part-time work, **and there's** every reason to believe that the ultimate effect will be small as a share of total employment.

Moreover, **raising the law's threshold** for full-time work from 30 hours a week to 40 hours would make a shift towards part-time employment much more likely — not less so. **That's because only a** small share of workers today — less than 8 percent — work 30 to 34 hours a week and thus are most at risk of having their hours cut below **health reform's threshold**. **In comparison, 43 percent** of employees work 40 hours a week, and another several percent work 41 to 44 hours a week. Thus, raising the threshold to 40 hours would place *more than five times* as many workers at risk of having their hours reduced.

### **Data Don't Support Claim of Big Shift to Part-Time Work**

The share of part-time jobs rose sharply during the recent recession, as it does in every recession — employers **cut workers' hours when demand for the firm's products or services weakens**. Has this share continued to grow as we approach the start of **the ACA's employer mandate**, which was recently pushed back a year to 2015? The answer is no. Part-time workers represent 18.9 percent of

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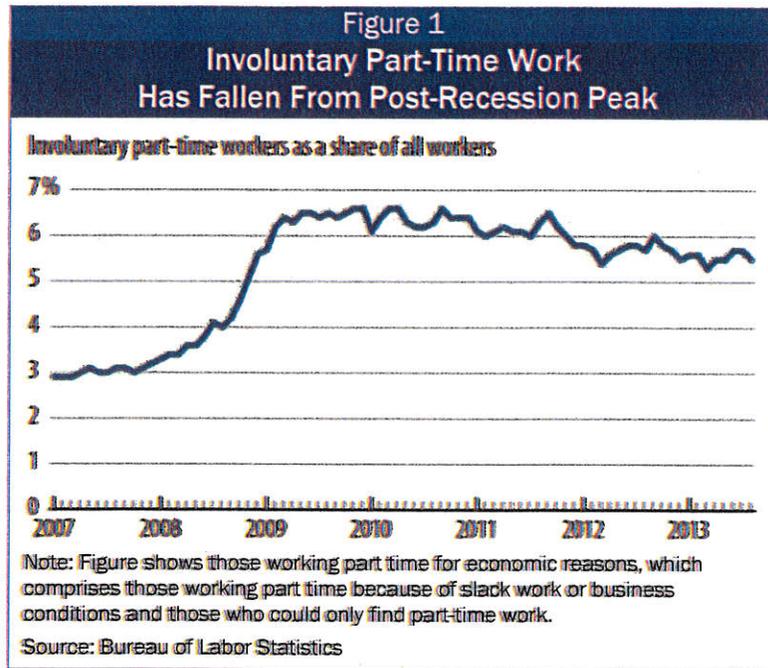
<sup>1</sup> Kaiser Family Foundation, "Employer Responsibility Under the Affordable Care Act," updated July 15, 2013, <http://kff.org/infographic/employer-responsibility-under-the-affordable-care-act/>.

total employment — below the post-recession peak of 20.0 percent and the same as a year ago.<sup>2</sup> Since President Obama signed health reform into law in March 2010, civilian employment has grown by 5.4 million, and over 90 percent of the increase is among people who usually work full time.<sup>3</sup> Economists at the Federal Reserve Bank of San Francisco have concluded that “part-time work is not unusually high compared to levels observed in the past, most notably in the aftermath of the early 1980s recession.”<sup>4</sup>

A more rigorous test examines the recent trend in the share of involuntary part-timers — workers who’d rather have full-time jobs but can’t find them.<sup>5</sup> If health reform’s employer mandate were distorting hiring practices in the way critics claim, we’d expect the share of involuntary part-timers to be growing. Instead, as shown in Figure 1, it is down about one percentage point from its peak.

Nor do the employment data provide any evidence that employers have cut workers’ hours below 30 hours a week to avoid the requirement to provide health insurance. During the first half of this year, the share of workers putting in 30 or more hours a week actually rose to 80.7 percent from 80.2 percent in the comparable part of 2012. Although the increase is small, it refutes the claim that shortening of the workweek is widespread.<sup>6</sup>

To be sure, some employers have announced they are cutting certain employees’ hours to avoid the requirement to provide health coverage to full-time workers, but they are the exception. A small



<sup>2</sup> Bureau of Labor Statistics, *Labor Force Statistics from the Current Population Survey*, Tables A-1 and A-7, persons at work part time for economic or noneconomic reasons as a percentage of civilian employment. BLS defines part-time work as less than 35 hours a week.

<sup>3</sup> Bureau of Labor Statistics, *Labor Force Statistics from the Current Population Survey*, Tables A-1 and A-6.

<sup>4</sup> Rob Valetta and Leila Bengali, “What’s Behind the Increase in Part-Time Work?” *Federal Reserve Bank of San Francisco Economic Letter*, August 26, 2013, <http://www.frbsf.org/economic-research/publications/economic-letter/2013/august/part-time-work-employment-increase-recession/>.

<sup>5</sup> Federal Reserve Bank of St. Louis, *Federal Reserve Economic Data (FRED)*, Employment Level - Part-Time for Economic Reasons, All Industries, <http://research.stlouisfed.org/fred2/series/LNS12032194>.

<sup>6</sup> Helene Jorgensen and Dean Baker, “The Numbers Are In,” Center for Economic and Policy Research, August 26, 2013, <http://www.cepr.net/index.php/blogs/cepr-blog/the-numbers-are-in-obamacare-increased-percentage-of-people-working-26-29-hours-a-week>.

survey by the Federal Reserve Bank of Minneapolis finds that only 4 percent of companies had shifted to more part-time workers in response to health reform.<sup>7</sup>

Most recently, health-reform critics point to an increase in part-time work in June and July as evidence of the law's impact. That's highly unconvincing, for several reasons.

