SMALL BUSINESS MAJORITY

What's in Healthcare Reform for Women-Owned Small Businesses?

In March 2010, Congress passed legislation that will fix the serious problems that all small business owners, including those owned by women, face in the current healthcare system: skyrocketing costs and unpredictable premiums, lack of access to affordable coverage and choice among health plans, and administrative inconvenience and hassle. Healthcare is an issue of primary concern for women small business owners, and it's become increasingly difficult for them to offer insurance. According to a 2011 survey by Women Impacting Public Policy (WIPP), 56% offered health insurance to their employees in 2011, which is significantly less than in years past. This is particularly true for very small companies (fewer than 6 employees and with less than $1 million in annual revenue).

So what does all this actually mean for women-owned small businesses?

There are a number of new protections in the law that make it easier for women-owned small businesses to provide health insurance. Under the Affordable Care Act, insurers will no longer be able to discriminate based on gender, which means they can no longer charge women more for insurance than men. This will translate into lower costs for many female business owners and their female employees. Insurers will no longer be able to deny coverage for preexisting conditions, including pregnancy and cancer, which will allow more women to access quality health insurance. What's more, prevention protections such as mammograms and cancer-screenings will be available to women without a co-pay.

All these new protections will help women small businesses access higher-quality insurance for themselves and their employees, and in many cases will lower their insurance costs because of the ban on gender rating and preexisting conditions.

These protections and the other provisions of the law will be implemented over a five-year period (2010-2014) to avoid disruption to the existing system and make transitions as smooth as possible. The general approach is to build upon the existing employer-based health system that employers and employees are used to: insurance will still be purchased from private insurance companies as well as not-for-profit plans, and the private sector healthcare system of doctors, hospitals and other providers will be maintained. Medicare will still cover retirees and Medicaid will continue as it does currently to cover uninsured children and low-income adults, with new flexibility to cover more people.

Following is a breakdown of the various provisions that specifically impact small business owners:

Lower costs

The law will help reduce costs for small businesses by creating an insurance pool in each state, providing small business tax credits, promoting administrative and delivery system efficiencies and reducing long-term healthcare inflation.

Insurance pool

A health insurance exchange will create a pool of small businesses with up to 100 employees and the self-employed to leverage purchasing power. An exchange will enable insurers to offer lower premiums as a result of lower administrative costs and spreading risk across a larger population. Insurers will have to offer standardized benefit packages within the exchange, so competition will be based on price and quality, not benefit design. The larger pool will also dampen the annual volatility

© 2011 Small Business Majority

of premiums. Combined with insurance reform, the exchange will offer small business owners and the self-employed access to stable, affordable coverage year after year.

- **The law will create 50 state exchanges.** It will mandate creation of the exchanges by 2014, and allow businesses of up to 100 employees to participate (although states will have the option to limit to 50 employees). Beginning in 2017, states may allow employers with more than 100 employees to use the exchange, but are not required to do so.
- **Co-ops and national health plans:** The law will create, and fund with loans, state-based nonprofit co-ops—consumer-owned insurance alternatives that would compete with privately held insurance companies. In addition, each state exchange will also offer at least two multi-state health plans (one of which must be a nonprofit) negotiated by the federal Office of Personnel Management (OPM). OPM negotiates a variety of health plans for 8 million federal employees and families in all 50 states.

Small business tax credits

The tax credit is estimated at $40 billion from 2010 to 2019, an average of $4 billion per year over that 10-year time span; approximately 4 million small businesses will qualify in 2010 for the tax credit to offset employer health plan costs.

- Beginning in 2010 and through 2013, businesses with fewer than 25 full-time employees that contribute at least 50% of the total premium will be eligible for tax credits of up to 35% of the employer contribution. The full credit will be available for businesses with fewer than 10 employees averaging less than $25,000 annual wages, and phase out at $50,000. Nonprofit organizations will qualify for tax credits of up to 25% of the employer contribution during this time period. Also, any state tax credit a small business owner receives for providing coverage will not reduce the amount of the federal tax credit.
- Beginning in 2014, eligible small businesses purchasing coverage via an exchange will receive tax credits of up to 50% of the employer contribution if the employer provides at least 50% of the premium cost. Nonprofit organizations will qualify for tax credits of up to 35% of the employer contribution during this time period. Seasonal employees will not be counted when determining eligibility. A business can claim the credit for any two years in the future. The law explicitly excludes sole proprietorships and family members from the small business tax credits (but they can apply for individual tax credits).

Cost containment

Cost containment provisions to bring down the overall inflation rate of healthcare costs include:

- Creating a small business insurance pool that will reduce costs by spreading risk, promoting healthy competition and lowering administrative overhead for businesses.
- Eliminating the cost shift that adds to the cost of everyone's care when the uninsured receive care in the most expensive settings, such as emergency rooms.
- Providing additional choice in areas of the country where one or two insurance companies now have monopolies, and offering new alternatives to plans from existing private insurers—such as a system of not-for-profit co-ops and new multi-state health plans that will bring competition.
- Providing funding for enforcement to reduce waste, fraud and abuse in Medicare and Medicaid programs.
- Changing the way doctors and hospitals are paid by moving away from a system that rewards quantity of service to one that rewards the best outcomes for patients.

- Investing in prevention and wellness by requiring that prevention and screening services are offered at no charge and authorizes Congress to appropriate $200 million for small business wellness initiatives.
- Implementing an electronic medical records system to create efficiency.
- Simplifying the paperwork burden that adds tremendous costs and hassles for patients, providers and businesses today.
- Enabling states to lead medical malpractice reform with federal funding to back them up.

