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Small business and Obamacare: The cost is just “too high”

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ABSTRACT

The implementation of numerous provisions of the Patient Protection and Affordable Care Act (PPACA or ACA, popularly known as Obamacare) were postponed until 2015 or later. These postponements were largely due a series of delays such as those caused by technical “glitches” with the Healthcare.gov health exchange marketplace and subsequent executive actions. Then, there have been additional coordination issues among various agencies that are charged with implementation, inclusive of rulemaking procedures. Until recently, these postponements have provided a reprieve for some small businesses, depending on their size, in that they would have faced fines for failure to provide health care coverage and otherwise comply with the law in 2014. However, the reprieve for many entrepreneurs is over. While fines may have been postponed, that does not mean the overall penalty amounts have not grown in accordance with a gradually increasing schedule of penalties, taxes and fees, which were clearly meant to force compliance under both individual and employer mandates, raise revenues, and redistribute access to health care services.

Key Words: Obamacare, Affordable Care Act (ACA), small business, economy, health care costs

INTRODUCTION

Numerous provisions of Obamacare (known formally as the PPACA¹ or by its abbreviated form, ACA) have been delayed. The law has been amended through the Health Care And Education Reconciliation Act of 2010 (Public Law 111 - 152) ("Health Care And Education Reconciliation Act," 2010), challenged in court (Musumeci, 2012; "National Federation of Independent Business v. Sebelius, Slip Opinion, No. 11–393," 2012; Rosenbaum, 2014), and faced other delays including a website failure of disastrous proportions. Initially characterized as technological “glitches” (Chumley, 2013) the HealthCare.gov website, which was to serve as an easy-to-use shopping portal (Schlussel, 2013; Wallace, 2013) for those seeking health care coverage, subjected users to security risks, freezing, stalling, and going offline numerous times (Ferenstein, 2013; Lahm, 2014; Pearson, 2013; Tanner, 2013; Weigel, 2013; Young, 2013). “Although the fines initially set to hit in 2014 were put on ice for a year, that hasn’t stopped the fines from growing” (Jed, 2014).

Also growing, are health insurance premium rates ("Costs of premiums for employer-provided health insurance jump," 2011), costs for prescription drugs (Norton, 2014), individual and small business policy cancellations (Gottlieb, 2013; Lahm, 2014; Myers, 2013; Roy, 2013), increasing deductibles, and other problems. According to testimony presented by Grace-Marie Turner, President of the Galen Institute (a not-for-profit health and tax policy research

¹ Patient Protection and Affordable Care Act, Public Law 111 - 148 (H.R. 3590) C.F.R. (2010).

organization) before the US House of Representatives Committee on Small Business Subcommittee on Investigations, Oversight and Regulations:

The Patient Protection and Affordable Care Act (PPACA) already is leading to a loss of affordable options for health insurance for small employers, to a loss of jobs inside and outside the health sector, and to higher health costs that make hiring new workers a risky proposition, especially for struggling small businesses (Turner, 2011, p. 1)

As such, this paper explores some of the costs and issues associated with the ACA, which altogether are regarded by many to be unaffordable and excessive.

SMALL BUSINESS OWNERS: COSTS ARE “TOO HIGH”

An overarching reason for maneuvering and hand-wringing on the part of small business owners is costs in a variety of forms from complicated paperwork to premiums that are regarded to be “too high” (Gabel, 2014): “When asked to choose ‘the most important reason why your firm does not currently offer health insurance to your employees,’ 75% of respondents chose the answer ‘cost of health insurance is too high.’” (*Ibid.*). Quoting an instance from a *Wall Street Journal* article which referenced the paperwork burden:

Laura Land, who co-owns cellphone-case-maker Empire Cell Phone Accessories in Riverside, Calif., which has 38 full-time employees, said the company plans to discontinue its health plan next year and instead direct workers to the state’s health-insurance exchange. ‘It’s getting to be too much paperwork for us to administer the plan, especially if workers are going to decline anyway and go to the exchange,’ said Ms. Land, adding that several new hires recently turned down the plan in favor of cheaper exchange options. (Matthews, Loten, & Weaver, 2014)

Increased Administrative Costs for Small Businesses

One of the hidden costs of the ACA is that of subjecting small business owners to an intricate new process during a period when arguably, the economy has been less than robust for years (Ausick, 2013; Boubacar & Foster, 2014; Mangan, 2013; "The small business economy," 2012). In other words, Obamacare has presented entrepreneurs with a whole new to-do list. The learning curve, or costs associated with hiring professionals (or both) is noticeably steep (Amato & Schreiber, 2013; Cannon, 2012). Thus, there is a burden that goes beyond costs measured in dollars. For instance, a small businesses seasonal staff or higher turnover for any other reason faces a more difficult administrative task in tracking employee FTEs. “Companies in retail, hospitality and highly seasonal businesses that are near the 50-employee threshold need to be particularly careful that they’re counting FTEs properly and not misclassifying employees as independent contractors, or they’ll face fines” (Moran, 2014).

New Taxes on Insurance Policies

According to a *Wall Street Journal* article it has been predicted that a new Health Insurance Tax (HIT) on policies that is charged to insurance companies will be passed on to customers, “as any company subject to such a tax would” (Marcus, 2014).

Higher Premium Rates

According to a publication entitled, *Report to Congress on the impact on premiums for individuals and families with employer-sponsored health insurance from the guaranteed issue, guaranteed renewal, and fair health insurance premiums provisions of the Affordable Care Act*, it is estimated that “65 percent of the small firms are expected to experience increases in their premium rates” (2014, p. 5). “That is because new guidelines define ‘employers’ as having at least two full-time employees, not including a spouse, in order to be eligible for group plans” (Loten, 2014). The aforementioned Report to Congress cited above also found that due to sections 2701 through 2703 of the PHS (Public Health Service) Act “premium rates for roughly 11 million people will increase” (p. 6). An article in a professional publication, *Employee Benefit News*, explained from an industry point of view, due to the increased benefit requirements for all policies under the ACA, limits on deductibles (notwithstanding that many plan deductible amounts have dramatically increased), and required acceptance of individuals with pre-existing conditions “small group premiums are likely to rise even more” (Hood, 2014).

Higher Prescription Drug Costs

According to a study by HealthPocket.com, “on the whole, the 4 types of metal plans averaged a 34% increase in drug cost-sharing as compared to copayments and co-insurance fees in the pre-reform market” (Coleman & Geneson, 2014). As observed by Norton in *Pharmaceutical Executive* (a leading resource in the industry):

In the case of prescription drugs copays, the anecdotes are piling up about newly covered Obamacare patients paying more for drug copays—in fact, some have termed it ‘unacceptable’ amounts of copay—versus their privately covered brethren. Another substantial reason that the Obamacare Rx insurance copays are ‘so high’ is that when the insurers entered into the creation of these plans, the actuarial premises on which they generated their Obamacare designs were primarily based on many uncertain assumptions. Let’s face it, an awful lot of it was just guess work. (Norton, 2014)

CONCLUSION

Tremendous uncertainties have resulting from postponements to the implementation of the health care law both for consumers and small businesses alike (Lowry & Gravelle, 2014). “The health law that so many small business owners had hoped would benefit them by lowering costs is instead harming their ability to continue to offer health insurance at all” (Turner, 2011). The problem is, “Obamacare forces insurers to offer services that most Americans don’t need, don’t want, and won’t use, for a higher price” (Roy, 2013).

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