WASHINGTON STATE UNIVERSITY EXTENSION

REACTIONS TO THE EMPLOYER MANDATE IN WASHINGTON STATE'S LABOR-INTENSIVE AGRICULTURE INDUSTRY

By
Bidisha Mandal, Associate Professor, School of Economic Sciences, Washington State University. **Michael Brady**, Associate Professor, School of Economic Sciences, Washington State University. **Karina Gallardo**, Associate Professor, School of Economic Sciences, Washington State University

WSU PEER REVIEWED
TB33

Reactions to the Employer Mandate in Washington State's Labor-Intensive Agriculture Industry

Summary

The employer mandate is one of the key features of the Affordable Care Act of 2010. This report presents findings from a survey of agricultural firms about their perceptions of the employer mandate. In 2014, just prior to the implementation of the employer mandate, we conducted a survey of producers and processors of labor-intensive crops, including apples, grapes, and potatoes, in Washington State. The labor-intensive agriculture industry in Washington State heavily relies on seasonal and part-time workers, and thus has a large potential to substitute capital for labor through mechanization. We found that large employers and those already offering health insurance coverage were 28 percentage points and 48 percentage points more likely to offer employer-sponsored health insurance in the future, respectively, compared to small firms and those not offering health insurance at the time of the survey. Grape growers were 13 percentage points less likely to provide coverage in the future compared to apple growers and other agricultural businesses.

Introduction

The Affordable Care Act (ACA) aims to increase the number of insured individuals through two mandates: the individual mandate and the employer mandate. At the time of its inception and initial implementation, there was significant resistance to the ACA from much of the business community, which argued that it would make workers worse off as businesses adapt to changes in relative factor costs. Some aspects of the structure of the ACA also have the potential to employ adaptation strategies with implications for industry structure. For example, the association between business size and the requirement to provide health benefits to workers may create disincentives to expand from a small firm to a mid-size firm. This potential is likely greater in industries that have experience in hiring varying numbers of workers throughout the year at different work schedules, which certainly describes the agriculture industry including both farms and downstream processing. Also, as opposed to much of manufacturing, there is still significant room to increase mechanization to substitute capital for labor in agricultural production. All else constant, the implication is that farm businesses are in a position to shift any increases in labor costs associated with the ACA to workers in the form of lower wages or reduced employment.

This report describes the adaptation strategies of 186 farm businesses in Washington State to the ACA. Differences across industries in terms of technologies, the nature of work, and levels of skill, to name just a few, motivate limiting the scope by focusing on a particular industry. We focus on labor-intensive agriculture because it has a number of characteristics that make it an interesting “canary in the coalmine” for assessing the effects of the ACA on businesses and workers. For one, many farm workers are seasonal or part-time which results in generally low rates of insured individuals. In the agriculture industry, 52% of workers had health insurance coverage through their own or a spouse’s employer compared to 81%, on an average, in other industries (US Census 2014). However, the take-up rates (the percentage of employees who are eligible for their employer’s health insurance coverage and enroll in the coverage) are similar across industries (BLS 2014). Also, farm work involves a number of discomforts including exposure to heat, chemicals, and generally physically demanding and risky tasks that present potentially significant trade-offs between wages and fringe benefits like health insurance. Another reason to look at agriculture is that it is the dominant industry for employment in many rural parts of the U.S. where limitations to access to health care are the most acute (Ricketts 2000). Lastly, as opposed to much of manufacturing, there is still significant room to increase mechanization and to substitute capital for labor in the vegetable and fruit industries that generate over half of the total value of agricultural commodity production in the U.S. (Calvin and Martin 2010). The potential for policies like the ACA that increase costs of workers to businesses to reduce wages and increase unemployment is an argument against them (Tanner 2014). On the other hand, investing in employees’ health can reap benefits through increased productivity, higher retention rates, and lower absenteeism (Dunn 1985; Gabbard and Perloff 1997).

Our survey aimed to improve understanding of (1) the current provision of employer-based health coverage, (2) how well agricultural operators understand which businesses are subject to the employer mandate of the ACA, and (3) agricultural operators’ perceptions of how the ACA will affect their businesses and how they are likely to respond to its implementation. Before presenting the findings from our survey, we briefly review the existing literature on how farm workers value fringe benefits. Fringe benefit refers to the various ways workers are compensated other than through wages and salaries. Health insurance is one type of fringe benefit.

