

## Unintended Consequences

In late March, Congressman Henry Waxman (D-CA), acting like a Soviet apparatchik, announced an April 21 hearing to scold AT&T, Verizon, Caterpillar, Deere, Valero Energy, AK Steel, and 3M for daring to state in public that ObamaCare would cost them hundreds of millions of dollars in added expenses. In a letter to AT&T—which, along with every other publicly-traded company, is *required by law* to file financial reports with the U.S. Securities and Exchange Commission disclosing any significant changes that will affect its debt or profits—Waxman and Congressman Bart Stupak (D-MI) demanded an “explanation of the accounting methods” used by the company to calculate its increased costs under ObamaCare, and “any documents, including e-mail messages, sent to or prepared or reviewed by senior company officials related to the projected impact of health care reform on AT&T.”

Waxman stated that the assertions made by the CEOs “...appear to conflict with independent analyses which show that the new law will expand coverage and bring down costs.” (Waxman should fire the people performing his “independent analyses”—or he should read the legislation he voted for. Among other things, ObamaCare eliminates a \$650 per person tax break that helped companies provide their retirees with prescription drug coverage. While one can argue about whether that tax break should have existed in the first place, eliminating it obviously increases company costs by \$650 per retiree—and some companies have more than 100,000 retirees. For Waxman not to realize that the tax change will cost businesses a fortune suggests he is an economic illiterate—or a typical leftist who believes that government burdens can continue to be piled on businesses without ever having any negative impact.)

Waxman has a history of going after anyone who disagrees with the socialist agenda. He has suggested “advisory boards” to act as watchdogs to muzzle conservative talk radio, and says he is “open to considering” federal bailouts of liberal newspapers. Waxman is known for sending letters to company CEOs demanding various documents and information in a clear effort to intimidate them. But if Waxman intends to call before his committee every corporate head who reports that ObamaCare will cost his company money... he will never be able to leave the meeting room.

Although Waxman may be evil, he is not stupid, and he later canceled the hearing. Congressman John Boehner (R-OH) stated, “House Democrats canceled this hearing because they don’t want to give America’s employers a forum to tell the public how ...Obama’s new health care law is already hurting our economy and hampering job creation. Chairman Waxman thought he could intimidate businesses into keeping quiet about this new job-killing health care law, but when they called his bluff by continuing to speak out, he chose to pull the plug.”

The meeting was also canceled because it became increasingly clear to Waxman and his fellow Democrats that ObamaCare would not only not “lower the cost curve,” it would

prompt businesses to cancel group health insurance policies—leaving their employees to buy insurance on the “government exchange.” The risk of that coming out into the open at a televised House committee hearing was too great, so the Democrats pulled the plug on the event.

*Fortune* has now reported that the documents from major corporations collected for the Congressional hearing indicate that more than a few of them are considering dropping health insurance coverage for their employees as a result of ObamaCare. Waxman’s demand for documents gave him more than he bargained for: “The request yielded 1,100 pages of documents from four major employers: AT&T, Verizon, Caterpillar and Deere... No sooner did the Democrats on the Energy Committee read them than they abruptly cancelled the hearings.” The documents disclosed that all four companies “were weighing the costs and benefits of dropping their coverage.”

A Verizon document noted that because of the added burdens of ObamaCare, “...employers may consider exiting the health care market and send[ing] employees to the [new ObamaCare insurance] Exchanges.”

Deere considered “...denying coverage and just paying the penalty.”

Caterpillar would give “serious consideration” to cancelling health care insurance for its employees and paying the federal penalties.

*Fortune* observes, “It’s these analyses—which show it’s a lot cheaper to ‘pay’ than to ‘play’—that threaten to overthrow the traditional architecture of health care,” and reports, “AT&T revealed that it spends \$2.4 billion a year on coverage for its almost 300,000 active employees, a number that would fall to \$600 million if AT&T stopped providing health care coverage and paid the penalty option instead.”

Under ObamaCare, the federal government (that is, the taxpayers) will subsidize the cost of health insurance for many Americans. “So policies for a family making \$66,000 would cost them just \$5,300 a year with the government picking up the difference: more than \$10,000 by most estimates.”

A family that earns \$66,000 per year and does not have health insurance will be able to buy it through an “ObamaCare exchange” and pay only \$5,300 per year. Because covering a family costs more than \$5,300, Obama generously offers to cover the shortage—with your taxpayer dollars. (Of course, the government has already spent all of the taxpayer dollars it receives every year, so subsidizing the health insurance costs of millions of Americans means borrowing the cash from China and paying it interest for decades to come.)

If you were the head of a major corporation, what would you do? Assume you have 100,000 employees and each of them earns \$66,000 per year. Assume also that your

corporation pays \$15,000 per year per employee for their health insurance. You are spending \$1.5 billion per year providing your employees with health insurance. If you do not give your employees health insurance, they can purchase it for \$5,300.

