ADP | Research Institute

The Affordable Care Act and Economics of the Part-Time Workforce:

Measuring the Impact of the Affordable Care Act

Contents

Executive Summary

As employers prepared for the 2015 effective date of the Employer Shared Responsibility provisions of the Affordable Care Act (ACA), some industry observers predicted employers would move many employees working 30 to 34 hours a week into higher or lower hourly categories. By restricting workers to fewer than 30 hours, employers could avoid the requirement to offer health coverage and the associated costs. By moving these workers into the 35 or more category, they could maximize labor utilization.

As recently as August and September 2014, employers responding to a survey conducted by the ADP Research Institute© indicated they would likely use one of these two strategies. 38% of respondents indicated they would be adjusting employee hours based on the Employer Shared Responsibility provisions. Within this subset, 51% of respondents indicated they were considering the possibility of reducing hours.[1]

If employers reduced hours to keep employees below the 30-hour threshold, one would expect to see an increase in part-time jobs but with fewer hours worked per job. However, data from the U.S. Bureau of Labor Statistics (BLS) shows a 9% increase in full-time jobs from 2010 to 2015, while the total number of part-time jobs decreased slightly.[2] Employment data from the ADP Workforce Vitality Index shows the part-time workforce grew more slowly (2.7%) than the full-time workforce (3.8%) between the first quarter of 2014 and the first quarter of 2015.[3]

With this conflicting evidence, the ADP Research Institute conducted a study to provide greater clarity. This analysis found that in all hourly categories – less than 30 hours, 30 to 34 hours, and more than 34 hours – there was little to no change in the percentage of workers in any category. Research focused on the distribution of hours worked in 2013 and 2014. All quarters showed similar results.

It is important to note that the impact of the ACA may be cloaked by economic improvements that are reducing the part-time workforce overall and increasing the need for full-time workers.

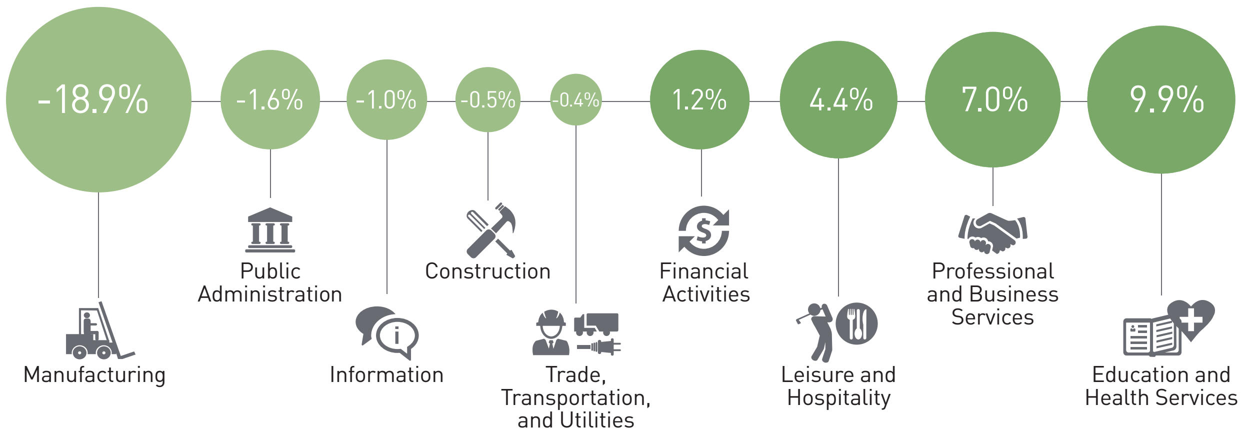
As the economy strengthens, employers may be placing a higher priority on building and retaining staff, rather than shifting hours worked in response to the ACA.