Fringe Benefits in Agricultural Worker Compensation

In the agriculture industry, 97.4% of the firms hire less than 50 employees, and 56% of all agricultural workers are employed in these firms (US Census 2012). Small firms lack bargaining power with insurance companies, and this is one of the primary reasons why employer-sponsored health insurance (ESHI) rates are low in the agriculture industry. A consistent finding across literature is that undocumented farm workers have a strong preference for most fringe benefits that are commonly offered to workers with legal work status in the U.S. The monetary value loss from unavailability of fringe benefits has been found to be greater than the cost of providing them by farm employers, and this relationship is larger for undocumented workers compared to legal workers, which includes citizens and those who obtained legal U.S. work permits (Dunn 1985). The exception was health insurance, which was valued more by legal workers. This has interesting policy implications regarding any immigration legislation that would grant legal work status to a large number of undocumented workers currently residing in the U.S. All else constant, it would suggest that if undocumented workers are granted legal work status, they are likely to trade off wages for health insurance. Further support for this assertion comes from another study which found that legalization led to only a moderate increase in wages but a significantly higher likelihood of receiving benefits, including health insurance (Kandilov and Kandilov 2010).

Retention is another pathway through which workers reveal their value for benefits. Spending the marginal dollar in employee compensation on benefits has been found to lead to greater worker retention compared to wages (Gabbard and Perloff 1997). As the era of labor abundance comes to an end, worker retention will become a way for farm employers to reduce fixed labor costs that accrue through search and training (Taylor et al. 2012).

All together, these findings point toward an incentive for farm employers to minimize costs by increasing benefits and lowering wages without changing total wages. We believe that this phenomenon does not happen frequently in practice because of tax policies and the minimum wage. Undocumented farm workers pay taxes on their wages earned in the U.S. However, the tax benefits to the employer and employee from substituted benefits for wages increase as income increases, and farm workers receive low wages. Regarding minimum wage, when workers' wages are at or close to minimum wage, employers do not have the flexibility to pass on the cost of the premiums towards health benefits or other fringe benefits to the workers and reduce their wages. Thus, minimum wage in itself is a hindrance in the provision of fringe benefits.

Methods

Survey Instrument and Study Population

We collected survey data using a mixed mode mail and online survey following the Total Design Method (TDM) protocol between August and October of 2014 (Dillman et al. 2014). The sample was developed from a comprehensive list of producers and processors of labor-intensive crops, including apples, grapes, and potatoes. However, we contacted significantly more apple growers than grape and potato growers since apples are Washington's largest crop. Of the 1,003 employers contacted, 31 indicated they were not growers or were ineligible for other reasons, 19 mailings were returned to sender, and 6 respondents explicitly refused to participate. Of the 947 eligible respondents, 209 completed the survey (52 by web and 157 by paper) and another 7 partially completed the survey. The overall response rate was 22%.

The survey consisted of 28 questions in, broadly, four sections. First, we asked employers to report their current practices in terms of the average number and type of employees hired in the previous five years (that is, prior to the implementation of the employer mandate portion of the ACA), as well as their approach to employee health insurance coverage offerings for each type of employee. Employees were categorized as full-time year-round, part-time year-round, full-time temporary or seasonal, and part-time temporary or seasonal (henceforth, seasonal for brevity). Second, we asked about employers' future plans in terms of health insurance coverage offers for different types of employees along with changes in business operations. Specifically, for those employers who already offer health benefits, we asked whether they would continue to offer health benefits, shop for new insurance carriers, plan to expand or reduce the number of employees covered by type of employee, and whether they plan to increase or decrease employee's share of the premium cost. We inquired about the various reasons they offered health insurance benefits to their employees. If employers did not already provide health benefits, we asked whether they planned to start offering health benefits in 2015 or continue not to sponsor any health benefits, and the respective reasons for their decisions. Third, we asked about the employer's views regarding the ACA and their business. Specifically, whether they thought the ACA would have a good, bad, or no impact on their business, and in what way; and, whether they thought the ACA would improve, reduce, or have no impact on the quality of health care received by their employees. Finally, we asked whether they had already taken any action directly as a result of the ACA, in terms of provision of health insurance coverage, hiring plans for new employees, plans on growing business, employees' work hours, and number of employees.

