

Point: Patient Protection and Affordable Care Act of 2010

What small business employers and employees lose if the new law is repealed

By The Center for American Progress

Conservatives' efforts to repeal the Patient Protection and Affordable Care Act would have dire consequences for small business owners and their employees. That's because small businesses are big beneficiaries of healthcare reforms that will help make health coverage more affordable, thus preserving wages, eliminating job lock, saving jobs and increasing profits and competitiveness.

Repeal would mean that small business owners will continue to drop health coverage for their employees in the face of escalating costs. The percentage of small businesses offering coverage has been steadily dropping, down from 68 percent in 2000 to 59 percent in 2007. If the Patient Protection and Affordable Care Act is repealed, that downward trend would continue.

This will leave many families with no protection when illness strikes. Nearly one-third of the uninsured - 13 million people - are employees of firms with fewer than 100 workers.

Repeal would mean that small business employers who can afford to offer health insurance must do so at the expense of increased wages for employees and decreased profits, business investment and new job creation. Currently 40 percent of small businesses report spending more than 10 percent of their payroll on healthcare costs.

Repeal would mean that small businesses will continue to pay on average 18 percent more for health insurance coverage than large firms because they must purchase coverage in a marketplace that provides little competition or choice

among insurance plans. They would lose the ability to purchase health insurance through the reform law's "insurance exchange" that will allow them to choose among a variety of plans that provide better coverage at lower costs than those in the current small group market.

Repeal would mean that eligible small businesses will not receive the small business tax credit. This help is targeted to small firms with low average wages to encourage these businesses to offer or maintain coverage.

This benefit starts now, in 2010, with a tax credit of up to 35 percent of the employers' contribution to health insurance. Once the health insurance exchanges are running in 2014, eligible small businesses that purchase coverage through the state-based exchanges will be able to receive a tax credit of up to 50 percent of their contribution to health insurance for two consecutive years, provided this contribution is 50 percent of the premium cost.

But opponents of the new law want to take this important benefit away.

Repeal would mean that "job lock" will persist, affecting 1 in 16 small business employees. Job lock arises when people, especially those with pre-existing conditions, are fearful of changing jobs and losing their health insurance coverage.

The new law prohibits insurers from excluding individuals with pre-existing conditions from coverage, from refusing to cover specific health problems or from charging these individuals more for insurance. These changes will enable individuals and families to purchase

health coverage at an affordable rate, likely bringing the new rate of job lock close to zero.

Repeal would mean that the ability of small business owners and entrepreneurs to attract and keep quality staff will be affected and the ability of the small business sector to drive the economic recovery will be lost. Small businesses provide much new job growth, but they must compete with their larger counterparts for labor and the ability to do this is related to compensation and benefits.

The Small Business Majority commissioned a study by Professor Jonathan Gruber prior to the passage of the Patient Protection and Affordable Care Act that looked at how small business would benefit from healthcare reform. This study now serves to highlight what repeal would mean to small businesses and their employees in terms of dollars and jobs lost.

- Small businesses will pay 55 percent more in healthcare costs for their workers over the next 10 years. They will miss out on \$855 billion in savings that come from cheaper health insurance coverage.
- 128,000 jobs that could have been saved will be lost over the next decade as healthcare costs continue to escalate.
- Small business employees will lose up to \$309 billion in wages over the next 10 years as a consequence of health insurance's increasing cost.
- Approximately 1.6 million small business workers who are fearful of losing their health insurance coverage if they change jobs will be locked into

their current employment -limiting their ability to build their careers and making it difficult for small businesses to employ the type of staff they need.

- Small businesses will lose \$29.2 billion in small business profits that could have been reinvested in the economy.

The conservative effort to repeal the new healthcare law will hit small businesses hard and severely affect their ability to be the "engines of the economy." Firms with fewer than 500 employees accounted for 64 percent, or 14.5 million, of the 22.5 million net new jobs created between 1993 and the third quarter of 2008.

The Patient Protection and Affordable Care Act, combined with the jobs bill, will help reduce the current cost burdens on small firms and their workers. These proposed reforms will encourage entrepreneurial activity by increasing the incentives for talented Americans to launch or expand their own companies, and they will increase the pool of workers willing to work at small firms. And small businesses will benefit in particular from reductions in absenteeism and improvements in worker productivity resulting from better health outcomes due to expanded access to health insurance coverage.

It's critical to drive these reforms forward at a time when unemployment is high and the economy is still faltering. We can't afford to step back. This push for repeal highlights opponents' willingness to put politics ahead of supporting small business and ensuring the health of Americans who are small business employees.