1. ADP Research Institute, 2015. The Affordable Care Act and Employer Confidence: https://www.adp.com/tools-and-resources/adp-research-institute/research-and-trends/research-item-detail.aspx?id=37B3725F-BD38-41A8-BD46-52ACAFDEAABB
2. http://www.bls.gov/home.htm
3. ADP Workforce Vitality Report, First Quarter 2015 Results. http://workforcereport.adp.com/2015/1/wvi.aspx

Introduction

As jobs have declined in traditional manufacturing and grown in various service industries over the last 40 years or so, many employers have sought to avoid some costs and risks by using a part-time workforce. Additionally, changes in technology and a streamlining of workplace processes have resulted in a rise in non-traditional workforce models, such as contracting, temporary work and flexible scheduling. The part-time and non-traditional workforce has become a permanent feature of the economic landscape and is embedded in the core business models of several growing industries.

Change in Industry Composition of Workforce From 1967–2014



Despite the widespread use of part-time workers, some have predicted that the ACA could change the economics of how employers use a part-time workforce in some industries. Prior to the ACA, it was most common for workers to be eligible for health benefits only if they worked a minimum of 35 to 40 hours a week, depending on the company. After the ACA Employer Shared Responsibility provisions took effect in 2015, employers with 50 or more (100 or more for 2015) full-time and full-time-equivalent employees likely will make employees who work at least 30 hours a week eligible for health benefits to avoid any potential ACA Employer Shared Responsibility penalties. In light of this change, industry observers have predicted that some employers could consider reducing part-time hours and hiring a greater number of part-time workers to avoid health benefits costs, or possibly move those employees working 30 to 34 hours per week to full-time status to maximize the effectiveness of labor expenses.

In a January 2015 ADP survey of large employers,[4] 38% of respondents indicated that they would be adjusting employee hours based on the ACA Employer Shared Responsibility provisions. More than 51% of respondents indicated they were considering the possibility of reducing hours.[5]

4. ADP Research Institute, 2015. The Affordable Care Act and Employer Confidence: https://www.adp.com/tools-and-resources/adp-research-institute/research-and-trends/research-item-detail.aspx?id=37B3725F-BD38-41A8-BD46-52ACAFDEAABB
5. Note that reducing hours as a result of the ACA Employer Shared Responsibility provision could raise other issues. For example, it could raise issues under ERISA section 510, which provides in relevant part that it is unlawful to discriminate against a participant or beneficiary for the purpose of interfering with the attainment of any right to which such participant may become entitled under the plan. In addition, the ACA amended section 18C of the Fair Labor Standards Act to prohibit an employer from discharging or discriminating against any employee with respect to his or her compensation, terms, conditions, or other privileges of employment because the employee has received a premium tax credit or cost-sharing subsidy under the ACA.

To illustrate how either cost mitigation strategy would work, consider the following example. ADP Research shows that a typical employer with 1,000 or more employees will pay an average of $7,800 in medical premiums per enrolled worker.[6] For a part-time position that pays $20/hour, with 1,560 annual work hours (exactly 30 hours per week), and total annual wages of $31,200, a $7,800 health premium represents a potential increase in average hourly labor costs of 25%. If the same position were available with only 1,500 annual hours, annual wages would be reduced only slightly to $30,160, but the employer may avoid the obligation to offer health coverage. Conversely, the employer may focus on retaining talented part-time employees by converting them to full-time. In the scenario where an employee now works 40 hours a week, annual wages rise to $41,600. The employer will need to offer health coverage, but the $7,800 premium per participating employee is extended to fewer employees working longer hours, and total labor costs rise only 19%.

It's also important to recognize that the ACA impact on workforce costs is not an isolated variable. In general, workforce planning is a balancing act. A staffing supervisor needs to balance productivity with service levels and meet forecast demands. Understaffing can be catastrophic to top-line revenue growth, lower service levels, and may drive up the cost of overtime. Overstaffing can generate high training costs and disengaged workers, as well as lower productivity, along with higher rates of employee turnover.