Description of Survey Respondents

Apples, wine grapes, and potatoes accounted for 49%, 13%, and 4% of respondents, respectively. Sixteen percent said they grew more than one type of the three crops, and the remaining 18% grew other fruits and vegetables. Eighty-seven percent of respondents said that grower best described their operation, as opposed to packer (2%), shipper (0.5%), or other (6%). The remaining identified as producers or some combination of grower, packer, and shipper.

Out of the 216 employers who responded to the survey, 30 reported that they did not hire any employees (that is, they were sole proprietors). In Table 1 we present the distribution of employers by worker-type for the remaining 186 employers. There are four types of workers – full-time year-round, part-time year-round, full-time temporary or seasonal, and part-time temporary or seasonal. One hundred and twenty-eight employers out of 186 employers (69%) hired full-time year-round workers, 65 hired part-time year-round workers, 102 hired full-time seasonal workers, and 115 hired part-time seasonal workers. A fourth of the employers hired neither full-time nor part-time year-round workers. These employers were most likely to be apple growers. Sixty-eight percent of the 186 employers hired only part-time seasonal workers, 17% hired only full-time seasonal workers, and 15% hired both types of seasonal workers. The average number of the four types of employees (when that type was hired) is presented in Table 2. For instance, employers with full-time year-round employees, hired approximately 48 such workers. In Table 3 we present the percentage of seasonal workers employed for less than 2 months, 2–4 months, 4–6 months, and more than 6 months. While approximately two-thirds of the seasonal laborers worked for less than 4 months, the remaining worked for more than 4 months.

Definitions

The method to determine whether a business comes under the employer mandate is straightforward for full-time and part-time employees. It is more complex for seasonal employees. Therefore, we first looked at the number of farms that were large employers and met the employer mandate threshold with full-time and part-time workers. A large employer employs an average of at least 50 full-time and full-time equivalent (FTE) employees during the previous calendar year. The annual average is calculated as the total number of full-time and FTEs across all months divided by 12. A worker working more than 30 hours per week over a given month is a full-time employee during that month. FTEs for part-time workers are calculated as total hours worked by all those working less than 30 hours per week in a given month, and then dividing each month's total by 120. If the annual average number of full-time and FTEs is greater than 50 then the employer is subject to the employer mandate (Internal Revenue Service 2014).

The employer mandate includes an exception for seasonal workers. If full-time plus FTEs exceeds 50 for less than 120 days in the preceding calendar year, and those in excess of 50 are seasonal workers, then the employer is not subject to the employer mandate. This means that if a farm hires most of their workers for a period shorter than 4 months, and they have fewer than 50 full-time plus FTEs, they are exempt from the employer mandate for that year.

According to the guidelines of the new law, whether a full-time seasonal employee is a full-time employee is determined using the "look-back measurement period" method. Under this method an employer may determine an employee's status as a full-time employee during a period (referred to as the stability period), based upon the hours of service of the employee in a prior period (referred to as the measurement period). A seasonal employee means an employee who is hired into a position for which the customary annual employment is six months or less and for which the period of employment begins each calendar year in approximately the same part of the year, such as summer or winter.

Survey Data Findings

Businesses Subject to the Employer Mandate

Based on the employers' responses, we calculated that approximately 13% of the 186 employers, who were not sole proprietors, were large employers and were subject to the employer mandate. All of these 25 employers hired full-time year-round workers along with other types of workers—8 of them also hired part-time year-round workers, 22 of them also hired full-time seasonal workers, and 10 of them also hired part-time seasonal workers. The average number of full-time and FTE employees among the large employers was 562.1, ranging from 64.2 to 5216.7 employees. The average number of full-time and FTE employees among small businesses (those who were not large employers) was 10, ranging from 1 to 48.7 employees.

