

Speaker Pelosi's Government Takeover of Health Care Will Destroy Small Business Jobs

November 3, 2009

Health care reform should help small businesses and families tackle the problem of rising costs. Small businesses are the engines of job growth in America, creating between 60-80 percent of new jobs in our economy, and health reform that reduces costs for employers will foster job growth. A Washington takeover of health care will achieve neither objective. Instead, it will increase the cost of employment, penalize workers through reduced hours, wages or employment, and further constrict growth across the economy at a time when it is needed most.

Approximately 3 million private-sector jobs have been lost in America since the so-called "stimulus" spending bill became law, with small businesses taking the bulk of the hit. Now Washington Democrats are proposing a 1,990 page takeover of health care that will saddle small businesses with crushing mandates and punitive new taxes, increase rather than decrease health expenditures over time, and add at least a \$1.3 trillion burden on the American middle class over the next ten years. It will establish stringent new rules on what coverage small employers must offer their employees or subject them to new taxes. It will mandate that employers contribute minimum percentages of employees' insurance premiums or subject them to new taxes. And, it will ensnare more and more of the economy's smallest businesses with these new taxes every year despite a "small business exemption," because the "exemption" is not indexed to inflation.

As an alternative to the government takeover of health care proposed by House Speaker Nancy Pelosi (D-CA), House Republicans are offering a common-sense, responsible solution our nation and small businesses can afford. The [GOP alternative](#) recognizes that health care reform should be market-driven, preserve the relationship between doctors and patients, and reduce health care costs for small businesses struggling to keep their doors open. Additionally, Republicans believe small businesses should be able to pool together and offer health care at low prices just as large corporations and unions do now.

A Tale of Two Approaches:

	Pelosi Plan	GOP Alternative
Employer Mandate to Provide Coverage Deemed Acceptable to the Government?	YES. Employer mandate requires "acceptable" coverage or imposes up to an 8% payroll tax.	NO.
Jobs Lost Through an Employer Mandate?	YES. According to a model developed by Dr. Christina Romer, the chair of the White House Council of Economic Advisors, the Democrats' health care plan will destroy as many as 5.5 million American jobs over the next 10 years.	NO JOB LOSS.
Small Business "Surtax"?	YES. Imposes a new \$153.5 billion tax on small employers.	NO.

Exempt Small Businesses From New Taxes?	NO. New “surtax” has no small business exemption, and small employers with only, on average, 17 or more employees are subject to the employer mandate tax.	YES. Small businesses are not subject to any new taxes under the plan.
Require Small Businesses to pay a minimum percentage of employee health care premiums?	YES. If employers do not pay at least 72.5% of individual premiums and 65% of family premiums, an 8% payroll tax is imposed.	NO.
Allow small businesses to pool together outside of the government-run exchange and offer health care at lower prices?	NO. As structured, the only new insurance options for a limited number of small businesses would be through the government-run exchange.	YES. Small businesses would be able to pool together and offer health care at lower prices – just as corporations and unions do now.
Real Medical Liability Reform?	NO. No real medical liability relief is included.	YES. Implements reforms that will reduce costly, unnecessary defensive medicine practiced by doctors trying to protect themselves from overzealous trial lawyers.
Employers Allowed to Reward Workers for Wellness?	NO. Grants to promote prevention and wellness could not be used as a financial incentive for workers.	YES. Incorporating successful private sector models, employers are given greater flexibility to financially reward employees for prevention and wellness efforts.

Pelosi Plan is Chock-Full of Bad News for Small Businesses:

- The 5.4% “surtax” raises taxes on small businesses, creates a new monstrosity in the tax code, and pushes the average combined federal-state top tax rate above 50% for the first time since 1986:
 - The dollar amounts at which the tax kicks in are not indexed for inflation in the Pelosi plan. Just like the Alternative Minimum Tax before it, this surtax will eventually affect millions of taxpayers with incomes below those targeted by the bill today.
 - Combined with the expiration of the lower marginal tax rates after 2010, Pelosi’s health care bill would increase the top federal income tax rate to 45%, and factoring in state taxes the top average combined federal-state marginal tax rate climbs to over 52%.
- The bill fails to “bend the curve” and increases health care costs over the long run. Earlier this year, Peter Orszag, President Obama’s Director of the Office of Management and Budget said, “the single most important thing we can do to improve the long-term fiscal health of our nation is slow the growth rate in health care costs.” CBO, however, determined that the House Democrats’ bill contains an “increase of about \$598 billion in the [federal] budgetary commitment to health care.”

