U.S. House of Representatives-Committee on Education and the Workforce

Subcommittee on Health, Employment, Labor, and Pensions

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"The Recent Health Care Law: Consequences for Indiana Families and Workers"

Testimony of Sherry Lang, Womack Restaurants

My name is Sherry Lang. I am the Director of Human Resources for Womack Restaurants, a 12 unit IHOP Franchisee in Indiana and Ohio. I am here today to represent my company, the restaurant industry and small businesses. I have a Master's degree in Human Resource Development and over 17 years' experience. I have spent the last the last 12 years at the executive management level where I have been involved in all areas of business and business decisions. I started with Womack Restaurants in 2005 and have helped grow this company from 3 restaurants to the current 12 restaurants. We have an expansion plan to build 13 more IHOPS. I am here to share my experience and understanding of how the new healthcare law will affect our company and impact our future expansion.

The restaurant business is built on a small business model, with profit margins commonly of only 5 to 7%. We are the most labor intensive of any industry, ranking dead last in revenue per employee at $58,000 per employee (1). Compare this to the next closest industries, Hotels, at $107,000 per employee, Retail at $170,000, Banks at $443,000, and Oil Refineries at over $4 million per employee. The cost to employers of new healthcare law is completely dependent on the number of employees, regardless of ability to pay. We conservatively estimate the cost of purchasing health insurance to be over 50% greater than our company's earnings. And our company is very profitable by industry standards.

The law is one-size-fits-all for employers, and our industry doesn't fit. Though some restaurant companies offer coverage now, many are "mini-med" plans which are limited coverage plans for employers like retail and restaurants. Many will not meet the mandates by 2014. The only viable alternative for our industry is to pay the $2000 per employee penalty, which is not tax deductible. We have to earn that $2000 dollars first and then pay taxes on it, bringing the actual cost of the penalty to about $2800 for each employee. A quick study of public restaurant companies shows that many did not earn enough in 2010 to pay the penalties and will not survive. For my company, these penalties amount to 60% of our earnings, and again, our company is very profitable by industry standards.

Restaurants are already facing many challenges, rising commodity prices, rising state and local taxes and unemployment taxes, rising energy prices and so on. Restaurants are unable to raise prices in this economy. Our only alternative is to cut costs. Cutting costs means cutting staff and reducing hours worked, putting more employees into part time status, and trimming services provided by other small businesses that are supported directly by this industry such as food suppliers and equipment suppliers.

Additionally, we will be forced to cease new restaurant development and may forfeit the development agreement we invested in. That agreement cost $360,000. This future development would amount to $22,000,000 in construction and development spending, and at least 260 full time restaurant jobs. I would like to also point out that the restaurant equipment industry is a uniquely American manufacturing industry. That industry has already been devastated by the economy.

The restaurant industry serves an important role in our economy, employing 12.7 million people (2). It is a source of 1st opportunities for young or unskilled workers who can turn a part-time job into a career. 50% of our Managers were promoted from hourly staff. My first job was in a restaurant. The owner of my Company started in restaurants as well. It's an industry of 2nd chances for people starting over: re-entering society after incarceration, or a 2nd job for those digging out of a financial hole. We need this industry but it cannot support this healthcare mandate and continue to thrive.

Furthermore, our lenders, as required by regulators, require us to maintain certainly levels of profitability via loan covenants. Our mortgages, leases, and franchise agreements are commonly 15 to 20 years long. We have major obligations that we cannot walk away from in 2014. Profits equal development and if there is little to no profit, there will be no development and growth.

On a related note, I have serious concerns that we will not be able to continue to offer the coverage we currently offer to my management and office staff, based on changes in who we must provide coverage for as well as the compensation rules.

In summary, the goal of providing health insurance to everyone is noble and good, in theory we support it, but the restaurant industry can't afford to pay the bill. In comes down to basic mathematics. At 58k in revenue per employee, we average $3000 in profit. The estimated cost of healthcare will be $10,000 leaving a $7000 per employee gap. Our only option is to pay the penalties. Simply paying the penalties will be devastating for most of us in this industry.

Sources

1. CNN/Money's Fortune 500 Report, 2009
2. National Restaurant Association