Crisis To Cure

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Obamacare's Negative Impact on Business
Case Study 3

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Introduction

Obamacare purports to lower healthcare costs and, in the end, to boost job creation.[1] However, as this last in a series of three case studies will show, Obamacare will actually increase costs on employers which, in the long run, will mean fewer jobs. As such, Obamacare's much-touted health and economic benefits are outweighed by the "success tax" that it is imposing on businesses in Maine and the country.

Company Profile

The Maine company analyzed for this case study is a retail company with 78 locations in Maine, New Hampshire and Vermont. As shown in Table 1, the company employs, on average, 800 employees, of which 650 are full-time and are eligible for the company's health insurance plan. Currently, 160 of their full-time staff participate in the health insurance plan.

Participation in the company's health plan is high among the employees working in the corporate offices where tenure is longer and wages are often higher. In the retail locations turnover is higher, wages lower, and fewer employees join the health insurance plan.

Table 1
Company Employee Profile

Pre-Obamacare	
Type of Employee	Number of Employees
Eligible	650
Participating	160
Not Participating	490
Source: The Maine Heritage Policy Center	

The company defines an employee eligible for the health insurance plan if they work a minimum of 40 hours per week and have been employed for at least 6 months. Obamacare will require an adjustment to 30 hours per week and no more than a 90-day waiting period for health insurance benefits.

For purposes of this analysis, this study assumes that Obamacare's adjustments to eligibility requirements will not affect the final number of benefit-eligible employees. However, the reality is that this would likely not be the case; as a result this analysis understates the true cost burden to the company.

Current Annual Health Insurance Costs

This employer offers a Health Savings Account (HSA) compatible health plan and the employer contributes to the cost of the health insurance premium. In addition, the employer deposits money into individual Health Savings Accounts on behalf of employees and funds a portion of the plan's out-of-pocket costs via a Health Reimbursement Arrangement (HRA).

To analyze the cost impact of the ACA, the percentage participation in each coverage level was calculated as was the employer's monthly cost for the health plan, HSA and HRA. An HRA is a promise by the employer to pay a portion of health care out-of-pocket costs. Since expenses incurred will differ among employees year to year, the

HRA represents a variable cost. Therefore, the analysis utilizes the industry average HRA utilization of 30% and a monthly administrative cost of $5 per employee per month.

The annual HRA benefit equals $3,000 for employees covered as singles on the health plan and $6,000 for employees covering dependents on the health plan.

Table 2 calculates the employer's annual health insurance expense under pre-Obamacare law. The first column shows the four levels of coverage that employees can choose from, followed by the number of employees enrolled at each level. The percentage of participation in each level is calculated in order to project the increased enrollment post-Obamacare.

The fourth column shows the total monthly premium for the health plan, followed by the employer share of that premium. The fifth column shows the employer monthly HSA contribution, followed by the sixth column showing the estimated HRA expense.

The next column titled "Employer Monthly Total" represents the sum of the employer premium contribution, HSA contribution, and HRA expense. The last column multiples the total by the number of employees enrolled at each coverage level. These monthly totals are then combined and annualized to arrive at a total annual cost for group health insurance to the employer of $799,048 under pre-Obamacare law.

Table 2
Group Health Insurance Costs Pre-Obamacare

	Number of Employees Enrolled	Percent of Employees Enrolled	Monthly Health Plan Premium	Employer Premium Contribution	Employer Monthly HSA Contribution	Monthly HRA ($3000 / $6000 @ 30%+5)	Employer Monthly Total	Employer Annual Cost
Employee Only	101	63%	$414	$154	$50	$80	$284	$28,726
Employee + Spouse	25	16%	$1,122	$418	$100	$155	$673	$16,837
Employee + Child	14	9%	$662	$247	$100	$155	$502	$7,029
Family	20	13%	$1,192	$445	$100	$155	$700	$13,995
							Employer Annual Total	$799,048

Source: The Maine Heritage Policy Center

As discussed previously, new eligibility rules under Obamacare will likely increase the number of employees eligible for the company health insurance plan. But for the purpose of this case study, the analysis assumes that the number of eligible employees remains constant.

