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Health care reforms no shot in arm for small business

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We typically associate the word “reform” with improvement or a heightened level of fairness and equity.

Small business owners will likely have a much different interpretation if the proposed health care reforms are implemented.

Simply put, employers will be stripped of their ability to decide whether to offer coverage, what kind of coverage to offer and how much to contribute toward the cost of that coverage. It is likely that many of these so-called reforms will leave us longing for the “unfair” and “inequitable” health care system that we have today.

The theory behind the current health care reforms is this: By adding millions of uninsured Americans to our insured population, insurance companies will generate more premiums, improve their spread of risk, eliminate punitive financial penalties for pre-existing conditions and hopefully reduce the cost of health care for the average American.

History, however, has shown that what sounds good in theory does not always work in the real world, and the sad reality is that the proposed reforms are likely to have numerous unintended consequences, especially for small businesses.

For example, let’s consider the likely consequences of mandated coverage. One current proposal requires all employers with \$500,000 or more in annual payroll to provide major medical coverage or be subject to an escalating penalty that reaches 8 percent of payroll for employers with \$750,000 or more in annual wages.

A small business owner approaching that threshold will have to think long and hard about granting pay raises or hiring another employee, a move that could put him over the mark.

For those of us who have been there, it is obvious that a \$60,000 annual growth penalty would force many small businesses to remain under the \$750,000 threshold in order to survive. Considering that small businesses have produced most of America’s job growth during the past two decades, this could seriously hinder our economic recovery.

The fact that labor union membership continues to decline lends some credence to the argument that our free-market system, which allows employers and employees to mutually agree upon terms of employment, including pay and benefits, is alive and well.

Reforms that would require employers to meet coverage and contribution mandates that are set by the government will take away an important element of that free-market system.

Increased spending on health care is almost certain to have a negative impact on wages. Employees will likely lose their ability to opt for higher pay in lieu of costly employee benefits. For those who think wages won’t suffer, that is where theory collides with the real world.

On the bright side, business owners will no longer suffer from indecision about their health care strategy because there won’t be many decisions left to make. Except for the smallest employers, the decision to offer health care, the level of coverage you offer and the amount you contribute will be mandated.

Although it will take years to fully implement these reforms (assuming they are ultimately passed), now is the time to assess the impact they will have on your cost of doing business.

If you don’t offer health insurance today, start preparing to do so. If you offer insurance but exclude certain classes of employees, get ready to include them. And if you offer a limited benefit plan, get ready to expand your coverage to meet proposed coverage mandates.

Now is the time to develop a strategy to deal with these changes. It may require you to reduce overhead or increase revenues in order to compensate for the higher cost of doing business. Making incremental adjustments over a several-year period will be much less stressful than waiting until the last minute.

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