



# NUTS & BOLTS OF FEDERAL HEALTH REFORM

## The Impact on Utah Small Businesses

A Utah Health Policy Project Issue Brief

June 2, 2010

### Background

Small businesses are the engine of Utah's economy<sup>i</sup>. Currently, there are 64,000 Utah businesses with fewer than 50 employees, and they are struggling to offer their employees affordable health coverage. In 2006, less than a third of these companies offered employer-sponsored coverage, and that number has declined every single year since then. With the current recession, health insurance is a cost center that these struggling businesses simply cannot sustain.

This is why Utah small business owners so strongly support comprehensive health reforms. They desperately need relief from skyrocketing costs, unpredictable premiums, administrative hassles, and a limited marketplace, which offers no meaningful choice between plans.<sup>ii</sup>

Help, *finally*, is on the way. The new federal reform law provides both immediate and long-term solutions for each of these problems.

### Lower Costs for Small Businesses

High costs are the #1 problem confronting Utah's small businesses, and health reform will start cutting those costs *this year*. This will be achieved by providing tax credits to small businesses, making quality coverage more affordable through the creation of insurance pools, and a package of initiatives designed to reduce long-term healthcare inflation.

### Small Business Tax Credits

Starting this year, small businesses can receive up to a 35% tax credit to help offset the cost of coverage for their employees. Approximately 3.6 million small businesses will qualify nationwide in 2010. In Utah, 71% of companies could be eligible



### NEW TAX CREDITS THIS YEAR!

Small businesses can receive a tax credit for up to 35% of all contributions towards health insurance in 2010.

Employers with 10 or fewer employees and average annual wages of less than \$25,000 can claim the full credit. Small businesses with <25 employees and average annual wages < \$50,000 are eligible for a sliding scale credit. To be eligible for the tax credit, employers must cover at least 50% of the total premium cost or 50% of a benchmark premium.

But wait... it gets better from there! The tax credit continues from 2010 to 2013. Starting in 2014, it increases to 50% of the premium contribution for eligible employers purchasing coverage through the Exchange for 2 years. That's real savings you can put towards growing your business or paying higher salaries!

for a portion of the credit, and up to 58% may be eligible for the full tax credit.<sup>iii</sup> Small businesses – including non-profits – can calculate the exact amount of their credit here: <http://smallbusinessmajority.org/tax-credit-calculator>. The IRS also has a comprehensive Frequently Asked Questions site to answer more detailed questions about this tax credit: <http://www.irs.gov/newsroom/article/0,,id=220839,00.html>.

## Insurance Exchanges

Starting in 2014, small businesses will be able to purchase insurance through a new online marketplace called a SHOP (Small Business Health Options Program) Exchange. Participation is optional for small businesses, though it has undeniable advantages.

First, the new SHOP Exchange allows small business owners and their employees to easily shop for the most affordable plan. The Exchange will make it easy for companies to see exactly what different plans offer, at different cost thresholds. This, in turn, will motivate insurers to compete with one another to offer the best coverage at the lowest rates.

Small businesses will reap the benefit and have more affordable choices than ever, laid out in an easy-to-understand format. Differentiating between higher-quality and lower-quality plans will be crystal clear, since plans will be designated “platinum,” “gold,” “silver,” or “bronze” according to objective, measurable criteria. In the old days, small businesses might have to spend months reading the fine print to find a decent plan, never knowing for sure that they had the most reliable information – **no longer**. Small businesses will have all the information they need to select the right plan for *their* employees and *their* price point. If they prefer, they can designate a category or level of coverage and then leave the choice of specific plans within the given category up to their employees, allowing for maximum flexibility and choice. The days of “one-size-fits-all” benefit packages are over.

Small businesses have never qualified for the low premium rates that large companies typically enjoy. Fortunately, the Exchange will allow small businesses to **pool their risk** giving them the same competitive advantages as large employers. This will stabilize premiums from year to year, while creating **more competition** amongst insurers. The end result will be more reliable access to affordable insurance options for small businesses.

Federal reform gives states the option to operate the new Exchanges at the state (or regional) level. This is good news for Utah, since we are already experimenting with our own online marketplace. Utah’s Health Exchange may not be as robust or comprehensive as the one envisioned in the new federal reform law, but it provides a solid starting point. No matter who decides to run it, the full SHOP Exchange (with all the benefits described above) will be in place by 2014.

## Additional Cost Containment to Stabilize Premiums over Long Term

But access to affordable health insurance products for small businesses is only the first step. If there is a future for employer-based coverage, small businesses need their costs to become more predictable and stable over time. Federal reforms will do just this through a number of efficiency measures, including electronic medical records and initiatives to reduce waste, fraud and abuse in Medicare and Medicaid and to simplify the paperwork that burdens patients, providers and businesses.

Right now providers have ‘perverse incentives:’ they get paid more if they provide *more* services and procedures, whether or not the patient benefits. With that excess utilization and waste comes excess cost – and some of this is reflected in higher premiums for small businesses. Reforms are designed to re-align incentives through payment and delivery system reforms. In addition, the legislation allows states to lead out, as they should, in medical malpractice reform. Finally, in 2011 small businesses can apply for grant money to establish employee wellness programs. Depending on how they are designed, wellness programs can be an effective tool for lowering health care costs while improving health status for participants.