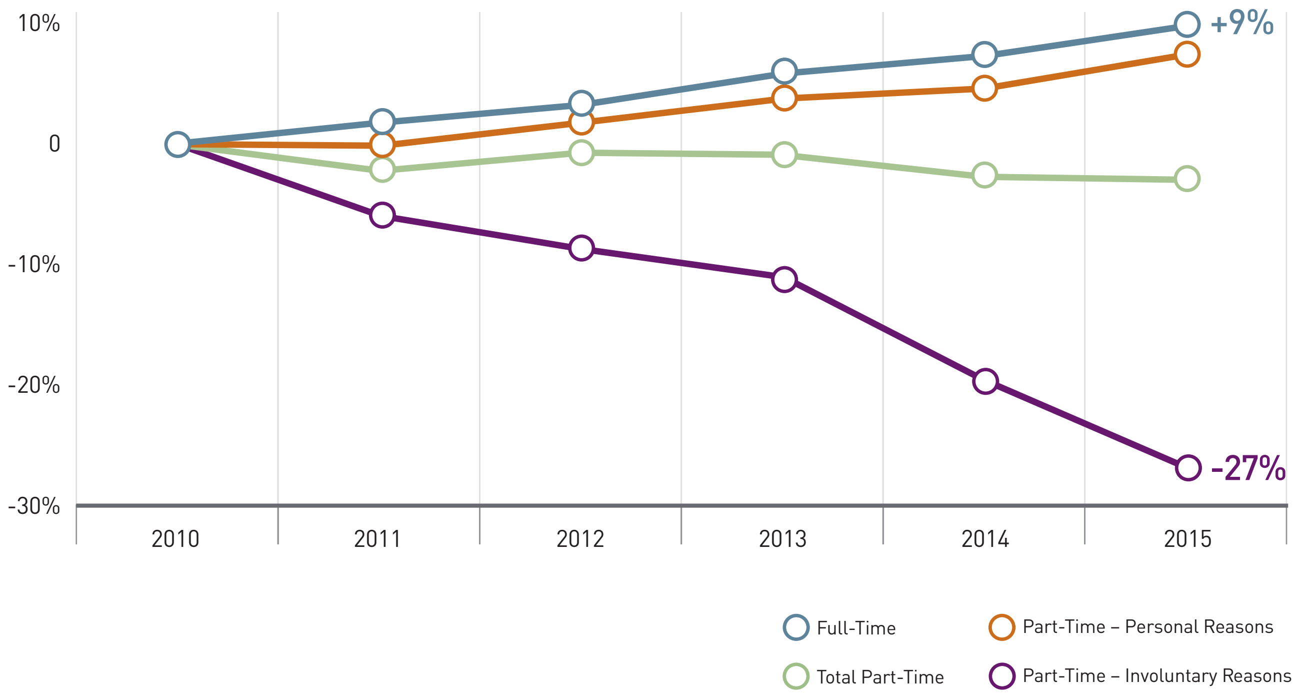
In essence, the potential cost impact of the ACA doesn't change existing workforce dynamics. It simply adds one more variable to the equation. In many workforce environments (for example call centers, retail), operational supervisors are focused on monthly productivity results such as call-to-staffing ratios or store revenue divided by labor cost. Supervisors are often trained to manage and minimize overtime against weekly and monthly performance targets, and ACA benefits eligibility is more likely to be determined through a three, six, nine, or 12-month "look-back" period as stipulated by the IRS.

It's also important to recognize that the ACA impact on workforce costs is not an isolated variable. In general, **workforce management is a balancing act.**

6. ADP Research Institute, 2015. The ADP Annual Health Benefits Report, 2015 Benchmarks and Trends for Large Employers. https://www.adp.com/tools-and-resources/adp-research-institute/research-topics/all-reports.aspx

Another factor impacting workforce planning is the improving economy. As the ACA went into effect, the U.S. economy has began to recover from recession, resulting in more full-time opportunities for employees who previously had only been able to obtain part-time positions. Data from the Bureau of Labor Statistics (BLS) shows a 9% increase in full-time jobs from 2010 to 2015, while the total number of part-time jobs decreased slightly.[7] Additionally, when the total number of part-time workers is split into two categories — those who choose to work part-time for convenience or personal reasons and those who work part-time involuntarily while seeking full-time work — the number of involuntary part-time workers fell by 27%.

