The Affordable Care Act’s effects on small businesses

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Recommended Citation
Mason, Alyssa K., "The Affordable Care Act’s effects on small businesses" (2014). Celebrating Scholarship & Creativity Day. 17.
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Affordable Care Act’s Effects on Small Businesses

Alyssa Mason
My Question:
How does President Obama’s new Affordable Care Act financially affect small businesses?
Why is this important?

- Businesses:
  - Need to know how different size affects them
  - Which are better financially?
- Policy Makers:
  - Are the most amount of people benefitting?
- Entrepreneurs:
  - Avoiding “job lock” and starting own business
Existing Research

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Smaller Premiums</td>
<td>• Employer Mandate for firms with over 50 FTEs</td>
</tr>
<tr>
<td>• More coverage options</td>
<td>• Stop hiring and cut hours and wages</td>
</tr>
<tr>
<td>• Allow people to start their own business</td>
<td>• Restricts growth plans</td>
</tr>
<tr>
<td>• No requirements for firms under 50 FTEs</td>
<td></td>
</tr>
</tbody>
</table>

http://www.newyorker.com/talk/financial/2013/10/14/131014ta_talk_surowiecki
https://www.healthcare.gov/what-do-small-businesses-need-to-know/
Main Component
• Businesses with 50+ employees must offer coverage

Large healthcare expense

Opt out of offering coverage?
• Subject to penalty payment
Shared Responsibility Payment

• For business with 50+ employees

• “Play or Pay”

• Two Penalties:
  ▫ No coverage
  ▫ Unaffordable coverage (greater than 9.5% of annual income)

• Is this cheaper than offering coverage?
Cost of the Shared Responsibility Payment

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>49</th>
<th>50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Plan Cost</td>
<td>$1,403</td>
<td>$1,403</td>
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<tr>
<td>Yearly Cost per Employee</td>
<td>$12,627</td>
<td>$12,627</td>
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<tr>
<td>Yearly Cost of Coverage</td>
<td>$618,723</td>
<td>$631,350</td>
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<tr>
<td>Cost of Mandate</td>
<td>$0</td>
<td>$40,000</td>
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</tbody>
</table>
Is there any incentive to offer coverage?

- Retain valuable employees
- Focused and satisfied employees
- Premium Tax Credit for under 25 employees
Premium Tax Credit

• Beneficial financial effect
• Encourages small firms to offer healthcare coverage
• For small businesses under 25 FTEs
• Annual wages must be less than $50,000 to claim
• Only available if employer uses SHOP marketplace
# Tax Credit Impacts

<table>
<thead>
<tr>
<th></th>
<th>$20,000 Avg Wages</th>
<th>$40,000 Avg Wages</th>
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</thead>
<tbody>
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<td><strong>Number of Employees</strong></td>
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<td>Yearly Cost per Employee</td>
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<tr>
<td></td>
<td>$303,048</td>
<td>$315,675</td>
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<tr>
<td>Healthcare Costs</td>
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<td>Tax Credit</td>
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<td>$0</td>
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<tr>
<td>After Tax HC Costs</td>
<td>$292,946</td>
<td>$315,675</td>
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<tr>
<td>Difference</td>
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<td>$18,941</td>
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</tbody>
</table>
Key Findings of Financial Impacts

Under 25 Employees
- No penalty for not offering coverage
- Premium Tax Credit
- No shared responsibility payment

25 to 49 Employees
- No penalty for not offering coverage
- **No** Premium Tax Credit
- No shared responsibility payment

50+ Employees
- Must offer coverage otherwise subject to Shared Responsibility payment
Continued Research

• Crunching numbers on variables
  ▫ Costs of premiums under different coverage options
  ▫ Different shared responsibility payment penalties
  ▫ Exact tax credits at various income levels
• Retaining valuable employees
• Actual results
Questions?