With the lowest health care costs in the country and considerable experience with payment reforms *and* wellness programs, Utah can be a national leader on these issues. Utah already has several pilot projects underway to help manage the cost of diabetes care, for example. The state can go above and beyond the federal legislation in enacting policies to bend the cost curve.

## Increased Choice & Stability

As small groups in the current market, small businesses face inherent disadvantages. One sick employee can put premiums out of reach for the entire group. To compete in today’s global marketplace, small businesses must attract and retain quality employees – but to do this they must offer quality benefits. The new federal reform law will make all of this easier by preventing discrimination in premium pricing based on several factors.

Starting in 2010, families will be able to keep their dependent children covered under their family health plan until age 26. Beginning in 2014, insurers can no longer...

- use health status in determining premiums;
- exclude pre-existing conditions from coverage;
- place annual and lifetime benefit limits on your plan;
- price small groups out of the market by imposing high deductibles. Deductibles will be limited to \$2,000 for individuals and \$4,000 for families in the small group market.

Increased transparency will help small businesses gravitate toward insurers who spend more of the premium dollar on medical claims rather than on excessive profits or CEO salaries. Insurers spending less than 85% of the premium dollar on claims must provide rebates to consumers. With support and technical assistance from the federal government, Utah’s insurance department will hold insurers accountable for insurance rate increases and roll back increases as needed.

## Small Business Protection and a Level Playing Field

Under reform, *no* businesses will be required to offer health insurance. However, there will be a free-rider provision to prevent large businesses from sending their employees to public programs. **Small businesses with 50 or fewer employees will not be subject to any of these free-rider fees,** straight and simple. Only employers with more than 50 employees that 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. This won’t matter much in Utah, as 92% of firms with at least 50 employees already offer health insurance.<sup>iv</sup> A transition provision excludes the first 30 employees from the assessment.

## Relief for Self-Employed Entrepreneurs

The freedom to develop an idea and start a business is the quintessential American dream. But entrepreneurial Utahns with pre-existing conditions (or who have family members with pre-existing conditions) are caught between a rock and a hard place. As individuals purchasing insurance they will likely be denied health insurance. This often locks otherwise entrepreneurial Utahns into working for big companies just for the benefits. Reforms are designed to help more Utahns fulfill their entrepreneurial aspirations. As a first step, a state-based temporary high risk pool will help uninsurable Utahns who have been uninsured for 6 months and have pre-existing conditions access full insurance coverage until full implementation of the exchanges and insurance reforms go on line in 2014. Then, also in 2014, self-employed entrepreneurs will have access to a second exchange for individuals. Through that exchange, Utahns making up to 400% of the federal poverty level (88,200 for a family of 4) will be eligible for tax credits. The self-employed will be able to easily shop for and compare plans; they'll have more choices—including a new option for a simplified cafeteria plan to obtain benefits on a tax-free basis.

## Conclusion

Health reform builds on the strengths of our current health care system. Most Americans will continue getting their health insurance through their jobs, and the private sector health system of doctors, hospitals and other providers will be maintained. Medicare will still cover retirees, and Medicaid will continue to cover uninsured children, while extending to otherwise uninsured low-income adults.

In areas that matter most to Utah's business community, like reining in health care spending or sharing risk, the reforms will gradually introduce a 180 degree shift away from traditional insurance practice. By 2014, small businesses will no longer find themselves saddled with unsustainable premium increases if they or one of their employees becomes sick or has an accident. Health reform brings more choices and better stability to the small group market. Reform will be implemented over the next five years to avoid disruption to the existing system and make the transitions as smooth as possible.

Without reform, small businesses face continuing skyrocketing health care costs. In 2008, Utah small business owners and the self-employed spent \$1.2 billion in premiums. Without reform, that number will rise to \$2.8 billion by 2018!<sup>v</sup> Thus, for Utah's small businesses health reform comes not a moment too soon! Utah small businesses have everything to gain from federal health reform, and this is why they should get involved in implementation.

<sup>i</sup> <http://jobs.utah.gov/export/wi/pubs/em/ueews/table1.pdf>

<sup>ii</sup> Utah Small Business Healthcare Survey. April 21, 2010

[http://www.healthpolicyproject.org/Publications\\_files/Business/Utah\\_research\\_report\\_062209.pdf](http://www.healthpolicyproject.org/Publications_files/Business/Utah_research_report_062209.pdf)

<sup>iii</sup> Agency for Healthcare Research and Quality, Center for Financing Access, and Cost Trends. 2008 Medical Expenditure Panel Survey—Insurance Component, "Percent of private sector establishments that offer health insurance by firm size and State."

<sup>iv</sup> Agency for Healthcare Research and Quality, Center for Financing Access, and Cost Trends. 2008 Medical Expenditure Panel Survey—Insurance Component, "Percent of private sector establishments that offer health insurance by firm size and State."

<sup>v</sup> "The Economic Impact of Healthcare Reform on Small Business," Small Business Majority, June 2009.