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Obamacare's Negative Impact on Business
Case Study 2

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Introduction

The purpose of Obamacare was to lower healthcare costs and, in the end, to boost job-creation.[1] However, as this second of three case studies will show, Obamacare will actually increase costs on employers. In the long run, that will mean fewer jobs. As demonstrated in this case study of a real Maine company, the much-touted economic benefits of Obamacare and its promises for better health insurance coverage are outweighed by the excessive costs that it will impose on businesses in Maine and the country.

Company Profile

The business used for this case study is an agricultural company in Maine, which harvests and processes wild Maine blueberries.

There are three areas of the business: farming, processing and sales. Collectively, this business employs 21 full-time, year-round employees. During the blueberry season, the company adds about 70 full-time employees for seven to eight months, plus another 225 employees for approximately six weeks. Total number of employees is 316. See Table 1.

Table 1
Company Employment Profile

	Employees
Full time	21
Part time	0
Seasonal	295
Total	**316**

Source: The Maine Heritage Policy Center

Currently, the company provides health insurance for year-round, full-time employees.

Eligibility Before Obamacare: The business has 21 employees who are eligible for health insurance; 15 participate in the employer health insurance coverage, and six waive eligibility because they have coverage elsewhere.

The employer offers a health insurance plan and pays the full cost for employees. Employees then pay the additonal cost to add dependents to their plan at their discretion. Today the employee monthly premium is $503. Based on

Table 2
Group Health Insurance Costs Pre-Obamacare

	Number of employees enrolled	Monthly Health Plan Premium	Employer Premium Contribution	Employer Monthly Cost
Employees Participating	15	$503.00	$503.00	$7,545.00
Employer's Annual Total Cost				**$90,540.00**

Source: The Maine Heritage Policy Center the current 15 participants in the company medical plan, the employer annual cost equals **$90,540** *($503 x 15 x 12 = $90,540*). See Table 2.

The employer mandate or requirement to offer health insurance under Obamacare applies to companies that employ 50 or more full-time employees. Under the provisions of Obamacare, part-time equivalents must be counted to determine how many employees a company has. Seasonal employees may be excluded from the count *— unless they work more than 120 days per year.*

In the case of this business, 225 seasonal employees work an average of six weeks (42 days) and may be excluded. However, 70 seasonal employees work an average of seven to eight months — well over the 120-day limitation. Therefore, these 70 employees must be counted along with the full-time, year-round employees. This brings the total employee count to 91, subjecting this employer to the Obamacare mandate to offer health insurance or face penalties.

Table 3
Group Health Insurance Costs Under Obamacare
Scenario 1

	Number of employees enrolled	Monthly Health Plan Premium	Employer Premium Contribution	Employer Monthly Cost
Employees participating for 12 months	15	$503.00	$503.00	$7,545.00
Employees participating for 4.5 months	70	$503.00	$503.00	$35,210.00
Employer's Annual Total Cost				**$248,985.00**
Annual Increase				$158,445.00
% Increase				**175%**

Source: The Maine Heritage Policy Center

Scenario 1

Obamacare increases the number of employees eligible for the company medical plan by 70 employees. Let's first assume that all 70 join the company health plan. Obamacare restricts the employer from imposing a waiting period in excess of 90 days for employees to receive benefits.

These employees work an average of seven to eight months; therefore, they would be participants in the company medical plan for four to five months. For the purpose of this study, we will assume that these employees are on the company's health insurance plan for 4.5 months.

This represents an added cost to the employer in excess of $158,000 — *a 175% increase in company health insurance costs*. See Table 3 above.

Scenario 2

Faced with this cost increase, it is feasible to expect the employer to stop paying 100% of the employees' health insurance premiums. In this next scenario, we assume the employer contribution is reduced to 50% of the

Table 4 Employee's Premium Contribution	
Employee's Annual Income	$31,900
Annual Premium Contribution	$3,018
Percent of Employee's Income	**9.5%**
Source: The Maine Heritage Policy Center	

employee premium. This lowers the employer premium cost, but increases the chances that the company's plan will not meet affordability standards as required under Obamacare.

