

Testimony of Tom Kunkel, *President and CEO, Full House Marketing & Print*

Senate Small Business and Entrepreneurship Committee

The Small Business Struggle Under Obamacare

May 18, 2016

Chairman Vitter, Ranking Member Shaheen, and members of the Senate Small Business and Entrepreneurship Committee, thank you for the opportunity to testify before you today and share my experience with how the Affordable Care Act (ACA) has impacted my business and employees. My name is Tom Kunkel, I am the President and Owner of Full House Marketing & Print, located in Edgewood, Maryland.

Growing up in a family owned business and then working my way through corporate positions, I was excited to return to my hometown to fulfill my dream of owning my own small business. In 2013 I took the plunge and left a full-time job to take a part-time business to full time. I formed Full House Marketing & Print, a locally owned marketing company, and over 3 years have acquired and merged seven companies in all areas of marketing and printing into one company. With the majority of our services performed in-house, we are able to provide cost effective marketing and print solutions to local small- and medium-sized businesses and organizations. In 2015, we also opened 2 retail sports and promotion stores. We operate out of 4 locations in 3 counties of Maryland, employ 21 full-time and 6-10 part-time employees. Last year we grossed \$2.5 million in sales. I have employees in retail positions making minimum wage, employees in delivery and production positions making \$12-18 an hour, and sales and technical employees making close to \$50,000 per year. We have a diverse set of employees.

Prior to the Affordable Care Act, as a small business it was difficult to compete for employees with the large companies with large benefits offerings. With pre-existing condition exclusions and few insurance options for individuals, many qualified workers chose large companies over working locally.

From a small business perspective, the ACA could have been a huge relief and benefit. I hoped my employees could get affordable health insurance without pre-existing condition exclusions, and they could choose the plan that best served them. I was optimistic that the ACA would help my 25 employees to obtain health insurance (many of whom could not previously get insurance due to pre-existing conditions). I was reimbursing employees for their premiums, because this offered me as a small business a way to compete with larger companies who provided employer-sponsored health insurance plans. I had even set up a Health Reimbursement Arrangement (HRA) to help employees afford health care deductibles and also offer supplementary insurance programs. I could better retain, or compete for better workers because I had an affordable option for my employees and prospective employees.

In a meeting with my accountant June 2015, I was made aware of IRS Notice 2013-54, which prohibits businesses from assisting with employees' individual market health insurance. I was stunned. I could no longer help my employees with health care expenses. Mid-year, I had to tell my employees I could no longer reimburse them for health care and that they were essentially on their own. I had several employees who could not afford their premiums without my contribution. Since they were mid-year in their plans, they were forced to cancel insurance, reenroll in a lower cost plans, and then start over with a new deductible for the year. It was very difficult. One of my employees has cancer, and was not able to get his prescription refilled for over 3 weeks because of the new plan. He also had to pay his deductible all over again. It was a heartbreaking situation. I do not believe this is what lawmakers intended when they created the law.

I had three options...

Offer nothing at all ....artificially inflate wages to cover costs for employees.....or offer a group plan.

1. Since I had already been offering a benefit, I felt I needed to do something.
2. To artificially raise employees pay required me to offer employees a 35% pay raise so that their net pay would equal my previous contribution. In addition, this option also required me

to pay additional expenses including workers comp, and matching FICA and Social Security contributions, equal to about \$3.50 per hour. This also meant that any contributions will be subject to individual income taxes and payroll taxes. And, the contribution cannot be designated for health insurance, according to the IRS. For most workers this inflated pay now also caused them to qualify for less of a subsidy through the health exchange, since they now showed making more gross income.

3. My third option was to offer a group health plan. I went out and researched a number of group plan options and settled on a Maryland-based plan that did not require a guaranteed participation and the most affordable rates. It was the best plan I could offer. After months of research, I offered it to my employees. The plan was so expensive, compared to the individual plans that no employees elected to enroll in it.

I am in a situation where my employees cannot afford insurance, and I am prohibited from helping. I look like the bad guy. I tried to help them out, and now they feel like I am taking something away from them. I expended time and resources exploring options, but none of them worked for our business and our employees. Most recently I lost a long-time employee who left to go to a larger competitor that was able to offer him full benefits and insurance. He cited his loss of insurance contributions as a major reason for him leaving.

IRS Notice 2013-54 has essentially taken us back to the situation before the Affordable Care Act where a small business can not afford to offer health benefits to its employees.

In today's political and economic landscape, as a small business it difficult to operate in a global economy. I feel the burden of many new initiatives as they affect my company's ability to operate profitably and to hire and retain employees. Many of these initiatives often have unforeseen consequences and cause small businesses additional expenses and burdens that can lead to less hiring, more expenses, and sometimes lead to businesses closing their doors. IRS Notice 2013-54 is one such initiative.

But the Senate can help. S. 1697, the *Small Business Healthcare Relief Act*, would protect small businesses from the catastrophic IRS penalties and restore my business's ability to help our employees afford individual market health insurance. I want to thank Senator Heitkamp, along with Senator Grassley, for introducing this bill, and I urge the Senate to consider it. The bill would help small businesses offer an innovative health benefit, and more importantly, help employees better afford premiums and healthcare services.

Thank you for the opportunity to testify, and I look forward to answering any questions.