

## Legal Alert

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Michael R. King  
[mking@gblaw.com](mailto:mking@gblaw.com)  
602-256-4405

**QUESTION: SHOULD I DITCH MY JOB NOW THAT I HAVE SUBSIDIZED HEALTH INSURANCE?**

**ANSWER: THE CONGRESSIONAL BUDGET OFFICE PREDICTS THAT MANY AMERICANS WILL QUIT WORKING OR REDUCE THE AMOUNT THEY WORK DUE TO THE AFFORDABLE CARE ACT.**

The Affordable Care Act "will raise effective tax rates on earnings from labor and thus will reduce the amount of labor that some workers choose to supply," according to the Congressional Budget Office. (*The Budget and Economic Outlook: 2014 – 2024*, February 2014.) ("CBO 2014 Outlook".)

### ***Economic impact of the Affordable Care Act.***

What does that mean? The government admits that the Affordable Care Act will cause many people to either quit their jobs or work fewer hours. Not only will people work less, but the Joint Committee on Taxation and the Congressional Budget Office estimate that the Affordable Care Act will be a net cost to the federal government of \$41 billion in 2014. These agencies estimate that the coverage provisions of the Affordable Care Act will result in a net cost of "\$1,487 billion" from 2015 – 2024. (CBO 2014 Outlook, Appendix B.)

### ***The law of unintended consequences?***

The Affordable Care Act "will reduce employment," as one "of the inherent trade-offs involved in" the Affordable Care Act. Why? "[T]he health insurance subsidies that the Act provides to some people will be phased out as their income rises—creating an implicit tax on additional earnings—whereas for other people, the act imposes higher taxes on labor income directly."

According to the Congressional Budget Office, some employees will quit working earlier because they will be able to get subsidized health insurance to replace the group medical coverage provided by their employers. Keep in mind that the government subsidies for healthcare insurance decline with rising income, a definite incentive to work less. The subsidies also increase workers' resources (you don't have to spend as much for your medical insurance), so you don't need to work as much to maintain the same standard of living.

Those workers eligible for subsidies through exchanges or eligible for Medicaid who work less than a full year "would tend to work somewhat less because of the ACA's subsidies." The loss of subsidies for low wage workers returning to jobs with health insurance benefits would amount to "an implicit tax on working." The implicit tax resulting from returning to a full-time job with medical insurance would be "equivalent to an average tax rate of roughly 15% . . ." "That implicit tax will cause some of those workers to lengthen the time they are out of work—similar to the effect of unemployment benefits." (CBO 2014 Outlook, Appendix C.)

### ***How large will the impact be on employment?***

The Congressional Budget Office "estimates that the ACA will cause a reduction of roughly one percent in aggregate labor compensation over the 2017-2024 period, compared with what it would have been otherwise." The report also estimates that the decrease in hours worked due to the Affordable Care Act will equal 2 million full time jobs in 2017! By 2024 there will be the equivalent of 2.5 million jobs lost per year due to the Affordable Care Act.

Overall employment compensation will be reduced 1% as a result of the Affordable Care Act.

### ***What parts of the Affordable Care Act will cause these decreases in employment and pay?***

The Congressional Budget Office says the following aspects of the Affordable Care Act will cause these changes in the labor supply:

1. The subsidies for health insurance purchased through exchanges;
2. The expansion of eligibility for Medicaid;
3. The penalties on employers that fail to offer healthcare insurance; and
4. The new taxes imposed on workers' income.

***What will these estimates of the effects of the Affordable Care Act mean to me?***

Both employers and employees will need to look at their particular situations to determine the impact of the Affordable Care Act and the strategies appropriate to the particular situations. Some employers will decrease the number of full-time workers and increase the number of part-time workers in order to avoid paying either the costs of healthcare insurance or the taxes for not providing the insurance. Other employers will strive to keep their workforces below 50 full-time employees for the same reasons.

Whether the Affordable Care Act is good or bad for you and your business depends upon your unique circumstances and how you prepare for and react to the changes. If you don't have time to read all 175 pages of the report on *The Budget and Economic Outlook 2014 – 2024*, plus the appendices to the report, and you want some advice, please call me.

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