

## Healthcare Reform for Small Business—Current Bills

Comprehensive healthcare reform must fix the serious problems that small businesses, including the self-employed, face in the current healthcare system: skyrocketing costs and unpredictable premiums, lack of access to affordable coverage and to choice among health plans, and administrative inconvenience and hassle. In addition, the financing plan and other features must be structured in a way that doesn't cause reduced profits, loss of jobs and lower wages. There are two Senate bills—Finance Committee and Health, Education, Labor and Pension Committee (HELP) and one House bill pending in Congress addressing these concerns.

### How do the current bills in Congress stack up?

#### Lower costs

The bills would help reduce costs for small businesses by creating an insurance pool, providing small business tax credits and reducing long-term health inflation through cost containment.

#### Insurance pool

The health insurance exchange, which would create a large pool of small businesses with up to 50 employees and the self-employed, would enable insurers to offer lower premiums as a result of lower administrative costs. The larger pool would also dampen the annual volatility of premiums and create more insurer competition, thereby increasing insurance options.

- **House:** Would create a national exchange in 2013, which will be larger and have lower costs than the individual state exchanges put forward in the other bills. The exchange would initially allow individuals and firms up to 15 employees to participate, and expand to include larger businesses over three years.
- **Senate:** Both Senate bills would create 50 state exchanges, which would be very helpful in larger states but might do little for smaller states and rural areas without much insurer competition. The Senate Finance Committee bill would mandate creation of the exchange by 2011; however, it would initially allow only businesses of up to 50 employees, and phase in those with up to 100 employees in 2015. Beginning in 2017, states may allow employers with more than 100 employees to use the exchange, but are not required to do so.
- **Public Option vs co-ops:** Senate Finance would establish co-ops as a substitute for the public insurance plan option included in the House and Senate HELP bills. Co-ops are consumer-owned insurance alternatives that would compete with privately held insurance companies. All bills include a provision for either a public insurance option or healthcare co-ops as an option along with private insurer plans available through the exchange.

#### Small business tax credits

Tax credits of up to 50 percent of premium expenses would be available to small businesses to partially offset the cost of providing coverage. The bills allocate different amounts to fund the credits. The Congressional Budget Office (CBO) estimates the total cost of the House bill tax credit at \$53B from 2013-2019, an average of \$8B per year. The Senate Finance Committee tax credit bill is estimated at \$24B from 2011-2019, an average of \$3B per year.

- **House:** Businesses with 10 or fewer employees (4.7 million companies—80 percent of small businesses) with average annual wages of \$20,000 or below would receive the full credit; businesses with more than 10 employees and those that have average employee wages between \$20,000 and \$40,000 would receive a partial credit; businesses with 25 or more employees (7 percent of small businesses) or those that have average employee wages above \$40,000 would not be eligible for the credit.
- **Senate HELP:** Beginning in 2010, employers with 50 or fewer full-time workers with average annual wages below \$50,000 who pay 60 percent or more of their employees' health insurance premiums will be eligible for tax credits to subsidize coverage. Tax credit amounts are based on the type of employee coverage, the size of the employer and the proportion of time the employer paid employee health insurance expenses, and are available for up to three consecutive years. Self-employed individuals who don't receive credits for purchasing coverage through the exchange are eligible.
- **Senate Finance:** Beginning in 2011 and through 2012, businesses with fewer than 25 full-time employees that contribute at least 50% of the total premium would be eligible for tax credits of up to 35% of the employer contribution. The full credit would be available for businesses with 2-10 employees averaging less than \$10,000 annual wages. Nonprofit organizations would qualify for tax credits of up to 25% of the employer contribution during this time period. Beginning in 2013, eligible small businesses purchasing coverage via an exchange would receive tax credits of up to 50% of the employer contribution if the employer provides at least 50% of the premium cost. Nonprofit organizations would qualify for tax credits of up to 35% of the employer contribution during this time period. Seasonal employees would not be counted when determining eligibility. While the tax credit would be permanent, a business could only claim the credit for two years. The bill explicitly excludes sole proprietorships and family members from the small business tax credits.

### Cost containment

The bills propose many reforms to bring down the overall inflation rate of healthcare costs, including:

- Implementing an electronic medical records system to create efficiency
- Creating a small business insurance pool that reduces costs through healthy competition and lower administrative overhead for businesses
- Providing a public insurance plan option—or a system of not-for-profit co-ops—that would bring competition, as well as an additional choice in areas of the country where one or two insurance companies now have monopolies and there is no real 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
- Simplifying the paperwork burden that adds tremendous costs and hassles for patients, providers, and businesses today

### More choices

The bills would all increase the choices of health plans through an insurance pool (exchange) offered to employees of small businesses, the self-employed and other individuals. This exchange would offer a range of choices, including a public insurance plan option or health co-ops. If the Exchange is large enough, it would also attract new insurers and health plans. This would expand the opportunity for small business employees to enroll in health plans based on local hospital systems and medical groups.