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Counterpoint: Healthcare Reform Law of 2010

ObamaCare: the Burden on Small Business

By Michael F. Cannon, *The Cato Institute*

How will ObamaCare affect a small business owner who's married with two kids?

For one thing, he and his business will pay higher health premiums beginning this year.

He and his employees will have to purchase unlimited lifetime coverage and unlimited annual coverage (this requirement phases in between now and 2014). The Obama Administration estimates that these mandates alone could increase premiums for some businesses by 7 percent.

He and his employees will have to purchase coverage for dependent children without any waiting periods for pre-existing conditions. Another mandate will require them to purchase coverage for dependents up to age 26. One private estimate puts the cost of this "slacker" mandate an average of 2 percent, but our small business owner's premiums may rise even more. Perversely, the cost may force him to drop dependent coverage entirely.

If his health plan loses its "grandfathered" status - as most small businesses will - he and his workers will have to purchase 100 percent coverage for a long list of preventive services. The administration estimates this mandate will increase premiums on average by 1.5 percent, but private estimates are in the range of 3 to 4 percent.

The Obama Administration also acknowledges there is "tremendous," "substantial" and "considerable" uncertainty about these mandates' costs. That is, they may be higher than the

administration says.

These mandates are a double whammy for our small business owner. He already faces some of the highest premiums out there. Yet he also provides some of the least comprehensive health plans. So his premiums will rise more than larger employers' premiums will.

According to HHS, these added costs will likely push him to switch health plans, and he will likely switch to a plan that complies with the mandates but places tight restrictions on accessing care.

If he offers his workers a health savings account, medical savings account, flexible spending account or health reimbursement arrangement, its employees will lose the ability to purchase over-the-counter drugs tax-free. If they make non-medical withdrawals from their HSA or MSA, the penalty will double from 10 percent to 20 percent.

If his small business is a tanning salon, it is already paying a new 10 percent tax on its sales.

The Obama Administration is quick to note that beginning in 2010, one-third of small businesses may be able to get a tax credit that covers up to 35 percent of their health benefits. But that credit is not a long-term solution to rising costs; it disappears after six years, and often sooner. It will also discourage hiring, because hiring too many workers will reduce or eliminate the credit.

By 2013, all businesses will have to fill out an IRS Form 1099 every time they purchase more than \$600 worth of stuff from a vendor. If our small business

owner owns a trucking company, he will have to ask gas stations for their tax ID numbers. If the gas stations don't cooperate, he will have to withhold money (i.e., send it to the IRS) for gas expenses. This will be the biggest nightmare in the bill for small businesses. Ironically, it will also hit many doctors, journalists and others who supported ObamaCare but run their own small business on the side.

If our small business owner and his wife make over \$250,000, they'll pay the new, higher Medicare "payroll" tax of 3.8 percent, starting in 2013. (It's currently 2.9 percent).

But it's 2014 where things really get messy. That's when the government will require everyone to purchase even more yet-unspecified types of coverage, which will cause premiums to rise even more.

If our small business owner has 50 or more employees - or fewer full-time employees and lots of part-timers - he faces the prospect of tens of thousands of dollars in penalties under ObamaCare's employer mandate if he does not provide "adequate" coverage to his workers.

The worst part is that these penalties will be triggered by factors that are unpredictable, unobservable and totally beyond the control of our small business owner. He could get hit with those penalties simply because a worker's spouse loses or changes jobs. Or if a worker's spouse moves out or dies. Or if an employee's parents move in.

This creates so much uncertainty that a small business owner with 55 employees may have to fire six of them just to

eliminate that potential liability.

But if he splits his 60-employee small business into two 25-employee businesses, then the federal government - maybe the IRS - will start snooping around to determine whether he did so for legitimate business reasons or just to avoid the mandate.

No matter the size of his firm, if he or his workers earn around \$30,000 to \$100,000 and get coverage through one of the new health insurance exchanges, their implicit marginal tax rates will jump from around 30 to 40 percent all the way up to 60 to 75 percent.

In many cases, if his employees get a raise or work more hours, ObamaCare will leave them with less take-home pay, because the higher earnings will cause them to lose thousands of dollars in subsidies. Their implicit marginal tax rate will exceed 100 percent.

Our small business owner is paying all these costs now - and so are his workers, and the unemployed.

ObamaCare has created enormous uncertainty. Our small business owner doesn't have any idea what ObamaCare's mandates will cost him in 2011, 2012, 2013 or 2014. Or what additional benefits he will have to provide. Or what kind of insurance options will be available by then. All he knows is that these things will cost him more - possibly a lot more - and that he's going to be spending lots of time and money, for the foreseeable future, on tax accountants and attorneys.

And he's going to be much less likely to take on new commitments like expanding or hiring new workers.

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