

113TH CONGRESS }  
2d Session } HOUSE OF REPRESENTATIVES { REPORT  
113-386

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## SAVE AMERICAN WORKERS ACT OF 2014

MARCH 26, 2014.—Committed to the Committee of the Whole House on the State  
of the Union and ordered to be printed

Mr. CAMP, from the Committee on Ways and Means,  
submitted the following

### R E P O R T

together with

### DISSENTING VIEWS

[To accompany H.R. 2575]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 2575) to amend the Internal Revenue Code of 1986 to repeal the 30-hour threshold for classification as a full-time employee for purposes of the employer mandate in the Patient Protection and Affordable Care Act and replace it with 40 hours, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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Intergovernmental and private-sector impact: JCT has determined that H.R. 2575 contains no intergovernmental or private-sector mandates as defined by UMRA.

Estimate prepared by: Sarah Masi, Jean Hearne, and staff of the Joint Committee on Taxation.

Estimate approved by: Holly Harvey, Deputy Assistant Director for Budget Analysis.

#### D. MACROECONOMIC IMPACT ANALYSIS

In compliance with clause 3(h)(2) of rule XIII of the Rules of the House of Representatives, the following statement is made by the Joint Committee on Taxation with respect to the provisions of H.R. 2575: the effects of the bill on economic activity are so small as to be incalculable within the context of a model of the aggregate economy.

Under present law, firms that employ more than 50 full-time equivalent employees are required either to provide qualifying affordable health coverage to their full-time employees or pay mandate penalties based on the number of full-time employees.<sup>13</sup> The bill changes the calculation of “full-time equivalent employee” such that fewer firms cross this threshold to become subject to the requirement. It also changes the definition of “full-time employee” from an employee who works at least 30 hours per week to an employee who works at least 40 hours per week, thus reducing the number of employees to whom firms are required to provide health coverage. Both provisions of the bill, therefore, provide some firms relief from a specific form of employment cost required under present law.

Under present law and under the bill, the amount employers are willing to pay in employment costs for their employees is determined by the amount they expect employees to generate in additional output. Compensation costs include wages, benefits (including health coverage), and associated employment taxes (including any mandate penalty). If a change in tax policy changes the relative costs of these components of compensation, it is expected that their relative shares would be adjusted to minimize after-tax costs to employers while maximizing after-tax compensation for employees. Thus, one behavioral response to the health coverage mandate is that employers may reduce cash wages or other benefits in order to hold their total compensation costs fixed. In this way, firms can avoid incurring increased costs of overall compensation. It is expected that the relaxation of the coverage mandate provided for in the bill will not affect overall employment costs for firms able to substitute between health benefits or the penalty and cash wages and other benefits. These types of adjustments are not expected to have an effect on overall economic growth, although they could have an effect on taxable income. The effects of these adjustments on taxable income are accounted for in the conventional revenue estimate.

However, some employers may not be able to reduce cash wages and other benefits sufficiently to hold their employment costs fixed, either because their wage rates are at or near the minimum wage

<sup>13</sup>As discussed elsewhere in this report, final regulations granted transition relief for firms employing between 50 and 100 employees in 2015.

or because they are subject to some other institutional restrictions on adjusting wages and benefits, such as civil service requirements or collective bargaining contracts. And some employers may calculate that their employees would be better off with a small reduction in hours than with a reduction in other forms of compensation. For these employers, the employer mandate penalty under present law may result in increased costs, and provide some incentive for firms to adjust employment practices to avoid the requirements. It is expected that where possible, firms would reallocate hours worked among employees to minimize the number of employees deemed to be “full-time.” There have been many survey and anecdotal accounts of employers taking or planning to take such action under current law.<sup>14</sup> These accounts do not provide enough information for us to be able to quantify the extent to which the reduction in hours per employee would result in an overall reduction in hours, or a reallocation of hours among employees.<sup>15</sup> Because the health insurance requirements are unlikely to affect demand for the services of the employer, if the employer can minimize its exposure to the requirements without changing its scope of operations, it is expected to do so, by reallocating hours among employees. Such adjustments are not expected to have an effect on overall economic growth, although they would affect the allocation of disposable income among individual employees.

However, some employers may find that the adjustment costs associated with reallocating hours among employees sufficiently large that they prefer to reduce the total number of hours worked or reduce hiring to stay below the 50 full-time equivalent employee threshold. This could have an effect on overall economic activity, but it would be quite small relative to the overall size of the economy under present law, given the small number of employees working for employers subject to the mandate whose hours of work are near enough to the 30-hour threshold to make reducing hours worked to below 30 per person feasible.