What are your options? You can continue to provide your employees with group health insurance—knowing that the \$15,000 per employee you now pay will increase dramatically. For example, it will increase as a result of the ObamaCare requirement that dependent children must continue to be covered on the policy until age 26. That change will increase the cost of the insurance. Further, ObamaCare calls for reductions in Medicare payments to hospitals and physicians. Those hospitals and physicians will recoup those losses by boosting fees charged to those who have insurance. Suddenly that \$15,000 per year expense reaches \$16,000 or \$17,000.

Make no changes at your company and your health insurance expenses will most certainly increase. Higher costs must eventually be passed on to your customers through higher prices. Higher prices mean reduced sales. Reduced sales mean reduced operations. Reduced operations mean layoffs. Your workforce of 100,000 is slashed to 90,000, and 10,000 workers are looking for new jobs.

Or, you could cancel the health insurance for all 100,000 of your employees. Your corporation will save *\$1.5 billion per year*. But that would anger your employees, who would each then have to spend \$5,300 per year to buy health insurance. Why not give them each a \$5,300 raise, which they would then use to buy health insurance? Actually, you should give them each a \$7,000 raise, so that after they pay income tax on that additional \$7,000 they would have \$5,300 left to buy health insurance—and probably even have a little left over.

What will that cost your company? A \$7,000 raise to each of 100,000 employees will cost a whopping \$700 million per year. That is a huge amount of money. But your business will save \$1.5 billion per year by canceling its employee health coverage.

The bureaucrats who drafted ObamaCare understood that some companies will cancel their coverage, and included a \$2,000 per employee penalty for doing so. That penalty comes out to \$200 million per year for your 100,000 employees.

Your corporation's additional expenses will therefore be \$900 million per year:

\$7,000 per employee salary increase	\$700 million
\$2,000 per employee federal penalty	<u>\$200 million</u>
Total added annual costs	\$900 million

But your corporation will *save \$1.5 billion per year* by canceling health insurance. Your business is therefore ahead by \$600 million *per year*. ObamaCare therefore is *an*

*incentive for businesses to cancel the health insurance of their employees.*

Yet your employees have lost nothing, because they can buy health insurance for \$5,300 per year, paid for with their \$7,000 (before-taxes) salary increase.

The problem is that the taxpayers are on the hook for the difference between the cost of the insurance purchased on the exchanges and the \$5,300 paid by the employees. If that insurance costs \$15,000 and the employee pays only \$5,300, that leaves a difference of \$9,700 per person. Multiply that by 100,000 employees and you get \$970 million. The federal government therefore needs almost \$1 billion each year to subsidize the cost of health insurance for the employees *of just one corporation*. Multiply that shortfall by dozens, hundreds, or even thousands of businesses—and you can see why ObamaCare will certainly *not* reduce the federal deficit, and why suddenly there is talk about a new national sales tax (a Valued Added Tax) to generate additional tax revenue. (Granted, insurance on the health care exchanges might not cost \$15,000 per year per family. Costs can be lowered by offering stripped down policies that are far less comprehensive than what companies like AT&T offer their employees. And the government will certainly try to reduce costs—mostly by telling physicians and doctors how to do their jobs and by indirectly rationing care.)

Add another wrinkle to the situation. No doubt some of your corporation's 100,000 employees will pocket that \$7,000 raise and *not* use it to purchase health insurance. They will instead use it for plasma televisions, iPhones, and trips to Las Vegas. Yes, ObamaCare *requires* that they buy health insurance. But even if that clearly unconstitutional requirement is allowed to stand by an incorrect Supreme Court decision, the penalty for not buying insurance is minimal. The employee can pay the fine and still keep most of his \$7,000.

*“But what if the employee or a member of his family gets sick? They don't have any health insurance!”* He then simply buys insurance to cover his medical expenses. *“But how can he buy health insurance after he is already sick?”* That is not a problem for him, because ObamaCare *forces* the insurance companies to provide coverage even if the customer has a pre-existing condition. *“But if he is not paying premiums when he is healthy and buys coverage only when he gets sick, won't that cause the insurance companies to lose money and force them to raise their premiums?”* Exactly.

One might think that Obama and the Democrats are complete idiots if they do not understand that ObamaCare will cause the above unintended consequences. While a few of the legislators may be that naïve, most know full well that ObamaCare will be a total disaster that will destroy the nation's private health insurance industry. That is their goal. Yes, they originally wanted a “public option” to put all private insurers out of business. But even without that they can make such an absolute mess of the situation that tens of millions of American voters will demand that the problems be fixed once and for all. And that gives Obama and the Democrats the mandate to swoop down and nationalize the entire industry—if they are still in office.

You can prevent that from happening with your voice and your vote.

Don Fredrick

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(*Fortune* article:

[http://money.cnn.com/2010/05/05/news/companies/dropping\\_benefits.fortune/index.htm?  
cnn=yes&hpt=Mid](http://money.cnn.com/2010/05/05/news/companies/dropping_benefits.fortune/index.htm?cnn=yes&hpt=Mid))