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The Effect of Affordable Care Act Medicaid Expansion on Post-Displacement Labor Supply among the Near-Elderly

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In this paper, I study how the Medicaid Expansion under the Affordable Care Act (ACA) affects the labor supply and post-displacement job outcomes among near-elderly (ages 51 to 61), displaced (involuntarily unemployed) workers who are low-income (household income less than \$15,000), nonmarried, childless, and nondisabled.

Most of the nonelderly population in the U.S. obtains health-insurance coverage through employment, and losing a job often means the loss of coverage. Among displaced workers, the link between health-insurance coverage and employment creates incentives to become re-employed as soon as possible. This leads to what economists call “job push”—displaced workers take job offers not because they like the jobs, but because they need health-insurance coverage. Expanded health-insurance coverage under the ACA provides channels to obtain coverage outside employment, which can reduce job push according to economic theories.

Among displaced workers, lower levels of job push can lead to two possible changes in labor supply that have very different consequences: Displaced workers may be able to spend more time in their job search, which has the potential to result in better re-employment jobs; alternatively, they may also stop the job search and quit the labor force, which permanently lowers the level of lifetime earnings. Which one of the two effects dominates the other is an empirical question that has important implications on public policies and individual well-being.

Expanded health insurance coverage under the ACA has two components: health insurance exchanges available in all states and expanded Medicaid, only available in states that choose to expand Medicaid coverage. I rely on the state-level variations in timing and generosity of Medicaid expansion to study its effect on post-displacement labor supply and job outcomes.

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I restrict my study to displaced workers who are near-elderly, low-income, nonmarried, childless, and nondisabled. This subpopulation should have the strongest response to Medicaid expansion (if they reside in a state that chooses to expand Medicaid) because they have high demand for health care services and were likely only able to obtain health-insurance coverage through employment if there were no Medicaid expansion. Using 2011-2016 waves of the basic monthly Current Population Survey (CPS) and 2010-2016 waves of the biennial Displaced Workers Survey (DWS), I find that:

- During the few months immediately following a state's Medicaid expansion, displaced workers in that state had a lower likelihood of unemployment exits to employment. That is, some displaced workers who benefited from Medicaid expansion spent a longer time in the job search;
- During the few months immediately following a state's Medicaid expansion, displaced workers in that state also had a higher likelihood of unemployment exits to not-in-labor-force. That is, some displaced workers stopped their job search and quit working.
- Robustness tests suggest that part of the above effects may be attributed to state-level idiosyncrasies. Nevertheless, these results reject a large and persistent effect of ACA Medicaid expansion on labor supply among near-elderly, displaced workers in my sample.
- There is no effect on longer-term re-employment outcomes, including the likelihood of re-employment and re-employment earnings, between expansion and nonexpansion states. However, the sample size used in the analysis of longer-term outcomes was quite small, which limited the statistical inference that I can make.

Such results are consistent with those reported in earlier research of how ACA Medicaid expansion affects labor supply. This research largely suggests no long-term, negative effects and are different from what economic theories would have predicted. One explanation is the uncertainty regarding the Affordable Care Act. It is possible that, while Medicaid expansion can be a temporary solution to obtaining coverage, not many people chose to rely on Medicaid expansion on a longer-term basis due to the uncertainty in the political atmosphere surrounding the ACA. Additionally, as some states find it challenging to meet the increasing demand for Medicaid services as the coverage is expanded, the quality of service may be compromised. Consequently, displaced workers may still prefer re-employment and employer-sponsored health-insurance coverage to expanded Medicaid, limiting the effect of Medicaid expansion on labor supply and re-employment outcomes.

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