



RESEARCH BRIEF



The Impact of San Francisco's Employer Health Spending Requirement: Initial Findings from the Labor and Product Markets

Arindrajit Dube, PhD
William H. Dow, PhD
Carrie Hoverman Colla

August 24, 2009

Arindrajit Dube is an economist at the Institute for Research on Labor and Employment at University of California-Berkeley. William H. Dow is the Henry J. Kaiser Associate Professor of Health Economics at University of California-Berkeley. Carrie Hoverman Colla is a doctoral student in Health Economics at University of California-Berkeley.

Introduction

In late 2006, San Francisco enacted ambitious healthcare legislation with a goal of attaining universal access to health care for the city's residents. This legislation, which went into effect in January 2008, provides families with access to a medical home to coordinate health care delivery in clinics and hospitals in the city through "Healthy San Francisco." Enrollees with incomes under 300 percent of the federal poverty level have heavily subsidized access, and those with higher incomes may buy into Healthy San Francisco at rates substantially lower than what they would pay for an individual policy in the private-insurance market.ⁱ

As part of the reform package, San Francisco implemented a version of a "pay-or-play" employer mandate to finance health care for their employees. It requires employers with 100 or more employees to contribute \$1.85 an hour in health spending towards each employee. For smaller firms between 20 and 99 employees, the hourly requirement is \$1.23 an hour; firms with fewer than 20 employees are exempt.ⁱⁱ This is a substantial requirement—more stringent than the plans currently under consideration in Congress or the employer requirement in Massachusetts, and is similar in cost to the mandate in Hawaii. Employers can meet this requirement by paying for insurance directly, paying into medical reimbursement accounts, or by paying into the City's Healthy San Francisco public option.

Healthy San Francisco was met with great demand. Thus far, 45,000 adults have enrolled,ⁱⁱⁱ compared to an estimated 60,000 who were previously uninsured.^{iv} Among covered businesses, roughly 20 percent have chosen to use the city's public option for at least some of their employees.^v

In this research note, we provide evidence on the initial impact on the employer health spending requirement on jobs as well as costs to consumers. This is part of a multi-year research project we are conducting to better understand the effects of San Francisco's reform efforts.

Effect on the Labor Market

It is still early to draw firm conclusions, but the substantial job losses that some worried would be generated by the employer requirement have not materialized. This remains true even when we focus our attention on two of the sectors most impacted by the employer requirement – retail and restaurants.

The relatively large proportion of minimum wage workers in the restaurant industry and other highly impacted industries with low baseline insurance coverage implies that these firms may have difficulty reducing wages to pass on costs to employers, and hence could theoretically reduce employment.^{vi} Previous work found around 4% of San Francisco's workforce were earning at the minimum wage, which currently

stands at \$9.79/hr.^{vii}

In order to investigate the effects on jobs empirically, we analyzed the Quarterly Census of Employment and Wages, which is a near census of the working population based on Unemployment Insurance records. We compared employment trends in San Francisco to those of neighboring Alameda and San Mateo counties that did not implement any comparable new employer mandate. Exhibit 1 reports the results.^{viii}

Exhibit 1: Employment Trends in Bay Area

	Retail		Accommodation and Food Services		Restaurants		Other Private Sector	
	SF	Neighbors	SF	Neighbors	SF	Neighbors	SF	Neighbors
<i>Annual Employment Growth</i>								
Dec 2007 to Dec 2008 (Post)	-3.2%	-6.5%	-0.8%	-1.1%	0.2%	-0.1%	-0.2%	-2.7%
Dec 2001 to Dec 2007 (Pre)	0.2%	-0.4%	2.4%	2.1%	2.7%	2.5%	-0.2%	-0.2%
<i>Growth Slowdown</i>								
	-3.4%	-6.1%	-3.3%	-3.2%	-2.5%	-2.6%	0.0%	-2.5%

Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics.

We found that employment among Eating and Drinking Establishments in San Francisco grew by 0.2% between December of 2007 and December of 2008 (most recent data available), while employment in the adjacent counties unaffected by the mandate (Alameda and San Mateo) shrank by 0.1% (Exhibit 1). During the six years prior to December 2007, restaurant employment had grown similarly in San Francisco (2.7%) and neighboring counties (2.5%). The retail sector, accommodation and food services, and overall employment show similar patterns as well, which provides additional validity to the research design.

We also computed employment effects within a regression framework. Using monthly data between 2001 and 2008 for all three counties, we regressed log employment on our key “treatment” variable, which is a 2008 (after implementation of mandate) San Francisco interaction. All models include fixed-effects for each time-period and each county, making this a canonical “difference-in-differences” setup. Exhibit 2 reports the employment effects (i.e., the effect of the “treatment” variable on log employment) from specifications using alternative control groups, base-periods, and other population controls. We did not find any evidence of negative employment effects in any of the four industry groups; indeed, the employment effects were always positive in sign, though they varied in magnitude and precision.

