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Transforming Ideas Into Solutions

Obamacare vs. Jobs



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Introduction

“So this bill is not only about the health security of America. It’s about jobs. In its life, it will create 4 million jobs – 400,000 jobs almost immediately....”

-[Speaker Nancy Pelosi](#)¹

Remarks at [Bipartisan Meeting on Health Care Reform](#)²

February 25, 2010

This report examines how mandates, regulations, and cost increases resulting from the Patient Protection and Affordable Care Act (PPACA) affect job creation and the security of employer-provided health insurance coverage. The law affects job creators and job seekers in several ways, through direct and indirect measures as well as through the creation of perverse incentives. For example, unfair taxes imposed by the new law are resulting in layoffs and jobs are being shipped overseas. Part time jobs are supplanting full time opportunities. Employers have more incentive financially to jettison employee health care. The most significant changes for America’s employers and workers are programmed to take effect in 2013 and 2014, but empirical evidence of the law’s negative impact on job growth has emerged even before these provisions are in place.

A Current Economic Conditions report published by the Federal Reserve on March 6, 2013, articulates the relationship between the health care law and jobs. The report states, “Employers in several Districts cited the unknown effects of the Affordable Care Act as reasons for planned layoffs and reluctance to hire more staff.”³ Simply put, the uncertainty Obamacare has caused in the private sector is harming job growth.

Despite the clear promises made by proponents of the Obamacare, the health care law has turned out to be not an ally of job creation, but as an opponent.

Employers in several Districts cited the unknown effects of the Affordable Care Act as reasons for planned layoffs and reluctance to hire more staff.

—[United States Federal Reserve](#)

New Taxes Harming Job Creation and Innovation, Leading to Layoffs

Obamacare includes nearly \$1.1 trillion in new taxes over the next decade.⁴ Many of these new taxes will raise the cost of health care; they include new taxes on health insurance, drugs, and medical devices. New limitations and penalties on the use of health savings and flexible spending accounts add more costs for consumers. In total, 21 new taxes will be imposed at a time of weak

¹ Pelosi: Obamacare Will Supply 400,000 Jobs Almost Immediately. <http://www.youtube.com/watch?v=QJKGWEkkE7E>.

² The White House Press Release, Remarks by the President, Senator Alexander, Speaker Pelosi, and Senator Reid in Opening Statements at Bipartisan Meeting on Health Care Reform, February 25, 2010. <http://www.whitehouse.gov/the-press-office/remarks-president-senator-alexander-speaker-pelosi-and-senator-reid-opening-stateme>.

³ Beige Book, March 6, 2013. Summary of Commentary on Current Economic Conditions by Federal Reserve District. <http://www.federalreserve.gov/monetarypolicy/beigebook/beigebook201303.htm>.

⁴ Joint Committee on Taxation. *Present Law and Background Relating to the Tax-Related Provisions in the Affordable Care Act*. March 4, 2013. <http://waysandmeans.house.gov/uploadedfiles/jctpamphletmarch4.pdf>.

economic growth and sluggish job creation. Much of this tax burden will fall directly on the backs of the middle class.

Consider just one of these taxes: the 2.3 percent excise tax imposed on medical devices. This new tax will have a ripple effect that extends beyond patients – it also imposes burdens on innovators who create well-paying jobs. Companies that make life-saving and life-improving devices approved by the Food and Drug Administration (FDA), such as pacemakers, stents, prosthetics, and surgical hardware, are an American success story. Until now, these companies represented one of the few bright spots in the weak economic recovery, offering high-paying science, technology, engineering, and math (STEM) jobs. Now, these companies are being forced to lay off employees due to increased taxes.

In preparation of the looming tax, medical device maker Stryker Corporation, headquartered in Kalamazoo, Michigan, announced that it would reduce its global workforce by approximately five percent, or 1,000 employees.⁵ The company estimated the workforce reductions would save \$100 million as it prepares to pay the \$150 million estimated tax.⁶

According to a study conducted by economists Diana Furchtgott-Roth and Harold Furchtgott-Roth, the medical device tax could result in the loss of 43,000 of these STEM jobs. Total wages lost could be in excess of \$3.5 billion.⁷

Because the tax is levied on total revenues, regardless of whether a company generates a profit, many small and/or start-up firms with thin or negative operating margins could be shuttered entirely. These small firms at the base of the economic pyramid not only provide grassroots job creation, they are the laboratories of innovation that built America.

