

## PPACA spawns a new form of wage discrimination

**B**eginning in 2014 all employers with at least 50 employees must buy comprehensive health insurance for all full-time employees or pay a penalty of \$2,000 dollars per employee. With the average cost of health care per employee around \$8,000 by 2014, some employers will exit the health care marketplace and pay the fine. An employer could drop health coverage, pay a fine, even give employees a raise, and end up ahead.

Instead, assume that an employer chooses to keep the social contract with its employees and continues offering health insurance beyond 2014. PPACA will mandate the minimum levels of benefits that may be offered, as well as how much an employer may ask an employee to contribute toward the overall premium.

A typical family coverage plan could easily cost \$20,000 in 2014. In fact, some already do. Under PPACA, an employer will not be allowed to charge an employee more than 8% of that employee's annual household income.

To illustrate this, assume that an employee, Bob, is married with a family and is the sole wage earner. If Bob makes \$125,000 per year, his employer, Acme Enterprises, may charge him 8% of \$125,000, or \$10,000, for his share of the premium. This means that Acme and Bob will each pay half. And Acme will pay a manageable (and historically reasonable) 8% of Bob's salary toward his insurance.

Conversely, Bob's co-worker Clara is also married with a family and is the sole wage earner, but only makes \$25,000 a year. Acme may only ask for a \$2,000 contribution toward her \$20,000 premium and would be compelled to pay the

\$18,000 balance.

So Acme will pay nearly twice as much for Clara's coverage as it will for Bob's. And instead of health insurance costing Acme 8% of Bob's pay, it would be 72% of Clara's pay.

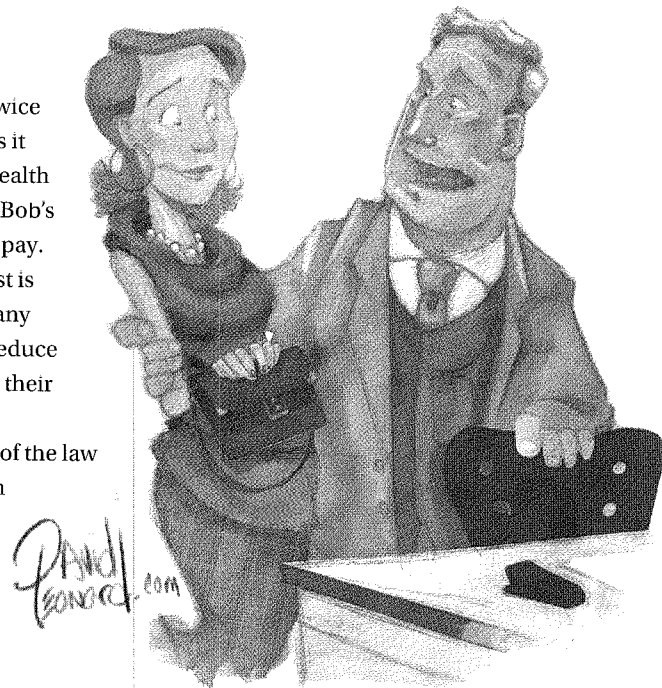
That kind of insurance cost is a practical impossibility for many employers. Instead, they will reduce the amount of low paid jobs in their businesses.

And because this portion of the law only applies to businesses with 50 or more employees and to employees who work 30 or more hours a week, employers will convert many of their lower paying positions to 29 hours a week or less. This phenomenon now occurs in Hawaii, which has a similar mandate.

Businesses that employ 45 to 49 employees and are facing a reasonable opportunity to grow will have to add a whole new cost-benefit analysis to their growth decision. They must be certain that breaking the new "health reform ceiling" of 50 employees will pay off.

Lastly, consider a business that desperately needs a new administrative employee on a full-time basis. The position pays \$25,000 and for practical purposes cannot be converted to part-time. The employer has two applicants. One is a single mother with no other sources of income; the other has a family and is married to a successful doctor. Household income for the doctor's family is likely to be well over \$125,000; household income for the single mom is \$25,000.

PPACA creates a strong financial incentive for the employer to hire the can-



didate with a higher household income, since it must pay that person a total compensation package of \$35,000 (\$25,000 salary + \$10,000 premium) versus \$43,000 (\$25,000 salary + \$18,000 premium).

In attempting to mandate how much an employee can pay for health coverage and tying the test of affordability to a person's household income, PPACA creates a new, insidious discriminatory intent against lower paid individuals.

Furthermore, raising the question of annual household income unnecessarily invades an individual's privacy by compelling employers to make someone's annual tax return part of their benefits administration. No broker, employer or employee will appreciate the application of these aspects of the law. **EBA**

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