Masthead Logo **Employment Research Newsletter**

Volume 26 | Number 2 Article 2

2019

[Job] Locked and [Un]loaded: The Effect of the Affordable Care Act Dependency Mandate on Reenlistment in the U.S. Army

Michael S. Kofoed
United States Military Academy

Wyatt J. Frasier
U.S. Army

Citation

Kofoed, Michael S., and Wyatt J. Frasier. 2019. "[Job] Locked and [Un]loaded: The Effect of the Affordable Care Act Dependency Mandate on Reenlistment in the U.S. Army." Employment Research 26(2): 4-6. https://doi.org/10.17848/1075-8445.26(2)-2

[Job] Locked and [Un]loaded

The Effect of the Affordable Care Act Dependency Mandate on Reenlistment in the U.S. Army

Michael S. Kofoed and Wyatt J. Frasier

One concern that policymakers have regarding employer-sponsored health insurance is "job lock" and its effects on labor markets. Workers value health benefits, but health benefits are not transferable across jobs. Thus, a worker could want to pursue a more desirable job opportunity but may choose not to because that worker might lose her health insurance coverage. This condition could cause a worker to forgo career satisfaction or promotion or advancement. Policymakers worry about this phenomenon because it may limit worker effectiveness and lower the incentive toward entrepreneurship.

One goal of the Affordable Care Act (ACA), passed in 2010, is to increase the portability of health insurance across jobs. In our study, we examine the effect of the dependent mandate (in which young adults under 26 years old are permitted to remain on their parents' health insurance) on reenlistment rates for soldiers in the U.S. Army, a relatively healthy group for whom we can observe many characteristics typically not available for private-sector workers. We use variation from the policy change to compare soldiers aged 23–25 to those aged 27–30. We compare these groups before and after the passage of the ACA. While the younger group gains access to their parents' health insurance after ACA enactment—even if they leave the army—the older group does not. This difference-in-differences approach allows us to estimate the causal effect of having health insurance from an external source—one's parents—on reenlistment of active-duty military members in the army. We find that reenlistment rates were similar for soldiers aged 23–25 and 27–30 before the ACA, but once soldiers under 26 became eligible for their parents' health insurance, the younger soldiers began to leave the army at a rate 5 percent higher than before the policy change, while rates for the older soldiers did not change appreciably. Moreover, the increase in leaving was concentrated among soldiers with higher test scores. It appears that flexibility achieved through the ACA may be bad for the firm (in this case the U.S. Army) because it is losing some of its most talented employees once job lock is removed. However, the outcomes may be positive for the overall labor market and for affected individuals, who now have greater ability to pursue additional education and/or labor market prospects.

ARTICLE HIGHLIGHTS

- *We test whether access to parents' health insurance led soldiers to not reenlist in the army.*
- *The ACA allowed people under age 26 to stay on their parents' health insurance.*
- *We compare soldiers aged 23–25, who gained access, to soldiers aged 27–30, who did not.*
- *We find the younger soldiers' reenlistment rates fell 5 percent relative to the older soldiers' rates.*
- *Younger soldiers leaving were more likely to enroll in college, possibly helping their job opportunities.*

Background

Analyzing "job lock"—that fear of losing health benefits prevents workers from easily changing jobs, attending college, or starting a business—is difficult with traditional survey data because important considerations such as the health status of the worker, differences in insurance generosity, and whether a worker quit or was fired are generally unknown. However, the U.S. Army serves as a perfect "laboratory" for this question.

Through affiliation with the United States Military Academy, we have access to detailed data regarding soldiers and dependents from the Office of Economic and Manpower Analysis. In our data, we observe a soldier from the day she joins the army to the day she separates. Our office has begun to link these data to those from other federal agencies to understand what happens when a soldier leaves the army. When a soldier joins the army, she signs a contract that binds her to the military for between three and six years. During military service, soldiers must maintain strict health and fitness requirements, but they receive free health insurance (called TRICARE) and are compensated at the same fixed-rate schedule (within pay grade). At the end of an enlistment contract, the army evaluates the solider and her job performance and then decides whether to make an offer of reenlistment;

if offered, the soldier then chooses whether to reenlist or separate. These institutional characteristics allow us to control for many factors that could affect a person's employment decision that are not available in traditional labor market data.