Employed Persons by Status Indexed Change From 2010



The workforce landscape is also shifting as Baby Boomers retire and 18-to-24-year olds are entering the workforce at a declining rate.[8] These changes could be expected to signal an increased demand for talent, which may be causing employers to prioritize attracting and retaining workers, over limiting hours in light of the ACA.

7. http://www.bls.gov/home.htm
8. http://data.bls.gov/pdq/querytool.jsp?survey=ln

Data and Research Methodologies

This report is based on aggregated and anonymous data from approximately 75,000 U.S.-based client organizations. Researchers used payroll data from 2013 and 2014. All the quarters had similar descriptive statistics. Results are shown here for the third quarter of 2013 and 2014 and for changes in hours worked from the third to fourth quarters of 2013 and 2014, respectively. To maintain consistency and accuracy, a matched sample was created ensuring three consecutive quarters of employment.

The study captured information from approximately 10 million active hourly employees working for a single organization having 50 or more employees. By leveraging actual data representing multiple industries across all 50 states, the research presents a snapshot of the part-time workforce and provides valuable insights.

According to the Current Population Survey of the BLS, the nonfarm part-time workforce represents about 18% of all U.S. jobs. This number varies with research methodology as well as time of the year. For purposes of this report, the ADP Research Institute defined part-time work as fewer than 35 hours per week [see below].

DEFINING THE PART-TIME WORKFORCE

For research purposes, the U.S. Bureau of Labor Statistics defines the part-time workforce as any worker that works fewer than 35 hours per week. However, employers have discretion in defining their part-time workforce. For example:

- Employers may define a full-time employee based upon a standard other than 35 hours per week, e.g. 28 hours per week.
- Employers may offer the same benefits to both part-time and full-time employees or some portion thereof.
- Part-time positions may be permanent, seasonal or contingent, and may cut across both traditional and nontraditional job categories.

The ACA Shared Responsibility provision does not differentiate between "part-time" and "full-time" classifications for other purposes, or between traditional and nontraditional employment practices. Rather, the ACA Shared Responsibility provisions require that any common law employee of the employer, regardless of classification, who works an average of 30 hours or more per week must be offered "minimum essential coverage" that is affordable and provides minimum value or the employer may be subject to penalties.

Although employers have discretion in defining part-time work, for the purposes of this report, the ADP Research Institute has adopted the BLS convention that defines part-time work as less than 35 hours per week.

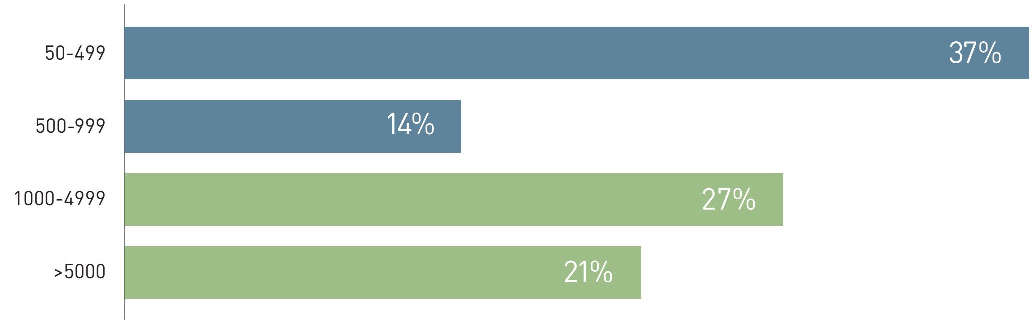
Source: Treas. Reg. §§ 54.4980H-1-5.