The CBO estimates that this law will reduce the government deficit by $142 billion over the next 10 years, and $1.2 trillion over the following 10—which should, in turn, reduce taxes and interest rates.

More choices

The law will increase the choice of health plans—including health co-ops and new multi-state health plans—through an insurance pool (exchange) offered to employees of small businesses, the self-employed and other individuals. In addition:

- A temporary Preexisting Condition Insurance Plan (formerly high-risk pool) has already been established under the new law, using $5 billion in funding. It will allow individuals (including the self-employed) who have been denied coverage due to a preexisting condition and who have been uninsured for at least six months prior to applying for enrollment, to buy affordable comprehensive coverage. This will benefit many self-employed and small business employees who are currently excluded from coverage. Since being implemented, restrictions have eased and premiums have been lowered in the states where the plan is federally administered. Those who enroll in a Preexisting Condition Insurance Plan will be transitioned to the exchange in 2014 without a gap in coverage. For more information, visit https://www.pcip.gov/.
- The bill provides small businesses, including the self-employed, a new option for a simplified cafeteria plan to provide tax-free benefits to employees.
- Small business owners and employees will be able to access the state exchanges via the web to learn about and purchase insurance plans, and find out whether they are eligible for tax credits and/or subsidies to limit cost-sharing. The exchange website will also let people know whether they are eligible for any state or local public health programs, including Medicaid and CHIP. (For information about the exchange and other components of healthcare reform, visit the national website www.healthcare.gov.)

Insurance reforms for small business and consumer protection

The law includes insurance reforms that will prevent discrimination and improve access to affordable coverage for small businesses and their employees, as well as self-employed people:

- Prohibiting medical screening for health conditions and exclusion of coverage for preexisting conditions will ensure that no one is denied coverage for serious health conditions.
- Rating regulations that prohibit the use of health status or claims history in determining premiums will enable those with serious health conditions to obtain affordable coverage. Rates may only vary by age (limited to a 3-to-1 ratio), geographic area, family size and tobacco use.
- The law requires that insurers expend not less than 85% on medical coverage for large groups and 80% for the small group and individual market. It also provides for consumer rebates, and includes “sunshine” reporting requirements for insurers to justify rate increases.
- Lifetime limits are prohibited in 2010 and annual limits will be prohibited once the exchanges are set up. Any annual limits imposed before 2014 must be approved by the HHS secretary.

- Under the reform plan families will be able to keep their dependent children covered under their family health plan through age 26, effective September 2010 for the new plan year.
- The law establishes new processes for federal and state review of premium increases. Among other things, states may recommend that insurers not be allowed to participate in the exchanges due to unreasonable premium increases.

Expanded coverage

Insurance reforms, premium assistance and subsidies to limit cost-sharing for lower-wage employees and Medicaid expansion will increase coverage for nearly all Americans. Currently 83% of Americans have health insurance. The law will dramatically increase this number to 95%. Illegal immigrants are excluded from all health insurance programs under the law.

Employee tax credits

Every individual will be required to obtain health insurance. To help make this affordable, tax credits will be provided, on a sliding scale, to lower-wage employees; those earning up to $43,000 for an individual or $88,000 for a family of four may qualify for help.

- The annual fee for adults who don't obtain coverage will be the greater of $325 in 2015 and $695 in 2016, and a sliding scale working up to 2% to 2.5% of income by 2016.
- The law provides exemptions for married couples with annual income below $18,700, financial hardship, religious objections and individuals deemed unable to pay for other specific reasons detailed in the legislation.

Financing

The law relies on several sources of revenue—in addition to reductions in Medicare expenses and other cost-saving measures—to offset the costs of expanded coverage, tax credits and premium assistance. In fact, it will not only be self-sustaining, but also, per CBO estimates, reduce the federal deficit by $142 billion between 2010 and 2019 and $1.2 trillion over the second decade.

- The health industry—drug companies, insurers and medical device manufacturers, all of which will be covering, and gaining new revenues from, more than 32 million new individuals—will pay new fees.
- Two sources of funding include (1) a tax on high-cost plans and (2) a fee on certain employers who don't provide coverage and whose employees receive tax credits to purchase insurance through the exchange.
    - In 2018, a 40% excise tax will be imposed on that portion of the premium costing more than $10,200 per year for individuals or $27,500 for families. These are indexed for inflation. Costs will initially be paid by the insurer, but will likely be passed on to plan holders eventually. The tax is meant to discourage the use and purchase of high-cost/high-benefit plans. Economists, including the government scorekeeper, the CBO, project that employers would over time generally cease to fund health plans that exceed the 40% tax threshold and increase employee wages instead. To ensure that the tax hits everyone fairly there are adjustments for retirees and companies with older employees or high-risk occupations. Dental and vision are not counted as part of the benefit cost.

Employers will not be required to offer health insurance. Those employers with more than 50 employees who don't provide coverage will have to pay a fee when an employee purchases insurance through the insurance exchange and qualifies for a tax credit.

- Employers with more than 50 employees that don't offer coverage and have at least one full-time employee who receives a premium tax credit will have to pay a fee of $2,000 per full-time employee.
- There is a provision that subtracts the first 30 employees (e.g., a firm with 51 workers that does not offer coverage would pay an amount equal to 51-30, or 21, times the applicable per-employee payment amount).

Small Business Majority

4000 Bridgeway, Suite 101
Sausalito, CA 94965
(866) 597-7431
info@smallbusinessmajority.org