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Health Care Coverage: Job Lock and the Potential Impact of the Patient Protection and Affordable Care Act

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Health Care Coverage: Job Lock and the Potential Impact of the Patient Protection and Affordable Care Act

Abstract
[Excerpt] The majority of Americans—about 55 percent in 2010—rely on employer-sponsored health care coverage, which is largely subsidized by most employers and thus less costly to employees than coverage purchased by individuals on their own. Although a valued employee benefit, many believe that having health coverage tied to employment can influence workers to stay in jobs they might otherwise leave, a phenomenon generally known as "job lock." The Patient Protection and Affordable Care Act (PPACA), enacted in 2010, includes provisions that are designed to increase the accessibility and affordability of health coverage, particularly for individuals with preexisting health conditions. PPACA implementation is phased; though some provisions went into effect during the year of enactment, many provisions are scheduled to take effect in 2014. Some suggest that one benefit of PPACA may be a decrease in the occurrence of job lock. You asked us to examine job lock and the specific ways PPACA may affect it. Accordingly, we examined two key questions:

1. What has research shown about whether and the extent to which workers stay in jobs they might otherwise leave out of fear of losing health care coverage and the impact of those decisions on the labor market?

2. What are expert views on the ability of PPACA to mitigate job lock?

Keywords
health care, Patient Protection and Affordable Care Act, PPACA, job lock, labor market

Comments

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G A O
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United States Government Accountability Office
Washington, DC 20548

December 15, 2011

The Honorable Harry Reid
Majority Leader
United States Senate

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate

The Honorable Tom Harkin
Chairman
Committee on Health, Education, Labor and Pensions
United States Senate

Subject: *Health Care Coverage: Job Lock and the Potential Impact of the Patient Protection and Affordable Care Act*

The majority of Americans—about 55 percent in 2010—rely on employer-sponsored health care coverage, which is largely subsidized by most employers and thus less costly to employees than coverage purchased by individuals on their own.[1] Although a valued employee benefit, many believe that having health coverage tied to employment can influence workers to stay in jobs they might otherwise leave, a phenomenon generally known as "job lock." The Patient Protection and Affordable Care Act (PPACA), enacted in 2010,[2] includes provisions that are designed to increase the accessibility and affordability of health coverage, particularly for individuals with preexisting health conditions. PPACA implementation is phased; though some provisions went into effect during the year of enactment, many provisions are scheduled to take effect in 2014. Some suggest that one benefit of PPACA may be a decrease in the occurrence of job lock. You asked us to examine job lock and the specific ways PPACA may affect it. Accordingly, we examined two key questions:

1. What has research shown about whether and the extent to which workers stay in jobs they might otherwise leave out of fear of losing health care coverage and the impact of those decisions on the labor market?
2. What are expert views on the ability of PPACA to mitigate job lock?

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[1]DeNavas-Walt, Carmen, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, Current Population Reports, P60-239, *Income, Poverty, and Health Insurance Coverage in the United States: 2010* (U.S. Government Printing Office, Washington, D.C.: 2011).

[2]Pub. L. No. 111-148, 124 Stat. 119 (2010), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (2010).

To answer the first question, we conducted a systematic literature review of articles published in the United States in the last 10 years. We included studies published in a journal with a peer review process or by an independent research organization. To be included in our review, studies must have had empirically-based findings on whether or the extent to which employer-sponsored health coverage influences workers' decisions to stay in a job and/or the impact of these decisions on the national economy or labor market.[3] In addition, we reviewed the studies for methodological soundness for the purposes of our report.[4] We identified 31 studies that met our criteria. (See enc. I for these studies).

To answer the second question, we reviewed published summaries of the law[5] and obtained input from the Department of Health and Human Services and the Congressional Research Service to initially identify potential areas of impact of PPACA, how those potential areas of impact, if realized, could affect job lock, and the specific PPACA provisions most likely to influence job lock.[6] We then used this information as a basis for discussions with multiple experts that conduct research and analysis on health coverage and labor market issues, including organizations that represent key health care reform stakeholders and a range of perspectives. (See enc. II for a list of the experts we interviewed.) During these interviews, we solicited views on the potential of PPACA to affect job lock overall and the role specific provisions of the law may play. The goal of the interviews was to assess expert views on the potential of PPACA to affect job lock; we did not attempt to more generally assess the labor market or other economic implications of the law. A list of the specific provisions in PPACA identified through this methodology as potentially affecting job lock is found in enclosure III. The views presented are not those of GAO and are not necessarily shared by all the experts we interviewed, nor by the organizations that the experts represent.

We conducted this performance audit from May 2011 through December 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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[3]We searched multiple bibliographic databases, including ProQuest, EconLit, PubMed, PolicyFile, and Academic OneFile, as well as a number of social science and medical databases using the Dialog platform.

[4]These studies differ in the data used, populations studied, and the empirical models used. In order to empirically isolate job lock, the studies use a variety of model specifications to control for factors other than health insurance that might influence worker mobility. Depending on the data used, these control variables include age, education, industry, occupation, alternative health coverage, health status, and family size.

[5]See for example, Congressional Research Service, *Private Health Insurance Provisions in the Patient Protection and Affordable Care Act,* R40942 (Washington, D.C.: Sept. 21, 2010).

[6]We did not attempt to independently identify or analyze all PPACA provisions that may potentially affect job lock, but instead addressed selected provisions that were referenced in the summaries we reviewed.

Background

Economic theory generally suggests that worker mobility—workers' ability to move between jobs or in and out of the labor market—enables workers to obtain employment where they are most productive, which in turn promotes efficiencies in the labor market and provides benefits to the overall economy. Worker mobility can be affected by numerous factors, including wages offered and job availability, education and career interests, personal priorities and family situations, or the value that individuals place on benefits provided by different employers. Health coverage provided by a worker's employer can be one factor in such mobility decisions. "Job lock" is the term used to describe the concept of workers staying in jobs they might otherwise leave for fear of losing access to affordable health coverage. By definition, job lock, to the extent that it exists, is considered a negative phenomenon for an individual worker because it keeps them from making their preferred labor mobility choice, such as to change jobs, start a business, reduce work hours, or exit the labor force to stay home with children or retire.

A majority of Americans rely on private insurance for health care coverage. This includes employer-sponsored coverage as well as coverage purchased directly by individuals. In 2010, 55 percent of Americans received health coverage through employer-sponsored group health plans purchased or funded by their employers and an additional 10 percent of Americans received coverage through health coverage purchased directly from health issuers in the individual market.[7] Employers offer health coverage in part as a benefit to attract employees and most employees participate in employer-sponsored coverage when it is available.[8] Compared to large employers, small employers are less likely to offer their employees health coverage, citing the cost of coverage as a key reason.[9] Group and individual market coverage differ in several ways, including how premiums are calculated and whether application denials are permitted. For example, while premiums for employer-sponsored coverage are not permitted under federal law to vary for similarly situated employees based on health status,[10] premiums for individual health coverage in many states usually do depend on this factor and may thus vary substantially from individual to individual. Furthermore, employers generally subsidize the majority—

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[7]Another 31 percent of Americans received coverage through public programs like Medicare and Medicaid, and about 12 percent were uninsured. Percentages do not sum to 100 because estimates of coverage types are not mutually exclusive and individuals can have more than one type of coverage during the year. See U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2010* (Washington, D.C.: 2011).

[8]M.W. Stanton and M.K. Rutherford, *Employer-sponsored health insurance: trends in cost and access,* a report prepared for the Agency for Healthcare Research and Quality, Research in Action Issue 17, AHRQ Pub. No. 04-0085 (Rockville, Md.: 2004).

[9]In 2011, almost all (99 percent) of large employers (those with 200 or more workers) offered health coverage, compared to 59 percent of small employers (those with between 3 and 199 workers). In the small employer category, 48 percent of the smallest employers (those with between 3 and 9 workers) offered health coverage. See Kaiser Family Foundation and Health Research and Education Trust, *Employer Health Benefits 2011 Annual Survey* (Menlo Park, Calif., and Chicago, Ill.: 2011).

[10]29 U.S.C. § 1152(b); 42 U.S.C. § 300gg-1(b).

more than 70 percent on average in 2011—of the premium costs,[11] while those with individual market coverage are responsible for the full cost of premiums. As a result, the employee share of premiums for employer-sponsored coverage tends to be less costly than overall premiums for individual market coverage. Group and individual market coverage also differs with respect to application denials. Under federal law, individuals enrolling in group health plans are protected from being denied enrollment because of their health status.[12] However, currently in the individual market of many states, some individuals who apply for health coverage can have their applications denied for eligibility reasons or as a result of their health status, such as having a preexisting health condition.[13]

PPACA contains a number of provisions that may make health coverage more accessible and affordable, as well as encourage employers to offer health coverage. Regarding access, for example, PPACA reforms the individual health insurance market in 2014 by prohibiting issuers from denying coverage due to health status, and by establishing Affordable Insurance Exchanges in states through which individuals can compare and select standardized health coverage offered by participating issuers.[14] Regarding affordability, PPACA expands Medicaid eligibility, establishes tax credits and cost-sharing reductions for coverage in the new

[11]In 2011, employers contributed about 82 percent of the average annual premium ($5,429) for single coverage, i.e. coverage for the worker alone and 72 percent of the average annual premium ($15,073) for family coverage.. See Kaiser Family Foundation and Health Research and Education Trust, *Employer Health Benefits 2011 Annual Survey*, (Menlo Park, Calif., and Chicago, Ill.: 2011).