There is broad bipartisan support to repeal the burdensome device tax. On March 21, 2013, the U.S. Senate voted 79 to 20 in support of repeal.⁸

Obamacare's Part-Time Jobs Boom, Full-Time Jobs Bust

Through an employer mandate set to take effect in 2014, the health care law stipulates that all businesses with 50 or more full time equivalent (FTE) employees must provide employer-sponsored health insurance (ESI). If a business fails to comply, it faces a \$2,000 penalty for every employee beyond the 30th. For

“...companies are hiring the absolute minimum to get by due to uncertainty about the Affordable Care Act.”**

—[United States Federal Reserve](#)

⁵ MLive, by Yvonne Zipp, Stryker Corporation to complete planned layoffs of 1,000 workers by end of 2012, November 19, 2012. http://www.mlive.com/business/west-michigan/index.ssf/2012/11/stryker_corp_to_complete_layof.html.

⁶ MLive, by Ursula Zerilli, Congressman Upton calls to repeal medical device excise tax in wake of Stryker Corp. layoffs. February 6, 2013. http://www.mlive.com/business/west-michigan/index.ssf/2013/02/congressman_fred_upton_calls_t.html.

⁷ Furchtgott-Roth, Diana and Harold Furchtgott Roth, Employment Effects of the New Excise Tax on the Medical Device Industry, September 2011.

http://www.chi.org/uploadedFiles/Industry_at_a_glance/090711EmploymentEffectofTaxonMedicalDeviceIndustryFINAL.pdf.

** Beige Book, March 6, 2013. Summary of Commentary on Current Economic Conditions by Federal Reserve District. <http://www.federalreserve.gov/monetarypolicy/beigebook/beigebook201303.htm>.

⁸ NBC Politics. Curry, Tom. Senate vote to kill part of 2010 health care overhaul. March 22, 2013.

<http://nbcpolitics.nbcnews.com/news/2013/03/22/17414901-senate-votes-to-kill-part-of-2010-health-care-overhaul?lite>.

example, consider an employer with 49 FTEs who cannot afford to provide employer-sponsored health insurance that complies with federal requirements. If that employer hires a 50th employee, the employer pays a \$2,000 penalty not just for the 50th employee, but for employees 31 to 50, meaning the marginal cost of hiring a 50th employee is the salary and benefit costs plus an additional \$40,000 in penalties. This creates a perverse incentive for employers to stop hiring new workers when they reach 49 employees. The March 2013 Federal Reserve “Beige Book” report confirms the law is causing job creators to halt hiring, stating, “...companies are hiring the absolute minimum.”⁹

The Subcommittee on Health heard testimony on March 13, 2013, that confirmed the findings of the “Beige Book.” Tom Boucher, owner and Chief Executive Officer of Greater New Hampshire Restaurants, Inc., explained how increased levels of uncertainty surrounding the health care law are adding further pressure on small businesses. He testified, “The key word being uncertainty, and it still exists right now with regard to a fair amount of the rules that are not real clear right now. There is still a lot of uncertainty.”¹⁰

PPACA also introduced another twist for workers: the way it defines a full-time employee (FTE). According to the law, anyone working 30 hours per week or more is considered “full-time” and will count against the 50 FTE mandate for employer-sponsored coverage. Since the law is scheduled to take effect on January 1, 2014, employment data from 2013 will be used by the government to determine which employers are affected by the mandate, prompting employers to begin cutting the numbers of employees and their hours. The January 2013 “Beige Book” highlights the results of the law on hiring by noting that Chicago employers “are also beginning to limit hours for part-time workers to less than 30 hours in order to avoid the 30-hour (full-time employee status) rule related to the Affordable Care Act.”¹¹

As employers align their labor pools to avoid government fines and stay in business, employee hours have been reduced. In fact, the number of part-time workers has increased by 309,000 in the past year alone (Figure 1). This phenomenon might be described as a movement toward a “part-time economy.”

These employment dynamics disproportionately affect the most vulnerable Americans such as those who earn low wages in the restaurant, hotel, retail, and service industries. These industries can readily shift from full-time to part-time labor pools. Restaurant giants, including Carl’s Jr, Hardee’s, Red Lobster, and Olive Garden are already planning to switch from full-time to part-time



Figure 1: *The Wall Street Journal*, [Obamacare and the '29ers': How the new mandates are already reducing full-time employment](#). February 22, 2013.

⁹ Beige Book, March 6, 2013. Summary of Commentary on Current Economic Conditions by Federal Reserve District. <http://www.federalreserve.gov/monetarypolicy/beigebook/beigebook201303.htm>.

