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The Impact Of Health Care Reform On Part-Time Employees

PPACA Will Impact 2.0 Million Part-time Employees In A Variety Of Industries

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Beginning January 1, 2014, the Patient Protection and Affordable Care Act (PPACA) requires employers with 50 or more full-time employees to offer all their full-time employees and dependents health care coverage that meets new minimum federal standards *or pay a penalty*.¹ A full-time employee is defined by the statute as an employee who works on average 30 hours or more per week.² Therefore, employees who average less than 30 hours per week are, by implication, part-time employees. Employers with more than 200 full-time employees are also required, as of March 23, 2010, to automatically enroll new full-time employees in one of the health care plans offered by the employer *and* to continue the enrollment of *current* employees.³

This report provides data on the number of part-time employees who have employer-provided health insurance and what industries they are in. It also identifies potential issues for employers with part-time employees as well as the possible impact PPACA may have on those employees.

The latest available Census Bureau data shows that 7.4 million, or 11.8 percent, of private-sector employees who work for large and medium size employers (100 or more employees) work on average less than 30 hours per week (see Table 1). Another 3.3 million employees, or 5.2 percent, work on average 30 to 34 hours per week.⁴ Compared to larger employers, small employers have a much larger percentage of adult-nonelderly employees who work part-time (16.4% vs. 11.8%).

Table 1: Number of Part-time Adult/Nonelderly Employees by Firm Size

(Thousands)

	Part-time		Full-time			Total	
	< 30 Hours		30 - 34 Hours		35+ Hours		
Large & Medium Firms (100+ Employees)	7,389	11.8%	3,282	5.2%	51,993	83.0%	62,664
Small Firms (< 100 Employees)	7,429	16.4%	3,092	6.8%	34,787	76.8%	45,308
Total	14,818	13.7%	6,374	5.9%	86,780	80.4%	107,972

Source: Applied Economic Strategies analysis of March 2010 Census data.

Despite their part-time status, a significant number of employees who work less than 30 hours per week have their own employer-provided health insurance. For example, 20.0 percent of part-time adult-nonelderly employees in large and medium size employers, or 1.3 million, have their own employer-provided health insurance benefit (see Table 2), while 32.1 percent of adult-nonelderly employees who work 30 to 34 hours per week have their own employer-provided health insurance.⁵ Another 754,000 part-time adult-nonelderly employees in *small* employers (10.1%) have their own employer-provided health insurance benefit.⁶

Many part-time employees are covered by low-cost employer-sponsored “Mini-Med” plans that provide limited benefits covering accidents and sickness related medical expenses with an annual dollar cap on overall benefits and/or an annual dollar cap on specific services. Mini-med plans may also not be able to meet the medical loss ratio requirements in PPACA because of the generally higher turnover rates of the populations they serve results in higher administrative costs as a percentage of the premiums collected and lower claims costs. The Department of Health and Human Services (HHS) is concerned about the possibility that over one million individuals who have coverage through mini-med plans may lose their coverage.⁷ On September 3, 2010, the Department of Health and Human Services (HHS) established a waiver process for Mini-Med plans from PPACA’s annual benefit limit restrictions.⁸ HHS has also decided to exercise its authority to take into account the special circumstances of smaller plans and different types of plans in its interim final rule on medical loss ratios.⁹

**Table 2: Health Insurance Coverage of Adult-Nonelderly Employees
In Large and Medium Size Firms**
(Thousands)

	Part-Time		Full-Time				Total	
	< 30 Hours		30-34 Hours		35+ Hours			
Own Coverage	1,260	20.0%	1,054	32.1%	36,824	70.8%	39,138	66.5%
Dependent Coverage	2,346	38.3%	632	19.3%	5,255	10.1%	8,233	13.5%
Medicaid/Medicare	909	10.4%	339	10.3%	1,371	2.6%	2,619	2.6%
Military / Other	188	3.3%	52	1.6%	559	1.1%	799	2.0%
Direct Purchase /Other	722	9.0%	277	6.2%	1,259	2.3%	2,258	3.1%
No Health Insurance	1,964	19.0%	928	28.3%	6,725	12.9%	9,617	12.3%
Total	7,389	100.0%	3,282	100.0%	51,993	100.0%	62,664	100.0%

Note: Large and medium size firms are defined as having 100 or more employees.

Source: Applied Economic Strategies analysis of March 2010 Census data.

The percentage of part-time adult-nonelderly employees who have their own employer-provided health insurance varies considerably by industry (see Table 3). The transportation, warehousing, and utility industries (52.9%), construction (35.8%), finance and insurance (34.1%), and manufacturing (33.7%) have relatively high percentages of their part-time employees with their own employer-provided health insurance (see Table 3 below), compared to all industries combined (17.1%).

On the other hand, the largest number of part-time workers who have their own employer-provided health insurance work in retail trade (346,000), followed by health care and social services (246,000), transportation, warehousing, and utilities (141,000), educational services (100,000), and accommodation and food services (80,000). Together these five industries account for 73.4 percent of the 1.3 million part-time workers who have their own employer-provided health insurance (see Table 3).