As mentioned before, there were 22 large employers who hired full-time seasonal workers in our survey. We consider the hypothetical situation where these workers are deemed full-time employees using the look-back measurement period method. Furthermore, we assume that at least one employee from a large firm not offering ESHI purchases coverage on the marketplace and is eligible for a federal premium subsidy, triggering a penalty that the employer incurs for not offering ESHI. Lastly, we assume that when a large employer does

Table 1. Distribution of employers by type of worker

Worker Type				Sample size
Full-time, year-round	Part-time, year-round	Full-time, seasonal	Part-time, seasonal	
Yes	Yes	Yes	Yes	18
Yes	Yes	Yes	No	18
Yes	Yes	No	Yes	14
Yes	Yes	No	No	3
Yes	No	Yes	Yes	11
Yes	No	Yes	No	37
Yes	No	No	Yes	23
Yes	No	No	No	4
No	Yes	Yes	Yes	2
No	Yes	Yes	No	1
No	Yes	No	Yes	9
No	No	Yes	Yes	7
No	No	Yes	No	8
No	No	No	Yes	31

Table 2. Average number of workers by worker type

Worker type	Average	Range
Full-time, year-round	48.09	1–1800
Part-time, year-round	8.17	1–130
Full-time, seasonal	182.63	1–8200
Part-time, seasonal	79.15	1–4000

Table 3. Length of employment of seasonal workers

Length	Percentage
Less than 2 months	34.9
2-4 months	33.1
4-6 months	19.4
6 months or more	12.6

offer ESHI, the coverage met the minimum value and affordability requirements. The monthly penalty incurred by a large employer for not offering coverage is equal to the number of full-time employees for the month in excess of the first 30 (80 in 2015) multiplied by 1/12 of $2,000. Note that in calculating the penalty only full-time employees are considered and FTEs are not counted toward the penalty.

Estimated Penalty for Not Offering ESHI

Nineteen of the 25 large employers (76%) with full-time year-round employees offered ESHI to their full-time workers, 4 did not, and the remaining 2 did not respond to relevant questions to help us determine whether they offered ESHI or not. The size of the four large firms which did not provide ESHI to their full-time employees were 64.2, 101.2, 134.7, and 360. However, only the latter three large employers would be subject to the penalty if they continued to not offer ESHI once the employer mandate goes into effect. This was because the employer with 64.2 employees only had 22 full-time employees and the remaining were FTE employees, and in calculating the penalty, FTE employees are excluded. The monthly penalties for the three remaining large employers were calculated at $11,875.00, $17,361.11, and $55,000.00 assuming that the penalty is for the full-time employees in excess of the first 30 employees who were not offered health insurance coverage.

Provision of ESHI

Among the 186 employers who hired workers, 56 employers (30%) offered ESHI to at least some of their employees or reimbursed some employees for buying their own insurance. In Table 4 we present the ESHI offer rates by employee type at the time of the survey and plans to offer health benefits in 2015. Out of these 186 employers, 128 reported hiring full-time year-round employees and 41% of them offered ESHI to their full-time employees or reimbursed them for buying their own health insurance, 51% did not offer ESHI, and the remaining 8% did not provide a valid response. Among the 53 employers who offered ESHI to their full-time employees, 22 also hired part-time employees, and 19 of them offered ESHI to the part-time employees too. In total, 65 employers (out of 186) hired part-time employees and only 31% offered ESHI or reimbursed employees, 60% did not, and 9% of responses were missing. ESHI offer rates to full-time seasonal workers were similar to ESHI offer rates to part-time year-round workers. In total, 102 employers (out of 186) hired full-time seasonal workers, and only 32% offered ESHI or reimbursed employees, 60% did not, and 9% of responses were missing. ESHI offer rates were lowest for part-time seasonal workers.

Table 4. Provision of ESHI

Employee type	ESHI offered in 2014	Will offer ESHI in 2015
Full-time, year-round	53 out of 128	35 out of 53
Part-time, year-round	20 out of 65	13 out of 20
Full-time, seasonal	33 out of 102	25 out of 33
Part-time, seasonal	19 out of 115	13 out of 19

In total, 115 employers (out of 186) hired part-time seasonal workers, and only 16% offered ESHI or reimbursed employees, 70% did not, and 14% of responses were missing.

We performed statistical analysis to examine the likelihood of the ESHI provision to full-time employees before the employer mandate. We found that, as expected, large employers were more likely (by 44 percentage points) to offer ESHI while those with higher percentages of FTE employees were marginally less likely (by 0.2 percentage point) to offer health insurance coverage. Apple and grape growers were less likely to provide coverage compared to other growers or agricultural businesses (such as, packers and shippers) by about 20 percentage points.