[12]See, e.g., 42 U.S.C. § 300gg-1(a). PPACA extends this prohibition to all individuals in the individual market beginning on or after January 1, 2014. Currently, issuers cannot deny coverage to children under 19 because of pre existing conditions. Pub. L. No. 111-142, §§ 1201(4), 10103(e), 124 Stat. 156, 895.

[13]According to the Kaiser Family Foundation, as of January 2011, Maine, Massachusetts, New Jersey, New York, and Vermont have guaranteed issue requirements that prohibit any insurer from denying coverage to an individual based on their current medical conditions or risk of poor health. An additional seven states have guaranteed issue requirements that only apply to certain insurance plans or during limited times of the year. Washington State requires insurers to guarantee issue coverage to certain individual market applicants based on a health status questionnaire. The remaining applicants are offered coverage through the state's high-risk pool, which provides coverage for individuals who—due to a preexisting health condition—have been denied enrollment or are charged higher premiums in the individual market.

[14]Pub. L. No. 111-148, §§ 1201(4), 1311(b), 124 Stat. 155, 173. Although PPACA requires each state to establish an “American Health Benefit Exchange,” CMS refers to such an Exchange as an Affordable Insurance Exchange. Accordingly, throughout this draft we refer to such Exchanges as Affordable Insurance Exchanges.

Affordable Insurance Exchanges, and prohibits issuers from charging higher premiums because of preexisting conditions or medical history.[15,16] PPACA also contains provisions that may encourage employers to offer health coverage, including (1) tax credits for small businesses beginning in 2010, (2) financial penalties for applicable large employers who do not offer minimum essential coverage and have at least one full-time employee receiving a premium tax credit in an Exchange plan starting in 2014, (3) the establishment of small business Exchanges in 2014 that small businesses can use to purchase health coverage, and (4) the requirement that individuals—subject to certain exceptions—obtain health coverage or pay a financial penalty. (See enc. III for more details on PPACA provisions that may affect job lock).

Results in Brief

Empirical research generally indicates that certain types of workers are more likely to remain in jobs they would otherwise leave in order to keep their employer-sponsored health care coverage, although research does not allow for a definitive answer on the prevalence or implications of this phenomenon for the overall labor market. The studies we reviewed generally found those workers who rely on their employer-sponsored health benefits are less likely to change jobs, leave the labor market, become self-employed, or retire when eligible, compared to those who have access to alternative sources of coverage. For example, one study found men with employer coverage were about 23 percent less likely to leave a job compared to those who also had access to coverage through a spouse.[17] In addition, some research found that this job lock phenomenon may be particularly acute for individuals with certain preexisting health conditions. However, because the study results and approaches used differ widely, it is difficult to quantify the overall prevalence of job lock based on those results. For example, the research examines a wide range of different populations and uses various definitions of job lock. Regarding labor market impact, the research we reviewed provides little empirical basis for assessing the aggregate labor market implications of job lock. This may not be surprising given the difficulty of designing research to address the variant ways job lock can affect different populations and account for the direct and indirect ways job lock could affect the labor market and economy.

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[15]Between 2010 and 2013, PPACA provides states with an option to expand Medicaid eligibility to certain individuals with incomes of up to 133 percent of the federal poverty level, and in 2014 the expansion of Medicaid eligibility becomes required. Pub. L. No. 111-148, §§ 2001(a), 10201(b), 124 Stat. 271, 274, 918. It also provides, in 2014, for tax credits and cost-sharing reductions to reduce premium and out-of-pocket costs for individuals enrolled in Exchange plans. Pub. L. No. 111-148, §§ 1401, 1402, 1412, 124 Stat. 213, 220, 231.

[16]In 2014, PPACA will require that premiums for health coverage in the individual and small group markets be based on rules that will allow premiums to vary based on only age, whether coverage is provided for an individual or family, geography, and tobacco usage. Pub. L. No. 111-148, § 1201(4), 124 Stat. 155. Under these rules, considered a form of adjusted community rating, health coverage issuers will not be permitted to vary premiums based on the health status of applicants.

[17]Scott J. Adams, "Employer-Provided Health Insurance and Job Change," *Contemporary Economic Policy, vol.* 22, no. 3 (July 2004): 357-369.

The experts we interviewed generally agreed that expanded access to health coverage under PPACA may help mitigate job lock, but had differing views or were less certain about other possible effects of the law on job lock. They generally agreed that to the extent that PPACA expands access to health coverage for certain individuals, it may help mitigate job lock. This access may help mitigate job lock for individuals who leave employer-sponsored coverage and seek coverage in the individual market—particularly for those with preexisting health conditions. Many experts cited specific PPACA provisions related to expanded access that had potential to mitigate job lock, such as select PPACA insurance market reforms which will require health plans offering group and individual coverage to accept applicants regardless of health status and the establishment of Affordable Insurance Exchanges. Regarding other possible effects of the law, experts generally agreed that PPACA's impact on premiums and employer willingness to offer coverage had job lock implications, but were less certain of or had differing views about whether PPACA would decrease premiums or encourage more employers to offer coverage, and thus were less certain about their likely impact on job lock.

Research Suggests Workers Are More Likely to Stay in Jobs Due to Their Employer-Sponsored Health Coverage, yet Prevalence and Labor Market Impact Are Uncertain

Employer-Sponsored Health Coverage Can Influence Workers to Remain in Jobs They Might Otherwise Leave

Studies published in the last 10 years generally indicate that employer-sponsored coverage can influence certain workers to remain in jobs they might otherwise leave. Of the 31 studies we reviewed, 29 presented evidence consistent with job-lock.[18] While their estimates of job lock varied, studies generally found that workers with employer-sponsored coverage are less likely to change jobs, become self-employed, exit the labor market or retire than workers who are not dependent on their employer for coverage (see enc. I for key findings from the studies we reviewed).[19] Workers not dependent upon their employment for coverage would include those with coverage through a spouse, or access to public insurance or retiree health coverage. Multiple studies found married individuals who relied on their own employer-sponsored health coverage were less likely to leave a job compared to those who had alternative access to health care through their spouse. For example, one study found men with employer coverage were about 23 percent less likely to leave a job compared to those who also had access to coverage through a spouse.[20] Other studies found workers without access to public coverage were less likely to leave a job than those who had such coverage. For instance, one study

[18]The two other studies presented evidence that differences in mobility based on employer-sponsored coverage could be the result of other factors, such as the positive effects of health coverage on health status.

[19]A 2002 review of the literature published in the preceding decade found that the literature from that decade also generally indicated that heath coverage can influence workers to remain in jobs they might otherwise leave. See Jonathan Gruber and Brigitte C. Madrian, *Health Insurance, Labor Supply, and Job Mobility: A Critical Review of the Literature*, Working Paper 8817, National Bureau of Economic Research (2002).

[20]Adams, "Employer-Provided Health Insurance and Job Change."

found that low-income fathers with employer-sponsored coverage were 5 to 6 percent less likely to leave their job before their children became eligible for public coverage under the State Children's Health Insurance Program (SCHIP). [21] Finally, several studies also found older workers nearing retirement age were less likely to retire before the age of 65 if they lacked retiree health coverage.[22] For example, one study found workers who had retiree health benefits were 29 to 55 percent more likely to retire than those who did not.[23]

In addition, a subset of the research looked at job lock among workers with health conditions. These studies consistently found that after a health diagnosis, workers with employer-sponsored coverage were less likely to leave a job or reduce their hours compared to workers who were not reliant on their employer for health coverage. One study found with a newly diagnosed illness, men with employer-sponsored coverage had a 20 percent higher probability of staying in a job compared to men who have coverage through a spouse.[24] Another found employer coverage reduced the propensity of individuals with chronic illness to quit by 41 percent for men and 39 percent for women compared to those who do not rely on their employer for coverage.[25] Findings from a few studies also suggest that job lock may be more acute for people with health conditions. For example, one study found that while workers with employer-sponsored health coverage were less likely than those without employer coverage to leave the labor force, reduce hours, or change jobs, these differences were particularly striking for cancer survivors.[26]

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[21]Cynthia Bansak and Steven Raphael, "The State Children's Health Insurance Program and Job Mobility: Identifying Job Lock Among Working Parents in Near-Poor Households," *Industrial and Labor Relations Review*, vol. 61, no.4 (July 2008). SCHIP was established pursuant to federal law in 1997 and offers health insurance for children in low-income families that do not qualify for Medicaid. *See*, Balanced Budget Act of 1997, Pub. L. No. 105-33, § 4901(a), 111 Stat. 251, 552.

[22]At age 65, individuals become eligible for Medicare. If workers retire before 65 and do not have access to retiree health insurance, they may lack or have greater difficulty obtaining insurance between the age of retirement and 65.

