

Introduction

Current health reform proposals may have a large (and we think positive) impact on how the 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.^{1 2} Small businesses also have higher administrative costs compared to businesses with ≥ 100 employees (27% vs. 9%).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 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 four health care reform bills that have passed their first committees – three from the House of Representatives and one from the Senate. In July, three committees in the House of Representatives, including Ways and Means, Energy and Commerce, and Education and Labor, proposed a House Tri-Committee draft called HR 3200. Also in July, the Senate Committee on Health, Education, Labor, and Pensions (HELP) drafted and passed their version.

The Senate Finance Committee has released the framework for their bill and expects to finalize the details this month. Within the coming weeks, the Tri-Committee House bill will be merged, and the Senate Finance Committee proposal will go through markups then merge with the Senate HELP committee bill creating two bills: one House (Ways and Means, Energy and Commerce, Education and Labor) and one Senate (Finance and HELP).

If the respective bills pass in the House and Senate, a Conference Committee comprised of Representatives and Senators will merge both House and Senate bills into one bill to be voted on by mid to late October.⁶

Pending Reforms

A few reform initiatives have established bi-partisan support, including health insurance exchanges and the individual mandate. The proposals aim to provide quality, affordable coverage to the nation's 46 million uninsured (15.3% of the nation's population) through a combination of subsidies and more effective insurance pooling.⁷ They also provide solutions to some of the out-of-control growth in health insurance expenditure; health costs continue to outpace the rate of inflation and the U.S. has far higher per capita health costs than any other developed country.^{8 9}

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.¹⁰ Each proposal offers mechanisms by which cost containment would be carried out. HR 3200 proposes mechanisms such as standardized claim forms, quality reporting requirements, increase in health information technology for electronic data processing, and allowing generic versions of prescriptions after 12 years. The Senate HELP Committee proposes grants to improve system efficiency, such as creating community health teams, medication management services, and a medical home model. And, the Senate Finance Committee proposes improvement of transparency of information and Medicare payment bonuses for providers in shortage areas.¹¹

Below is a table that outlines aspects of the health care reform proposals in Congress and how they would impact small business.

Table: Health Care Reform’s Impact on Small Business

Topic	Definition & Purpose	Small Business Implications
The Exchange/ Purchasing Pool	<p>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.¹²</p> <p>In some versions, the Exchange acts as a “negotiator”. 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.</p>	<p>HR 3200: The Exchange would be opened to small employers with ≤ 15 employees in year one, and ≤ 25 employees in year two.¹³</p> <p>Senate HELP: The Exchange would be open to small employers with ≤ 50 employees.¹⁴</p> <p>Senate Finance: The establishment of two exchanges. One for individuals and one for small business.¹⁵</p>
Health Cooperative	<p>A member governed non-profit health plan that seeks to develop lower cost, higher quality hospital and physician networks.¹⁶</p> <p>Health Cooperatives (or “co-ops”) could compete with large commercial insurers due to their lower administrative costs. In order to be effective, co-ops must establish a better coverage model and a large subscriber base.</p>	<p>HR 3200 and Senate HELP: Not included</p> <p>Senate Finance: Health cooperatives would compete in the reformed non-group and small group insurance markets.¹⁷</p>
Public Option	<p>A public insurance plan (could be national or statewide) created to compete with private insurers.</p> <p>The public option is intended to drive premiums and prices down and quality up in fair competition with the private market.</p>	<p>HR 3200 and Senate HELP: The public option would only be available through the Exchange, which is open to small employers, individuals and uninsured individuals with subsidized coverage. Small employers may select the public option as their coverage plan for employees.</p> <p>Senate Finance: Not included.</p>

<p>Pay or Play</p>	<p>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”).¹⁸</p> <p>Pay or play aims to ensure that those offering coverage continue to do so and those who cannot afford to offer coverage contribute something into the Exchange.</p>	<p>HR 3200: Employers with payroll \leq\$500,000 are exempt from pay or play requirements.¹⁹ Employers could buy insurance for their employees -- 72.5% of premium cost for single employees and 65% for family coverage OR pay a payroll tax starting at 2% for companies with a payroll of \$500,000 increasing on a sliding scale to 8% for payroll exceeding \$750,000. Penalty fees go into the Exchange to subsidize the purchase of coverage, but are not tied to coverage for employer’s workers.²⁰</p> <p>Senate HELP: Companies with fewer than 25 employees are exempt from pay or play requirements.²¹ Employers of more than 25 who do not offer coverage and pay 60% of premium cost must pay a fee of \$750 per uninsured full time worker.²²</p> <p>Senate Finance: No requirement for small business. Mandated coverage for employers with 200+ employees. Employers with more than 50 full-time employees that do not offer health coverage must pay a \$400 fee per worker if their employees are receiving subsidized coverage through an exchange.²³</p>
<p>Tax Credits for Small Business (refundable)</p>	<p>Credits to a given percentage of employer’s share of employee health insurance coverage costs for employers that provide health insurance to employees or begin doing so.²⁴</p> <p>This is meant to give incentives to small businesses to offer coverage to employers if they do not already, and to aid those who do.</p>	<p>HR 3200: Credits to employers with fewer than 25 employees and average wages of \$40,000/year or less. Starts at 50% of premium and phases down and out between 10 and 25 employees and between \$20,000 and \$40,000 average salary.²⁵</p> <p>Senate HELP: Credits equal to 50% of employer premium cost to employers with fewer than 50 full-time employees with an average salary of \leq\$50,000.²⁶ Companies with \leq50 full-time workers that pay 60% or more of premiums will get tax credits for up to three years to offset cost of coverage.</p> <p>Senate Finance: Temporary tax credits would be available for tax years 2011 and 2012 for firms with fewer than 25 employees and average wages below \$40,000. Qualifying employers could receive the credit for up to two years with a maximum credit of 35%. Also includes permanent small employer tax credits once reforms have been implemented. Beginning with tax years ending after December 31, 2012, small business tax credits will be available to new businesses</p>