Employees would be responsible to pay 50% of the $503 monthly premium: $251.50 monthly or $3,018 annually. Obamacare's affordability standards require the employer to ensure the employee premium contribution does not exceed 9.5% of household income. For any employees earning less than approximately $32,000, this would result in premium costs in excess of the affordability requirements. See Table 4.

For this scenario, we assume that half of the newly eligible employees (35) will participate in the company's health insurance plan. The other half (35) will purchase subsidized coverage through the Obamacare exchange — for which the employer will be fined $3,000 per subsidized employee.

The result is a cost increase of 203%, totaling more than $184,000. See Table 5 below.

Table 5
Group Health Insurance Costs Under Obamacare
Scenario 2

	Number of employees enrolled	Monthly Health Plan Premium	Employer Premium Contribution	Employer Monthly Cost
Employees participating for 12 months	15	$503.00	$503.00	$7,545.00
Employees participating for 4.5 months	35	$503.00	$503.00	$17,605.00
Employer's Annual Total Cost				**$169,762.50**
Employees receiving subsidies ($3,000 each)	35			$105,000.00
Total				**$274,762.50**
Annual Increase				$184,222.50
% Increase				**203%**
Source: The Maine Heritage Policy Center				

Scenario 3

The employer may also choose to simply stop offering health insurance coverage entirely. However, if at least one employee purchases subsidized coverage through the Obamacare exchange, then the company would have to pay an annual penalty of $2,000 for each full-time employee, excluding the first 30 employees.

This fine is calculated on a monthly basis; therefore, penalties for employees working seven to eight months a year would not subject the employer to the full $2,000 annual fine. Table 6 calculates the penalty by multiplying the number of employees subject to the penalty (61) by the average months worked (7.5) by the monthly penalty cost of $166.67 or one-twelfth of $2,000. The total penalty equals $76,250 — *a 16% decrease from the employer's current health insurance costs.* See Table 6.

Table 6

Group Health Insurance Costs Under Obamacare

Scenario 3

Total Full time Employees	91
Excluded from penalty	30
Remaining	61
Average months worked	7.5
Monthly Penalty ($2,000/12)	$166.67
Total Penalty	**$76,250.00**
Annual Increase	**-$14,290.00**
% Increase	**-16%**

Source: The Maine Heritage Policy Center

Conclusion

Obamacare is fraught with unintended real-world consequences, as illustrated by this case study. In an effort to require businesses to offer health insurance coverage to employees, the practical result for this real Maine company is to drop health insurance coverage entirely.

The impact of Obamacare's employer mandate has a punitive affect on this business because its seasonal employees working in excess of 120 days annually cannot be excluded from their employee count. This represents a significant cost burden should the employer attempt to maintain a company-sponsored health insurance plan.

Ironically, discontinuing the company health plan entirely enables the employer not only to avoid substantial cost increases, but it will also represent a cost savings.

Methodology

This analysis makes a number of assumptions, the first of which is that the company's current health plan will meet the minimum essential benefit and actuarial value standards as established by Obamacare. If this assumption is false, the cost of the health plan could increase prior to considering the cost impact of covering a larger percentage of the workforce.

We also do not account for the fact that some of the employees currently eligible for but waiving coverage may join the company-sponsored health insurance plan to avoid penalties associated with the individual mandate.

We are also assuming that the employer in this case is not utilizing the safe harbor provisions for calculating variable hour employees, which could delay eligibility for their seasonal workforce.

Notes and Sources

1. Obamacare, which is officially known as the "Affordable Care Act," was signed into law by President Obama on March 23, 2010. Read the full 2,400-plus page text here: http://www.healthcare.gov/law/full/

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