[23]James Marton and Stephen A. Woodbury, *Retiree Health Benefit Coverage and Retirement*, The Levy Economics Institute of Bard College Working Paper No. 470 (August 2006).

[24]Cathy J. Bradley, David Neumark, and Meryl I. Motika, *The Effects of Health Shocks on Employment and Health Insurance: The Role of Employer-Provided Health Insurance*, National Bureau of Economic Research Working Paper 17223 (2011).

[25]Kevin T. Stroupe, Eleanor D. Kinney, and Thomas J. J. Kniesner, "Chronic Illness and Health Insurance-related Job Lock," *Journal of Policy Analysis and Management*, vol. 20, no. 3 (2001): 525-544.

[26]K. Tunceli, P.F. Short, J.R. Moran, and O. Tunceli, "Cancer Survivorship, Health Insurance, and Employment Transitions among Older Workers," *Inquiry*, 46 (2009): 17-42.

The Overall Prevalence and Labor Market Impact of Workers Staying in Jobs Due to the Employer-Sponsored Health Coverage Is Unclear Due to a Variety of Factors

While the research may be helpful in confirming the presence of job lock, it is less helpful in illustrating the overall prevalence or labor market impact of job lock. Because the study results and approaches used differ widely, it is difficult to quantify the overall prevalence of job lock based on those results. For example, even though the studies controlled for key factors that could influence workers' decisions regarding whether to stay or leave a job, the variation in the job lock estimates reported in the individual studies indicate that such decisions will differ depending on the characteristics of the population studied. Such differences make it difficult to estimate how job lock would manifest itself on an aggregate level. Additionally, the differences in approaches used mean the findings may not be comparable or generalizable, and therefore do not lend themselves to definitive conclusions about the overall prevalence of job lock. For example, the studies use several different national datasets, as well as city-based datasets, or surveys conducted to collect specific data.[27] Likewise, the study populations vary widely, ranging from women newly diagnosed with breast cancer, to low-income working fathers, to U.S. taxpayers. Furthermore, studies use various definitions and variables to measure the job lock phenomenon, such as job tenure or job separation. Yet others use a change in state or federal law, such as health care reforms or public assistance programs, as an indicator of alternative health care coverage to measure the existence of job lock. Such differences in approaches across the studies we reviewed may explain the wide variation in the key findings and estimates identified by these studies (as presented in enc. I).

Secondly, because the studies draw on data from different decades, spanning from the 1980s to 2008, it is not clear the extent to which their findings reflect how legislative or economic changes during this time span may have affected the prevalence of job lock. On the one hand, certain events may have reduced job lock. For example, the Health Insurance Portability and Accountability Act of 1996[28] set new minimum standards for portability of health coverage and may have increased workers' willingness to change jobs by prohibiting employers from excluding eligible employees from participation in the health plan and by restricting the ability to impose waiting periods for coverage of preexisting health conditions. Additionally, the decline in employer-sponsored health coverage over time may have weakened the link between employment and health benefits for some individuals, thereby reducing workers' hesitance to leave their jobs. On the other hand, other events may have led to an increased incidence of job lock. For example, the dramatic increases in the cost of health care coverage over the last decade may have made workers less willing to leave jobs that provide coverage. In general, economic downturns may make it harder to distinguish the impact of the provision of health coverage from other factors that keep people in their jobs, such as fewer available jobs and the need to provide income in a family where a spouse has lost their job.

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[27]As shown in enc. I, the datasets vary widely from the Current Population Survey, a nationwide survey of 60,000 households conducted by the Bureau of the Census to gather information on labor force characteristics of the U.S. population, to a registry of individuals diagnosed with cancer in the Detroit metropolitan area.

[28]Pub. L. No. 104-191, 110 Stat. 1936.

Finally, while economic theory generally suggests that reduced labor market mobility (such as that caused by job lock) can decrease potential gains in productivity and income, and adversely affect worker satisfaction,[29] the research we reviewed provides little empirical basis for assessing the aggregate labor market impact of job lock.[30] This may not be surprising given the difficulty of designing research to address the variant ways job lock can affect different populations and account for the direct and indirect ways job lock could affect the labor market and economy. A few of the studies, while not generalizable, provided a glimpse of some of the ways in which job lock can directly influence the labor market. For instance, one study found that men with family health problems and employer coverage, but no spousal coverage, were one-third less likely to start a business compared to all men with employer coverage in the study sample.[31] Another study projected that labor force participation would be greater (74.5 percent) for men aged 55 to 59 without retiree coverage than for men with retiree coverage (65.8 percent).[32] However, these studies did not attempt to explore the more indirect or aggregate impact of job lock on the labor market, such as the effect of these actions on job growth or productivity.

Experts Generally Agreed That Expanded Access to Health Coverage under PPACA May Mitigate Job Lock, but Had Differing Views or Were Less Certain about Other Possible Effects of the Law on Job Lock

Expanded Access to Health Coverage for Workers with Preexisting Health Conditions under PPACA Could Help Mitigate Job Lock

The experts we interviewed generally agreed that to the extent PPACA expands access to health coverage for certain individuals, it may help mitigate job lock.[33] In 2014, PPACA will provide broad access to individual market coverage at premium rates that may not vary based on the health status of an applicant. This access may help mitigate job lock for workers leaving their employer-sponsored coverage and seeking individual market coverage—particularly those with a preexisting health condition. For example, older workers with preexisting health conditions may choose

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[29]Alan C. Monheit and Philip F. Cooper, "Health Insurance and Job Mobility: Theory and Evidence," *Industrial and Labor Relations Review*, vol. 48, no. 1 (October 1994).

[30]While we did not find any empirical studies that have estimated the overall implications of job lock on the national economy, we found two estimates of the aggregate impact of job lock on the economy using computations based on simplifying assumptions that, if changed, could indicate a different impact of job lock. One of these analyses in 2002 concluded that the cost of job lock to the economy was less than 0.1 percent of gross domestic product. See Jonathan Gruber and Brigitte C. Madrian, *Health Insurance, Labor Supply, and Job Mobility: A Critical Review of the Literature*, Working Paper 8817, National Bureau of Economic Research (2002). The other piece found that the cost was about 1 percent of wages and about 0.2 percent of GDP in 2009. See Executive Office of the President, Council of Economic Advisers, *The Economic Case for Health Care Reform* (June 2009).

[31]Robert W. Fairlie, Kanika Kapur, and Susan Gates, "Is Employer-Based Health Insurance a Barrier to Entrepreneurship?" *Journal of Health Economics* ,30 (2011): 146-162.

[32]David M. Blau and Donna B. Gilleskie, "Retiree Health Insurance and Labor Force Behavior of Older Men in the 1990s," *The Review of Economics and Statistics,* vol. 83, no.1 (February 2001): 64-80.

[33]See enc. III for additional information about specific PPACA provisions.

to retire early and obtain coverage through an individual market health plan,[34] or employed individuals with a preexisting condition may choose to start a business and thus need to obtain coverage from the individual market. Currently, such workers may remain in a job due to fear of relying on the individual insurance market, where they could be subject to application denials or higher premiums in certain circumstances.

Many experts cited specific provisions of PPACA as having potential to contribute to this job lock outcome. These include select PPACA insurance market reforms, to be fully implemented in 2014, which will require health plans offering group and individual coverage to accept all applicants regardless of health status and will prohibit these health plans from charging higher premiums because of preexisting conditions or medical history. Another provision that was cited as having potential to mitigate job lock is the establishment of Affordable Insurance Exchanges through which eligible individuals and small employers can compare and select coverage among multiple competing health plans.

Uncertain or Varied Effects of PPACA on Premiums and Employer-Sponsored Coverage Suggest an Uncertain Effect on Job Lock

The experts we interviewed generally agreed that the affordability of premiums for health coverage could have job lock implications, but cited uncertain or mixed effects of PPACA on premiums, and thus on job lock. Coverage available from the individual market is generally more expensive than employee contributions to employer-sponsored coverage and may be less comprehensive than coverage available from an employer, and this may cause job lock for some individuals.[35] Some experts said some provisions of PPACA may reduce premiums or other out-of-pocket costs for these individuals, while others will affect different people differently, and still other provisions may increase costs. For example:

- Premium tax credits and cost-sharing reductions available under PPACA may reduce premium and other health care costs in the individual market for some low-wage individuals.[36]

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[34]Congressional Budget Office, *The Budget and Economic Outlook: An Update* (August 2010).

[35]Employers that offer health coverage typically pay a large share of their employees' health coverage premiums. This employer contribution generally makes employer-sponsored coverage more affordable than coverage obtained in the individual market, where individuals pay the full premium amount themselves, regardless of health status. Under PPACA, individuals that obtain coverage in the individual insurance market (including in Exchanges) will continue to pay the full cost of their premiums unless they qualify for a premium credit. The Congressional Budget Office estimates that in 2021, 20 million of the 24 million enrollees in Affordable Insurance Exchanges will be receiving premium tax credits. See Congressional Budget Office, *Analysis of the Major Health Care Legislation Enacted in March 2010* (Washington, D.C.: March 3, 2011). However, PPACA prohibits health plans and issuers offering group or individual health insurance coverage from denying coverage or charging higher premiums because of preexisting conditions or medical history.