¹⁰ Energy and Commerce Subcommittee on Health Hearing, Obamacare’s Impact on Jobs, March 13, 2013. <http://energycommerce.house.gov/press-release/committee-learns-how-health-care-law-hurts-job-creation-economy-and-workers>.

¹¹ Beige Book, January 16, 2013. Summary of Commentary on Current Economic Conditions by Federal Reserve District. <http://www.federalreserve.gov/monetarypolicy/beigebook/beigebook201301.htm>.

employees, according to a recent *Wall Street Journal* report.¹² *The Orlando Sentinel* reported in February 2013 that its major local employer, Universal Orlando, would be forced to cut health insurance for part-time employees because its plan does not meet the strict requirements of the law's mandates.¹³

Even once-secure state employees, such as community college professors, are being converted from full-time to part-time to avoid the costly employer insurance coverage mandate. Pennsylvania's Community College of Allegheny County (CCAC) is cutting hours for some 200 adjunct faculty members and 200 additional employees. The cuts result in a loss of health benefits and pay for faculty, and serve as a precedent for other colleges to replicate. Some faculty members have resorted to working two teaching jobs just to make ends meet, but because both jobs are part-time, they still do not qualify for health insurance at either institution. Matt Williams, Vice President of New Faculty Majority, a nonprofit that advocates for part-time college and university faculty, said he expects what happened at CCAC to happen elsewhere.¹⁴

“AT&T...stands to save \$1.8 billion dollars every year by dropping benefits...”

-Energy and Commerce Staff Report

April 2012

A January 2013 MSNBC report elaborated on the situation confronting academic institutions, stating, “[a]djunct faculty from at least four universities will also see their hours cut as colleges try to reduce the number of full-time employees whose health care they need to cover.” The report went on to state that a senior official for the American Association of University Professors, “said the AAUP’s National Committee on contingent faculty was ‘deeply concerned’ by the emerging trend.”¹⁵

Overall Employee Compensation Reduced

Evidence suggests employees who maintain their current, full-time job status will see their overall compensation decline. Several surveys of large corporations reveal that employers find it advantageous to drop employer-sponsored health insurance (ESI) in favor of having their employees purchase coverage on the exchanges. A report published by McKinsey & Company stated, “30 percent of employers will definitely or probably stop offering ESI in the years after 2014...and among employers with a high awareness of reform this proportion increases to >50 percent, and upward of 60 percent will pursue some alternative to traditional ESI”¹⁶ The law

¹² The Wall Street Journal, *Obamacare and the ‘29ers’: How the new mandates are already reducing full-time employment*. Updated February 22, 2013.

http://online.wsj.com/article/SB10001424127887324616604578304072420873666.html?mod=WSJ_Opinion_LEADTop.

¹³ Garcia, Jason. *Orlando Sentinel*. *Blaming the feds, Universal Orlando to drop health insurance for part-time workers*. February 20, 2013. http://blogs.orlandosentinel.com/news_politics/?p=41960.

¹⁴ Kingkade, Tyler. *The Huffington Post*. *CCAC Cuts Adjuncts’ Hours To Avoid Obamacare Requirements*. November 20, 2012. http://www.huffingtonpost.com/2012/11/20/ccac-obamacare_n_2165383.html.

¹⁵ Resnikoff, Ned. *Msnbc*. *Colleges roll back faculty hours in response to Obamacare*. January 14, 2013. <http://tv.msnbc.com/2013/01/14/colleges-roll-back-faculty-hours-in-response-to-obamacare/>.

¹⁶ McKinsey Quarterly. June 2011. *How US Health care reform will affect employee benefits. The shift away from employer-provided health insurance will be vastly greater than expected and will make sense for many companies and lower-income workers alike*. http://www.mckinseyquarterly.com/Health_Care/Strategy_Analysis/How_US_health_care_reform_will_affect_employee_benefits_2813.

sought to prevent this practice with the \$2,000 penalty described above, but for large employers, paying the penalty may be considerably less expensive than what they are spending on providing coverage. While many employers that drop ESI are likely to offer some offsetting wage increase, the fully taxed additional wages remain less valuable to workers than the tax-advantaged health insurance they used to received.¹⁷

These troubling findings are well known to the Obama administration. Several members of the president’s own Council on Jobs and Competitiveness came to the same independent conclusions. The Council was comprised of 27 leaders in business, labor, and academia from well-known names such as Boeing, Intel, GE, Southwest Airlines, Facebook, MIT, Harvard, TIAA-CREF, and UBS. Internal documents provided to the Energy and Commerce Committee by the Council’s members confirm that “[t]he penalty for paying [the penalty] is much lower per employee than the average cost of playing....”¹⁸ One Council member estimated that paying the penalty would cost \$60 million compared to the \$200 million they currently spend on health benefits. Southwest Airlines estimates even greater savings: \$414 million to provide coverage versus \$111 million to opt out and pay the penalty. The most astounding example, however, comes from AT&T who stands to save \$1.8 billion every year by dropping benefits and paying the penalty.¹⁹

The ill-conceived law poorly aligns employer incentives, just as it did with the individual mandate. In short, it makes it financially advantageous for large employers who were previously providing health benefits to drop those benefits.

