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Health insurance reform and part-time work: Evidence from Massachusetts☆

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HIGHLIGHTS

- We study the effect of the employer mandate in the Massachusetts health insurance reform on part-time work.
- We use a difference-in-differences strategy with CPS data.
- We find that the employer mandate increased part-time employment among workers without a college degree.
- Our results suggest lower-skilled workers may be vulnerable to having their hours to avoid mandates.

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ABSTRACT

A concern with requiring employers to provide health insurance to full-time employees is that employers may increase their use of part-time workers to circumvent the mandate. In this paper, we study the effect of the employer mandate in the Massachusetts health insurance reform on part-time work using a difference-in-differences strategy that compares changes in part-time work in Massachusetts after the reform to changes in various control groups. We find strong evidence that the Massachusetts employer mandate increased part-time employment among low-educated workers and some evidence that it increased part-time employment among younger workers. Our estimate of a 1.7 percentage point increase in part-time employment among workers without a college degree suggests that lower-skilled workers may be vulnerable to having their hours cut so that employers do not have to offer them health insurance.

1. Introduction

Because employer-sponsored health insurance represents an important component of compensation, the employer mandate of the Patient Protection and Affordable Care Act (ACA) presents an opportunity to significantly improve compensation, particularly for low-wage workers. However, there are fears that health insurance reform could backfire if employers seek ways to circumvent the mandate by altering staffing arrangements. As the implementation of the employer mandate was delayed until January 1, 2015 for employers with 100 or more full-time employees and until 2016 for employers with 50 to 99 full-time employees (Kennedy, 2014), evidence on its effect on part-time work is limited.

In 2006, Massachusetts passed a health insurance reform similar to the ACA along most dimensions. The similarities mean that evidence on its effect may provide insights into the effect of health insurance reforms more broadly. Beginning in 2007, the Massachusetts reform required employers with more than ten full-time equivalent employees to provide coverage to all employees who worked at least 35 h per week (McDonough et al., 2006). In this paper, we study the effects of the Massachusetts health insurance reform on the incidence of part-time work by drawing on 2000 to 2013 monthly Current Population Surveys (CPS) and implementing a difference-in-differences strategy that compares how part-time work changed in Massachusetts after the reform compared to how it changed relative to the rest of the nation. To ensure that we are not picking up spurious relationships, we implement various placebo tests and consider the robustness of the results to a variety of control groups. Because an employer mandate can affect different groups of people differently, we test for various sources of heterogeneity.

Our work contributes to a small literature about the employment effects of early state-level health insurance reforms. Kolstad and

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Kowalski (2012a) study the effect of Massachusetts' employer mandate on wages and find that employers complying with the law reduced wages by an average of $6058 annually. Although this result does not preclude some employers from trying to avoid offering health insurance by increasing their use of part-time work, Dubay et al. (2012) compare trends in part-time employment in Massachusetts with those in several comparison states and do not find sizable differences in growth after the reform. This result contrasts with Buchmueller et al. (2011), who find that Hawaii's 1974 employer mandate produced a modest shift by employers towards (exempt) part-time work (approximately 1.4 percentage points).

Our difference-in-differences analysis does not yield evidence of an effect of the Massachusetts reform on the incidence of part-time work for all Massachusetts workers. Despite finding no evidence of an overall effect, we find evidence that there were modest increases in part-time employment among workers without a college degree following health insurance reform in Massachusetts. We find suggestive evidence that young workers might have experienced a decrease in part-time work as well. The result for workers without a college degree is robust to a variety of control groups and to different ways of accounting for the Great Recession.

We contribute to the literature on the labor market effects of health insurance reform by studying the effects of the Massachusetts reform on part-time work using regression analysis that allows us to control for confounding factors. More importantly, there are reasons to think that any effects on part-time work will be concentrated among low-skilled workers. Unlike prior research, our work examines heterogeneity, which can be masked when considering average effects. These results imply that while the increase in part-time work from health insurance reform may not be dramatic for the overall population, employers may shift those with low skills—who could potentially benefit the most from employer-provided health insurance coverage—to part-time work.

The remainder of the paper is organized as follows. Section 2 provides background on the Massachusetts health insurance reform, discusses theory on the effects of employer mandates, and reviews research on the early effects of the ACA. Section 3 discusses how we construct our CPS sample and our difference-in-differences strategy. Section 4 presents the results, and Section 5 concludes.

