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Suffering side-effects of health reform

By Alan Rappeport in Washington and Barney Jopson in New York

Less than a year before it comes into force, some side-effects of President Barack Obama's healthcare law are troubling companies ranging from supermarkets to artificial hip makers, including some that supported the measure.

Retailers and restaurant chains are worried about the costs of providing health insurance for employees; drug makers are concerned that they will not see the rise in the number of insured customers that they had hoped for; and medical device makers are unhappy over a new tax on sales of their products.

Although critics argue that such consequences undermine the goals of the law, the Obama administration maintains that it is good for healthcare consumers and the US economy, which has been plagued by soaring medical costs.

The Affordable Care Act, dubbed "Obamacare", requires everyone to have health insurance. It imposes a penalty on those who do not, subsidises coverage for the poor, and makes insurers offer coverage regardless of a person's health status.

Big retailers and restaurants are particularly sensitive to the law's costs because they employ large numbers of low-wage employees in sectors where profit margins tend to be slim.

While most already provide health insurance to many workers, the healthcare law increases the number they need to cover by mandating coverage for everyone who works at least 30 hours a week, or imposes a fine for not doing so.

The cost of insuring employees who are on existing plans is also likely to rise because the law mandates coverage for a broader range of benefits, removes limits on the size of insurers' payouts, and does not require employees to contribute to the cost of preventative tests.

Robert Wilson, president of Employco USA, a staffing company, said that businesses employing minimum-wage workers might have to pay nearly $3,000 more per person each year in additional health insurance costs because of the law.

"If you're a small business, it's going to be an added cost that can't be ignored," said Mr Wilson.

Christine Pollack, of the Retail Industry Leaders Association, said: "President Obama has repeatedly assured Americans that if they like their health insurance, they can keep it. Retailers want to continue to offer quality, affordable coverage to their employees, but if the law becomes too complicated and burdensome, it may put employers in the unfortunate position of making drastic changes to their benefits plans."

D Taylor, president of Unite Here, a union whose members include café and restaurant workers, said that employees should be able to keep their existing healthcare plans.

He said it was regrettable that the penalty companies must pay for not providing insurance – $2,000 per worker – was "so low it incentivises employers to drop" coverage.

Alternative private coverage, which will be available to individuals on new government-backed insurance exchanges, was likely to be "inferior" he said. "We thought healthcare reform had to happen, but the bill that came through had some major problems."

The US Department of Health and Human Services, which is in charge of implementing the law, said the nonpartisan Congressional Budget Office and the experience of Massachusetts – whose healthcare reform served as a blueprint – had indicated that the measure would reduce costs "without significantly impacting the labour market".

A spokeswoman said: "This law will decrease costs, strengthen our businesses and make it easier for employers to provide coverage to their workers."

Despite such assurances, discontent with the law extends beyond retail and restaurants. Drug companies and health insurers fear that the legislation is so lenient that it will not expand the ranks of insured people to the extent they had hoped – partly because some young people will choose to pay a small penalty for remaining uninsured.

Much of their support for the law was rooted in the promise of new customers. Ian Read, Pfizer's chief executive, told the Financial Times last month that his company had absorbed almost $1bn in costs related to the health reform law last year, but that he expected the drug industry to see slim returns from such investments.

"There is no benefit to the industry, given that the expansion of those being insured is likely to not be high users of medication," said Mr Read. "We have contributed a substantial cost to implementing the Affordable Care Act, and we continue to pay that cost."

Meanwhile, medical device companies have been vocal in warning about the tough spending choices they will be forced into by a 2.3 per cent excise tax on sales of their products.

Changes to the law are possible. A bipartisan group of lawmakers introduced a bill last week to roll back the tax, which is expected to raise $30bn in revenue for the government over the next decade. But until then, businesses will continue to look for ways to trim costs.

Joe Kiani, chief executive of Masimo, a medical device company, said the tax was forcing it to choose between imposing pay cuts or slashing research and development spending.

"We are asking our executives and potentially employees to take some pay cuts to pay the tax because we don't want to take our foot off the pedal of what we're doing," he said. "We hope that one day we can convince lawmakers to repeal it, but until then we have to tighten our belts."