[36]Some experts also noted that the PPACA provider payment reform provisions intended to reduce long-term health care cost growth, such as the Center for Medicare and Medicaid Innovation and the Independent Payment Advisory Board, have the potential to reduce premium costs over the long term.

- Expanded Medicaid eligibility under PPACA may reduce the costs of health coverage for those who are eligible.
- Adjusted community rating requirements in the individual and small group markets under PPACA are likely to have different effects for different aged individuals. Notably, younger individuals may pay higher premiums, while older individuals may pay less than they otherwise would have.
- Other PPACA provisions—such as the essential health benefits package requirements that will specify a minimum, standardized level of benefits to be included in all qualified health plans—could result in an increase in premiums.[37]

The experts we interviewed generally agreed that the availability of employer-sponsored health coverage could have job lock implications, but were uncertain or had differing views on the effect PPACA may have on employers' willingness to offer coverage and on job lock. Some experts noted that to the extent PPACA encourages more employers to offer health coverage, job lock may be mitigated because fewer workers would face the possibility of moving to an employer that does not offer health coverage. However, experts had a wide range of views about what effect PPACA would have on the extent to which employers offer coverage. Experts' views on specific PPACA provisions that may encourage employers to offer health coverage illustrate this uncertainty. For example, some experts said the following:

- Small business tax credits may provide a financial incentive for some employers to offer coverage; however, they are limited in value and temporary. In addition, the availability of subsidized coverage for eligible individuals in the Exchanges could encourage some small employers to stop offering coverage.
- The impact of the PPACA penalty on certain employers that do not offer health coverage may be limited because most large employers currently offer coverage, and those that do not may find the penalties to be less costly than providing coverage. Other large employers that already offer coverage may choose to discontinue it and pay the penalty, especially if they find it less burdensome administratively to drop coverage or less costly to pay the penalty.

Experts also generally agreed that, if instead, PPACA reduces the likelihood that employers offer health coverage, job lock could also be mitigated because employment and health coverage would no longer be linked for certain workers. For example, workers whose current employers choose to stop offering coverage after PPACA implementation may be less job locked because retaining health coverage will not be a factor influencing these workers to remain in their current jobs.

See enclosure IV for additional details on expert views on the likelihood that PPACA will mitigate job lock.

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[37]The PPACA essential benefits package may ensure that health coverage available in the individual and small group markets will have the same scope of benefits as available under a typical employer plan. Those with individual market coverage have generally paid a higher share of their health costs out of pocket than those with employer-sponsored group coverage. Therefore, according to some experts, although more comprehensive benefits under the essential health benefits requirement may increase premiums, it is also possible that the requirement could result in lower out-of-pocket costs for some.

Agency Comments

We provided a draft of this letter to the Departments of Health and Human Services and Labor for review and comment. Each agency provided technical comments which we incorporated as appropriate.

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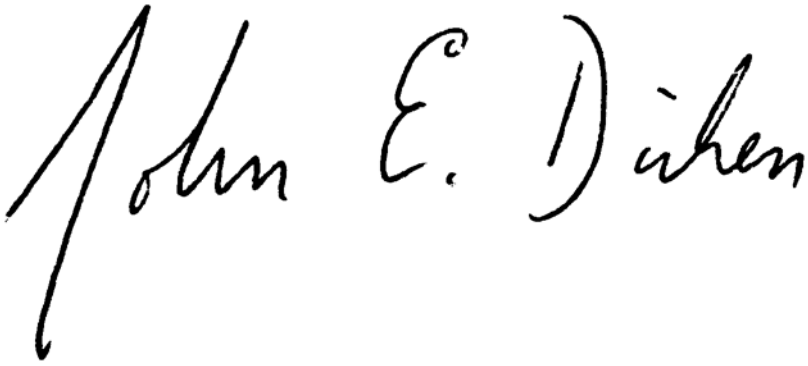
We are sending copies of this report to the Secretary of Health and Human Services, the Secretary of Labor, and appropriate congressional committees. In addition, the report is available at no charge on the GAO website at http://www.gao.gov. If you or your staffs have any questions about this report, please contact Andrew Sherrill at (202) 512-7215 or sherrilla@gao.gov or John E. Dicken at (202) 512-7114 or dickenj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made key contributions to this report are listed in enclosure V.

Andrew Sherrill
Director, Education, Workforce, and Income Security



John E. Dicken
Director, Health Care

Literature Examining Job Lock[38]

Table 1: Studies Examining Influence of Employer Health Coverage on Decision to Stay or Change Jobs

Study	Dataset/ years studied	Population studied	Findings consistent with job lock?	Key findings
Adams, Scott J. "Employer-Provided Health Insurance and Job Change." *Contemporary Economic Policy,* vol. 22, no. 3 (July 2004): 357-369.	March Current Population Survey (CPS); 1988-2000	Married men, aged 25-55	Yes	Study found evidence that employer-sponsored health coverage lowers mobility—specifically, a reduction in mobility of 22.5 percent for those without alternative coverage.
Bansak, Cynthia and Steven Raphael. "The State Children's Health Insurance Program and Job Mobility: Identifying Job Lock Among Working Parents in Near-Poor Households." *Industrial and Labor Relations Review,* vol. 61, no.4 (July 2008).	Survey of Income and Program Participation (SIPP); 1996 and 2001	Working fathers	Yes	Study found that after the introduction of the State Children's Health Insurance Program (SCHIP), married men who had eligible children (because they were low-income) and whose wives did not have coverage from their own employers were 5-6 percent more likely to separate from their current employer compared to before the introduction of SCHIP.
Berger, Mark C., Dan A. Black, and Frank A. Scott. "Is There Job Lock? Evidence from the Pre-HIPAA Era." *Southern Economic Journal,* vol. 70, no.4 (2004): 953-976.	SIPP; 1987 and 1990	All SIPP respondents	No	Study found no statistically significant evidence of job lock, including no statistically significant increases in employment duration or decreases in wages for those with employer-sponsored health coverage and with health problems in the family as, according to the study, would be expected if job lock was pervasive.
Dey, Matthew S. and Christopher J. Flinn. "An Equilibrium Model of Health Insurance Provision and Wage Determination." *Econometrica,* vol. 73, no. 2 (March 2005): 571-627.	SIPP; 1996	White males between 25 and 54 with a high school education	No	Study found employer-sponsored health coverage did not lead to serious inefficiencies in job mobility. According to the study, existence of job lock in other studies could be because people without insurance are more likely to experience negative health events and leave employment.
Gilleskie, Donna B. and Byron F. Lutz. "The Impact of Employer-Provided Health Insurance on Dynamic Employment Transitions." *The Journal of Human Resources,* vol.37, no.1 (Winter 2002): 129-162.	NLSY79; 1989-1993	Males aged 24-35	Yes	Study found evidence that employer-sponsored health coverage reduces mobility by 10 to 15 percent for young unmarried males, consistent with job lock. No evidence among young married males.
Kapur, Kanika. "Labor Market Implications of State Small Group Health Insurance Reform." *Public Finance Review,* vol. 31, no. 6	March CPS; 1991-99	Individuals aged 18-64, who have health insurance	Yes	Study found some evidence suggesting that state ratings reforms, which prohibits setting premium based on health status, increased job mobility for individuals with family health issues,

[38]We have defined job lock as a phenomenon that occurs when workers stay in jobs they might otherwise leave out of fear of losing their health care coverage. The studies included in this review are limited to those with empirically-based findings and published from 2001 to 2011 in a journal with a peer-review process or by an independent research organization.

(November 2003): 571-600.				but decreased job mobility for older workers. Study suggests that state portability reforms increased job mobility. However, overall results suggest that the effects of the full package of reforms are likely to be small.
Kim, Jaewhan and Peter Philips. "Health Insurance and Worker Retention in the Construction Industry." *Journal of Labor Research*, vol. 31, no.1 (February 2010): 20-38.	SIPP; 1996 and 2001	Union and nonunion full-time construction workers	Yes	Study found union health coverage that was portable in the construction industry increased the probability of worker retention in the industry between 30 and 41 percent compared to 13-18 percent for nonunion, nonportable employer-sponsored health coverage. Portable health coverage in the construction industry results in industry lock but not job lock.
Okunade, Albert A. and Phanindra V. Wunnava. "Availability of Health Insurance and Gender Differences in 'Job-Lock' Behavior; Evidence From NLSY." *Journal of Forensic Economics,* vol. 15, no.2 (2002): 195-204.	NLSY79; 1996	Whites; males and females who worked for pay in the nonagricul-tural, private sector	Yes	Study found women with employer-sponsored health coverage had almost 66 more weeks of tenure than women without. Men with employer-sponsored coverage had about 51.7 more weeks of tenure than men without.
Olson, Craig A. "Do Workers Accept Lower Wages in Exchange for Health Benefits?" *Journal of Labor Economics,* vol. 20, no.2 (April 2002): S91-S114.	March-June CPS; 1990-93	Households where husbands and wives both work, and wives work full-time	Yes	Study found wives with their own employer-sponsored health coverage accepted a wage about 20 percent lower than what they would have received working in a job without benefits.
Rashad,Inas and Eric Sarpong. "Employer-provided Health Insurance and the Incidence of Job Lock: A Literature Review and Empirical Test." *Expert Review of Pharmacoeconomics and Outcomes Research,* vol. 8, no. 6 (2008): 583-591.	National Health Interview Survey (NHIS); 1997-2003/ NLSY79;1989 -2000	Single, employed individuals with some form of health insurance	Yes	Study found individuals with employer-sponsored health coverage stayed on the job 16 percent longer and were 60 percent less likely to voluntarily leave their jobs than those with coverage that was not provided by their employers.
Sanz-de-Galdeano, Anna. "Job-Lock and Public Policy: Clinton's Second Mandate." *Industrial and Labor Relations Review,* vol. 59, no. 3 (2006).	SIPP; 1996 Panel	SIPP respondents aged 25-55, who were employed and not in military, agriculture, or construction	Yes	Study found the Health Insurance Portability and Accountability Act of 1996 (HIPAA) did not significantly reduce job lock. HIPAA increased job lock for single men (3.6 percent); slightly reduced job lock between 2.7 percent (single women) and 6.6 percent (married women).