First, there's simply too much noise in the monthly data to attribute short-term changes to a mandate that (a) most employers don't yet understand well and (b) wasn't originally scheduled to kick in until next January. Moreover, the number of people working part-time involuntarily "for economic reasons" dropped substantially in August, almost entirely offsetting the increases in June and July.

Second, furloughs prompted by the sequestration have moved many federal workers into the part-time category in recent months. Almost 200,000 federal workers were forced to work shorter hours in July — up from 55,000 a year previously.<sup>8</sup> That has nothing to do with health reform.

Third, when you observe trends over longer periods, some signs point in the opposite direction. Since the trough of the recession in June 2009, for example, the length of the average work week has returned to roughly its pre-recession level.

The fact is, it's too early to know how health reform will ultimately affect the amount of part-time work. But there's every reason to expect the impact to be small as a share of total employment.

In particular, there simply aren't as many would-be part-timers as the critics expect: fewer than 8 percent of employees work 30 to 34 hours a week (and thus would be easiest for employers to shift below 30 hours). Moreover, fewer than 1 percent of employees work 30 to 34 hours a week and are employed by businesses affected by the employer mandate and do not have insurance.<sup>9</sup> And only some of these workers would likely be at risk of having their hours cut.

"Recent research suggests that the ultimate increase in the incidence of part-time work when the ACA provisions are fully implemented is likely to be small, on the order of a 1 to 2 percentage point increase or less," according to economists at the San Francisco Federal Reserve. This conclusion is consistent with the example of Hawaii, where part-time work increased only slightly in the two decades following enforcement of the state's employer health-care mandate.<sup>10</sup> Since 1975, Hawaii has required nearly all employers to provide health insurance to employees who work 20 hours or more a week for four consecutive weeks. Employers must pay at least half the premium, and the employee's contribution must not exceed 1.5 percent of wages.

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<sup>7</sup> Federal Reserve Bank of Minneapolis, "So far, few employers cutting workers to part time in response to Affordable Care Act," *Fedgazette Roundup*, March 20, 2013, <http://minneapolisfed.typepad.com/roundup/2013/03/like-it-or-not-the-affordable-care-act-will-offer-an-interesting-economic-experiment-on-incentives-or-punishments-dependin.html>.

<sup>8</sup> Jackie Calmes and Catherine Rampell, "U.S. Cuts Take Increasing Toll on Job Growth," *New York Times*, August 2, 2013, <http://www.nytimes.com/2013/08/03/business/economy/us-cuts-take-increasing-toll-on-job-growth.html>.

<sup>9</sup> Julie Rovner, "Will Obamacare Mean Fewer Jobs?," *All Things Considered*, National Public Radio, July 30, 2013.

<sup>10</sup> Rob Valetta and Leila Bengali, "What's Behind the Increase in Part-Time Work?"

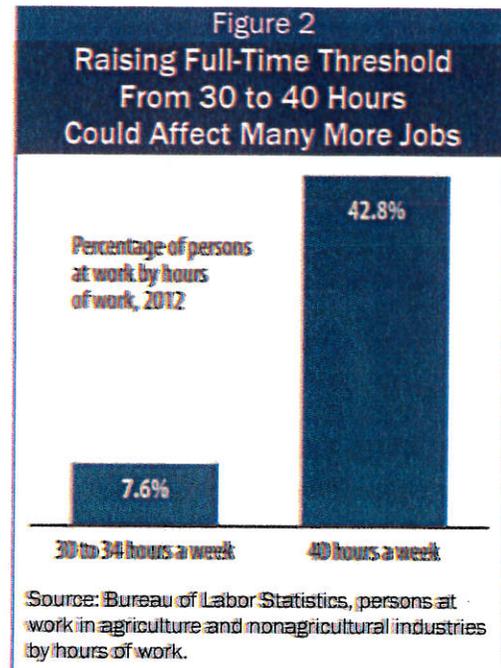
Finally, low-wage, part-time workers who work less than 30 hours a week will be eligible for subsidies to purchase health insurance in the ACA's new health insurance exchanges (also known as marketplaces). For many of these workers, the value of this health insurance subsidy will more than make up for a loss in earnings from working slightly fewer hours.

## Raising Threshold to 40 Hours Would Make Shift to Part-Time Work More Likely, Not Less

Some legislators have proposed raising the cutoff for the employer mandate from 30 hours a week to 40 hours.<sup>11</sup> That change, however, would make a shift towards part-time employment much *more* likely — not less so. Since 40 hours is the typical work week, employers could easily cut back large numbers of employees from 40 to 39 hours so they wouldn't have to offer them health coverage. The result would be substantially less employer-sponsored health coverage — and as a result, a *potentially large increase in federal spending* for the premium tax credits that many low- and moderate-income people will receive under health reform to help them buy coverage through the health insurance exchanges.

As Figure 2 shows, only about 8 percent of employees work 30 to 34 hours a week (at or modestly above the ACA's 30-hour threshold), but 43 percent of employees work 40 hours a week and would be vulnerable if the threshold rose to 40 hours. Another few percent of employees work 41 to 44 hours a week. Thus, more than five times as many workers would be at risk of having their hours reduced if the standard for full-time work went from 30 to 40 hours.

Health reform's employer mandate is likely to have some effect on hours worked, but it hasn't yet shown up in the data. Moreover, since few workers *without health coverage* are near the 30-hour cutoff, the employer mandate is very unlikely to prompt much of a shift toward part-time work even when it takes effect. Raising the cutoff to 40 hours, however, could turn the misleading claims of health reform's critics into reality.



<sup>11</sup> H.R. 2575, The "Save American Workers Act of 2013"; S. 1188, The "Forty Hours Is Full Time Act of 2013."