



What the House Health Care Bill Means for Franchising

H.R. 3962, the Affordable Health Care for America Act

H.R. 3962 is the health care bill the House of Representatives will debate on the floor starting the week of November 2 and likely extending through the holiday season. This legislation is the result of three separate committee proposals that were recently combined by House Democratic leadership. IFA staff has examined the legislation to determine what aspects may be helpful to franchised businesses and what aspects will lead to higher health insurance costs and higher taxes. Will the legislation restrain the growth in premium increases for businesses with private health insurance? Will the legislation make it affordable for franchised small business to purchase coverage? Will the legislation decrease federal health spending and lower the federal deficit over the long term?

How Will it Help?

- Phases out pre-existing condition exclusions, lifetime caps on coverage and rescinding coverage when you get sick. (Fully phased out by 2013)
- Establishes grant programs to assist small employers that provide wellness programs to employees.
- Provides increased funding for community and rural health centers and provides funding to increase the health care workforce; training new nurses and doctors.
- Establishes tax credits to help low income individuals and low-wage employers purchase insurance on their own.
- Creates regional or state-based exchanges where small businesses with up to 100 employees can shop for coverage (phases in by 2015).

How Will it Hurt?

- Establishes an employer mandate to provide health insurance coverage to employees. If employers do not purchase coverage, then they must pay a tax penalty of up to 8% of total payroll over \$750,000. Payroll tax penalties phase in starting at \$500,000. The thresholds for imposing the payroll tax penalty are not indexed, which means that the House bill is creating a strong disincentive (a sharp marginal tax hike) to grow and expand your franchise business beyond these levels.
- Establishes tax surcharge of up to 5.4% on adjusted gross incomes of \$500,000 (single) or \$1 million (married). The thresholds for the tax surcharge are not indexed. This is the same mechanism that has exposed millions of Americans to the AMT, which has crept downward into the pocketbooks of middle class families.

- Creates a government-run, public insurance option where individuals can purchase coverage. The government will negotiate plan rates with private insurers. Many independent studies have projected that private insurance premiums will increase as more individuals join the public plan that will pay doctors and hospitals at lower, government negotiated rates. Costs will ultimately shift to private insurance payers.
- Unclear definitions of “employee” would require employers to offer insurance coverage to full-time, part-time and seasonal employees. Also requires employers to automatically enroll employees after 30 days since hiring. IFA sought at least a 90 day waiting period for enrollment of employees, and the bill’s treatment of part-time workers appears to be a significant burden on small businesses.
- Establishes an “essential benefits package” standard that the government will mandate as the minimum allowable insurance plan.
- Employers will be responsible for a minimum contribution of 72.5% toward individual insurance premiums and 65% toward family insurance premiums. Surveys of IFA members have shown us that any minimum contribution requirements beyond 50% will increase costs for a typical franchise employer.
- Weakened medical malpractice liability reform. Provides grants to states that voluntarily choose to implement alternatives to litigation, but denies states incentive payments if they cap trial lawyer fees or limit damage awards.
- Creates an affordability test. If an employer-sponsored plan costs an individual more than 12% of their income, they become eligible for subsidies to buy insurance on their own. The employer would still be subject to tax penalties for employees who buy insurance on their own under this test.

How Much Will it Cost?

- The Congressional Budget Office (CBO) has indicated that the legislation will result in covering 96% of the U.S. population at a cost of \$1.055 trillion over the next ten years.
- The \$1.055 trillion cost is offset by \$740 billion in new taxes and revenue and \$426 billion in spending cuts, largely in the Medicare program.
- This does not include another bill that addresses how doctors are paid under Medicare. That measure will cost another \$245 billion.
- Expands Medicaid programs to cover more individuals and asks state governments to help pick up the tab.

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