Source: GAO.

Table 2: Studies Examining Influence of Employer Health Coverage on Decision to Become Self-Employed

Study	Dataset/ years studied	Population studied	Findings consistent with job lock?	Key findings
DeCicca, Philip. *Health Insurance Availability and Entrepreneurship.* Upjohn Institute Working Paper 10-167 (April 2010).	Behavioral Risk Factor Surveillance System; 1991-1996	Survey respondents, aged 25-59	Yes	Study found New Jersey's Individual Health Coverage Program (implemented in 1993) increased self-employment relative to four comparison groups by roughly 14-20 percent. For those with marital, smoking, or obesity issues, estimates are at the higher range of this group.
Fairlie, Robert W., Kanika Kapur, and Susan Gates. "Is Employer-Based Health Insurance a Barrier to Entrepreneurship?" *Journal of Health Economics,* 30 (2011): 146-162.	March CPS; 1996-2006	Wage and salary workers, aged 25-64 and 55-75	Yes	Study found men with family health problems and employer-sponsored health coverage (and without alternative spousal coverage) are 1 percentage point more likely to stay in their current job rather than create a small business compared to all men with employer coverage in the study sample, for whom the business creation rate is 3 percent per year. In addition, business ownership rates increase from just under age 65 (pre-Medicare eligible) to just over age 65 (post-Medicare eligible), whereas it found no change in business ownership rates from just before to just after for others aged 55-75.
Heim, Bradley T. and Ithai Z. Lurie. "The Effect of Self-Employed Health Insurance Subsidies on Self-Employment." *Journal of Public Economics,* 94 (2010): 995-1007.	Six year panel of tax return data; 1999-2004	Taxpayers	Yes	Study found the increase in the deductibility of health insurance premiums (due to a change in tax policy) for self-employed workers increased self-employment by 9.1 to 14.9 percent.
Wellington, Alison J. "Health Insurance Coverage and Entrepreneurship." *Contemporary Economic Policy,* vol. 19, no. 4 (2001): 465-478.	March CPS; 1993	Employed married white husbands and wives, aged 25-62	Yes	Study suggests having a guaranteed alternative source of health coverage increased the probability of self-employment between 2.3 and 4.4 percentage points for husbands and 1.2 and 4.6 percentage points for wives. Findings suggest spousal (or universal) coverage could increase the percentage of self-employed in the workforce by 2 to 3.5 percentage points.

Source: GAO.

Table 3: Studies Examining Influence of Employer Health Coverage on Decision to Reduce Work Hours or Exit the Workforce

Study	Dataset/ years studied	Population studied	Findings consistent with job lock?	Key findings
Bradley, Cathy J ., David Neumark, Zhehui Luo, and Heather L. Bednarek. "Employment-contingent Health Insurance, Illness, and Labor Supply of women: Evidence From Married Women with Breast Cancer." *Health Economics,* 16 (2007): 719-737.	Metropolitan Detroit Cancer Surveillance System; 2000-2002	Women newly diagnosed with breast cancer in Detroit , aged 30-64	Yes	Study found that, after diagnosis, women who received health coverage through a spouse were less likely to continue working compared to women who were dependent on their own employer-sponsored health coverage.
Bradley, Cathy J., David Neumark, and Meryl I. Motika. *The Effects of Health Shocks on Employment and Health Insurance: The Role of Employer-Provided Health Insurance*. National Bureau of Economic Research Working Paper 17223 (2011).	Health and Retirement Study (HRS); 1996-2008	Individuals aged less than 64	Yes	Study found that with a new adverse health diagnosis (not involving hospitalization or self-reported health decline), men with employer-sponsored health coverage had a 20 percent higher probability of staying in a job compared to men who had coverage through a spouse.
Cebi, Merve. *Employer-Provided Health Insurance and Labor Supply of Married Women*. Upjohn Institute Working Paper No. 11-171 (2011).	NLSY79; 1989-2000; CPS; 2000	Married women, aged 25-64	Yes	Study found wives who were covered by their husband's employer-sponsored health coverage were less likely to work than those who were not. Among those married women who did work, those with spousal coverage worked less than those without.
Hamersma, Sarah and Matthew Kim. "The Effect of Parental Medicaid Expansions on Job Mobility." *Journal of Health Economics,* 28 (2009): 761-770.	SIPP; 1996-2001	Men and women, aged 20-54 who were not self-employed or receiving disability payments	Yes	Study found that expanding Medicaid eligibility reduced job lock for unmarried women. For every $100 of Medicaid threshold, the probability that an unmarried woman with employer-sponsored health coverage would quit her job increased by 0.1 percentage point, which is about 4 percent of the average quit rate of the study sample. The change in Medicaid threshhold did not affect quit rates for men.
Kapinos,Kandice A. "Changes in Spousal Health Insurance Coverage and Female Labor Supply Decisions." *Forum for Health Economics and Policy* (2009).	CPS; 1995-2005	Married women	Yes	Study found wives whose husbands had access to employer health coverage worked about 10 percent fewer hours a week than women without spousal coverage, and such wives were also less likely to work at all.
Murasko, Jason E. "Married Women's Labor Supply and Spousal Health Insurance Coverage in the United States: Results from Panel Data." *Journal of Family and Economic Issues* (2008): 391-406.	Medical Expenditure Panel Survey (MEPS); 1996-2004	Married women, aged 25-54	Yes	Study found married women worked about 1 hour less per week or were 7.9 percent less likely to work when their husbands had health coverage.

Perry, Cynthia D., Genevieve M. Kenney, and Bogdan Tereshchenko. *Disability Onset Among Working Parents: Earnings Drops, Compensating Income Sources, and Health Insurance Coverage*. Low-Income Working Families Paper 11. The Urban Institute (2009).	SIPP; 1996 and 2001	Employed individuals aged 25-58 living with a child under 18	Yes	Study found persons with employer-sponsored health coverage reduced their work hours by about 2.7 hours a week at time of disability onset. This compared with a reduction of 3.6 hours for persons with other private coverage and over 8 hours for persons covered by public coverage or without coverage.
Royalty, Anne Beeson; and Jean M. Abraham. "Health Insurance and Labor Market Outcomes: Joint Decision-Making within Households." *Journal of Public Economics,* 90 (2006): 1561-1577.	MEPS; 1996-1998	Married households aged 19-64, in which at least one is employed outside the home	Yes	Study found workers whose spouses had employer-sponsored health coverage were less likely to have their own employer-sponsored health coverage and were also less likely to work full-time.
Stroupe, Kevin T, Eleanor D. Kinney, and Thomas J. J. Kniesner. "Chronic Illness and Health Insurance-related Job Lock." *Journal of Policy Analysis and Management*, vol. 20 no. 3 (2001): 525-544.	Phone interviews and follow-up mailed questionnaires; 1994	Employed individuals with chronic medical conditions in the family in Indiana	Yes	Study found having employer-sponsored health coverage reduced the propensity of individuals facing a chronic illness to quit work by 41 percent for men and 39 percent for women compared to workers who did not rely on their employer for coverage.
Tunceli, K., P.F. Short, J.R. Moran, and O. Tunceli. "Cancer Survivorship, Health Insurance, and Employment Transitions among Older Workers." *Inquiry,* 46 (2009): 17-42.	Penn State Cancer Survivor Study and HRS; 1997-2002	Workers, aged 55-64	Yes	Study found individuals with employer-sponsored health coverage were less likely to leave the labor force, reduce hours, or change jobs compared to those without employer-sponsored health coverage. These differences were particularly striking for cancer survivors.

Source: GAO.