2. Background

2.1. The Massachusetts health insurance reform

The goal of the Massachusetts health insurance reform was to attain nearly universal coverage by expanding Medicaid, subsidizing insurance purchased through the individual market, and mandating that individuals purchase coverage and employers provide it. Employers who did not offer affordable coverage by July 2007 had to pay a penalty of $295 per employee in October 2007.[1] As of July 2006, Medicaid was expanded to cover children with family incomes up to 300% of the federal poverty level, and enrollment caps for certain Medicaid programs were raised. As of April 2007, individuals without employer-sponsored health insurance or Medicaid could purchase coverage through an online marketplace created by the reform. With few exceptions, the Massachusetts law required individuals to have health insurance as of July 1, 2007 or pay a penalty. Research has found that the Massachusetts health insurance reform increased overall health insurance coverage in Massachusetts by around 5.5 percentage points with about half of this increase coming from increases in employer-sponsored health insurance and half coming from Medicaid (Kolstad and Kowalski, 2012b and Long, 2008).

2.2. The potential employment effect of employer mandates

Employers can react in a variety of ways to a mandate requiring them to provide health insurance. One way is by providing health insurance to employees and directly absorbing the costs. However, Summers (1989) argues that in competitive markets employers will pass on the costs of mandated benefit to employees through lower wages or other forms of reduced compensation if employees value the benefits. In practice, even if employees fully value the benefit, employers' ability to shift its costs onto workers in the form of lower wages may be constrained by minimum wages or union contracts. In addition, in periods of low inflation such as currently exists, employers may need to cut nominal wages in order to reduce real wages to cover the benefit cost, which can have significant adverse consequences for worker morale and productivity.

Alternatively, employers may seek to reduce the number of workers subject to the mandate by implementing changes in the way they staff, which is the focus of this paper. Employers may increase hours of some full-time employees and reduce hours worked below the 35-hour threshold for others. As theory provides no clean predictions of the employment effects of the mandated health insurance benefit, how employers respond is an empirical question.[2]

2.3. Research on early effects of the ACA

In addition to the literature on the employment effects of state-level health insurance reforms, other papers present early evidence of the ACA by using various strategies to deal with the fact that the ACA is a national law. Mulligan (2014) analyzes the subsidy formula and concludes that the subsidies could result in millions of workers having more disposable income from a part-time schedule rather than a full-time schedule. Nakajima and Tuzemen (2015) construct an equilibrium model to study the possible effects of the ACA on part-time employment. Their model predicts a small negative effect on total hours worked of about 0.36%. Two papers consider early evidence from the ACA using CPS data. Mathur et al. (2015) find some evidence of a shift from the 31–35 hour category into the 25–29 hour category after the passage of ACA in March 2010. But as that shift is not more pronounced among low-wage workers or among workers in industries and occupations most likely to be affected by the mandate, they conclude that there is little evidence that the ACA has led to an increase in part-time employment. In contrast to Mathur, Slovav, and Strain, Even and Macpherson (2015) find that part-time work has risen in industries and occupations most affected by the mandate. Thus, estimates of the early effects of the ACA are inconclusive. Studying the Massachusetts health insurance reform has the advantage that it was implemented in 2007, and so analysis of the reform's longer-term effects on part-time employment is possible.

3. Data and empirical strategy

To examine changes in part-time work after the Massachusetts health insurance reform, we draw on monthly data from the CPS. The CPS is the Bureau of Labor Statistics' monthly household survey that collects demographic and labor force participation information on individuals in about 60,000 U.S. households. The CPS sampling design

[1] Insurance offered by employers was considered affordable if employers offered to pay at least 33% of the premium cost or at least 25% of full-time employees were enrolled in the plan. The vast majority of employers complied with the law. In 2010, 4.6% of employers who were required to provide coverage were penalized for noncompliance (Goodnough, 2012). Massachusetts's employer mandate was repealed in 2013 in response to the upcoming federal employer mandate.

[2] Employers also may hire temporary workers, outsource tasks to small contract companies, and reduce their firm size so that they are not subject to the mandate. For a thorough review of the many possible ways firms may react to a mandate, refer to Schultz and Doorn (2009).