Findings and Results

In this study, the ADP Research Institute focused on the number of hours worked by each employee per week. Employees were grouped into the following hourly categories: fewer than 30 hours, 30 to 34 hours, and more than 34 hours. The study looked at hours worked during the third quarters of 2013 and 2014 to measure the before and after impacts of major provisions of the ACA.

Those employers with more than 50 full-time and full-time-equivalent employees are potentially liable for ACA penalties if they do not provide minimum essential coverage to their employees who average at least 30 hours per week. Therefore, the sample focused on employers with 50 or more employees; a small number of employers in the sample may not cross the ACA threshold for consideration as a large employer. The sample was nearly evenly split between midsize (those with fewer than 1,000 employees) and large (those with 1,000 or more employees) companies. The distribution of company sizes is represented in the following chart.

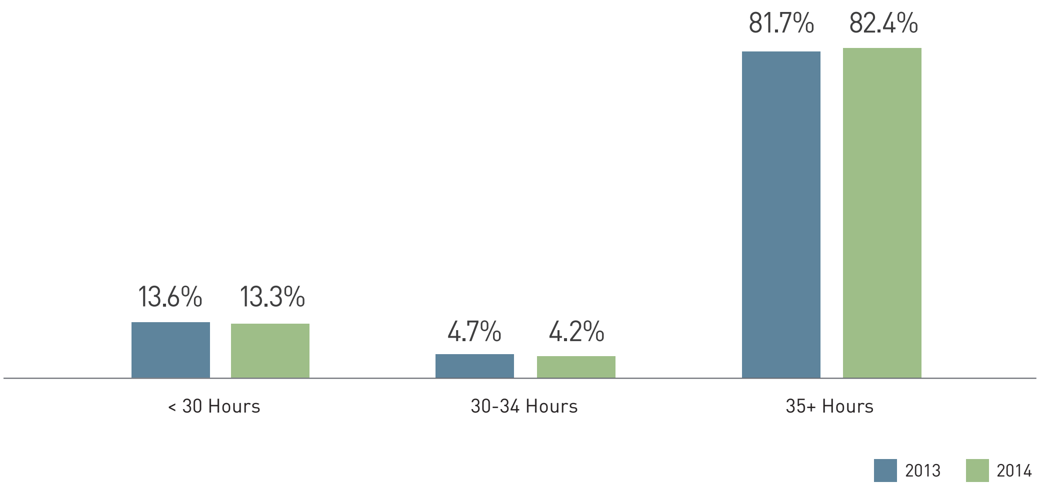
Company Distribution by Size



SIMILAR PATTERN ACROSS THE YEARS

The research focused on the distribution of hours worked in the third quarters of 2013 and 2014. In all hourly categories — less than 30 hours, 30 to 34 hours, and more than 34 hours — there was little to no change.