Table 4: Studies Examining Influence of Employer Health Coverage on Decision to Retire

Study	Dataset/ years studied	Population studied	Findings consistent with job lock?	Key findings
Blau, David M. and Donna B. Gilleskie. "Retiree Health Insurance and Labor Force Behavior of Older Men in the 1990s." *The Review of Economics and Statistics,* vol. 83, no.1 (February 2001): 64-80.	HRS; 1992 and 1994	Men aged 50-61 and their spouses	Yes	Study found the availability of retiree health coverage increases the exit rate from the labor force from 6.6 percent to 8.4 percent when the worker shares the cost with the employer, and from 6.9 percent to 11.2 percent if the employer pays the full cost. Study projected labor force participation for men aged 55-59 would be 74.5 percent without retiree health coverage and 65.8 percent with retiree health coverage, and for men aged 60-64, labor force participation would be 47.1 percent without and 35.2 percent with retiree health coverage. Authors state that other factors may have a role in these projections.
Boyle, Melissa A. and Joanna N. Lahey. "Health Insurance and the Labor Supply Decisions of Older Workers: Evidence from a U.S. Department of Veterans Affairs Expansion." *Journal of Public Economics,* 94 (2010): 467-478.	March CPS; 1992-2002	Male veterans and nonveterans, aged 55-64	Yes	Study found older workers were significantly more likely to decrease work after receiving access to non-employer-based health coverage—either becoming self-employed, working part-time or exiting the labor market, such as retiring. Study also suggests that job lock is stronger for more educated individuals.
French, Eric and John Bailey Jones. "The Effects of Health Insurance and Self-Insurance on Retirement Behavior." *Econometrica,* vol. 79, no. 3 (May 2011): 693-732.	HRS; data for every 2 years from 1992-2006	Male heads of households, aged 57-61 in 1992	Yes	Study found the rate of job exit at 62 would be 8.5 percentage points higher if all workers had health coverage that was not tied to working (retiree health coverage) before Medicare becomes available.
Marton, James and Stephen A. Woodbury. *Retiree Health Benefit Coverage and Retirement*. The Levy Economics Institute of Bard College Working Paper No. 470 (August 2006).	HRS; 1992-94, 1994-96	Men born from 1931-41 who were working full-time in 1992	Yes	Study found workers with retiree health coverage were 29 to 55 percent more likely to retire than those without.
Marton, James, and Stephen A Woodbury. *The Influence of Retiree Health Benefits on Retirement Patterns*. Upjohn Institute Working Paper No. 10-163 (February 2010).	HRS; 1992-2004	Older male workers working full-time	Yes	Study found retiree health coverage increased the probability of retirement for men aged 60-64 by 5-7.5 percentage points. There was no effect for men aged 50-56 and modest to no effect for men aged 57-59.
Zissimopoulos, Julie M., Nicole Maestas, and Lynn A. Karoly. *The Effect of Retirement Incentives on Retirement Behavior: Evidence From the Self-employed in the United States and England*. RAND Working Paper WR-528 (October 2007).	HRS and English Longitudinal Survey of Aging; 2002 and 2004	Workers aged 55 to 70 in 2002	Yes	Study found access to non-employer provided health coverage (or retiree benefits for wage workers) in the United States increased the percentage of workers exiting the labor force at all ages.

Source: GAO.

Experts Interviewed by GAO about the Ability of PPACA to Mitigate Job Lock

Health care reform stakeholder perspective	Organization
Researcher	American Enterprise Institute for Public Policy Research
	The Commonwealth Fund
	Employee Benefit Research Institute
	Henry J. Kaiser Family Foundation
	Heritage Foundation
	National Bureau of Economic Research
	Urban Institute
Consumer	Families USA
Federal government	Congressional Research Service
	Department of Health and Human Services; Center for Consumer Information and Insurance Oversight and Office of the Assistant Secretary for Planning and Evaluation
	Department of Labor; Employee Benefit and Security Administration, Bureau of Labor Statistics
Insurer	America's Health Insurance Plans
	The Blue Cross and Blue Shield Association
State government	National Association of Insurance Commissioners
Unions	American Federation of Labor and Congress of Industrial Organizations (AFL–CIO)

Source: GAO.

Selected Patient Protection and Affordable Care Act Provisions That May Affect Job Lock

This enclosure summarizes and provides some context for selected Patient Protection and Affordable Care Act (PPACA) provisions that may affect job lock. We reviewed published summaries of the law[39] and obtained input from the Department of Health and Human Services and the Congressional Research Service to initially identify potential areas of impact of PPACA, how those potential areas of impact, if realized, could affect job lock, and the specific PPACA provisions most likely to influence job lock. [40] We then used this information as a basis for discussions with multiple experts that conduct research and analysis on health coverage and labor market issues, including organizations that represent key health care reform stakeholders and a range of perspectives. (See enc. II for a list of the experts we interviewed.) During these interviews, we solicited views on the potential of PPACA to affect job lock overall and the role specific provisions of the law may play. The goal of the interviews was to assess expert views on the potential of PPACA to affect job lock; we did not attempt to more generally assess the labor market or other economic implications of the law. The enclosure identifies three potential areas of impact of PPACA, and the specific PPACA provisions under each potential area of impact most likely to influence job lock.[41]

[39]See for example, Congressional Research Service, *Private Health Insurance Provisions in the Patient Protection and Affordable Care Act,* R40942 (Washington, D.C.: Sept. 21, 2010).

[40]We did not attempt to independently identify or analyze all PPACA provisions that may potentially affect job lock, but instead addressed selected provisions that were referenced in the summaries we reviewed.

[41]This assessment is based on experts' predictions regarding the likelihood that various PPACA provisions may affect job lock. Given the somewhat speculative nature of this endeavor, this list may not be exhaustive, and it is possible that as PPACA is fully implemented, other provisions may also have an impact on job lock.

Effective date	Area of Potential Impact 1: Expand Access to Coverage, Particularly for Individuals with Preexisting Health Conditions
	Specific PPACA provisions most directly relevant to job lock, based on their potential impact
2010	Establish a temporary, federally funded high-risk insurance pool program (the Pre-existing Condition Insurance Plan) for individuals who have been uninsured for more than 6 months and have a preexisting condition. Program ends on January 1, 2014. Patient Protection and Affordable Care Act, Pub. L. No. 111-148, § 1101, 124 Stat. 119, 141 (2010).
	Prohibit health plans and issuers offering group or individual health insurance coverage from imposing any preexisting condition exclusions for children under age 19.[a] This prohibition will be extended to adults in 2014. Pub. L. No. 111-148, §§ 1201, 10103(e), 124 Stat. 154, 895.
	Require group health plans and individual market plans offering dependent coverage to continue to make such coverage available to unmarried children until they turn 26.[b] Pub. L. No. 111-148, § 1001(5), 124 Stat. 130.
2014	Prohibit health plans and issuers offering group or individual health insurance coverage from denying coverage or charging higher premiums because of preexisting conditions or medical history or from denying availability of coverage. Pub. L. No. 111-148, § 1201, 124 Stat. 154-156.
	Prohibit health plans and issuers offering group or individual health insurance coverage from imposing waiting periods (the time period that must pass before an individual is eligible to use health benefits) greater than 90 days. Pub. L. No. 111-148, § 1201, 124 Stat. 154, 161.
	Establish Affordable Insurance Exchanges (Exchanges) at the state level through which eligible individuals can compare, select and purchase health coverage amongst participating health plans. Individuals may enroll in an Exchange health plan if they are a lawful resident of the state that established an Exchange and are not incarcerated. Pub. L. No. 111-148, §§ 1311, 1312(f), 124 Stat. 173, 183.

Effective date	Area of Potential Impact 2: Reduce Premiums or Out-of-Pocket Costs
	Specific PPACA provisions most directly relevant to job lock, based on their potential impact
2010	From April 1, 2010, through December 31, 2013, states will have the option to expand Medicaid eligibility to all non-pregnant individuals under 65 years of age with incomes of up to 133 percent of the federal poverty level through a state plan amendment. Starting in 2014, states participating in Medicaid will be required to expand Medicaid eligibility to include these individuals. Pub. L. No. 111-148, §§ 2001(a), 10201(b), 124 Stat. 271, 274, 918.
2011	Health insurers must generally spend at least 80 percent (for individual or small group market issuers) or 85 percent (for large group market issuers) of their premium revenues for the plan year on reimbursement for clinical services and health care quality improvement activities or be required to issue rebates to enrollees.[c] Pub. L. No. 111-148, §§ 1001(5), 10101(f), 124 Stat. 136, 885.
2014	Provide advanceable, refundable tax credits to lower premium costs for individuals and families making between 133 and 400 percent of the Federal Poverty Level enrolled in Exchange plans. Provide cost-sharing reductions for individuals and families making up to 400 percent of the Federal Poverty Level[d] to reduce out-of-pocket costs for deductibles, copayments, and other costs. Pub. L. No. 111-148, §§ 1401, 1402, 1412, 124 Stat. 213, 220, 231(as amended by Pub. L. No. 111-152, § 1001, 124 Stat. 1030).
	Require all non-grandfathered individual and small group market plans to offer an essential health benefits package—health insurance coverage that will cover specified benefits, will not exceed specified cost-sharing and deductible limits, and will not impose a deductible on specified preventive services.[e] Pub. L. No. 111-148, §§ 1201(4), 1302, 124 Stat. 161,163.
	Require that premiums for individual and small group health plans are based on rules that may allow premiums to vary based only on four specified factors: age, geography, tobacco use and whether coverage is provided for an individual or family.[f] Pub. L. No. 111-148, § 1201(4), 124 Stat. 155.