Obamacare’s Negative Spiral Effect

Through unemployment or conversion to part-time work, the income of the lowest wage earners will be driven further down. These individuals and families will be enrolled in the overstretched Medicaid system, which should be reserved for the nation’s most vulnerable populations. Under the new law, Medicaid will become a very different health coverage program than first envisioned. While the program covered fewer than 5 million low-income individuals in the late 1960s, its growth has exploded more than tenfold, with approximately 60 million Americans on Medicaid last year. By 2022, a staggering one in four Americans could be on Medicaid. This path is unsustainable and will create a health care crisis for those most in need, including the disabled and most vulnerable Americans. PPACA’s Medicaid expansion forces millions of able-bodied adults into this already strained safety net program that is struggling to succeed under today’s current level of enrollment. This is unfair to the nation’s most vulnerable.

“30 percent of employers will definitely or probably stop offering ESI (Employer Sponsored Insurance) in the years after 2014...and among employers with a high awareness of reform this proportion increases to >50 percent...”

—[McKinsey Report](#)

¹⁷ Ibid.

¹⁸ Energy and Commerce Staff Report. *Higher Costs, More Confusion, Less Coverage: How the Health Care Law Affects Employer-Provided Health Care Coverage*, April 2012.

<http://energycommerce.house.gov/sites/republicans.energycommerce.house.gov/files/analysis/20120426PPACA.pdf>

¹⁹ Ibid.

Additional consequences include the costly and burdensome hiring and scheduling practices thrust upon employers in order to avoid government fines. The disruption of their employment model introduces administrative cost burdens while causing fragmentation of their workforce. New Hampshire Restaurant owner Tom Boucher testified before the Subcommittee on Health about how the law's regulatory burden is hindering his ability to grow his business and hire more employees. "I've spent at a minimum 100 hours this year with my human resource person just trying to figure out the details of this law. ...As far as the future growth of our company? That added \$200,000 is a real number that will not allow me to spend on capital improvements, build new restaurants, and as a matter of fact, we opted not to open another restaurant this year because we knew that this was coming and we wanted to see how it was going to play out truly before we made a commitment that we didn't have the cash to do it."²⁰

Another ramification for workers is that part-time employees are less able to move up in their organization. This limits the opportunities for professional growth and the accompanying rewards of higher wages and job satisfaction; these workers are being deprived of the American dream. The iconic American story of the corporate executive who started in the mailroom could be relegated from fact to folklore.

Conclusion

The Patient Protection and Affordable Care Act will have many negative consequences for Americans' jobs, including their compensation, hours, health care coverage, and future employment opportunities. These consequences will disproportionately hurt the most vulnerable. It is the low-wage workers in the restaurant, hotel, and retail industries whose incomes will be reduced as full-time positions are converted to part-time.

This report details the job-crushing effects of the law that we are aware of today, less than 10 months before Obamacare takes effect. As recently as March 21, the *Washington Post* ran a front-page story on how health care uncertainty is weighing down small firms in the Washington, D.C. metro area.²¹ While we expect to see similar reports from around the nation, the full extent of the damage will not be fully understood for several years. Upon full implementation, the law appears on a track to negatively transform the American job market and overall economy by discouraging hiring, penalizing job growth, reducing benefits, and making it harder for workers to find more hours.

²⁰ Energy and Commerce Subcommittee on Health Hearing, Obamacare's Impact on Jobs, March 13, 2013. <http://energycommerce.house.gov/press-release/committee-learns-how-health-care-law-hurts-job-creation-economy-and-workers>.

²¹ Harrison, J.D. The Washington Post. *Health-care law uncertainty grips Old Town Alexandria café and other small businesses*. http://www.washingtonpost.com/business/on-small-business/health-care-law-uncertainty-grips-old-town-alexandria-cafe--and-other-small-businesses/2013/03/20/64bfd218-8a69-11e2-8d72-dc76641cb8d4_story.html.