

**In Brief**

# Will the Affordable Care Act Reduce “Job Lock”?

Dean Baker

*Center for Economic and Policy Research*

A long-standing concern among economists is that workers’ labor market options are limited by barriers to obtaining affordable health insurance outside of employment. If workers are dependent on employers for health insurance, they may be reluctant to leave a job out of a fear that they would not be able to get insurance otherwise—this behavior is often referred to as “job lock.” Workers who have serious health problems or have family members with serious health problems are particularly likely to be “locked” into jobs because of insurance concerns.

In addition to extending coverage to the uninsured, one of the expected benefits from the Affordable Care Act (ACA) is that it will substantially reduce health insurance-related job lock. Under the health insurance marketplaces set up under the ACA, insurers cannot discriminate based on a person’s health status, so workers should no longer feel they need to stay at a job to get insurance. While it is too early to produce a complete assessment of the impact of the ACA on the labor market, it is valuable to examine the extent to which health insurance-related job lock affected the labor market before the ACA. This In Brief summarizes the evidence of job lock based on a review of dozens of studies written over the past 2 decades.<sup>1</sup>

## Types of Job Lock

The research literature identifies three distinct types of job lock:

- **Job lock that discourages workers from switching jobs.** Because of a need for health insurance, workers may be stuck in jobs that do not fully use their skills or allow for career advancement, or that provide an unpleasant workplace environment for the worker.
- **Job lock that discourages entrepreneurship.** Starting a business is always a risky proposition, but having to do so without insurance adds another major element of risk that may prevent some people from leaving their current jobs to start a business.
- **Job lock that causes workers to stay employed (or employed full time) when they would prefer not to.** Workers who have

This **In Brief** is a synopsis of the research report, ***Job Lock and Employer-Provided Health Insurance: Evidence from the Literature 2015-03***. To view the full report, visit: [www.aarp.org/futureofwork](http://www.aarp.org/futureofwork).

enough wealth to retire may need to stay at their jobs to get affordable health insurance. In other cases, workers may prefer to work part time but continue to hold full-time jobs to qualify for employer-provided insurance.

### Evidence of Job Lock

As with many economic issues, finding clear evidence of job lock is not simple. Because jobs with employer-provided health insurance tend to be better-quality jobs than those without health insurance, it is not surprising that people would leave them less frequently. Also, workers who place a high value on employer-provided health insurance are likely to be more risk averse in general and therefore less likely to change jobs frequently or start a new business.

A further complication is that the price of employer-provided insurance has increased four-fold relative to the median wage over the past 3 decades, increasing the incentive to stay in a job to retain health insurance. In 2013, the average premium for employer-provided insurance (that is, the total amount the employer and employee paid for the insurance) for a single worker was about 17 percent of the average pay received by workers in production and nonsupervisory jobs. By comparison, it was just 4 percent in 1980. The average premium for family coverage in 2013 was 46 percent of the average production worker's pay, compared with 11 percent in 1980. Therefore, even if job lock was not a large problem in the 1980s—the decade examined in early studies of the issue—it could have been a much more substantial problem at the time the ACA's insurance marketplaces went into effect in 2014.

While these and other factors complicate the analysis, the literature presents considerable evidence supporting the existence of health insurance-related job lock.

- **Changing jobs.** Research on patterns of job turnover indicates that workers in jobs with employer-provided health insurance were 15–25 percent less likely to change jobs than workers in jobs without employer-provided insurance, after controlling for most differences in job quality and worker

characteristics. As one indicator, married men who have spouses with employer-provided insurance (who therefore can typically be covered on their spouses' insurance) were more likely to change jobs than married men whose spouses did not have this insurance.

- **Starting businesses.** Several recent studies provide evidence that access to insurance outside of employment substantially increases the probability that workers would leave jobs to start their own businesses. For example, one study found the provision in the ACA allowing young people to stay on their parents' insurance policy until age 26, which became effective in 2010, substantially increased the rate of self-employment among people under age 26. Another study found a sharp uptick in self-employment at age 65, when workers first become eligible for Medicare.
- **Deciding to retire or work part time.** Several studies found that workers who had retiree health insurance generally retired earlier than other workers. The implication is that many workers remain in the labor force until they qualify for Medicare at age 65 because otherwise they may find health insurance unaffordable. Other studies found that access to insurance through a spouse's employer or a public insurance program led some parents of young children to work part time rather than full time or to take some time out of the labor force altogether. Another set of studies concluded that people with serious health conditions, such as cancer, were more likely to work part time or to leave the labor force if they had access to insurance outside of their employment.

### Looking Forward

The research on this topic strongly indicates that the ACA will have substantial effects on the labor market. Because the ACA enables more people to obtain affordable health insurance that is not linked to employment, more workers will feel comfortable leaving jobs with which they are dissatisfied, either to find other jobs or to start their own businesses. In addition, many people who now work full time to get

health insurance may take advantage of their ability to get insurance through the marketplaces and opt to either work part time or to leave the labor force. The result will be a more efficient labor market that is less distorted by workers' dependence on employer-provided health insurance.

<sup>1</sup> This In Brief is based on: *Job Lock and Employer-Provided Health Insurance: Evidence from the Literature*, by Dean Baker, March 30, 2015. Accessed at: <http://www.aarp.org/ppi/future-of-work/reports/>.

---

In Brief IB 224, March 2015

© **AARP PUBLIC POLICY INSTITUTE**  
601 E Street, NW  
Washington DC 20049

Follow us on Twitter @AARPolicy  
on facebook.com/AARPolicy  
[www.aarp.org/ppi](http://www.aarp.org/ppi)

For more reports from the Public Policy  
Institute, visit <http://www.aarp.org/ppi/>.

