

Background

Current health reform proposals may have a large (and we think positive) impact on how small businesses purchase health insurance. Small businesses face certain disadvantages in our current health insurance market. Because of their size, small businesses lack the market power to negotiate lower rates with insurers and thus spend an average of 18% more than large businesses for comparable health coverage due to their higher administrative costs.^{1 2 3}

Health reform proposals could support small businesses by improving their abilities to provide quality and affordable health coverage to employees. Reforms, such as the formation of a Health Insurance Exchange, could improve competition and give small businesses stronger market power to negotiate lower rates. Health insurance tax credits for the smallest businesses with the biggest coverage challenges could increase affordability of health coverage for small employers.⁴ By increasing coverage, raising quality, and lowering costs, health reform has the potential to increase workplace productivity while also reducing employee absenteeism.⁵

Current Events in Health Reform

There are currently two bills on the table, one from the House and one from the Senate. The House's "HR 3962: America's Affordable Health Choices Act of 2009" passed the House on November 7, 2009, while the Senate's "HR 3590: Patient Protection and Affordable Care Act" passed the Senate on the morning of December 24, 2009. The two bills will be merged in a conference committee to create a final bill. The current goal is to sign the final bill into law in January, around the time of the President's State of the Union Address.

If a final bill is passed, some reforms will go into effect immediately (such as certain insurance market reforms), some as early as 2011 (such as federal matches for medically uninsurable adults, such as the small employer tax credits in the Senate version), while others will not go into effect until 2013 or 2014 (such as the Health Insurance Exchange, the individual mandate and premium subsidies).⁶

Pending Reforms

Federal health reform would forbid insurance companies from refusing coverage to individuals based on pre-existing medical conditions and from increasing employee coverage rates based on employee health status. This would benefit self-employed small businesses since they currently have none of these protections that other small businesses enjoy under California law.

Cost containment aims to control inefficiencies in the health care system. Each proposal offers mechanisms by which cost containment would be carried out. The House proposes mechanisms such as standardized claim forms, quality reporting requirements, increase in health information technology for electronic data processing, and other reforms to slow the growth in Medicare. The Senate requires payment and provider incentive disclosures from drug and device manufacturers, improves transparency of information, and authorizes Medicare payment reforms and 10% Medicare payment bonuses for primary care practitioners and providers in shortage areas.⁷

Health Care Reform's Impact on Small Business

Many proposed reforms would have a direct and most likely positive effect on employer offered coverage for small businesses. Below are descriptions of elements of reform that would impact small businesses.

The Exchange/Purchasing Pool

A health insurance “marketplace” that allows individuals and small businesses to compare benefits packages and costs among private and public plans when “shopping” for coverage.⁸ The Exchange seeks to give individuals and small business greater purchasing power to purchase lower cost coverage and to eliminate high administrative costs associated with health coverage for small businesses.

The House bill would create a National Health Insurance Exchange with the option for states to form their own Exchanges. The Exchange would be open to individuals and small employers with: ≤ 25 employees in year one, ≤ 50 employees in year two and ≤ 100 employees in year three.

The Senate bill would create State Health Insurance Exchanges for individuals and small employers. The small employer Exchange would be open to employers with ≤ 50 employees in year one and larger employers with ≤ 100 employees in year two.⁹

Public Option

A public insurance plan created to compete with private insurers. The public option is intended to drive premiums and prices down and quality up in fair competition with the private insurers.

The House bill would create a public option that would be available through the Exchange, which is open to small employers and individuals. It would be completely financed through revenues from monthly premiums and payment rates to providers would be negotiated. Small employers may select the public option as their coverage plan for employees.¹⁰

The Senate version excludes the public option, but it did include both statewide non-profit co-ops like Group Health in Seattle and a nationwide non-profit plan in the final version.

Pay or Play

Requiring employers to pay a fee or tax if they decide not to provide insurance for their employees (some call this an “employer mandate” others call it “shared responsibility”).¹¹ Pay or play aims to ensure that those offering coverage continue to do so and those who cannot afford to offer coverage contribute something to the Exchange.

Under the House bill, large employers must pay 72.5% of premium cost for a single individual and 65% for a family OR the employers must pay 8% of employee payrolls into the Health Insurance Exchange Trust Fund. Small businesses are exempt for the first \$500,000 in payroll paid, with incremental increases in payroll tax between \$500,000 and \$750,000 in payroll (starting at 2% and increasing up to 8%).

Under the Senate bill, employers of 200 or more must offer coverage. Employers with 50 or more employees whose employees receive tax credits through the Exchange would have to pay a fee of \$750 per employee if any employee receives Exchange subsidies.¹² Small businesses with less than 50 employees would be exempt.¹³

If an employee is required to pay more than 8-9.8% of his or her income for employee coverage premium shares, he or she is eligible for coverage and premium subsidies through the exchange.

Tax Credits (Premium Subsidies) for Small Business (refundable)

Tax credits for a given percentage of a small employer's share of employee health insurance coverage costs will be available through the Exchange for small low wage businesses that provide health insurance to employees or begin doing so.¹⁴ This is meant to give incentives to small businesses to offer coverage if they do not already, and to aid those who do.

