



What Health Reform Means for America's Small Businesses

The Main Street Alliance

March 31, 2010

Health Care:

Why Small Business Owners Care

- Why is health care important to small business owners?
 - **Competitiveness:** attracting and retaining the best employees
 - **Productivity:** healthy workforce = productive workforce
 - **Responsibility:** “Our employees are like family; we want to do right by them” – “It’s just the right thing to do” – small business values

Nightmare on... Main St.

- What are the problems small businesses face in the current health care marketplace?
 - **Skyrocketing premiums** – compounded year after year
 - **Poor coverage** – forced to cut back in response to rate increases
 - **Rate discrimination** – major “rating up” based on gender, health status and age
 - **Small risk pools** – little bargaining power, high volatility, higher admin costs
 - **Few choices** – high concentration in local insurance markets
- Without reform, costs would double over next ten years

Enter Health Care Reform...

- The passage of the health reform package has ignited a firestorm of debate:
 - *Is this reform good or bad for small businesses?*
- Landscape for this debate:
 - Widespread confusion – among business owners, the media and the general public
 - One-sided information from business lobby groups (eg, U.S. Chamber, NFIB)
 - Challenges and opportunities – need to combat myths, seize opportunities for education and relat

What Reform Means for Small Businesses: The Elevator Version

- The health reform package will help small businesses by:
 1. **Ending discrimination** by insurance companies
 2. **Making coverage more affordable** for small business owners and our employees
 3. Giving small businesses **better choices** and more **bargaining power**

What Reform Means for Small Businesses: 5 Need-to-Know Points

1. Small Business Tax Credits
2. Shared Responsibility Requirement
3. Ending Insurance Discrimination
4. Health Insurance Exchanges
5. Benefits for Self-Employed Business Owners

5 Need-to-Know Points: Small Business Tax Credits



- **What and When:**

- A tax credit of up to 35% of premiums a small business pays for its workers in 2010-2013, and 50% starting in 2014 (for two years).

- **Who Qualifies:**

- Businesses with 10 or fewer employees (measured in FTEs, seasonal workers excluded) and average wages under \$25,000 who cover at least 50% of the cost of coverage will qualify for the maximum credit.
- The credit phases down as FTEs and average wages increase, phasing out at 25 FTEs and/or \$50,000 average wages.

- **Impact:**

- CEA estimates 4 million small businesses could be eligible if they provide health care.
- CBO estimates the credit will provide a \$40 billion benefit to small businesses over 10 years.

5 Need-to-Know Points: Small Business Tax Credits



How do you calculate the credit amount?

1. Is the employer a tax-exempt non-profit? (changes credit amount)
2. Calculate number of FTEs
 - Pro-rate part-time employees based on 2,080 hrs/yr = 1 FTE, round down to nearest whole number; seasonal workers not included
 - Also not included are: sole proprietor, partner, a 2% or more owner if employer is an s-corporation, a 5% or more owner of a c-corp, and relatives and household members of the foregoing owners
3. Calculate average wages
 - Calculate total wages for employees used in FTE calculation
 - Divide total wages by FTEs and round down to nearest \$1,000 to get average wages
4. Calculate employer health care contributions for employees counted in FTE calculation and verify that employer is paying at least 50 percent of premiums

(cont.)

5 Need-to-Know Points: Small Business Tax Credits



How do you calculate the credit amount? (cont.)

5. If FTEs are 10 or fewer and average wages are \$25,000 or less, employer is eligible for full credit:
 - For-profit: 35 percent in 2010-2013; 50 percent for first two years coverage offered on exchange starting in 2014
 - 501(c) employer: 25 percent (taken against employee income tax withholding and Medicare employment taxes) in 2010-2013; 35 percent for first two years coverage offered on exchange starting in 2014

6. If FTEs are between 10-25, the credit is reduced proportionally from the max credit; if average wages are between \$25,000-\$50,000, the credit is also reduced proportionally from the max credit.
 - Example: a for-profit with 10 FTEs and average wages \$30,000 would qualify for 4/5 of the credit, or 28 percent of the employer's health contribution in 2010 (and 40 percent in 2014)
 - Example: a non-profit with 20 FTEs and average wages \$25,000 would qualify for 1/3 of the credit, or 8.3 percent of the employer's health contribution in 2010 (and 11.7 percent in 2014)

The health insurance premiums that may be taken into account in calculating the credit are limited to the average premium for coverage in the state or rating area in which coverage is offered. HHS will publish these average premium amounts.

