



THE COMMITTEE ON ENERGY AND COMMERCE

MEMORANDUM

March 11, 2013

To: Health Subcommittee
From: Energy and Commerce Committee Majority Staff
Re: Hearing entitled "Obamacare's Impact on Jobs"

On Wednesday, March 13, 2013, at 10:00 a.m., the Subcommittee on Health will hold a hearing in 2123 Rayburn House Office Building entitled "Obamacare's Impact on Jobs."

The focus of this hearing is to analyze the impact of the Patient Protection and Affordable Care Act (PPACA or Obamacare) on job availability and employer-sponsored health coverage. The Subcommittee will hear expert testimony on how the law will affect the small business job market as well as workers' hours and overall compensation. The memorandum provides background on the witnesses and PPACA's impact on jobs.

I. WITNESSES¹

Diana Furchtgott-Roth
Senior Fellow
Manhattan Institute

Tom Boucher
Owner and Chief Executive Officer
Great New Hampshire Restaurants, Inc.
Testifying on behalf of
the National Restaurant Association

Linda J. Blumberg
Senior Fellow
The Urban Institute

II. PPACA'S IMPACT ON JOBS

PPACA was signed into law on March 23, 2010. While many provisions have already taken effect, the major provisions of the law go into effect in 2014. These 2014 provisions are likely to have a major impact on small and large businesses, workers, worker's wages, employer-sponsored health coverage, and job creation.

¹ Additional witnesses may be added.

Experts have observed that PPACA is having a negative impact on the U.S. economy. In the recently release, “Beige Book,” in which the Federal Reserve summarizes economic conditions from twelve regions across the country, Kansas City participants noted that “[f]irms continued to report changes in health care policy...as reasons for delayed hiring.” Some employers were concerned that companies are “hiring the absolute minimum to get by due to uncertainty about the Affordable Care Act.” Atlanta participants explained, “costs relating to tax policy, regulation, and health care remained sources of uncertainty going into 2013.”ⁱ

PPACA will have both direct and indirect effects on jobs. The law’s most significant provision in this respect requires employers with 50 or more full-time equivalent employees to provide federally-approved health coverage or face a tax penalty. This tax penalty is \$2,000 per full-time employee for every worker employed above 30 workers. PPACA and its implementing regulations and guidance generally define full-time employees as those working over 30 hours.ⁱⁱ

This provision provides major disincentives for employers to grow their workforce, especially in instances where their current workforce is near or around the 50 worker threshold. As noted by economist Diana Furchtgott-Roth, “[i]f a business does not offer health insurance, then, beginning [in] 2014, it will be subject to a tax if it employs more than 49 workers in all its establishments. For 49 workers, the tax is zero. For 50 workers, the tax is \$40,000; for 75 workers, it is \$90,000; and for 150 workers, the tax is \$240,000. Each time a business adds another employee, the tax rises.”ⁱⁱⁱ

These penalties are likely to have major economic consequences. In the same paper, Ms. Furchtgott-Roth comments, “[t]hese penalties give a business a powerful incentive to downsize, replace full-time employees with part-timers, and contract out work to other firms or individuals.” Ms. Roth notes that these provisions will particularly affect employers and workers in low-margin industries like the restaurant and retail industry, as well as firms employing seasonal workers.^{iv}

Because the law also makes premium subsidies available to individuals for the purchase of coverage on PPACA exchanges, many employers are considering dropping coverage altogether. According to a survey from McKinsey & Company, 30 percent of respondents who said their companies offered employer-sponsored health insurance commented they would “definitely” or “probably” drop coverage in the years following 2014.^v

For employers still offering coverage by health insurers to their workforce, the law places several requirements on the coverage that they must purchase. For example, new requirements related to essential health benefits, actuarial value, guaranteed issue, community rating, and new coverage requirements that went into effect upon enactment of the law have raised or will raise the cost of coverage. And \$165 billion in new fees and taxes on health plans, medical devices, and drug plans will likely raise the cost of coverage as well and be passed on to employers and workers in the form of higher premiums.^{vi}

These requirements that raise the cost of health coverage are likely to have a direct effect on employee wages and household disposable income. As noted in a White House Executive Office report in 2009:^{vii}

“Over the last decade, premiums have outpaced wages and inflation by a large amount. Over this same period, wages have risen by 38 percent and inflation by 28 percent. As a result, health insurance premiums are consuming ever-increasing portions of family budgets. Health insurance premium increases are also driving up the prices of products as employers pass along their portions of premium increases and reducing the competitiveness of U.S. companies. Consumers ultimately bear the brunt of costs as increases in hospital, physician, drug, and health plan spending are all passed down the value chain to American families, employers, and the government who pay the bills.”

Premium increases projected as a result of PPACA are likely to have the same effect as rising health care costs and will depress worker wages and eat up a larger share of family budgets.

III. STAFF CONTACTS

For further information on this hearing, please contact Steve Ferrara or Paul Edattel at (202) 225-2927.

ⁱ [Federal Reserve District. *Current Economic Conditions* \(February 2013\).](#)

ⁱⁱ [Internal Revenue Service. *Determining Full-Time Employees for Purposes of Shared Responsibility for Employers Regarding Health Coverage* \(Notice 2012-58\).](#)

ⁱⁱⁱ [Furchtgott-Roth, Diana. *How Obamacare Increases Unemployment* \(March 2012\).](#)

^{iv} Ibid.

^v [McKinsey Quarterly. *How US Health Care Reform Will Affect Employee Benefits* \(February 2011\).](#)

^{vi} [Energy and Commerce Majority Staff, Senate Finance Minority Staff, and Senate Health, Education, Labor & Pensions Minority Staff. *The Price of Obamacare's Broken Promises: Young Adults and Middle Class Families Set to Endure Higher Premiums and Unaffordable Coverage* \(March 2013\).](#)

^{vii} [Executive Office of the President. *The Burden of Health Insurance Premium Increases on American Families* \(September 2009\).](#)