	Require most individuals to maintain minimum essential health insurance coverage or pay a tax penalty, referred to as the individual mandate. Minimum coverage includes specified government plans, an employer-sponsored plan, plans in the individual market, grandfathered health plans, or other coverage recognized by the Secretary.[g] Pub. L. No. 111-148, §§ 1501(b), 10106(b), 124 Stat. 244, 909.
	Examine alternative provider payment structures and methodologies under Medicare, Medicaid, and the Children's Health Insurance Program. Several provisions attempt to encourage payment reforms and innovations that would reduce health care costs under these programs.[h] *See, e.g.*, Pub. L. No. 111-148, §§ 3021, 3022, 3403, 10320, 124 Stat. 353, 389, 395, 489, 949.
Effective date	**Area of Potential Impact 3: Encourage Employers to Offer Health Coverage**
	Specific PPACA provisions most directly relevant to job lock, based on their potential impact
2010	Provide tax credits for eligible small businesses with fewer than 25 full-time equivalent employees and average annual wages below $50,000 (to be adjusted for cost-of-living after 2013). To be eligible for the tax credits, an employer must generally contribute at least 50 percent of the total monthly premium. From 2010 to 2013, a tax credit of up to 35 percent of the employer's contribution to premiums is available, based on the number of employees and average annual wages. In 2014, the available tax credit rises to up to 50 percent for eligible employers that purchase health insurance through state Exchanges. Beginning in 2014, the tax credit is limited to 2 consecutive tax years. Pub. L. No. 111-148, §§ 1421, 10105(e), 124 Stat. 237, 906.
2014	Impose financial penalties for applicable large employers[i] that do not offer minimum essential health insurance coverage to their full-time employees and have at least one full-time employee who has enrolled in a plan with respect to which an applicable premium tax credit or cost-sharing reduction is allowed or paid with respect to the employee. Pub. L. No. 111-148, § 1513, 124 Stat. 253.
	Impose financial penalties for applicable large employers that do offer minimum essential health insurance coverage to their full-time employees and one or more of their full-time employees has enrolled in a plan with respect to which an applicable premium tax credit or cost-sharing reduction is allowed or paid with respect to the employee. Pub. L. No. 111-148, § 1513, 124 Stat. 253.
	Award grants to states to establish health insurance Exchanges for small businesses (Small Business Health Options Program, or SHOP Exchange). The Exchanges will provide qualified small businesses with access to health insurers' qualified health plans and must be governmental agencies or nonprofit entities established by a state. Between 2014 and 2016, businesses with up to 100 employees may elect to make all full-time employees eligible for one or more qualified health plans offered through these Exchanges. Additionally, before 2016, states may elect to limit eligibility to businesses with up to 50 employees. In 2017, states can allow businesses with more than 100 employees to elect to make all full-time employees eligible for one or more qualified health plans in the large group market through these Exchanges. Pub. L. No. 111-148, §§ 1310, 1311, 1312, 124 Stat. 171, 173, 182.
	Require most individuals to maintain minimum essential health insurance coverage or pay a tax penalty, referred to as the individual mandate.[j] Pub. L. No. 111-148, §§ 1501(b), 10106(b), 124 Stat. 244, 909.

Source: GAO analysis of PPACA.

[a]Some health plan issuers sell "child only" policies, which are sold in the individual health insurance market to children under 19 years of age.
[b]According to the National Conference of State Legislatures, prior to the effective date of the PPACA dependent coverage provision, 37 states had extended the age that dependent children could receive coverage under their parents' health plans and most required that the children be unmarried and financially dependent on their parents. See National Conference of State Legislatures, *Dependent Health Coverage (State Implementation).*
[c]This is referred to as a medical loss ratio requirement.
[d]Cost sharing for individuals and families making 250 to 400 percent would be completely offset by a requirement to purchase a specified level of coverage in a qualified health plan, *See*, 76 Fed, Reg. 51202, 51209, 51228 (Aug. 17, 2011) (to be codified at 45 C.F.R. § 155.305(g)(1)(iii)).
[e]Specifying minimum levels of coverage may place upward pressure on premiums, but could limit exposure to out-of-pocket costs.
[f]Health status is not among the list of specified factors based upon which premiums may vary. This requirement is considered a form of adjusted community rating.
[g]Downward pressure on premiums may result if more healthy individuals are prompted to obtain health coverage.

[h]These include the Center for Medicare and Medicaid Innovation, the Shared Savings Program, the Independent Payment Advisory Board, and the Hospital Value-Based Purchasing Program. Payment models used in public programs are often adopted by private payers, and thus could encourage reductions in premiums and health care costs for employers and workers in the long term.
[i]PPACA defines an applicable large employer as an employer who employed an average of at least 50 full-time employees on business days during the preceding calendar year. 124 Stat. 254.
[j]The requirement that they have coverage may prompt employees to encourage employers to offer coverage.

Expert Views on the Likelihood That Selected Patient Protection and Affordable Care Act Provisions Will Mitigate Job Lock

This enclosure summarizes the views of experts we interviewed regarding the likelihood that selected PPACA provisions will mitigate job lock. The views relate to PPACA provisions that are organized into three potential areas of impact that, if realized, could mitigate job lock: expanding access to coverage; reducing premium or out-of-pocket costs; and encouraging employers to offer coverage. [42]

Expanded Access to Health Coverage for Workers with Preexisting Health Conditions under PPACA Could Mitigate Job Lock

The experts we interviewed generally agreed that to the extent PPACA expands access to health coverage options for workers with employer-sponsored coverage—particularly those with preexisting health conditions—job lock may be mitigated. Some experts emphasized the most significant expansion of coverage options for individuals with preexisting health conditions will likely be in the individual health insurance market, where plans will be required to accept applicants regardless of health status.

Expanding Access to Coverage, Particularly for Individuals with Preexisting Health Conditions

Many experts cited the following PPACA provisions as having potential to expand access to health coverage for individuals with preexisting health conditions.

- *Prohibitions on denying or excluding coverage for or charging higher premiums because of preexisting health conditions or medical history:* These PPACA provisions that reform the private insurance market—which would particularly help individuals moving from employer-sponsored group coverage to individual market coverage—have potential to help mitigate job lock. Unlike in the group and small group markets, health plan issuers in the individual markets of many states are currently permitted to decline applications for enrollment, meaning that individuals with preexisting health conditions may have difficulty accessing health coverage.[43]

[42]Additional information about the provisions discussed in this enclosure can be found in enc. III.

[43]According to the Kaiser Family Foundation, as of January 2011, Maine, Massachusetts, New Jersey, New York, and Vermont have guaranteed issue requirements that prohibit any insurer from denying coverage to an individual based on their current medical conditions or risk of poor health. An additional seven states have guaranteed issue requirements that only apply to certain insurance plans or during limited times of the year. Washington State requires insurers to guarantee issue coverage to certain individual market applicants based on a health status questionnaire. The remaining applicants are offered coverage through the state's high-risk pool, which provides coverage for individuals who—due to a preexisting health condition—have been denied enrollment or are charged higher premiums in the individual market.

- *Affordable Insurance Exchanges:* These Exchanges may expand access to coverage for individuals with preexisting health conditions and mitigate job lock. The Exchanges may provide eligible individuals with a simplified process to choose plans among the multiple options available and may help individuals move out of employer-sponsored coverage. The Exchanges will likely work best in conjunction with the other insurance market reforms discussed above.

The experts we interviewed were less certain about or had mixed views of the potential for other PPACA provisions to expand access for workers with preexisting health conditions and thus help mitigate job lock.

- *Pre-existing condition insurance plans (PCIPs):* While some experts suggested PCIPs could expand access for individuals with preexisting health conditions and help reduce job lock, others thought the PCIPs would have little or no effect. Some experts cited as very limiting the eligibility requirement that individuals go without any coverage for 6 months—something we have reported in the past that individuals with health conditions are reluctant to do.[44] Some experts also cited the relatively low enrollment in PCIPs to date. Although the Office of the Actuary within the Centers for Medicare and Medicaid Services (CMS) had initially projected enrollment of 375,000 by the end of 2010, as of September 30, 2011 enrollment in the PCIPs totaled approximately 37,000 individuals.
- *No waiting periods greater than 90 days:* While some experts said the waiting period restriction could expand access for individuals with preexisting health conditions and reduce job lock, others said it would have little effect because many plans, particularly employer-sponsored health plans, already have maximum waiting periods of 90 days or less.
- *Preexisting condition exclusion for children under 19:* The children's preexisting condition restriction under PPACA could help expand access for children with preexisting health conditions and reduce job lock. Parents could leave jobs that provided coverage for these conditions and still obtain coverage for children with such conditions in individual market plans. However, it was noted that this provision had unintentionally resulted in some individual market health plans no longer providing child-only health plans or in the increase of premiums.[45]
- *Dependent coverage:* Expanding dependent coverage to age 26 may not affect access for individuals with preexisting health conditions and thus may not affect job lock. According to some of the experts we interviewed, some

[44]See GAO, *Pre-Existing Condition Insurance Plans: Program Features, Early Enrollment and Spending Trends, and Federal Oversight Activities*, GAO-11-662 (Washington, D.C.: July 27, 2011).