The change in the definition of full-time employee in the bill removes incentives for firms to reduce hours for workers below 30 hours per week. But it would increase the feasibility of reducing hours enough to avoid the mandate for employers whose employees typically work 40-hour weeks. Roughly five times as many workers work 40 hours per week as work 30 to 34 hours per week; thus the incentive to re-allocate or reduce hours could potentially affect a larger share of the workforce under the bill than it does under

<sup>14</sup>See, for example, John Tozzie, “Franchise Industry: We’re Already Cutting Hours Because of Obamacare,” *BloombergBusinessweek*, November 13, 2013, <http://www.businessweek.com/articles/2013-11-13/franchise-industry-we-re-already-cutting-hours-because-of-obamacare>; and testimonies of Lanhee J. Chen, Peter Anastos, Neil Trautwein, Thomas J. Snyder and Helen Levy at the Ways and Means Committee “Hearing on the Impact of the Employer Mandate’s Definition of Full-time Employee on Jobs and Opportunities,” January 28, 2014.

<sup>15</sup>It is too soon for statistically testable data on the response of employers to the employer mandate to be available. There has been some statistical analysis of responses to state and local employer health insurance mandates. Thomas C. Buchmeiller, John DiNardo, and Robert Valleta find no overall reduction in hours or wages over a 25-year period in response to an employer health insurance mandate in Hawaii, but some trend toward substitution of part-time workers for full-time workers in “The Effect of Employer Health Insurance Mandate on Health Insurance Coverage and the Demand for Labor in Hawaii,” *American Economic Journal: Economic Policy* 3, 2011, pp. 25–51. Carrie H. Colla, William H. Dow, and Arindrajit Bue find no evidence of a change in employment or wages over a much shorter, 18 month time period in response to enactment of a health insurance mandate in San Francisco in “The Labor Market Impact of Employer Health Benefit Mandates: Evidence from San Francisco’s Health Care Security Ordinance,” NBER Working Paper No. 17198, July, 2011.

present law.<sup>16</sup> Offsetting this asymmetry, however, is the fact that a much larger share of those who work 40 hours than those who work 30 hours already have offers of qualifying employer coverage even without the employer mandate penalty, and thus their employment costs would not be affected by the bill.<sup>17</sup>

The bill would eliminate possible reductions in economic activity related to 30-hour workers under present law. However, it could provide an additional incentive for employers whose employees work 40 hours per week to rearrange or reduce their hours to fall under the threshold. It is anticipated that under the bill, employers with 40-hour workforces would use the same strategies described for the 30-hour employers to minimize their exposure to costs imposed by the mandate penalty. Most of these strategies would not affect overall economic activity, but it is possible that some of the workers who lose their health insurance under the bill would reduce their work hours in order to qualify for exchange subsidies, thus offsetting gains from restored labor for those who work close to 30 hours. In addition, under the bill there might be some employers of 40-hour workers who would newly view compliance with the employer insurance requirements as a marginal decision, and for whom adjustment costs would be sufficient to cause an overall reduction in their hours worked and output thus also potentially offsetting gains in activity related to removing possible present-law incentives to reduce hours for 30-hour workers.

While the bill is likely to change which employers reallocate or reduce hours worked for their employees, the net change in this practice relative to present law is expected to be quite small. The estimated tax savings for employers due to this bill, while important to individual employers, are quite small relative to overall employment costs in the economy. Thus, the effects of the bill on the economy are too small and uncertain to calculate within JCT macroeconomic models.

## **V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE**

### **A. COMMITTEE OVERSIGHT FINDINGS AND RECOMMENDATIONS**

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was as a result of the Committee's review of the provisions of H.R. 2575 that the Committee concluded that it is appropriate to report the bill, as amended, favorably to the House of Representatives with the recommendation that the bill do pass.

<sup>16</sup>Bureau of Labor Statistics, "Labor Statistics from the Current Population Survey," February 2013. Available at: <http://www.bls.gov/cps/cpsaat19.htm><http://www.bls.gov/cps/cpsaat19.htm>.

<sup>17</sup>One study notes that almost 80 percent of those in firms of 100 or more who work 37 hours or more per week are covered by employer insurance, while fewer than 50 percent of those who work between 30 and 36 hours per week have employer insurance. See UC Berkeley Labor Center, "Which Workers are Most at Risk of Reduced Work Hours under the Affordable Care Act," February 2013. Available at: <http://laborcenter.berkeley.edu/healthcare/reduced-work-hours13.pdf>. According to an ADP study of large employers, 88 percent of firms offer health coverage to their full time workers, while only 15 percent of firms offer it to part-time workers. see: ADP Research Institute, "ADP's 2012 Study of Large Employer Health Benefits Benchmarks for Companies with 1,000+ Employees," pp.7-8. Available at: <http://www.adp.com/media/RI/whitepapers/NAS%20Health%20Benefits-WhitePaper.ashx>, at pp. 7-8.