Divergence in Reenlistment Rates

We compare reenlistment rates for two age groups of soldiers—those 23–25 and those 27–30—before and after implementation of the ACA. Figure 1 shows the average reenlistment rate for each group for every year in our sample. The blue line represents our "treatment group" of soldiers who are 23–25, while the green line represents our "control group" of soldiers who are 27–30. Before the ACA, younger and older soldiers reenlisted (when offered the opportunity) at nearly the same rates. After 2010, however, younger soldiers began to reenlist at a much lower rate, and this effect appears to persist over time. For the army, this meant reenlistments fell by more than 3,200 soldiers, requiring additional costs and time to recruit and train replacements. But can we attribute the fall in reenlistment rates to the ACA, or did it stem from something else?

One concern about these visual findings is that different characteristics of the soldiers could be driving the results. However, when we control for the soldier's gender, race, home state, and education level, our findings do not change at all. Another concern could be differences in reenlistment bonuses. In the army, soldiers of the same rank, branch, and month of contract expiration are assigned the same bonus. We included a control that allowed us to compare soldiers of similar rank and branch who differ only in age. While the magnitude of our result shrinks slightly, it remains sizable.

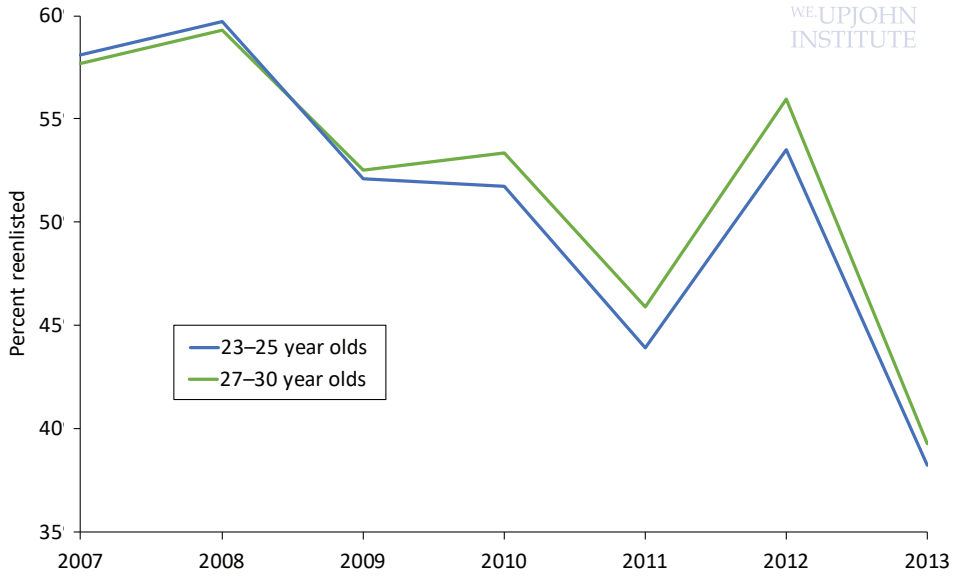
It is also possible our findings are a result of deaths in Iraq and Afghanistan. For example, if casualties spike because of an increase in violence, younger soldiers may become more risk averse and less likely to reenlist. Alternatively, because unemployment was increasing during the Great Recession at the same time that the ACA took effect, some older soldiers may have been more likely to reenlist to avoid a difficult job market. Additionally, since some states were expanding Medicaid during this period, we may worry about how the generosity of the home state's welfare programs affected the decision to reenlist. However, when we add controls for each of these factors, our core results remain unchanged.

Finally, because the Great Recession led to an onslaught of new regulations and laws, the change in reenlistment rates could instead be affected by a policy change other than the ACA. To check this possibility, we simulate two "pretend" or "placebo" changes. First, we compare reenlistment rates of soldiers aged 27–30 with those aged 30–33; since neither age group was affected by the ACA, we would not expect their reenlistment rates to change differently. Second, we compare the original early 20s and late 20s age groups, but we pretend that Congress passed the ACA in 2008 instead of 2010. Since this did not actually happen, we would not expect reenlistment rates to change differentially in 2008 and 2009.