[45]The Congressional Research Service has noted anecdotal evidence that some health plan issuers have decided to no longer offer child-only policies. See Congressional Research Service, *Preexisting Exclusion Provisions for Children and Dependent Coverage under the Patient Protection and Affordable Care Act*, (Washington, D.C.: Jan. 24, 2011).

states already require health plans to provide dependent coverage to age 26 or close to that age threshold.[46, 47]

Reducing Costs Could Decrease Job Lock, though Varied or Uncertain Effects of PPACA on Premiums Suggest an Uncertain Effect on Job Lock

The experts we interviewed generally agreed that reducing premiums could have job lock implications, but cited uncertain or mixed effects of PPACA on premiums and thus on job lock. They agreed with the statement that prior to full PPACA implementation, some individuals—particularly those that had faced higher premiums in the individual market because of their health status—might have difficulty finding affordable insurance options in the individual market if they leave the group health coverage offered through their employers. They generally agreed that to the extent premium costs or cost increases are reduced under PPACA and more affordable health insurance options become available for these individuals in the individual market, individuals may feel less compelled to remain in a current job primarily because it offered an affordable premium. However, despite general agreement that decreased premiums could reduce job lock, experts we spoke with said that the likelihood that PPACA will decrease premium costs varied by provision or was uncertain.

Reducing Premiums or Out-of-Pocket Costs

Some experts noted that the following PPACA provisions have the potential to reduce premium costs.

- *Premium tax credits and out-of-pocket cost-sharing reductions:* The premium tax credits and cost-sharing reductions may be important to reducing individual market premiums and other health care costs for eligible low-income individuals. Thus the credits and cost-sharing reductions have the potential to reduce job lock. Some lower-income individuals that qualify for the premium tax credits may leave their employer-sponsored coverage and use the tax credits to obtain coverage through the Exchanges, especially if their employers contribute a small portion of the total premium for the health coverage.
- *Expanded Medicaid eligibility:* The Medicaid expansion may not affect job lock for the many newly eligible individuals that are not likely to have employer-

[46]According to the National Conference of State Legislatures, prior to the effective date of the PPACA dependent coverage provision, 37 states had extended the age that dependent children could receive coverage under their parents' health plans and most required that the children be unmarried and financially dependent on their parents. See National Conference of State Legislatures, *Dependent Health Coverage (State Implementation).*

[47]States regulate health insurance sold in their state, including to individuals and groups (such as employers), but state requirements (including dependent coverage) do not apply to coverage offered by employers that self-fund their health plans.

sponsored coverage.[48] It may mitigate job jock for some low-wage individuals who will be able to leave those jobs and accept jobs without health coverage and still have health coverage under Medicaid. Though mandatory in 2014 for Medicaid-participating states, few states are expected to voluntarily expand their Medicaid programs sooner than required under this provision.

- *Individual mandate:* The individual mandate has the potential to reduce overall individual market premium costs and potentially reduce job lock to the extent that it increases the share of healthy individuals who obtain coverage in the individual market. However, the penalties for not having coverage—particularly in the early years of the requirement—may not be large enough to encourage many of the youngest and healthiest people to obtain insurance who are needed to bring downward pressure on individual market premiums. To the extent the individual mandate does not reduce premium costs, job lock may not be mitigated. The premium tax credits and out-of-pocket cost reductions may similarly mitigate against adverse selection in the Exchanges, assuming that the tax credit population is healthy.
- *Provider payment reforms:* PPACA payment reforms targeted toward reducing health care costs in federal health care programs have potential to eventually reduce premium costs or cost increases. For example, the Center for Medicare and Medicaid Innovation is tasked with reducing costs for the Medicare, Medicaid, and CHIP programs.

Some experts said that other PPACA provisions could either have different premium effects for different individuals, or actually result in increases in premiums or costs for some. They also noted that because of the uncertain effect of these provisions on premiums, there was also uncertainty about their effects on job lock.

- *Adjusted community rating:* The requirement that premiums for individual and small group plans may only vary based on specified factors that do not include health status is likely to have different effects for differently aged individuals. After implementation in 2014, older or sicker individuals may find reduced premiums in the individual market—thus mitigating job lock for this segment of the workforce—while younger or healthier individuals may face higher premiums.
- *Minimum essential benefits:* The minimum essential benefits requirement could result in premium increases for some individual market plans, as the benefits required to be covered will likely be more extensive than what many individual market plans currently offer.[49] In part because the Department of Health and Human Services has not finalized guidance on the essential benefits requirement, there is uncertainty about the ultimate effects of this provision.

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[48]Under the PPACA Medicaid expansion, low-income individuals would receive subsidized health coverage through the Medicaid program with little or no premiums or cost-sharing expenses—thus likely reducing costs for these newly eligible individuals.

[49]However, the more extensive benefits—more comparable to what group plans offer—may also limit individuals' exposure to out-of-pocket costs under the plans.

- *Medical loss ratio:* The effects of this provision on premium costs and job lock are uncertain. Some experts said that the provision may decrease premiums. On the other hand, some experts said this provision may actually increase premium costs if health plans simply pay out more in claims as a means of reducing the ratio between administrative and medical care costs. We recently reported that several health plans planned to reduce the increase in premiums, among other actions that included decreasing commissions to brokers, in order to meet the ratio requirements. One health plan said it may reduce expenses on retrospective utilization review programs in order to meet the ratio requirements.[50]

Differing Views or Uncertainty in Predicting Effects of PPACA on Encouraging Employers to Offer Coverage Suggest an Uncertain Effect on Job lock

The experts we interviewed generally agreed that the availability of employer-sponsored health coverage could have job lock implications. Some experts noted that to the extent PPACA encourages more employers to offer health coverage, job lock may be mitigated because fewer individuals would face the possibility of moving to an employer that did not offer it. However, experts either had differing views of PPACA's potential effect on employer offer rates, or expressed uncertainty in predicting such effects.[51] Should a drop in offer rates occur, it may be seen among small employers. Experts generally agreed that even if PPACA reduces the likelihood that employers offered health coverage, job lock could also be mitigated for certain individuals because employment and health coverage would no longer be linked. For example, individuals whose current employers choose to stop offering coverage after PPACA implementation may be less job locked because retaining health coverage will not be a factor influencing these individuals to remain in their current jobs.

Encouraging Employers to Offer Health Coverage

Experts' views on specific PPACA provisions illustrate these differing views and uncertainty. For example, some experts said that:

- *Financial penalties:* PPACA financial penalties for certain employers that do not offer coverage may encourage some employers to provide coverage and reduce job lock. However, the impact of the PPACA penalty on employers not offering coverage may be limited because most large employers currently

[50]See GAO, *Private Health Insurance: Early Experiences Implementing New Medical Loss Ratio Requirements,* GAO-11-711 (Washington, D.C.: July 29, 2011).

[51]There are varying estimates of the effect that PPACA will have on employer-sponsored coverage. The Congressional Budget Office estimated that in 2014, there would be an increase of 6 million nonelderly individuals with employer-sponsored heath coverage. See Congressional Budget Office, *Testimony on CBO's Analysis of the Major Health Care Legislation Enacted in March 2010* (Washington, D.C: Mar. 30, 2011). The Department of Health and Human Services' Office of the Actuary estimated that there would an increase of 2 million individuals with employer-sponsored coverage in 2014. Other studies estimate that employer offer rates may vary after PPACA is fully implemented in 2014 from a decrease of 0.3 percent to an increase of 8.4 percent.

offer coverage.[52] Other large employers that already offer coverage may choose to discontinue it and pay the penalty, especially if they find it less burdensome administratively to drop coverage or less costly to pay the penalty.

- *Small business tax credits:* The tax credits may encourage small employers to offer coverage and reduce job lock. However, the tax credits may have little effect because they are temporary and of limited value.[53]
- *Small Business Health Options Program (SHOP Exchanges):* The uncertainty that exists regarding implementation of these Exchanges makes it difficult to determine what effect they will have on small employer offer rates. Some experts pointed to mixed experience with similar small employer Exchanges currently existing in a limited number of states. On the other hand, if a substantial share of the small group market ultimately does provide health coverage through the SHOP Exchanges, then individuals could change jobs and maintain the same health plan, which could decrease job lock.
- *Individual mandate:* Individuals may pressure their employers to provide coverage so that they can abide by the individual mandate requirement, resulting in an increase in employer offer rates.

[52]In 2011, almost all (99 percent) large employers offered health coverage, compared to 59 percent of small employers and 48 percent of the smallest employers (between 3 and 9 employees). See Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits 2011 Annual Survey*, (Menlo Park, Calif., and Chicago, Ill.: 2011).

[53]According to the Treasury Inspector General of Tax Administration, as of mid-May 2011, approximately 228,000 taxpayers claimed this credit.

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