Continuing Enrollment of Current Part-time Employees

It is important to note that effective on the date of enactment, which was March 23, 2010, PPACA requires employers that have more than 200 full-time employees, and that offers employees enrollment in 1 or more health benefits plans, to continue the enrollment of *current employees* in a health benefits plan offered through the employer.¹⁰ Although PPACA requires employers to automatically enroll new *full-time* employees, it makes no such distinction for *current employees*. Therefore, it appears that large employers may have to *continue* to enroll the 1.3 million part-time employees that currently have their own employer-provided health care coverage. It also appears that large employers may have to *continue* to enroll 1.1 million full-time employees who currently

have their own employer-provided health care coverage and report working 30 to 34 hours per week *even though their hours may fall below 30 per week.*

Moreover, some of these part-time employees may be eligible for the free-choice vouchers. Under PPACA, an employer that offers health insurance coverage is required to provide free choice vouchers to certain “qualified employees” in order to purchase health insurance coverage through a state insurance exchange. “Qualified employees” are defined as employees who do not participate in a health plan offered by their employer, whose annual household income is less than 400% of the poverty line for a family of the size involved, and whose required contribution for coverage through the employer’s plan exceeds 8% but does not exceed 9.8% of the employee’s household income for the year – *regardless of the number of hours they work per week.* Since the free choice voucher provision does not reference full-time employees nor explicitly exclude part-time employees, employers may be required to provide these vouchers to any employee who satisfies the eligibility requirement including part-time employees.

Because there is no penalty for not offering new part-time employees health insurance coverage, PPACA creates an incentive for employers to drop health care benefits for new part-time employees once the exchanges are setup in 2014 and allow normal attrition and turnover to reduce the number of current part-time employees with coverage over time. A less costly cash payment could be offered to part-time employees after 2013 to help pay for purchasing health insurance through the exchanges as a way of retaining part-time employees and reducing turnover.¹¹

Further, because of the additional cost associated with providing health insurance to new employees who work 30 to 34 hours per week, many employers may consider reducing the hours these employees work to offset their additional labor costs. This could result in these employees not only having their earnings reduced, but also losing their employment-based health insurance coverage should their average hours of work drop below 30 hours per week for an extended period of time.¹²

**Table 3: The Percentage of Adult-Nonelderly Part-time Employees
In Large and Medium Size Firms
With Their Own Employer-provided Health Insurance
(By Industry, In Thousands)**

	Number Part-time	With Own Coverage	Percent With Own Coverage
Agriculture & Mining	30	8	25.1%
Construction	52	19	35.8%
Manufacturing	193	65	33.7%
Wholesale Trade	48	6	12.2%
Retail Trade	2,444	346	14.2%
Transportation, Warehousing & Utilities	266	141	52.9%
Information	122	17	14.1%
Finance & Insurance	184	63	34.1%
Real Estate, Rental & Leasing	120	22	18.2%
Professional, Scientific and Technical Services	146	35	24.2%
Management, Admin Support, & Waste Management Services	234	40	17.3%
Educational Services	547	100	18.3%
Health Care & Social Assistance	1,070	246	23.0%
Art, Entertainment & Recreation	293	50	16.9%
Accommodation & Food Services	1,495	92	6.1%
Private Households & Other Services	146	10	7.0%
Total	7,391	1,260	17.1%

Note: Large and medium size firms are defined as having 100 or more employees.

Source: Applied Economic Strategies analysis of March 2010 Census data.

¹ The 50 full-time employee threshold is calculated on a full-time equivalent basis.

² Internal Revenue Code § 4980H(c)(4)(B). If an employee is not paid on an hourly basis, the Secretary of Treasury in consultation with the Secretary of Labor will determine by regulation and/or guidance how the “hours of service” are to be calculated. Further, the Secretary of Treasury will have to determine how to calculate the average hours of service for employees who work variable hours over a month or quarter. For example, what are the average hours for part-time workers who work 50 hours one week, 32 hours in a couple of other weeks, and then work an average 25 hours per week for the rest of the year.

³ 29 U.S.C. 218a. The Department of Labor will define by regulation the meaning of “full-time” for this provision. It is unclear if that definition will mirror the definition of full-time under the Internal Revenue Code § 4980H(c)(4)(B). It is assumed in this paper that the DOL and IRS definitions will be the same. In cases of non-compliance, the Department of Labor could seek injunctive relief under the Fair Labor Standards Act to require an employer to continue enrolling “current employees”, which appears to include part-time employees. Although the automatic enrollment provision took effect on the date of enactment (March 23, 2010), agencies have indicated that they will not enforce the provision until after releasing regulations.

⁴ Some employers may reduce the hours these employees work in order to not be subject to the penalty payments under PPACA.

⁵ Employers are most interested in adult-nonelderly employees because employees who are over 64 years old are eligible for Medicare and there are very few teenagers who have their own employer-provided coverage.

⁶ Employers are most interested in adult-nonelderly employees because employees who are over 64 years old are eligible for Medicare and there are very few teenagers who have their own employer-provided coverage.

⁷ Health Insurance Issuers Implementing Medical Loss Ratio (MLR) Requirements under the Patient Protection and Affordable Care Act; Interim Final Rule, December 1, 2010, <http://edocket.access.gpo.gov/2010/pdf/2010-29596.pdf>.

⁸ OCIIO Sub-Regulatory Guidance (OCIIO 2010 - 1): Process for Obtaining Waivers of the Annual Limits Requirements of PHS Act Section 2711, September 3, 2010, http://www.hhs.gov/ociio/regulations/patient/ociio_2010-1_20100903_508.pdf.

⁹ Health Insurance Issuers Implementing Medical Loss Ratio (MLR) Requirements under the Patient Protection and Affordable Care Act; Interim Final Rule, December 1, 2010, <http://edocket.access.gpo.gov/2010/pdf/2010-29596.pdf>.

¹⁰ See Endnote 2.

¹¹ There is nothing in the provision that would limit the premiums or co-insurance that an employer could charge to such part-time employees.

¹² The Department of Labor will define by regulation the meaning of “full-time” for 29 U.S.C. 218a. It is unclear if that definition will mirror the definition of full-time under the Internal Revenue Code § 4980H(c)(4)(B). The statute does not provide any guidance on whether or not an employee’s hours of service should be measured on a weekly, monthly or quarterly basis. How it is measured is particularly important for employees who work variable hours from week to week.