

What's in the Final Bill for Small Businesses?

The consensus bill for national healthcare reform is before Congress and now it is time for a final up-or-down vote.

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 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, lost jobs and lower wages.

After two years of debate, small businesses now face a choice: support reform and press Congress to pass the final consensus bill once it is presented, or let healthcare reform die and continue to live with the system we have for the next decade, at least.

How does the consensus bill measure up?

Lower costs

The bill would help reduce costs for small businesses by creating an insurance pool in each state, providing small business tax credits and reducing long-term healthcare inflation.

Insurance pool

A health insurance exchange would create a pool of small businesses with up to 100 employees and the self-employed. An exchange 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 affordable insurance options.

- **The bill would create 50 state exchanges.** The bill would mandate creation of the exchanges by 2014, and allow businesses of up to 100 employees to participate (although states would 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.
- **Public option, co-ops and national health plans:** The final bill does not include a public option. The bill would enable, and fund with loans, the establishment of 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 ten-year time span; 3.6 million small businesses would 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 would be eligible for tax credits of up to 35% of the employer contribution. The full credit would be available for businesses with fewer than 10 employees averaging less than \$25,000 annual wages, and phase out at \$50,000. Nonprofit organizations would qualify for tax credits of up to 25% of the employer contribution during this time period.
- Beginning in 2014, 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. A business could claim the credit for any two years in the future. The bill explicitly excludes sole proprietorships and family members from the small business tax credits (but they could apply for individual tax credits).

Cost containment

Cost containment has been substantially strengthened from earlier versions with more provisions 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 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 would bring competition, as well as additional choice in areas of the country where one or two insurance companies now have monopolies
- 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
- Enabling states to lead medical malpractice reform with federal funding to back them up

The CBO estimates that the bill will reduce the government deficit by \$138 billion over the next ten years, and \$1.2 trillion over the following ten—which should, in turn, reduce taxes and interest rates.

More choices

The bill would 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.

- The reform plan adds a “free choice” voucher option. Employers that offer insurance not purchased through the exchange will be required to give certain employees a choice between the employer plan and a voucher of equal value, which could be used for any plan offered through the exchange. Employees qualify if their required premium contribution to the employer-sponsored plan equals between 8% and 9.8% of their income (above 9.8%, they qualify for a federal subsidy).

- 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 would be able to access the state exchanges via the web to learn about and purchase insurance plans.
- Before the exchanges are established, a temporary high-risk pool would be established in 2010, funded with \$5 billion, to guarantee that people who have been uninsured for six months and have a preexisting condition can buy full insurance coverage. This will benefit many self-employed and small business employees who are currently excluded from coverage.

Insurance reforms for small business and consumer protection

The bill includes 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 no one is 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.
- The bill requires that insurers expend not less than 85% on medical coverage, provides for consumer rebates, and includes “sunshine” reporting requirements for insurers to justify rate increases.
- Annual and lifetime limits will be prohibited once the exchanges are set up.
- Under the reform plan families will be able to keep their dependent children covered under their family health plan until age 26.
- The bill establishes new federal oversight powers over unreasonable insurance rate increases, including the ability to roll back premium increases or provide rebates.

Expanded coverage

Insurance reforms, premium assistance for lower-wage employees and Medicaid expansion would increase coverage for nearly all Americans. Currently 83% of Americans have health insurance. The bills would dramatically increase this number to 95%. Illegal immigrants are excluded from all health insurance programs under this bill.

Employee tax credits

Every individual would be required to obtain health insurance. To help make this affordable, tax credits would be provided, on a sliding scale, to lower-wage employees. This would help a large percentage of the 26 million employees and families who are currently uninsured and work for small businesses.

- The annual fee for adults who don’t obtain coverage would 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 bill provides exemptions for married couples below \$18,700 annual income, with financial hardship, religious objections and individuals deemed unable to pay for other specific reasons detailed in the legislation.

Financing

The bill 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, the bill would not only be self-sustaining, but it would also, per CBO estimates, reduce the federal deficit by \$138 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 30 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 would 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 would eventually be passed on to plan holders. 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 would not be required to offer health insurance. But those employers with more than 50 employees who don't would 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 no fee for workers during the waiting period.
- There is a transition 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).