		<p>and firms newly offering health coverage through an exchange. Credits are limited to firms with fewer than 25 employees and average wages below \$40,000, and the maximum credit available would be 50%.²⁷</p>
<p>Individual Tax Credits (Premium Subsidies)</p>	<p>Subsidies, which help pay monthly insurance premiums on a sliding scale based on the individual's Federal Poverty Level (FPL), for those who cannot afford the cost of individual coverage or are not covered through their exempt small business employer.</p> <p>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.</p>	<p>HR 3200: Sliding scale credits up to 400% FPL.</p> <p>Senate HELP: Sliding scale credits up to 400% FPL.</p> <p>Senate Finance: Tax credits for individuals and families between 133% and 300% FPL based on percentage of income the premium represents. Flat percentage of income credit for individuals 300-400% FPL.²⁸</p> <p>Note: As of April 1, 2009, the California FPL for a family of four is \$22,050/year (100% FPL).²⁹</p>
<p>Risk Adjustments and Re-insurance</p>	<p>Reinsurance, also known as "insurance for insurers" is when insurance companies insure themselves along with other insurance companies for protection.</p> <p>The purpose of this is to spread risks across institutions in order to reduce risks for the most costly individuals that each company has.³⁰</p>	<p>Senate HELP: Temporary reinsurance program to provide reimbursement to employers that provide health care benefits to retirees older than age 55-64 (not yet eligible for Medicare). Only open to individuals and their dependents living in states without an established Exchange.</p> <p>HR 3200: Temporary reinsurance program to provide reimbursement to employers that provide health care benefits to retirees older than age 55-64 (not yet eligible for Medicare). Would provide 80% coverage for annual expenses between \$15,000 and \$90,000.³¹</p> <p>Senate Finance: Compensation to insurers who cover higher risk individuals. Details pending.</p>
<p>Tax on "Cadillac Benefits"</p>	<p>Taxing the most costly employer-provided health insurance benefits that are provided to a small percentage of workers.³²</p>	<p>Senate HELP and HR 3200: Not included</p> <p>Senate Finance: An excise tax of 35% on insurance companies for "Cadillac" health plans above \$8,000 for singles and \$21,000 for family plans. The tax would apply to self-insured and group-market plans, but not plans sold in the individual market.³³</p>

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 Dougherty A., “Where We Stand, Vol. 2,” ITUP Spotlight on Health Reform, September 9 2009. Accessed from: <http://www.itup.org/blog/>

⁷ Dougherty, A., “California and the United States: Structural Comparisons in Health Reform,” ITUP, September, 2009.

⁸ PriceWaterHouseCoopers, “Behind the numbers: Medical cost trends for 2009.” Accessed from: <http://www.pwc.com/us/en/healthcare/publications/behind-the-numbers-medical-cost-trends-for-2009.jhtml>

⁹ World Health Organization, “Core Health Indicators.” 2008. Accessed from:

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¹⁰ University of California, San Francisco, “Future Health: Cost Containment,” Center for the Health Professionals. Accessed from:

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¹¹ Dougherty, A., “Congressional Health Reform Proposals,” ITUP, September, 2009.

¹² 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>

¹³ Mahon M., “Small Business Owners and Employees Would See Lower Costs, More Comprehensive Health Coverage from Health Reform Proposals,” The Commonwealth Fund, September 9, 2009. Access at: <http://www.commonwealthfund.org/Content/News/News-Releases/2009/Sept/Out-of-Options.aspx>

¹⁴ Hoover K., “Details of House health care reform bill begin to emerge.” *Austin Business Journal*, June 26, 2009. Accessed from:

<http://austin.bizjournals.com/austin/stories/2009/06/29/story9.html>

¹⁵ Chairman Max Baucus, Senate Finance Committee, “Framework for Comprehensive Health Reform.” September, 2009. Accessed from:

<http://74.125.155.132/search?q=cache:R9L3lklT5qYJ: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>

¹⁶ Underwood, A., “So What’s a Health Insurance Co-op Anyway,” The New York Times, Health, September 14, 2009. Access from: <http://prescriptions.blogs.nytimes.com/2009/08/17/so-whats-a-health-insurance-coop-anyway/>

¹⁷ Baucus M. (2009)

¹⁸ 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/>

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²² Wulsin L., “Summary of Senate HELP Committee Health Reform Package,” ITUP, July 21 2009.

²³ Baucus M. (2009)

²⁴ Executive Office of the President (2009)

²⁵ Executive Office of the President (2009)

²⁶ Executive Office of the President (2009)

²⁷ Baucus M. (2009)

²⁸ Dougherty A., “Gang of 6 Framework,” ITUP Spotlight on Health Reform, September 8 2009. Accessed from: <http://www.itup.org/blog/>

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