

## Stimulus Stings Some Businesses

Some entrepreneurs are surprised by the out-of-pocket insurance mandate in the new law.  
By Dennis Romero | April 08, 2009

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When Congress approved the Obama administration's economic stimulus package in February, a little-known provision aimed at easing the pain of healthcare costs for laid-off workers triggered a financial affliction for business owners.

[The American Recovery and Reinvestment Act](#) reduces the amount laid-off workers have to pay in order to extend optional healthcare coverage under federally mandated COBRA ([Consolidated Omnibus Budget Reconciliation Act](#)) rules. Instead of writing monthly checks for 102 percent (the extra 2 percent for administrative costs) of the healthcare premium they enjoyed on-the-job, they now have to front only 35 percent. The caveat: The remaining 65 percent [must be paid, up-front, by employers](#), which can then withhold the amount of the payments from their next federal payroll-tax contributions.

"This is a drastic change," says Luis Campos, regional vice president for Priority Payroll. "It will affect small business."

Celebrating the passage of the stimulus bill, [Obama put it this way](#): "...We'll help folks who've lost their jobs through no fault of their own by providing the unemployment benefits they need and protecting the healthcare they count on."

In the meantime, the coverage subsidy means business owners, even in states where ["mini-COBRA"](#) statutes cover business below the 20-employee federal threshold, can probably count on a cash-flow headache.

"You have to have the cash to make the payment first, and there is a lag time with payroll tax credits--and there is a cash crunch with small businesses right now," says Bill Rys, tax counsel for the [National Federation of Independent Business](#).

The employer-paid subsidy started March 1 for workers who were laid off and elected to stay covered under COBRA as far back as Sept. 1. The subsidy lasts until the end of the year, and laid-off employees can extend their own group health benefits for 18 months under COBRA.

"At a firm with 10 people on COBRA at \$1,000 per person, the employer would be laying out \$650 each, which would be \$6,500 per month," Campos says. "If that firm only has limited revenue, the \$6,500 a month could be significant."

What's more, there will be lag time between COBRA payment and the tax breaks, depending on the frequency of payroll taxes for each company. "It's a short-term loan to the government with a term from anywhere from one to three months," says Jim Edholm, president of [Business Benefits Insurance](#).

There are other complications, too. Employers must track down COBRA-covered employees who were laid-off as far back as September to let them know that they are eligible for the subsidies. And it still isn't entirely clear who qualifies for the COBRA subsidies at a time of record layoffs.

"What about those with early retirement packages," Edholm says. "What about a mutual parting of ways? The employer must specify in writing that this was an involuntary termination. There are still a lot of Is to be dotted and Ts to be crossed."

It's one part of an otherwise benevolent stimulus package that will have some small-business owners questioning whether the Obama administration truly empathizes with the challenges of small business, experts say.

"I think there is definitely some resentment," says labor law attorney Joshua Zuckerberg of [Pryor Cashman](#) in New York. "This came down without a lot of guidance."