After ACA passage in 2010, younger soldiers began to reenlist at a lower rate, and this effect appears to persist over time.

Indeed, when we change the ages of the treatment groups or the timing of the policy change, our results disappear. Thus, like a combination on a locker, we see changes in reenlistment rates only when we combine the right age group that was affected by the policy with the correct year in which the policy change occurred. These "placebo" tests are evidence that our results are a consequence of the ACA and not some other outside influence.

Figure 1 Reenlistment for Soldiers Aged 23–25 and 27–30, 2007–2013



SOURCE: Authors' calculations based on administrative data from the U.S. Army.

The Key to Job Lock?

To show that the decrease in reenlistment is a product of job lock, it would be helpful to understand whether soldiers are leaving the army for increased opportunities, such as higher-paying jobs or additional schooling. Unfortunately, we have not linked our army data with income data, but we can access GI Bill usage from the Department of Veterans Affairs. We find that soldiers who have access to their parents' health insurance are about 1 percentage point more likely to use their GI Bill benefits, from a base of 53 percent. This result shows that, with the increase in separate health coverage, soldiers are leaving the army for educational opportunities.

While our results may be discouraging for the U.S. Army, they may be positive for individuals and the labor market.

Our findings present an interesting conundrum for the Department of Defense and health care policymakers that might not be unique to the military. For example, we also find that the drop in reenlistment rates of younger soldiers who subsequently use their GI Bill benefits is concentrated among those with the highest military standardized test scores, suggesting that employers may be losing some of their most talented employees once job lock is removed. This loss is particularly painful for the army because the military does not allow "lateral" hires (i.e., management from outside the organization) among its active-duty personnel. For the army to have future senior leaders—from senior noncommissioned officers to colonels and generals—it cannot simply hire managers from the private sector, but must grow them from 20-year-olds who start their careers as privates (if enlisted) or lieutenants (if commissioned officers). Thus, the army will need to increase its recruiting and retention spending to ensure that it manages its talent efficiently.

However, while our results may be discouraging for the U.S. Army, they may be positive for individuals and the labor market. We provide evidence that the ACA decreased labor market frictions from job lock. Once health insurance becomes portable (through eligibility for a parent's plan), the soldier—and possibly other employees—can now afford to pursue acquiring additional human capital that may lead to better job prospects.

This article draws on research from an Upjohn Institute working paper, which can be found at https://research.upjohn.org/up_workingpapers/300/.

The views expressed herein are those of the authors and do not reflect the position of the United States Military Academy, the Department of the Army, or the Department of Defense.

Michael S. Kofoed is an assistant professor at the United States Military Academy. Wyatt J. Frasier is an officer in the U.S. Army.

Upjohn Institute Report Offers Ideas To Help Communities Build Broadly Shared Prosperity

In 2018, the Upjohn Institute launched an initiative to learn how communities can help residents get and keep good jobs. Called "Promise: Investing in Community," the initiative marshaled Institute research expertise in place-based college scholarships, workforce development and training, tax incentives, and customized business services.

This three-year initiative marks its first year with a report that summarizes what we've learned to date. The report, *Building Shared Prosperity: How Communities Can Create Good Jobs for All*, outlines strategies that small and medium-sized cities, along with rural areas, can follow to achieve broadly shared prosperity.

Communities help residents find and keep good jobs in two main ways: 1) by investing in workers through education and training, and 2) by investing in businesses through incentives and direct business assistance. Both approaches contribute to the same goal: more and better jobs, with benefits shared across demographic and income groups.

In this report, community leaders will find summaries of best practices, backed by evidence, in three broad categories: place-based scholarships; workforce training; and support to businesses. A fourth chapter offers lessons to help community leaders pull these best practices together into an overall strategy, rooted in their local assets and identity.

Download the report for free at https://bit.ly/20bcmnL.