Additionally, the employer contribution toward the health insurance premium is expected to increase post-Obamacare because of the "affordability" mandate. In order to satisfy the requirement that defines whether or not health insurance is "affordable" for employees, the employee premium contribution cannot exceed 9.5% of family income.

However, employers generally do not know an employee's family income. Interim guidance has allowed employers to use the employees' W-2 wages that are reported to the IRS to be used for the purpose of determining the affordability of employee premium contributions. As shown in Table 3, a single employee currently contributes $260 per month toward their health plan premium. (Total monthly plan premium $414 minus employer contribution of $154 = $260)

Table 3
Company Health Insurance Affordability Profile

Total Single Monthly Rate	$414
Employee Contribution	$260
Employee Annual Income	$32,790
9.5% Affordability Standard	$3,115
9.5% monthly	$260

Source: The Maine Heritage Policy Center

As such, based on the current employee contribution levels, an employee earning approximately $33,000 would meet the “affordability” standard of premium not exceeding 9.5 percent of income. Any income level below $33,000 would, consequently, not meet the 9.5 percent “affordability” standard.

The company currently has many employees earning less than $33,000 annually and will likely need to increase company health insurance contributions to meet the new “affordability” standards. While this will drive up costs, this analysis assumes that contributions will remain unchanged.

Quantifying the Costs of Obamacare

There are three realistic scenarios that could materialize for this employer under Obamacare keeping in mind the two conservative assumptions being used. First, Obamacare’s eligibility rules will likely increase the number of employees eligible for the company health plan, but it is assumed that the population of eligible employees remains unchanged. Second, the employer’s premium contribution will likely need to be increased due to the “affordability” standards, but it is assumed that the contributions remain unchanged.

Scenario 1

There are currently 490 benefit-eligible employees choosing not to participate in the company health insurance plan. Assuming that approximately 25 percent, or 122 of those employees, have coverage elsewhere either through another employer, family member, or other resource such as Medicaid, there are 368 (490-122) employees who are eligible for health insurance without other options for coverage.

In this scenario, these 368 employees choose to join the company health insurance plan. Table 5 shows the increase in enrollment by 368 employees which mirrors the current percentage distribution among the four levels of coverage. The result is the increased number of insured to 528 (160 + 368) employees dramatically increases the cost to the company by 232 percent, or $1,851,887.

Table 4
Company Employee Profile
Scenario 1

Post- Obamacare	
Type of Employee	Number of Employees
Eligible	650
Participating	528
Not Participating	122

Source: The Maine Heritage Policy Center

Table 5
Group Health Insurance Costs Under Obamacare
Scenario 1

	Number of Employees Enrolled	Percent of Employees Enrolled	Monthly Health Plan Premium	Employer Premium Contribution	Employer Monthly HSA Contribution	Monthly HRA ($3000 / $6000 @ 30%+5)	Employer Monthly Total	Employer Annual Cost
Employee Only	330	63%	$414	$154	$50	$80	284.42	$93,859
Employee + Spouse	84	16%	$1,122	$418	$100	$155	673.48	$56,572
Employee + Child	47	9%	$662	$247	$100	$155	502.08	$23,598
Family	67	13%	$1,192	$445	$100	$155	699.74	$46,883
Employer Annual Total								$2,650,935
Annual Increase								**$1,851,887**
% Increase								**232%**

Source: The Maine Heritage Policy Center

Scenario 2

In scenario 2, as shown in Table 6, the 368 employees identified as not having other health insurance coverage do not join the company health plan, but instead choose other options through Obamacare. First, 75 percent of these 368 employees (276) purchase subsidized coverage through the Obamacare exchange. Second, 25 percent of these 368 employees (92) purchase no coverage at all and simply choose to pay the penalty for going without coverage.

