



The 49ers

How ObamaCare will keep unemployment high — by forcing small companies to cut their workforce to fewer than 50 people

By MICHAEL TANNER - November 18, 2012

Shortly after Nov. 6, Zane Tankel, who runs 40 Applebee's restaurants in the New York City area, announced that his company was freezing employment and would not build any new restaurants. President Obama's re-election, Tankel explained, meant that ObamaCare was likely to be fully implemented, costing his company millions of dollars and significantly raising the cost of hiring a worker.

Tankel's statement prompted outrage and threats of a boycott, but he was far from alone. Already John Schnatter, CEO of Papa John's Pizza, has announced that he would likely lay off some workers. Earlier, Schnatter said that ObamaCare would cost his business \$5 billion to \$8 billion annually, forcing him to increase the price of pizzas.

Meanwhile, two other restaurant chains, Olive Garden and Red Lobster, are moving many of their employees from full- to part-time work in order to avoid the law's mandate that anyone working more than 30 hours must have insurance. An owner of 40 Denny's in Florida, meanwhile, says he'll add a 5% surcharge to customer bills in 2014 to cover his increased costs.

While restaurants, with traditionally low profit margins and large numbers of low-skilled, low-wage workers, are exceptionally vulnerable to ObamaCare's costs, other business are being hit too. For example, Boston Scientific has announced that it will now lay off up to 1,400 workers and shift some jobs to China.

And Dana Holdings, an auto-parts manufacturer with more than 25,000 employees, says it to is exploring ObamaCare-related layoffs.

These, and countless other employers across the country, are not doing an impression of Montgomery Burns. They are simply responding to economic reality.

Under ObamaCare, employers with 50 or more full-time workers must provide health insurance for all their workers, paying at least 65% of the cost of a family policy or 85%

of the cost of an individual plan. Moreover, the insurance must meet the federal government's requirements in terms of what benefits are included, meaning that many businesses that offer insurance to their workers today will have to change to new, more expensive plans.

ObamaCare's rules make expansion expensive, particularly for the 500,000 US businesses that have fewer than 100 employees.

Suppose that a firm with 49 employees does not provide health benefits. Hiring one more worker will trigger the mandate. The company would now have to provide insurance coverage to all 50 workers or pay a tax penalty.

In New York, the average employer contribution for employer-provided insurance plans, runs from \$4,567 for an individual to \$ 12,748 for a family. Many companies will likely choose to pay the penalty instead, which is still expensive — \$2,000 per worker multiplied by the entire workforce, after subtracting the statutory exemption for the first 30 workers. For a 50-person company, then, the tax would be \$40,000, or \$2,000 times 20.

That might not seem like a lot, but for many small businesses that could be the difference between survival and failure.

Under the circumstances, how likely is the company to hire that 50th worker? Or, if a company already has 50 workers, isn't the company likely to lay off one employee? Or cut hours and make some employees part time, thus getting under the 50 employee cap? Indeed, a study by Mercer found that 18% of companies were likely to do exactly that. It's worth noting that in France, another country where numerous government regulations kick in at 50 workers, there are 1,500 companies with 48 employees and 1,600 with 49 employees, but just 660 with 50 and only 500 with 51.

New York City's small business could be particularly hard hit. Of the 238,851 city firms included in a state Department of Labor survey, 96% had fewer than 50 employees. How many of them, given the chance to expand, will look at the mandate and decide they'd rather keep their small business small?

Overall, according to the Congressional Budget Office, ObamaCare could end up costing as many as 800,000 jobs.

The election showed us that ObamaCare is likely to be with us for quite some time. Unfortunately, a great many workers are about to find out the consequences of that decision.