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The ACA: Some Unpleasant Welfare Arithmetic

By: Brett Healy
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The Cato Institute recently published an article and executive summary of the first research study that looks at the disincentives of the Affordable Care Act, authored by economist Casey B. Mulligan at the University of Chicago. According to Mulligan, the ACA will result in "some unpleasant welfare arithmetic" by creating economic incentives for individuals to work fewer hours.

Thanks to a myriad of new ACA penalties, regulations, and taxes, individuals will no longer have incentive to work more than 29 hours in a week "since this would either render them ineligible for the ACA's assistance or increase the penalties that may be owed by their employer." Under the ACA, employers are penalized if they choose not to provide health insurance to full-time workers. Rather than face stiff federal penalties, employers will reduce the number of hours their employees work, and Mulligan estimates that this will impact three to four million American workers.

Nearly 20 million workers cannot benefit from the government subsidies because their employers provide coverage to full-time employees. However, if employees work no more than 29 hours per week, then they are eligible for subsidies and there is no employer penalty. Mulligan believes, out of the twenty million employees, four million would see greater financial benefit if they limited their own work to 29 hours per week. This creates a situation in which it's more beneficial to the employee to cut back hours and work less. This perverse incentive not to work will hit the working poor and older workers the hardest, with an estimated 3.6 million having to decide if they should work less to get ahead.

This system, Mulligan agues, effectively gives individuals federally funded days off without losing overall income.

For millions of Americans, it will literally pay more to stay home and not work.