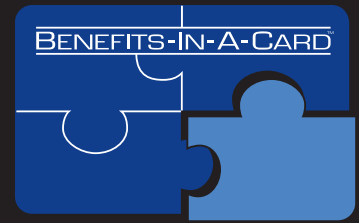


Restaurant Operators Should Be Wary of Health Care Reform

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As I'm writing this article, the U.S. Senate is in the throes of debating a massive health care overhaul bill designed to provide medical coverage to nearly every legal resident of the United States. With 13 million employees, the U.S. restaurant industry is one of the country's largest private-sector employers and has much at stake with health care reform legislation. The effects that the proposed legislation will have on this single industry alone will have severe—and permanent—negative implications for our entire economy.

Currently, 162 million Americans have employer-sponsored insurance (ESI), representing over 60 percent of the non-elderly population. ESI accounts for 90 percent of the private insurance market. ESI not only is an important source of insurance coverage for workers and their families, but also affects individual's employment decisions, including the choice of whether to work, how many hours to work, and what type of job to hold.

The Terms of the Proposed Bill

Terms of the proposed bill require employers to provide a qualified benefits plan for employees and their dependents or else pay a percentage of their payroll into a health insurance exchange. Penalty payments range from 2 percent up to 8 percent, depending on the size of the payroll. Employers are also required to provide medical coverage for part-time employees or pay the excise tax. The amount of coverage the employer must provide for part-time employees will be pro-rated based on the proportion of average weekly hours of employment and the minimum weekly hours for an employee (30 hours/week). If the employer pays the excise tax, part-time employee salaries are factored into the excise tax calculation since the average salary paid by the employer is used in the calculation.

The Foodservice Industry

More than 90 percent of the foodservice industry is made up of small businesses with an average profit margin of less than 4 percent, according to the National Restaurant Association. In 2009, total industry sales were down considerably over the previous two years. The National Restaurant Association, the National Council of Chain Restaurants, and the International Franchise Association oppose funding mechanisms contained in the bill that they say will hurt businesses, particularly provisions that would require employers to offer health benefits to part-time employees or pay a penalty.

Employer-Sponsored Insurance

Employer-sponsored insurance is strongly correlated with company size, with 97 percent of businesses with over 100 employees offering coverage vs. 40 percent of companies with fewer than 25 employees. Offer rates have remained fairly steady over the past 10 years, increasing in small firms in the late 1990s during a period of robust economic growth before slipping back to 1996 levels. The share of premiums paid by employers has remained constant over time, averaging 85 percent for individual coverage and 75 percent for family coverage. However, due to the rising cost of health care, employee premiums more than doubled in dollar terms over the past decade, from \$1,300 to \$2,900 for family coverage.

The Benefits of ESI (and possible changes)

But why do workers choose to purchase insurance through their employers rather than on the individual market? The answer is that there are significant savings associated with ESI. First, there are substantial economies of scale when purchasing insurance through a group. Second, the problem of adverse selection (sicker individuals being more likely to sign up for coverage) is reduced in an employer-sponsored group, since a large group is likely to have something approaching the population average level of risk. Third, the fact that health insurance premiums are not subject to income taxation effectively reduces the price of insurance purchased through the employer.

This last benefit may change under new legislation as it considers including health insurance as taxable income. Presently, money employers pay to buy insurance for workers is excluded from the workers' taxable income. According to the congressional Joint Committee on Taxation, the Treasury misses out on \$220 billion a year in revenues because employer spending on health insurance isn't counted as taxable income. Some congressional leaders see taxing employer-provided insurance as a principal means of raising the money needed to cover Americans who are now uninsured. This, in essence, would become a backdoor tax increase at a time when people can least afford it.

Even if the cost of health insurance remains non-taxable income, the advantages are bigger at large companies that experience greater economies of scale, more efficient risk pooling, and tend to have higher-paid employees. But remember, 90 percent of the U.S. restaurant industry is made up of small businesses with mostly part-time workers. Because part-time workers are ineligible for comprehensive insurance plans, the restaurant industry does not receive tax benefits by offering medical coverage to employees, yet the market forces employers to offer it in order to effectively compete for quality workers.

Will Limited Medical Plans Still Qualify?

One way that much of the restaurant industry has been able to offer affordable, credible medical coverage to its broad base of part-time employees is through limited medical insurance. Currently, of the 10.3 million part-time restaurant workers that have health insurance coverage, many receive it either through limited medical plans or through a spouse's employer-sponsored plan. Limited medical plans offer some medical benefits that are not comprehensive in coverage but do offer real benefits that part-time and non-benefit eligible employees need like office visits and limited prescription benefits. Consequently, limited medical plans cost less. However, language in the proposed health care reform legislation may make it impossible for limited medical plans to qualify as sufficient coverage.

Who Carries the Burden?

Over time, mandating employers to pay for employee medical coverage and establishing a government-run public option will undoubtedly shift costs onto employer-sponsored private insurance coverage. The bill's \$1 trillion price tag is shocking considering the country's already staggering debt. But rest assured, small businesses—including those in the restaurant industry—will carry much of the burden of funding this plan by means of new tax surcharges and penalties.

Today, health care inflation threatens to price coverage out of reach for all employers that provide it to their employees, and puts it even further out of reach for employers who would like to do so. The mandates on coverage in proposed reform legislation only serve to raise the cost of employer-provided health insurance, thus making an already difficult situation worse.



Carl Stecker is President and Chief Executive Officer of Benefits In A Card, one of the country's leading administrators of limited medical insurance. His company has been honored by AllState Insurance as the country's #1 administrator of its limited medical. Mr. Stecker serves on a number of professional and civic boards and is an active member of the American Staffing Association and Staffing Industry Analysts.