- Massive new taxes included in the bill would devastate the economy, put millions of Americans out of work, and make it hard for others to find work. Using the same methodology developed by Dr. Christina Romer, Chair of the Council on Economic Advisors, and Jared Bernstein, Chief Economist and Economic Policy Adviser to Vice President Joseph Biden, these sorts of a tax increases would result in millions of Americans losing their job.
- H.R. 3962 has a number of provisions that will serve as a dead drag on our economy and kill jobs. For example:
 - The bill imposes a new eight percent payroll tax on: employers who can't afford to offer health insurance to their employees; employers who do offer health coverage to their employees but it's deemed "insufficient" by the government; and employers who aren't paying at least 72.5 percent of an employee's premium (65 percent for family coverage) (*Pages 275 and 312; Sections 413 and 512*);
 - The bill would establish a new tax on every health insurance policy to fund a government board that would be tasked with deciding which treatments are more cost-effective. The research findings would be used by the government to ration care. This new tax will increase the cost of health insurance for every American not on Medicare or Medicaid, regardless of income (*Pages 1162-1175; Section 1802*);
 - This section imposes fines of \$100 per employee per day on employers who do not offer a level of health coverage that is "government-approved" (employers would pay this fine every day until the oversight is corrected). This means that fines of up to \$500,000 can be imposed on employers who make an honest mistake, thinking they had provided what the government deemed "sufficient" coverage (*Pages 280-287; Section 421*);
 - Under the bill, small businesses could receive subsidies to cover a portion of their health care costs. However, to receive a full subsidy, the average employee income must be below \$20,000 and have fewer than 10 employees. This creates a perverse incentive to keep wages low and to not hire new workers (*Page 318; Section 521 (b)(2)*);
 - The bill includes a "small business exclusion" from the eight percent payroll tax, but the definition of small business in the bill leaves a large number of small businesses subject to the full eight percent tax. In fact, small businesses with, on average, 17 or more employees would be subject to a new payroll tax through the bill if they could not afford to provide coverage. Worse, the bill does not index to inflation the amounts which trigger the "small business exemption" meaning that Democrats have built into the bill a mechanism that capture and subject more small employers to the eight percent tax over time (*Page 276; Section 413(b)(1)*); and
 - The bill mandates that employer contributions cannot come through salary reductions. Under this section, employers have to make a minimum contribution toward the health benefits plan premium for both full-time and less than full-time employees. By the terms of this provision, they cannot take that contribution out of an employee's salary. That defies logic since any contribution that an employer makes toward a health care premium is necessarily money it cannot pay to its employees in salary. This will lead substantial layoffs as employers face this de facto tax. (*Pages 269-275; Section 412*).

Republican Alternative Offers Common-Sense Solutions for Small Businesses:

- Implements comprehensive medical liability reform that will reduce costly, unnecessary defensive medicine practiced by doctors trying to protect themselves from overzealous trial lawyers.

- Allows small businesses to pool together and offer health care at lower prices, just as corporations and labor unions do now.
- Strengthens employer-provided health coverage by helping uninsured Americans who are eligible, but not enrolled in, an employer-sponsored plan get health coverage by encouraging employers to move to an opt-out rather than opt-in rules.
- Creates incentives to save now for future and long-term health care needs by improving health savings accounts.
- Encourages states to establish high risk pools and reinsurance programs to guarantee all Americans, regardless of pre-existing conditions or past illnesses, have access to affordable coverage.
- Rewards innovation through new State Innovation Programs to provide innovation grants to states that lower the number of uninsured by enacting reforms that reduce health insurance premiums at the state level.
- Promotes prevention and wellness by giving employers and insurers greater flexibility to financially reward employees who seek to achieve or maintain a healthy lifestyle, quit smoking, or manage chronic illnesses like diabetes.
- Encourages the creation of health plan finders to provide patients with the tools to easily find the right health plan that best meets their needs.

For more information, please visit <http://HealthCare.GOP.gov>.