Exhibit 2: Regression Based Estimates

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Retail							
Employment Effect	4.2%	3.6%	3.3%	3.0%	3.8%	2.3%	2.7%
Standard Error	0.7%	0.8%	0.6%	0.4%	0.6%	0.3%	0.9%
N	288	288	180	108	192	192	288
Accommodation and Food Services							
Employment Effect	1.0%	1.3%	2.1%	2.4%	0.0%	4.1%	2.4%
Standard Error	0.6%	1.1%	1.0%	1.1%	0.3%	0.4%	1.3%
N	288	288	180	108	192	192	288
Restaurants							
Employment Effect	0.1%	0.7%	1.2%	1.5%	1.2%	1.8%	2.5%
Standard Error	0.7%	0.8%	0.4%	0.3%	0.3%	0.2%	0.7%
N	288	288	180	108	192	192	288
Other Private Sector							
Employment Effect	3.9%	3.9%	3.2%	3.0%	4.4%	3.1%	5.5%
Standard Error	0.7%	0.8%	0.4%	0.2%	1.0%	0.3%	0.9%
N	288	288	180	108	192	192	288
Control Specifications:							
Control for Population		Y	Y	Y	Y	Y	Y
Base Period 2001-2007	Y	Y			Y	Y	Y
Base Period 2004-2007			Y				
Base Period 2006-2007				Y			
Control Group: Alameda only					Y		
Control Group: San Mateo only						Y	
County Specific Linear Time Trend							Y

Source: Monthly data from the Quarterly Census of Employment and Wages, Bureau of Labor Statistics.

Notes: Employment effect is the regression coefficient associated the SFxPOST dummy. All regressions include county and time period fixed effects. Alternative Control Groups, Periods, and Trend Specifications are as indicated in the table. Heteroscedasticity and Autocorrelation robust standard errors (24 month lag structure) are reported.

Although we should be cautious about inference using a single case study, the evidence thus far suggests that San Francisco employers did not decrease employment appreciably in response to the mandate. This is consistent with some other empirical evidence on the impacts of mandates. For example, a recent study found that Hawaii's pay-or-play mandate implemented in the 1970s also did not have negative effects on overall employment—although Hawaiian employers may have substituted toward part-time workers (under 20 hours per week) who were not required to be covered by the insurance mandate, which is a behavioral response unavailable in San Francisco (the San Francisco mandate covered all workers over 10 hours per week in 2008).^{ix} It is also consistent with the literature suggesting that employer cost increases due to related minimum wage increases do not have detectable negative employment effects.^x In fact, San Francisco's institution of a city-wide minimum wage in 2005 similarly had no appreciable impact on employment growth in affected sectors.^{xi}

Product Market Impact

When firms competing locally are all subject to the same mandate, they can also pass on the costs to consumers. Indeed, some San Francisco establishments have instituted a specific surcharge to help defray the added costs. This is particularly the case for restaurants; therefore, we conducted a survey of restaurants to quantify the prevalence of such a surcharge. We sampled 340 restaurants in San Francisco, and obtained 142 completed interviews (response rate of 42%) in early 2009. We found that 25% of restaurants in our completed sample had instituted such a specific surcharge (standard error of 3.7%). Although the extent and form of the surcharge varied, most firms reported a charge of 4% on the bill, which was the mean, median and the mode for firms using proportional charges (the majority). It remains to be seen whether such a mandate-specific surcharge will be a lasting feature in San Francisco, or whether the surcharge will simply be folded into pre-surcharge prices. The latter is more likely if the surcharge reflects costs of adjusting nominal prices sharply due to either industrial organizational or behavioral reasons. Either way, we interpret the evidence to suggest that some firms partly absorbed the health mandate by passing on the costs to consumers.

While such price increases may be possible in service industries that only compete locally, other San Francisco firms competing with firms in markets elsewhere may not have latitude for such price increases. With the exception of minimum wage workers, however, economic theory predicts that over time the costs of expanded benefits will be passed on to workers in the form of smaller wage increases. In future work, we will study the issue of wage pass through to better understand how employer health mandates are absorbed in the labor market.

ⁱ Healthy San Francisco. http://www.healthysanfrancisco.org/visitors/Who_Qualifies.aspx. Accessed August 21, 2009.

ⁱⁱ San Francisco Office of Labor Standards Enforcement, Health Care Security Ordinance. http://www.sfgov.org/site/olse_index.asp?id=45168. Accessed August 21, 2009.

ⁱⁱⁱ Healthy San Francisco Program Statistics. <http://www.healthysanfrancisco.org/files/Charts/index.html?DataDate=08082009&PCCount=45131>. Accessed August 21, 2009.

^{iv} San Francisco Department of Public Health. Status Report on the Implementation of the San Francisco Health Care Security Ordinance. July 2009. http://www.healthysanfrancisco.org/files/PDF/July_2009_BoS_Report.pdf.

^v 960 employers have selected the City Option as of May 2009. San Francisco Department of Public Health. Status Report on the Implementation of the San Francisco Health Care Security Ordinance. July 2009. Accessed August 21, 2009. http://www.healthysanfrancisco.org/files/PDF/July_2009_BoS_Report.pdf.

County Business Patterns (U.S. Census) reports 4392 establishments with more 20+ employees in San Francisco. <http://censtats.census.gov/cgi-bin/cbpnaic/cbpsect.pl>. Accessed August 21, 2009.

^{vi} Baicker, K and Levy H (2005), "Employer Health Insurance Mandates and the Risk of Unemployment," Employment Policies Institute. Burkhauser, RV. and Simon K I (2008). "Who Gets What from Employer Pay or Play Mandates?" Risk Management and Insurance Review, 11 (1):75-102.

^{vii} Reich, Michael and Amy Laitinen (2003), "Raising Low Pay in a High Income Economy: Economics of a San Francisco Minimum Wage" UC Berkeley Institute for Research on Labor and Employment. The authors' survey of San Francisco businesses prior to the minimum wage increase found that about 4.4% would be "directly affected"—i.e., would be earning at the new minimum wage.

^{viii} This methodology is based on previous work of comparing contiguous counties to assess minimum wage mandates. Dube, A., Lester, T.W., and M. Reich (forthcoming). "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties." Review of Economics and Statistics.

^{ix} Buchmueller, T.C., DiNardo, J., and R.G. Valletta. (2009) "The Effect of an Employer Health Insurance Mandate on Health