Table 6
Company Employee Profile
Scenario 2

Eligible Employees Currently Not Participating	490
Employees with Coverage Elsewhere	122
Employees with No Coverage	368
25 Percent Choose to Pay Penalty versus Buy Coverage	92
75 Percent Purchase Subsidized Coverage Through the Exchange	276
10 Percent Purchase Through Exchange without a Subsidy	28
Remainder Purchase Through Exchange with a Subsidy	248

Source: The Maine Heritage Policy Center

Additionally, of the 276 that purchased subsidized care, 10 percent (28) purchase through the exchange but do not qualify for a subsidy. Overall, this leaves 248 employees purchasing coverage through the exchange and receiving a subsidy.

Under Obamacare, the penalty to the company for each person who purchases subsidized insurance coverage is equal to $3,000 per employee. As shown in Table 7, Obamacare will increase the company's health insurance costs by 93 percent, or $744,000.

Table 7
Group Health Insurance Costs Under Obamacare
Scenario 2

Current Employer Cost	$799,048
Penalty (248 X $3,000)	$744,000
Total Employer Cost	$1,543,048
Percent Increase	93%

Source: The Maine Heritage Policy Center

Scenario 3

Another option for this company, especially given the cost impact they could be facing in either of the first two scenarios, is to drop health insurance coverage entirely. Should the company choose this option, the penalty changes to $2,000 per full-time employee minus the first 30 employees. As shown in Table 8, Obamacare would increase the company's cost by 155 percent, or $1.24 million.

Table 8
Group Health Insurance Costs Under Obamacare
Scenario 3

Total Full-Time Employees	650
Minus 1st 30 Employees	620
Annual Penalty ($2,000/employee)	$1,240,000
Current Employer Cost	$799,048
Percent Increase	155%

Source: The Maine Heritage Policy Center

Obamacare as a "Success Tax"

Regardless of the intentions of Obamacare, the end result is that these higher health insurance costs amount to the equivalent of a "success tax" on this company. Naturally, this company is in business today because it has successfully met the needs of the marketplace and has justifiably earned a small profit as a reward for taking a risk.

However, as this study has shown, the cost increases in providing health insurance coverage under Obamacare are staggering. Yet, the picture gets worse for this company when measured against their average profit level. As shown in Table 9, scenario 2, the least costly option, would cut this company's profit margin in half—and this is the best-case scenario. Under scenario 1, the company's health insurance burden would not only consume all of its profit margin, but the company would have to borrow money just to stay afloat in the short-term. Borrowing is not a long-term answer and, without other cost reductions such as lay-offs, the company would eventually be forced into bankruptcy. In this worst-case scenario, not only do the employees not have health insurance, they won't have a job either.

Table 9
Obamacare as a "Success Tax"

	Percent of Company's Profit (a)
Scenario 1	134%
Scenario 2	54%
Scenario 3	90%

(a) 4-year average after-tax profit
Source: The Maine Heritage Policy Center

Conclusion

We have outlined several scenarios for this company that could result from Obamacare. This analysis is highly conservative resulting in cost-impact assumptions that are likely lower than they will be in reality. Even with this caveat, this analysis demonstrates significant health insurance cost increase to this employer ranging from an additional 93 percent to 232 percent above their current cost.

More ominously, Obamacare will act as a "success tax" on the company's profit that will range from half to exceeding the company's average profit. This burden could ultimately put this company out of business, which would not only mean no health insurance to the company's employees, but it would also mean no jobs either. This case study of a real Maine company finds that Obamacare will mean higher health insurance costs to employers and, in the long run, fewer jobs.

Methodology

This study makes a number of conservative assumptions:

First, the analysis assumes that the current health plan will meet minimum essential benefit and actuarial value standards as established by Obamacare and second, that employer premium contributions are adequate to meet minimum contribution requirements. If either of these assumptions is false, the cost of the health plan could increase prior to considering the cost impact of covering a larger percentage of the workforce.

The study does not contemplate that some employees may be eligible for Medicaid coverage and would therefore not purchase through the exchange.

Notes and Sources

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

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