Businesses not offering ESHI cited high cost of health insurance, use of mainly part-time or temporary workers, and small size of operation as the three primary reasons for not offering or sponsoring health benefits. The least important reason for not offering ESHI (as reported by around 46% of the employers) was the lack of interest in health benefits among the employees. Businesses offering or sponsoring health benefits indicated that doing so increased loyalty and decreased turnover, was helpful in recruitment, and reduced absenteeism due to health reasons. The least common reasons for offering ESHI were that (1) competitors might offer ESHI, (2) employees demanded or expected health benefits, and (3) tax deductibility of premiums.

Almost 64% of the 56 employers offering ESHI at the time of the survey planned to continue offering ESHI in 2015, while 30% said they did not plan to continue offering health benefits, and responses were missing for the remaining employers. On the other hand, of the 130 employers not offering ESHI at the time of the survey, 5 said they planned to offer health benefits starting 2015. Forty-seven percent of the employers who planned to continue offering health benefits in 2015 reported that they did not plan to change the number of employees covered by ESHI, while 36% indicated they would expand the provision of health benefits to a greater number of employees. Thirty-nine percent also reported that they expected the employees' share of premiums to increase.

Perceptions of the Employer Mandate

The survey data confirmed our initial speculation of low rates of an ESHI provision among agricultural businesses in the state of Washington and the related reasons for not providing health insurance benefits. Overall, 66% employers thought that the ACA was bad for their businesses, 19% thought it would have no impact, 7% thought it was good for their businesses, and the remaining 8% employers did not respond to this question. Forty-eight percent of the employers believed that ACA would reduce the quality of health care, 12% believed that the quality of health care would improve, 30% of employers thought there would be no impact on the quality of health care, and the remaining 10% did not respond to this question.

We examined whether the employer thought that the ACA was bad for his or her business or would reduce the quality of health care. Businesses currently offering ESHI were more likely to perceive that the ACA was bad for their businesses, by about 47 percentage points. Although the value of the marginal effect might seem large, it was statistically significant only at the 90% level of confidence. Employers who hired a higher percentage of FTE employees were marginally less likely to consider that the ACA would be bad for their businesses and were considerably less likely to view the ACA to reduce the quality of health care.

None of the large employers thought that the ACA was good for their businesses. Among the non-missing responses, 86% thought it was bad for their businesses, while the remaining 14% didn't think it would have any impact on their businesses. Among the small businesses, 70% thought it was bad for business, 21% indicated it would have no impact, while 9% indicated it would be good for business. As expected, all large employers who did not provide ESHI and who would be penalized when the employer mandate is implemented if they continue not to offer ESHI thought that the ACA was bad for their businesses.

In considering actions taken in response to the ACA, among the 29 employers who hired between 20 and 50 employees (full-time and FTE), 7 employers said that they had reduced employees' hours to part-time while the remaining 22 had not reduced hours, 13 employers reported that they had pulled back on plans for expanding their businesses while the remaining 16 had not, 7 employers were holding off on plans to hire new employees while the remaining 22 had not, and 8 employers said that they have reduced the number of employees due to the mandate while the remaining 21 had not.

Conclusions and Implications

In this report, we presented an assessment of the perceptions of the ACA's employer mandate of a subset of labor-intensive agricultural operations in Washington State. Results from our survey indicate that, in general, employers were not optimistic about the mandate's effect on their businesses. A third of the survey respondents who previously offered ESHI to their workers considered dropping health insurance coverage for all or some of their employees in 2015. Most employers stated that the ACA would not improve the health system, perceived it to be difficult to implement, that it would create unnecessary additional costs to their businesses, and would not be useful to either the seasonal employees or to the employers hiring them. On the challenges faced by the respondents in following the guidelines of the employer mandate, 70–80% of the respondents indicated time-consuming paperwork and insufficient information regarding the implementation of the new law. About a fourth of the mid-sized employers hiring between 20–50 employees, a fourth said that they had either reduced employee hours, or number of employees, or held off on plans to hire new employees due to the ACA, while 45% of the employers said that they had pulled back on plans to grow business. Only 17% reported considering dropping health insurance coverage for all or some of their employees, compared to 32% among large employers.