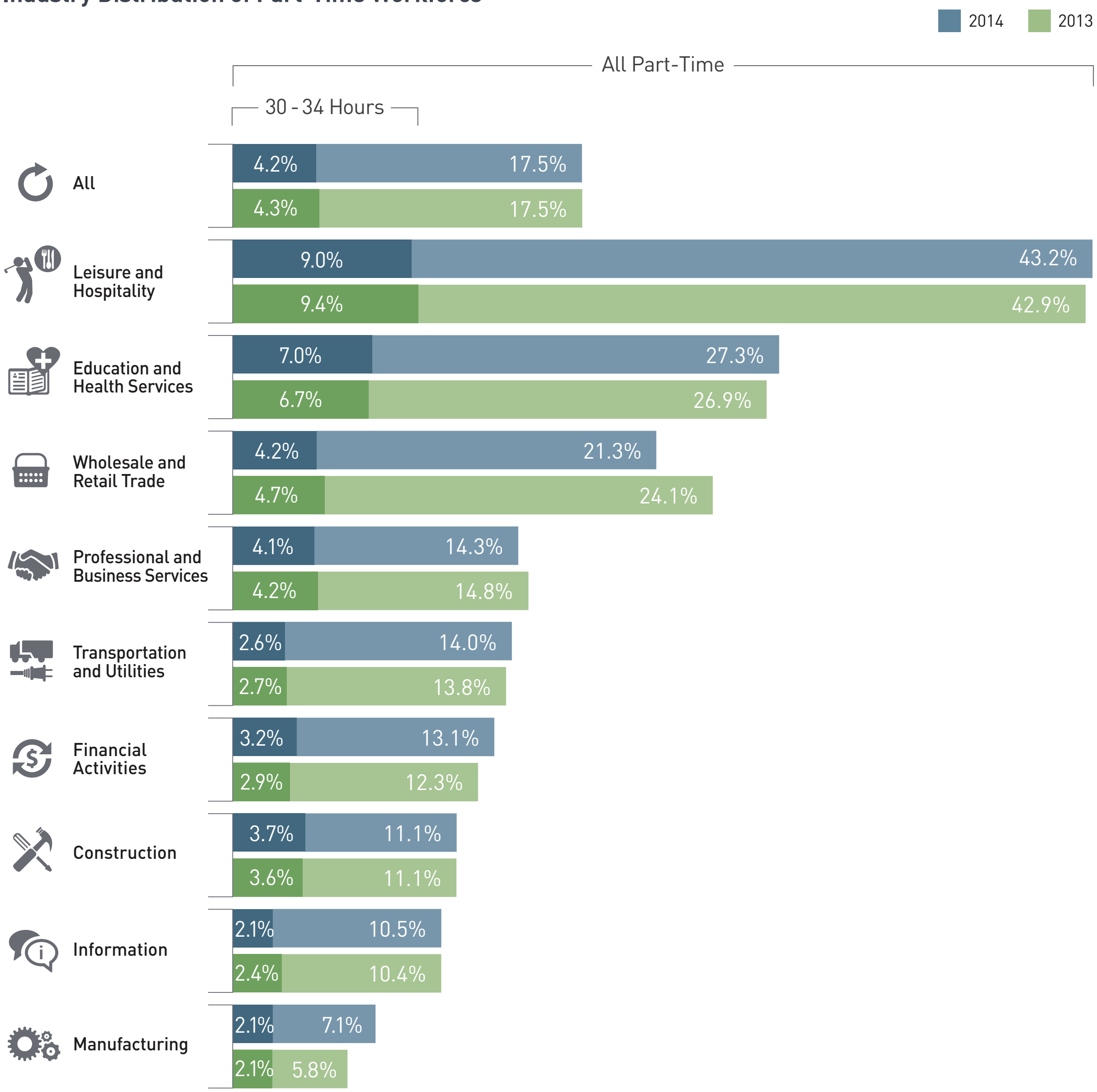
Distribution of Workforce by Hours Worked



IN EACH INDUSTRY, A SIMILAR STORY

Some have predicted that employees in the 30-to-34-hour category would be the ones most likely to be shifted by their employers to fewer than 30 hours a week in light of the ACA Shared Employer Responsibility provisions. So for each industry, researchers further analyzed the number of employees in the 30-to-34-hour category and compared them to all part-time workers in that industry. Comparing the third quarter of 2013 to the third quarter of 2014, the study showed that, across most industries, the percentage of employees working 30 to 34 hours a week remained virtually unchanged. This data indicates that employers did not significantly change part-time employees' weekly hours, despite the ACA Employer Shared Responsibility provisions.

Industry Distribution of Part-Time Workforce



VARIATION IN AVERAGE HOURS FROM THE 3RD QUARTER TO THE 4TH QUARTER BY INDUSTRY

Because the part-time workforce is not static, it is necessary to look at whether and how often workers migrate in and out of the hourly categories that make them eligible for benefits under the ACA. The number of employees eligible for benefits one month could change significantly the following month, depending on a variation in hours worked.