## Greater convenience

- **House:** The bill would make it easier for small businesses to offer and administer health benefits. A small business owner would no longer need to endure annual shopping and negotiation for health benefits, but could pay a percentage of total payroll into the exchange and let the employees choose annually the plan that fits each one's needs. This system has proven to work for eight million federal government employees and their families.
- **Senate Finance:** Small business owners and employees would be able to access the state exchanges via the web to learn about and purchase insurance plans. Options would include co-ops and products from private insurance companies. Small businesses offering coverage via the exchange would not be able to offer plans with deductibles exceeding \$2,000 for individuals or \$4,000 for families.

## Expanded coverage

Insurance reforms, premium assistance for lower-wage employees and Medicaid expansion would increase coverage for nearly all Americans.

### Insurance reform

All of the bills include insurance reforms that would 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 would ensure that employees and sole proprietors are not denied coverage for serious health conditions.
- Rating regulations that prohibit the use of health status in determining premiums would enable those with serious health conditions to obtain affordable coverage.

### Employee premium assistance

Every individual would be required to obtain health insurance. To help make this affordable for everyone, premium assistance would be provided, on a sliding scale, for lower-wage employees. This would help the 26 million employees and families that are currently uninsured and work for small businesses.

- **House:** The fee for individuals (including self-employed) who don't obtain coverage would be 2.5% of adjusted gross income.
- **Senate HELP:** The annual fee for individuals (including self-employed) who don't obtain coverage would be \$750.
- **Senate Finance Committee:** The annual fee for adults who don't obtain coverage would be \$750 per year. Exemptions would be available.

### Coverage

- **House & Senate HELP:** 97 percent of individuals, up from 85 percent, are projected to have healthcare coverage. Illegal immigrants would be excluded from the programs.
- **Senate Finance:** 94 percent of individuals are projected to have coverage by 2019. Illegal immigrants would be excluded from the programs.

## Financing

The bills rely on several sources of revenue—in addition to reductions in Medicare expenses and other cost savings measures—to offset the costs of expanded coverage, tax credits and premium assistance.

- **House:** Employers would be required to provide health benefits for their employees or pay a fee. Small businesses with less than \$500,000 payroll (approximately equivalent to 15 employees) would be exempt from the requirement. (Approximately five million, or 85 percent, of small businesses would be exempt.) Above the \$500,000 payroll level, there would be a sliding scale of fees employers must pay if they don't provide benefits:
  - Under \$500K: exempt
  - \$500-\$585K: 2%
  - \$585-\$670K: 4%
  - \$670-750K: 6%
  - Over \$750K: 8%
 Employers who do offer coverage would be required to contribute 72.5% of the lowest cost premium for employees and 65% for families.
  - The House bill would impose a surcharge on the top 1.2 percent of earners with adjusted gross income in excess of \$350,000 (married filing a joint return) and \$280,000 (single). The surcharge would be imposed at progressive rates: 1% for married households with income between \$350,000 and \$500,000; 1.5% for those earning between \$500,000 and \$1 million; and 5.4% for incomes in excess of \$1 million.
- **Senate HELP:** Employers with fewer than 25 employees would not required be to provide health insurance to their employees. (More than 5 millions small businesses—91 percent—would be exempt due to size.) Those with 25 or more employees who don't offer qualifying coverage or who pay less than 60% of their employees' monthly premiums would be subject to a \$750 annual fee per uninsured full-time employee and \$375 per uninsured part-time employee. Employers would be exempt from paying these fees for their first 25 employees.
  - Ideas under consideration for financing reform include taxing 'rich-benefit' health insurance policies sold by insurers; limiting the tax exemption for individuals for such plans; and additional cost containment measures.
- **Senate Finance:** 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 coverage on the exchange.
  - A 40% excise tax would be imposed on plans costing more than \$8,000 per year for individuals or \$21,000 for families. While costs—initially paid by the insurer—would eventually be passed on to plan holders, the tax aims to discourage the use and purchase of high-cost/high-benefit plans. The tax would fund nearly 25% of the bill's cost with \$215 billion in revenue over the next decade.
  - While there would not be a mandate for employers to offer health insurance, there would be a fee employers must pay when an employee purchases insurance through the insurance exchange and qualifies for a tax credit/subsidy. Full-time employees who earn up to three times the federal poverty level would be eligible for the credit. Businesses that have more than 50 employees and that don't provide affordable coverage would be charged a fee equal to the average amount of the yearly tax credit received by each employee eligible for the credit. This fee would be capped at a total of \$400 times the total number of full-time employees in the business (whether they're receiving coverage or not).
    - For example: The employer has 100 employees and does not offer 'affordable' coverage as defined by the bill. Thirty employees would be eligible for government subsidies. The employer would pay the lesser of either (a) average subsidy per employee times the number receiving the subsidy:  $\$3,000 \times 30 = 90,000$ ; or (b)  $\$400 \times 100 \text{ employees} = \$40,000$ .