

The Affordable Care Act's Effects on Small Businesses

Importance and Audience

Any small business will find my research worthwhile. They need to know how having different numbers of employees will affect their bottom line. The regulations change depending on how many employees a business has so having more or less employees can really change the financials.

Policy makers should also benefit from my research. Their job is to set policies that benefit the majority of the people. They should want to know which group of people benefit the most and the least so they can satisfy the most amount of people.

Entrepreneurs should also find my research valuable. According to a study by economists John Schmitt and Nathan Lane, the US's small business sector is among the smallest in the developed world, and has one of the lowest rates of self employment, mostly due to the fear of losing their healthcare. The federal government predicts that the ACA will encourage currently employed people to start their own businesses because healthcare will be more affordable. As a result, they will want to know if there are any cutoffs to stay under and how they will financially impact their own business.

Existing Research

Since this is such a controversial new law, there are many articles that are both for and against the new healthcare act. Both have very valid points but the overwhelming majority of articles give the ACA a positive rating, for the following reasons:

- Promises of smaller premiums
- More coverage options
- Allow more people to start their own businesses
- No requirement to offer coverage for firms with under 50 full time employees

The New Yorker claims that it will lower premiums and there will be more coverage options, and as mentioned earlier, it gives people a chance to start their own business without the fear of losing their health insurance with their existing employer. According to the federal government websites, there is no requirement for firms with less than 50 full time employees to offer coverage. This is good for them as it means the ACA will not change the way they are currently running their business.

There are also some negative views, such as the mandate for employers with over 50 employees. They will be forced to pay more than what they are currently paying now because they are required to offer insurance or pay a penalty. An article on INC.com believes that it will freeze wages and hiring, and thus restrict growth plans. My main question, however, was how the ACA affects businesses financially and none of the research gave me a conclusive answer. For this reason, I looked into which aspects of the act affect a company's financials specifically.

My Research

One of the main components of the act is that businesses with 50 or more employees must offer health insurance. If they are not already offering health insurance, this is going to be a huge expense for the business that they are not used to. If companies choose to not offer health care coverage, however, they will be hit with a penalty.

Shared Responsibility Payment

This penalty is called the Shared Responsibility Payment, which is a penalty for companies with 50 or more employees that do not offer health insurance to their employees. Employers at this threshold must either “play or pay”. There are two ways these employers may have to pay a penalty. First, if they provide no coverage and second if the coverage they provide is considered unaffordable.

It's considered unaffordable if the employee pays over 9.5% of their household income on insurance and if the plan does not cover at least 60% of the healthcare expenses. The first penalty is \$2000 per employee for every employee over the first 30. The second penalty is \$3000 for each employee that claims the health care subsidy on their personal income tax. Although \$3000 is a larger amount, studies show that the \$2000 penalty will eventually be more expensive for companies because by not offering coverage, they will automatically have to pay the penalty for every employee, but not every employee will claim the healthcare subsidy (they may have coverage through their spouse). Since this \$2000 penalty will have a bigger effect, I calculated the cost of the mandate compared to offering coverage for two companies: one with 49 employees and one with 50 employees to show the true cost of hiring that one extra person.

Number of Employees	49	50
Plan Cost (Gold) per Month	\$1,403	\$1,403
Employer Cost per Employee per Year	\$12,627	\$12,627
Yearly Employer Healthcare Costs	\$618,723	\$631,350
Cost of Mandate	\$0	\$40,000

As you can see, a basic/common healthcare plan will cost around \$1400 per month. On average, employers chip in 75% of the premium, meaning the yearly cost for employers per employee is \$12,627. Times that number by the amount of employees and you get the yearly cost of coverage for the business. In this instance, the company with just 49 employees would technically have to pay zero dollars. There is no requirement to offer coverage. However, they need to be careful because by hiring just one extra employee, the business will be required to pay either \$631,350 in health care coverage or a \$40,000 penalty.

At that 50th employee mark, business owners will have to choose between paying a fine of \$40,000 or over half a million dollars in health care coverage. By simply looking at the numbers, it seems as though it would make sense financially to just pay the penalty.