A large number of Americans are still unsure of the impact of the new health law on their families (Kaiser 2014). Timely delivery of information is crucial to serve our communities well (Braun 2012). Many would benefit from the law. For instance, previously uninsured individuals will acquire health insurance coverage. Family members of farmers need not work off-farm to secure health insurance (Ahern et al. 2015). Additionally, many individuals from low-income households would obtain tax credits or other financial assistance to help pay premiums, or might get coverage through the expansion of Medicaid. On the other hand, it is likely that many employers could face higher labor costs and would have to make tough business decisions that ensure continued profitability.

Acknowledgements

This study is supported by an internal grant from the Washington State University Agricultural Research Center. We want to thank those who completed and returned the survey instrument. The Patient Protection and Affordable Care Act, commonly known as the Affordable Care Act (ACA), was signed into law in March, 2010. Various provisions of the ACA will be implemented through 2020. Among the most newsworthy items, in 2012, the Supreme Court upheld the constitutionality of the individual mandate. Starting in October 2013, individuals and small businesses could purchase private insurance from the state-based health insurance exchanges with coverage beginning in January 2014. The employer mandate for businesses with more than 100 employees was implemented in 2015, and for those with between 50–99 employees, it was implemented in 2016.

The results of the statistical analysis are available from the corresponding author upon request. The list of apple growers was obtained from the Washington Apple Commission. The list of grape growers was obtained from Meister Media which includes all growers who subscribe to the American Fruit Grower magazine or the Western Fruit Grower magazine. The list of potato growers was obtained from the Washington Potato Commission.

References

Ahern, M., J. Williamson, and N. Black. 2015. Implications of Health Care Reform for Farm Businesses and Families. *Applied Economic Perspectives and Policy* 37 (2): 260–286.

BLS (Bureau of Labor Statistics). 2014. National Compensation Survey: 2010–2015.

Braun, B. 2012. Responding to Health Care Reform: Mobilizing Extension. *Journal of Extension* 50 (5).

Calvin, L., and P. Martin. 2010. The US Produce Industry and Labor: Facing the Future in a Global Economy. Economic Research Report, US Department of Agriculture.

Dillman, D., J. Smyth, and L. Christian. 2014. Internet, Phone, Mail, and Mixed-Mode Surveys: The Tailored Design Method. John Wiley & Sons.

Dunn, L. 1985. Nonpecuniary Job Preferences and Welfare Losses Among Migrant Agricultural Workers. *American Journal of Agricultural Economics* 67 (2): 257–265.

Gabbard, S., and J. Perloff. 1997. The Effects of Pay and Work Conditions on Farmworker Retention. *Industrial Relations: Journal of Economy and Society* 36 (4): 474–488.

IRS (Internal Revenue Service). 2014. Questions and Answers on Employer Shared Responsibility Provisions Under the Affordable Care Act.

Kaiser Foundation. 2014. Kaiser Health Tracking Poll.

Kandilov, A., and I. Kandilov. 2010. The Effect of Legalization on Wages and Health Insurance: Evidence from the National Agricultural Workers Survey. *Applied Economic Perspectives and Policy* 32 (4): 604–623.

Ricketts, T. 2000. The Changing Nature of Rural Health Care. *Annual Review of Public Health* 21: 639–657.

Tanner, M. 2014. Obamacare: What We Know Now. Cato Institute Policy Analysis.

Taylor, J., D. Charlton, and A. Yunez-Naude. 2012. The End of Farm Labor Abundance. *Applied Economic Perspectives and Policy* 34 (4): 587–598.

US Census Bureau. 2012. Statistics of US Businesses.

US Census Bureau. 2014. Current Population Surveys: 1983–2010.

Issued by Washington State University Extension and the U.S. Department of Agriculture in furtherance of the Acts of May 8 and June 30, 1914. Extension programs and policies are consistent with federal and state laws and regulations on nondiscrimination regarding race, sex, religion, age, color, creed, and national or ethnic origin; physical, mental, or sensory disability; marital status or sexual orientation; and status as a Vietnam-era or disabled veteran. Evidence of noncompliance may be reported through your local WSU Extension office. Trade names have been used to simplify information; no endorsement is intended. Published September 2016.