The following tables illustrate the variation from the third quarter of 2013 and 2014 to the fourth quarter of 2013 and 2014 respectively by employees working 20 to 29 hours a week, by industry. The mean increase in hours varied, which likely is attributable to the nature of each industry and the relative importance of skills developed over time.

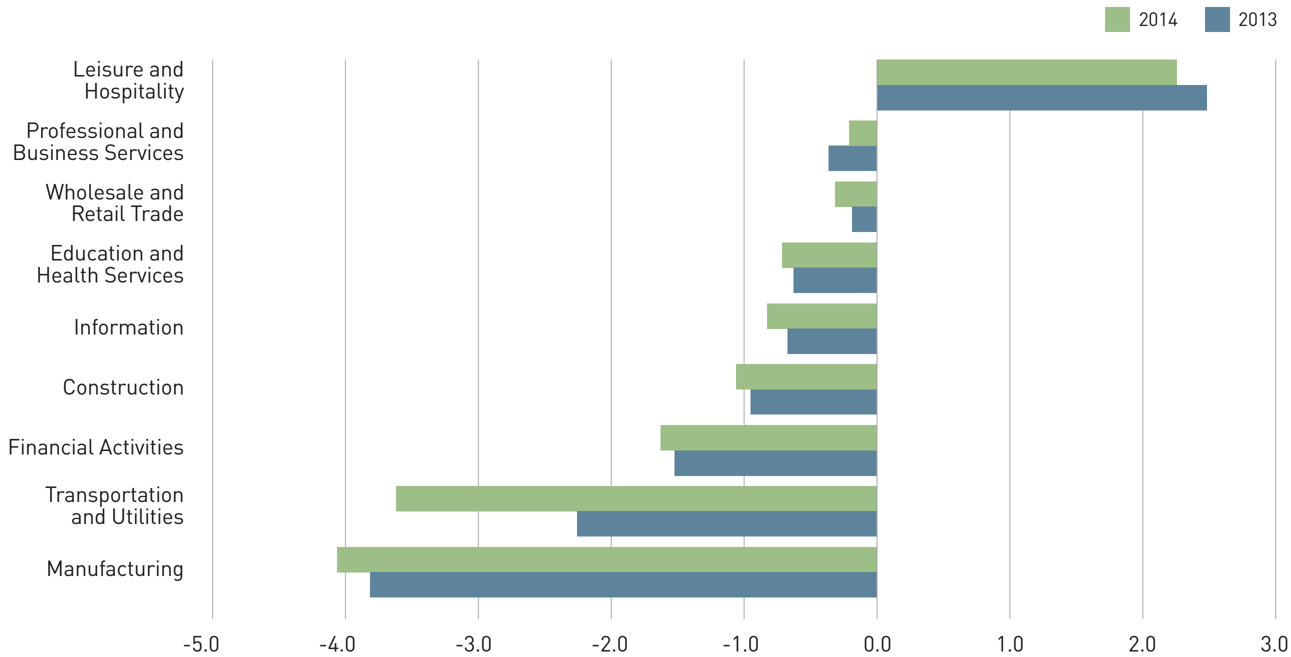
The direction of the variation seemed to be mostly dependent on the seasonality of the work. For example, leisure and hospitality varied positively, most likely because of the increased use of those services during the last two quarters of the year. On the other hand, manufacturing varied in a negative direction, which reflects the tendency of that sector to reduce work hours during holiday periods.

The magnitude of the variation seemed to be a reflection of the industry. For example, professional and business services showed far less variation than manufacturing, possibly because professional services require workers with high skill levels on a continuing basis.