5 Need-to-Know Points: Shared Responsibility Requirement

- **Exemption:**
 - Businesses with fewer than 50 full-time employees (measured in FTEs) are exempt from any requirements to contribute toward health coverage (part-time employees are pro-rated at 120 hrs/month = 1 FTE; there is an exclusion for seasonal employment).
- **Requirements:** Starting in 2014, for businesses with 50 or more full-time employees (measured in FTEs):
 - If the business does not offer coverage to full-time employees, and any full-time employee receives a subsidy through an exchange, the employer will pay \$2,000 per full-time worker (not including the first 30 workers).
 - If the business offers coverage but the cost of that coverage to the employee is unaffordable (exceeds 9.5 percent of household income) for any full-time employees, or the plan covers less than 60 percent of average health costs, the employer will pay \$3,000 for each full-time employee who receives a subsidy in an exchange (CAPPED AT \$2,000 PER FULL-TIME WORKER OVER 30 WORKERS).
- **Impact:**
 - An estimated 96 percent of all firms in the country have fewer than 50 employees and will be exempt.
 - For businesses with more than 50 employees, over 95 percent offered health benefits in 2009.

5 Need-to-Know Points: Ending Insurance Discrimination

The health care package takes a range of steps to end insurance discrimination.

- Prohibits insurance companies from denying coverage for pre-existing conditions.
- Ends premium discrimination in the small group insurance market based on gender and health status, and limits rating by age.
- Eliminates lifetime and annual limits on coverage that threaten to bankrupt small business owners and employees.
- Strengthens oversight of insurer rate increases, protecting small businesses from arbitrary and unreasonable premium hikes.

5 Need-to-Know Points: Health Insurance Exchanges

- **What and When:**

- Starting in 2014, small businesses will have access to new, simplified marketplaces for health coverage called insurance exchanges at the state level that increase pooling and administrative efficiencies.
- A variety of plans with different benefit levels will be available in each exchange.

- **Who Qualifies:**

- Small businesses with up to 100 employees and self-employed people will qualify in the first year, 2014.
- States will have the option to open their exchanges to businesses with more than 100 employees starting in 2017.

- **Impact:**

- The exchanges will maximize small business bargaining power to negotiate better coverage, promote transparency and informed choice, and increase competition to lower rates.

5 Need-to-Know Points: Benefits for Self-Employed Business Owners

An estimated 21 million Americans are self-employed, and many successful enterprises start with a self-employed entrepreneur.

The health care package creates new options and protections for the self-employed:

— **Insurance Reforms:**

- The self-employed have faced some of the worst insurance abuses in the individual market – coverage denials for pre-existing conditions, rescissions of coverage, and off-the-charts rate increases as recently reported in California and nationwide – and will benefit from insurance reforms that end discrimination in coverage and pricing.

— **Exchange Structure:**

- The self-employed will be able to shop for health coverage in the insurance exchanges, benefiting from the exchanges' risk pooling, bargaining power, increased transparency and benefit standards.
- Experts have projected a savings of close to 20 percent for self-employed people in the exchanges.
- Sliding scale premium affordability credits and caps on out-of-pocket costs will provide additional assistance and security for self-employed people and their families.

What Reform Means for Small Businesses: Back to the Elevator Version

This package of reforms will help small businesses by:

1. **Ending discrimination** by insurance companies
2. **Making coverage more affordable** for small business owners and our employees
3. Giving small businesses **better choices** and more **bargaining power**

MSA's Education Efforts

- MSA has state coalitions in a dozen states that are actively engaged in outreach and education around health reform:
 - Developing educational materials, communicating with our small business members about the benefits of reform, and planning outreach to other small business groups
 - Coordinating events with Members of Congress and our small business leaders to highlight and publicize the benefits of reform for small businesses
 - Lining up opportunities for small business owners to speak to national and state press about their support for reform and what small businesses will gain (recent examples include the Wall Street Journal, Fox Business Channel, MSNBC, AOL Small Business, many local papers and TV outlets)

For More Info...

Main Street Alliance website:

www.mainstreetalliance.org

Contact info:

Sam Blair, MSA Network Director

sblair@mainstreetalliance.org

(603) 831-1835

