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Health care reform could spur small firms to rely more on temps

Pamela Villarreal and Peter Swanson **October 11, 2011**

Pamela Villarreal of the National Center for Policy Analysis discusses one impact of the Affordable Care Act on hiring trends.

As the United States recovers from the 2008 recession, many consider any employment growth to be a good sign. But uncertainties about future tax and health care costs could be inhibiting permanent job growth, shifting more of the labor force to temporary and part-time employment.

Beginning in 2014, the Patient Protection and Affordable Care Act (ACA) requires employers with 50 or more employees to offer health insurance to employees who work 30 or more hours per week — or pay a penalty. At the margin, the legislation is the biggest obstacle to adding a 50th employee.

Some employers hire temporary or part-time workers to avoid the cost of providing health insurance. That's one reason why part-time employment — defined as less than 35 hours per week — doubled to 8.9 million jobs in 2010 from 4.3 million in 2005, according to the U.S. Bureau of Labor Statistics. However, the Affordable Care Act limits the ability of employers to avoid paying penalties by hiring only part-time employees. The ACA treats part-time employees as "full-time equivalents" by adding up the total number of hours per month worked by the part-timers and dividing by 120. For example, if six part-time employees each work 25 hours per week, they would be the equivalent of five full-time employees. Thus, these part-time employees would be counted toward determining whether the employer has 50 employees and is required to offer health insurance.

Temporary employment is relatively new outside of agriculture and other seasonal work. The Bureau of Labor Statistics tallied 20,000 temporary employees in 1956, rising to 2.7 million temps in 2000, accounting for 2 percent of employees. While temporary employment is often associated with administrative work and lower skilled jobs, temp jobs have grown rapidly in the business and financial sector, as well as in jobs requiring computer and mathematical skills and in the fields of education, training and library work.

Temp work on the rise. Temporary employment fell slightly during the recession, but has risen steadily since mid-2009. A 2010 report by the American Staffing Association noted the U.S. staffing industry added 379,000 new jobs from October 2009 to June 2010, more than any other

private-sector industry. In all of 2010, the economy added more than 1.3 million jobs, according to the U.S. Department of Labor.

A firm hires an additional worker when the expected value of the worker's output exceeds the cost of his or her wages and benefits. In the short run, temporary and part-time employees are less expensive to a firm, especially if it uses a staffing agency. Firms don't have to pay benefits to temporary employees, deduct payroll and income taxes from their check or incur the cost of recruiting and screening the workers. The staffing agency handles this, reducing the firms' administrative and benefits costs compared to hiring permanent employees.

The cost of benefits has grown faster than wages and salaries since 2004. In 2010, the average total compensation of a full-time worker was about $10 an hour on top of hourly wages. In a competitive market, marginal cost increases are shifted to employees in the form of lower wages or other compensation. In general, as firm size increases, the cost of compensation increases. Furthermore, nonwage compensation, for such benefits as group health insurance, increase: For small firms (1 to 49 workers), hourly compensation averages $22.37, with nonwage benefits comprising about $6 of the total. For medium-size firms (50 to 99 workers), however, hourly compensation averages $25.84, with about $7 of the total in nonwage benefits. For large firms (100 or more workers), average hourly compensation is $33.69, with $11 in nonwage benefits.

If wages and salaries remain fairly constant, but the cost of health care and retirement benefits grows, employers will be more likely to use a temporary worker from a staffing agency. This gives an employer the flexibility to staff for demand, while avoiding the cost of a permanent employee.

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