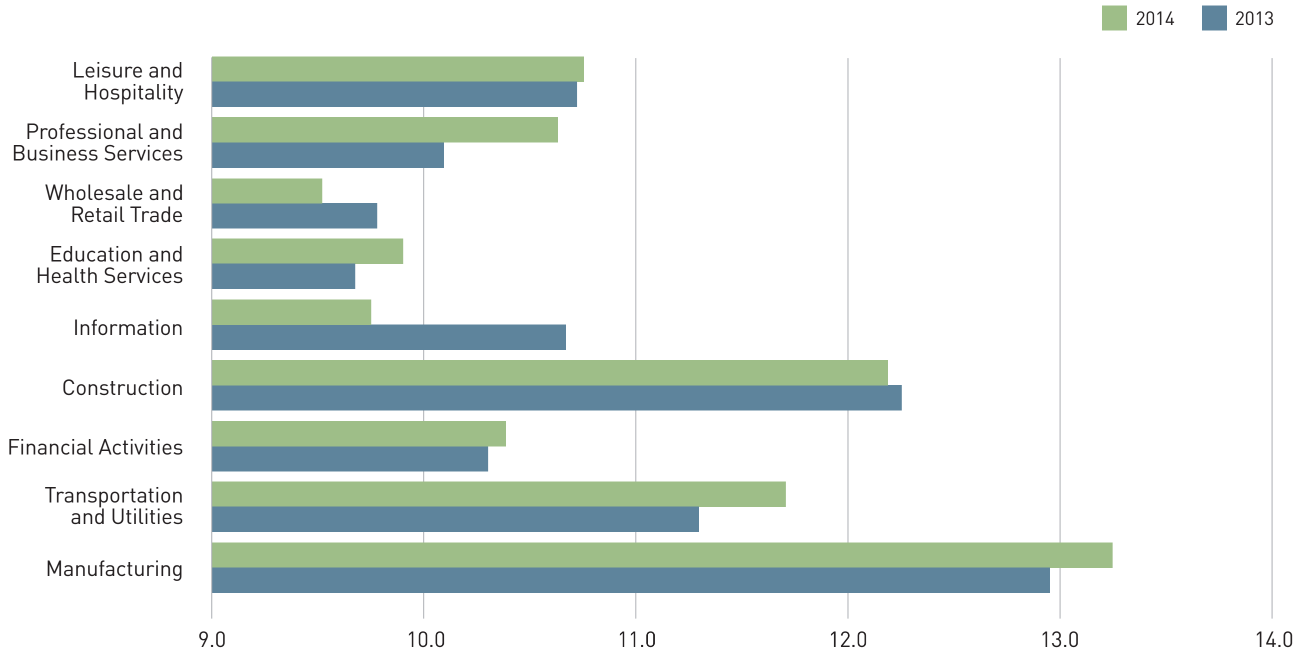
The higher standard deviation in variation of hours indicates higher volatility. Again, the volatility was highest for the manufacturing and construction sectors, where work tends to vary according to seasons.

The average variation and standard deviation in weekly hours reflect the relative vulnerabilities among industries if companies in that industry were in fact to consider limiting the hours of part-time workers. In some industries, the net impact of a less-than-30-hour limit on hours could be a reduction in the availability of the most experienced workers when they are needed most.

Average Variation in Weekly Hours Who Worked 20-29 Hours per Week (Q3 – Q4)



Standard Deviation in Weekly Hours Who Worked 20-29 Hours per Week (Q3 – Q4)



Conclusion

This analysis suggests that the ACA's impact on employment policy has been extremely small compared with overall economic trends. Employees wanting to work full-time were in a better position to find full-time positions in 2014 than in 2013. With the overall pool of part-time workers shrinking, employers are not likely to restrict the hours of their part-time workers. The employer's first priority will likely be to attract and retain talent.

The ACA's impact on employee hours should not be considered in isolation from broader economic and demographic changes. Ultimately, the broader law of talent supply and demand will likely overshadow other considerations for employer staffing and workforce planning. The strengthening economy may drive workforce decisions more directly than costs related to the ACA.

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