Under both the House and Senate bills, employers with fewer than 25 employees and average wages less than \$40,000 would receive tax credits for up to 50% of their premium costs and phase down between \$20,000 and \$40,000 and between 10 and 25 employees.¹⁵ Under the Senate bill, non-profits who meet the size and salary requirements would also be eligible for premium subsidies.¹⁶

There would also be a temporary reinsurance program for employers providing coverage to retirees ages 55-64 from 2013-2015.

Individual Tax Credits (Premium Subsidies)

These subsidies help pay monthly insurance premiums on a sliding scale through the Exchange based on an individual's income up to 400% of Federal Poverty Level (FPL). The subsidies are available for both the uninsured and those who purchase individual coverage. Providing individual premium subsidies goes hand-in-hand with the individual mandate, which requires that all U.S. citizens and documented residents purchase health coverage.

Both the House and the Senate would provide sliding scale refundable tax credits for individuals up to 400% of the Federal Poverty Level (\$88,000 for a family of four). The House and the Senate would contribute to make both premiums and cost sharing affordable.¹⁷

Tax on "Cadillac Benefits"

This taxes the most costly employer-provided health insurance benefits that are provided to a small percentage of workers.¹⁸ The Senate would implement an excise tax of 40% on insurance companies for "Cadillac" health plans. Cadillac plans are those employer offered group plans that cost more than \$8,500 for an individual and \$23,000 for a family.¹⁹ The tax would apply to self-insured and group-market plans, but not plans sold in the individual market.²⁰ This is designed both to help finance the bill and to create incentives to slow down the rise in health care costs. Some plans could be costly as they insure high-risk occupations such as firefighters or primarily older workforces; however a recent provision exempts these plans from being taxed.

The House bill does not include legislation regarding Cadillac taxes.

Additional Small Employer Benefits

Under the House bill small employers may receive wellness grants that promote health awareness, health education, health screenings, behavioral change and employee engagement. These grants may pay for up to 50% of the costs of an evidence based program to improve their employees' health status.²¹

¹ Gabel J., et al., "Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii is Up, Wyoming is Down," *Health Affairs*, 25, no. 3 (2006): 832-843.

² Association of Health Insurance Plans Center for Policy and Research, "Small Group Health Insurance in 2008: A Comprehensive Survey of Premiums, Product Choices and Benefits," March 2009.

³ Harbage P., "Small Businesses Win With Health Reform," Center for American Progress, August 18, 2009. Accessed from:

<http://www.americanprogress.org/issues/2009/09/smallbusinesshealthcare.html>

⁴ Harbage, P. (2009)

⁵ Council of Economic Advisors, "The Economic Effects of Health Care Reform on Small Business and Their Employers," Executive Office of the President, July 25, 2009. Accessed from: <http://www.whitehouse.gov/assets/documents/CEA-smallbusiness-july24.pdf>

⁶ Wulsin, L., "Interim Health Reform Building Blocks." ITUP, November 23, 2009.

⁷ Dougherty, A., "Congressional Health Reform Proposals," ITUP, September, 2009.

⁸ House Committees on Ways and Means, Energy and Commerce, and Education and Labor, "Health Reform at a Glance: The Health Insurance Exchange," July 14, 2009. Accessed from: <http://74.125.155.132/search?q=cache:ogcRk6ay0rQJ:waysandmeans.house.gov/media/pdf/111/exchange.pdf+health+insurance+exchange+house&cd=1&hl=en&ct=clnk&gl=us>

⁹ Dougherty, A., "Congressional Health Reform Proposals," ITUP, November 19, 2009

¹⁰ Dougherty, A. (November, 2009)

¹¹ Shafrin, J., "Economics of "Pay or Play" Mandates," *Healthcare Economist*, July 11, 2008. Accessed from: <http://healthcare-economist.com/2008/01/11/economics-of-pay-or-play-mandates/>

¹² A Senate bill provision requires construction industry firms with five or more employees to offer health coverage.

¹³ Dougherty, A. (November, 2009)

¹⁴ Executive Office of the President (2009)

¹⁵ Dougherty, A. (September, 2009)

¹⁶ Dougherty, A. (November, 2009)

¹⁷ Dougherty, A. (November, 2009)

¹⁸ PBS Online News Hour, "Lawmakers Weighing Tax on 'Cadillac' Health Plans," August 3, 2009. Accessed from: http://www.pbs.org/newshour/bb/health/july-dec09/benefits_08-03.html

¹⁹ Dougherty, A. (September, 2009)

²⁰ Baucus, M., Senate Finance Committee, "Framework for Comprehensive Health Reform." September, 2009. Accessed from:

<http://74.125.155.132/search?q=cache:R9L3lkIT5qYJ:i2.cdn.turner.com/cnn/2009/images/09/08/baucus.framework.pdf+framework+for+comprehensive+health+reform&cd=3&hl=en&ct=clnk&gl=us>

²¹ Wulsin, L., “H.R.3962: A Section by Section Guide.” ITUP, November 4, 2009.