

Cashews on the Hindenburg

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The Patient Protection and Affordable Care Act (PPACA) has a thousand pages of moving parts, and the relatively few that have rolled out are shedding sprockets across the landscape. This is deeply worrying, given that the stability of the nation's health care system depends on the successful construction and launch of a vast fleet of new institutions before New Year's Day, 2014.

Number-one selling point

Consider the small business health insurance tax credit. For two years, PPACA supporters have trumpeted this small piece of the law as their [number-one talking point toward small business](#). For some businesses, they note, the credit can offset up to 35 percent of employee health insurance costs and 50 percent beginning in 2014. "This year, up to 4 million small businesses may be eligible for tax credits, making it easier for them to provide coverage to their workers," says the [White House website](#). "Health care reform saves small business owners money immediately through tax credits," proclaims [another site](#). The credit is a "[huge boon](#) to small businesses," declares a recent newspaper column.

This is equivalent to the statement, "Unlimited cashews offer huge boon to Hindenburg passengers."

A bowl of cashews is a tempting snack, but it's relatively unimportant to someone riding five million cubic feet of hydrogen toward an electrical source. Likewise, the incessantly-touted credit is a modest little windfall for a relatively few small businesses. It's not a bad thing in and of itself. But the credit is miniscule next to the [heavy load](#) of financial costs, red-tape, and uncertainty generated by PPACA. And the credit provides a cautionary tale for the rest of the law.

The record

The National Federation of Independent Business noted all along (see [4/3/11](#) and [5/13/10](#)) that far fewer than 4 million businesses would qualify. Our warnings were greeted with rolling eyes, but even our most pessimistic forecasts weren't as bad as the actual numbers.

The U.S. Treasury Inspector General for Tax Administration said only [309,000 businesses](#) claimed the credit for 2010—8 percent of that theoretical 4,000,000. Those 309,000 received, on average, only \$1,346. Spread across the mythical 4,000,000 "potential" recipients, that's \$103 apiece. To put this in perspective, in 2011 small-group insurance premiums averaged \$5,328 for an individual employee and \$14,098 for a family. So \$1,346 per employer (not per employee) is not much of an inducement to offer insurance.

But as insignificant as the credit is for most businesses, it did cost the government \$416,000,000 in 2010. Buried within a trillion-dollar deficit, something just under half-a-billion dollars isn't huge, but as the federal debt floats toward crisis, neither is it trivial.

The [real reasons](#) for the credit's failure were obvious from the start. It was terribly designed, relatively few businesses qualified, and many who did only qualified for a pittance. The 35 percent credit shrinks to nothing as a business grows beyond 10 employees, raises wages beyond \$25,000, employs the

owner's relatives, uses part-time labor, or offers more-generous-than-average insurance. Once the exchanges open in 2014, the credit expires within two years. Some accountants have told business owners to forget about claiming the credit—that it costs more to calculate than it will pay out. (For the record, NFIB always suggested that employers take advantage of the credit if it were in their financial interests.)

The excuse

Why this failure? PPACA supporters give a troubling response. They did a survey purporting to show that 57 percent of business owners had never heard of the credit. Let's suppose they're correct and consider what that claim implies.

Advocates, from President Barack Obama on down, have continuously touted the credit. In 2010, the [White House](#) launched a "nationwide educational campaign for small businesses and tax preparers." According to the official website, this campaign included a special page on WhiteHouse.gov, millions of postcards mailed by the IRS to businesses, over 1,000 tax workshops and small business forums, email blasts to 175,000 tax professionals, and a special section on IRS.gov.

And yet after two years of this massive information campaign, PPACA supporters complain that a majority of business owners (and by extension, their accountants) remain unaware of a [tax form](#) that could potentially save an individual business thousands of dollars per year. Keep in mind that these are business owners who constantly navigate the more cumbersome and arcane corners of the U.S. Tax Code. If we believe the survey, in two years, all the resources of the federal government could not reach a small, targeted, well-educated, easily-identified segment of society.

Now, the same government has less than two years to acquaint 300 million Americans with the impenetrably complex workings of PPACA's individual mandate, premium credits, cost-sharing subsidies, exchange and non-exchange markets, employer mandate, essential health benefits, Medicaid qualification, actuarial values, myriad tax-code changes, benefit tiers, preventive service coverage and on and on.

Beyond the credit

PPACA's failures do not end with the credit. PPACA created high-risk pools so that Americans with pre-existing medical conditions could immediately gain access to insurance. The Congressional Budget Office estimated that perhaps 4 million Americans would be eligible. The Chief Actuary of Medicare and Medicaid [estimated](#) that 375,000 people would enroll by the end of 2010. By October 2011, only 41,000 had signed up nationwide—an 89 percent underperformance.

PPACA was sold as a way of lowering the cost of health insurance. And yet health insurance premiums rose 9 percent in the year following enactment, versus a 3 percent increase in the year before (and 5 percent between 2005 and 2010).

As the states scramble to establish the exchanges that must be operative by January 1, 2012, governors of both parties are warning that the law is a logistical nightmare ([scroll to 9/28/11](#)).

The list goes on.

The [Supreme Court will decide](#) in early 2012 whether to throw PPACA out. Whatever the court decides, it is time to rethink health care reform and to do it right this time. Here's a small starter set of ideas – [twelve ways](#) to begin genuine reform.

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