However, business owners may want to think twice before just paying the cheaper fine. Healthcare is a way to retain good, valuable employees. According to a MetLife survey, employees consider healthcare benefits to be the foundation of their personal safety net. It is nearly as important as salary. 82% of workers consider salary important and 74% consider health benefits important. This same study also found that employees with health benefits were more focused and satisfied. By not offering coverage because of the high costs, employers may lose valuable employees to their competitors.

Premium Tax Credit

To help small business owners retain these valuable employees, the ACA offers a premium tax credit to businesses under 25 employees. Since in 2009 only 33% of firms with under 10 employees offered healthcare, the government wanted to encourage businesses to do so.

There are some stipulations to claiming the credit though. It's available to those small firms that have under 25 full time employees, however, there is a limit when it comes to wages. The average annual wages of the company's employees must be under \$50,000. And lastly, small businesses have to use the online SHOP marketplace to buy their insurance. They will not receive the credit if they go through private brokers. This sounded like a good incentive for those smaller firms with smaller revenues to offer coverage but I wanted to know how much the tax credit would really help financially.

	\$20,000 Avg Wages		\$40,000 Avg Wages	
Number of Employees	24	25	15	16
Yearly Cost per Employee	\$12,627	\$12,627	\$12,627	\$12,627
Healthcare Costs	\$303,048	\$315,675	\$189,405	\$202,032
Tax Credit	\$10,102	\$0	\$6,314	\$0
After Tax HC Costs	\$292,946	\$315,675	\$183,091	\$202,032
Difference		\$22,729		\$18,941

This table shows the impact of the tax credit at two different wage levels. The tax credit is a sliding scale, meaning the lower the average wages and the lower the number of employees, the higher the credit. Here, you can see the tax credit at two different wage levels with different amounts of employees. Like with the penalty payment, I'm assuming the monthly cost of care to be \$1403 with a 75% contribution level. You can see that the yearly cost per employee is the same at \$12,627 and then that is multiplied by the number of employees. As you can see, just adding 1 employee can make a big difference when it comes to the credit. At the \$20,000 salary level, adding one employee will technically only cost \$12,000 for coverage but without the tax credit, it will end up costing you \$22,700, or nearly double. Meaning that this incentive to offer coverage may have a hidden cost. It may stop employers from hiring more employees or raising wages.

Key Findings

This leads me to my key findings. The shared responsibility payment penalty and the premium tax credit are going to make the two biggest impacts on a company's financials. To summarize, here is how it is going to affect companies of different sizes. Companies with 50+ employees are going to have the biggest burden. Now they will be required to make some level of payment they were not previously making before the ACA was signed into law. Companies under 50 employees will not see an impact unless they decide to offer coverage (though they are not required). Of the companies under 50 employees that decide to offer coverage, businesses with between 25 and 49 employees will have the biggest burden. If they do offer coverage, they will receive no tax credit, unlike businesses with less than 25 employees. These businesses are the best off with the ACA because they do not technically have to pay anything, but if they decide to do so, not only will they retain valuable employees, but they will get a tax credit. The main downfall of the ACA is that all companies will have to consider how adding another employee will affect which part of the law they have to follow and how this financially affects them.

Continued Research

If I had more time and resources, I would continue my research by doing much more number crunching. I would find the exact prices of premiums under many different coverage options, since not all plans offer the same type of benefits. I would do more research into the shared responsibility payment and see what the burden would be if the company didn't offer affordable coverage versus no coverage at all. I would need to find data on the incomes of people at the company and how many would need to claim the personal tax credit. I would also do more research on the tax credit. I spent a lot of time on this and tried to calculate it myself. However, to claim the credit you need to know the amount of state subsidies/tax credits a company received. This was another variable that I did not have time to research enough to obtain conclusive data. I would also like to look into the statistic that employees who have health benefits are more satisfied and valuable with their jobs. I think it would be helpful to note because this is a big factor in deciding if firms under 50 employees should offer coverage. Besides some data crunching, I would also like a chance to look into the actual results from companies who have decided to offer or not offer care. I think it will take a few years before we obtain data to do so since the ACA is a very new law. Overall, there are a lot more in depth variables that should be researched.