

# Health Care Confusion Reigns

## Small Businesses Anticipate Costs, Fines

If you think the health care debate in Congress was complex, just wait until the law takes effect. Small business owners are trying to understand how—and when—the sweeping measure will affect them, and they are not pleased with what they already know about the law.

“This is a complicated 2,800-page law that was shoved through the political process without anyone having enough time to really understand its consequences,” says Chamber Director of Health Policy James Gelfand. “It is a widespread misconception that the overhaul will translate into instant, affordable coverage.”

According to a recent survey by the Kaiser Family Foundation, 55% of Americans say they are confused by the health care law. Some of the confusion stems from the fact that the law is gradually implemented over an eight-year period and contains vague provisions that will have to be explained by government agencies through the regulatory process.

### Businesses Brace for Heavy Fines

Business owners such as Scott Womack of Womack Restaurants are looking closely at the law’s coverage mandates and trying to calculate the hit to their bottom lines.

Womack owns 11 IHOP restaurants in Indiana and Ohio and has development agreements to open 14 more. Currently, Womack provides insurance only for salaried staff, 45 of his 800 employees, paying 70% of their \$10,000 annual premium. He estimates that anywhere from 320 to 360 of his employees are considered full time under the law (working more than 30 hours per week), and, therefore, he must offer them affordable health insurance by 2014 or pay a \$2,000 fine per employee.

Complicating matters is the fact that many of Womack’s part-time employees pick up extra shifts, pushing them into full-time status. Womack estimates that he’ll face fines of anywhere between \$350,000 and \$570,000 if he doesn’t offer all of his full-time employees coverage.

Womack says the law creates an incentive to drop existing coverage because the \$2,000 penalty per employee is a fraction of what his insurance costs would be. To reduce the fine, “we’ll obviously want to minimize the number of actual full-time employees. A significant number of employees are going to be pushed to part-time status. It’s going to make it harder for us to hire,” Womack says.

That will hurt some of the most vulnerable segments of the employee population—teenagers and college students, families looking for a second income, and people who have been laid off or incarcerated. “What makes our industry unique is the opportunity we provide for many. We are the source of first opportunities for people and an industry of second chances for careers,” he says.

Womack will likely have to impose a strict limit of 30 hours per week on part-time employees and cut other costs, which he says will hurt small, downstream businesses that provide services and supplies to his restaurants.

He also anticipates that the cost of health care premiums will go up. “The legislation has boxed in the insurance company and the employer to drive up costs. For example, the elimination of denial of coverage for preexisting conditions and the elimination of the lifetime limit—those things drive up costs. Premiums are going to go up in the short run,” says Womack.

## FAQs

**Is my existing employee plan subject to the new law?** Plans in existence on the date of the law’s enactment, March 23, 2010, are considered grandfathered health plans. Grandfathered plans are subject to some, but not all, of the law’s provisions. Provisions that do not apply to grandfathered plans include rating based on health status, annual reporting requirements regarding quality of care, mandatory cost-sharing limits, and mandated coverage for clinical trials, according to the Society for Human Resource Management. It’s unclear what benefit design changes, if any, will cause a plan to lose its grandfathered status. Additional clarification will be needed from the agencies, experts say.

**Do I have to cover part-time or seasonal employees?** There is some confusion here because the law refers only to “holiday seasonal workers.” It’s not clear whether, for example, an employee of a summer camp is considered “seasonal.” In any event, the law states that employers are not required to offer health care to seasonal workers or part-time employees, the latter of which is defined as working fewer than 30 hours per week. However, part-time and seasonal employees who work for more than 120 days per year are taken into account as full-time equivalents in determining whether an employer meets the 50-employee threshold for being required to offer coverage to full-time workers or pay a fine beginning in 2014.

**Is my business eligible to receive a tax credit for the purchase of health care?** For tax years 2010 to 2013, small businesses with 25 or fewer employees who have annual average incomes of less than \$50,000 are eligible to receive a tax credit to offset up to 35% of their health insurance costs, provided that the business pays at least half of the premium. However, the full credit is available only to businesses with the equivalent of 10 or fewer full-time workers who are paid, on average, less than \$25,000. In 2014, the maximum available credit increases to 50% of insurance costs for small businesses purchasing insurance through the newly created state exchanges, but the credit is only good for up to two years once the exchange is operational.

“Very few have done the math and understand how devastating the employer penalty will be,” says business owner Scott Womack.

Photo: Ian Wagreich