

Affordable Care Act 101: What The Health Care Law Means for Small Businesses

December 2013

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Small Business and Health Care

For years, small businesses have reported that their **NUMBER ONE** concern has been access to **AFFORDABLE HEALTH CARE.**

Affordable Care Act

Currently, small businesses pay on average 18% more than big businesses for health insurance. The Affordable Care Act (ACA) will help small businesses by lowering premium cost growth and increasing access to quality, affordable health insurance.

ACA Reduces Premium Cost Growth and Increases Access to Affordable Care



Before ACA, Small Employers Faced Many Obstacles to Covering Workers

- Too few choices
- Higher premiums and unpredictable rate increases
- Higher rates for groups with women, older workers & those with chronic health concerns or high-cost illnesses, in most states
- Waiting periods or no coverage for individuals with Pre-Existing Conditions

Today, under ACA, insurance companies:

- Face limits on administrative spending. Most insurers must now spend at least 80 percent of consumers' premium dollars on actual medical care
- Must disclose and justify proposed rate hikes of 10% or more, which states, or the federal government, may review

Starting in 2014, insurance companies:

- Can't charge higher rates or deny coverage because of a chronic or pre-existing condition
- Can't charge higher rates for women, and face limits on charging additional premiums for older employees
- Will pool risks across small groups creating larger pools like large businesses
- Must not have annual dollar limits on coverage
- Must offer plans that provide a core package of "Essential Health Benefits" equal to typical employer plans in the state

ACA Reduces Premium Cost Growth and Increases Access to Affordable Care



The Affordable Care Act increases access to affordable, quality health care for the self-employed and small businesses

- **Since 2010, eligible small businesses can get tax credits worth up to 35 percent** of their premium contribution to help them pay for health insurance. Approximately 200,000 employers have claimed the credit each year.
- **Better options through new Health Insurance Marketplaces:** Starting January 1, 2014, the self-employed and small businesses will have access to a range of affordable health care options no matter where they are located.

Health Care Insurance Reforms Are Making a Difference for All Americans



The Affordable Care Act is already making a difference for all Americans by offering strong consumer protections, improving quality and lowering costs, and increasing access to affordable care

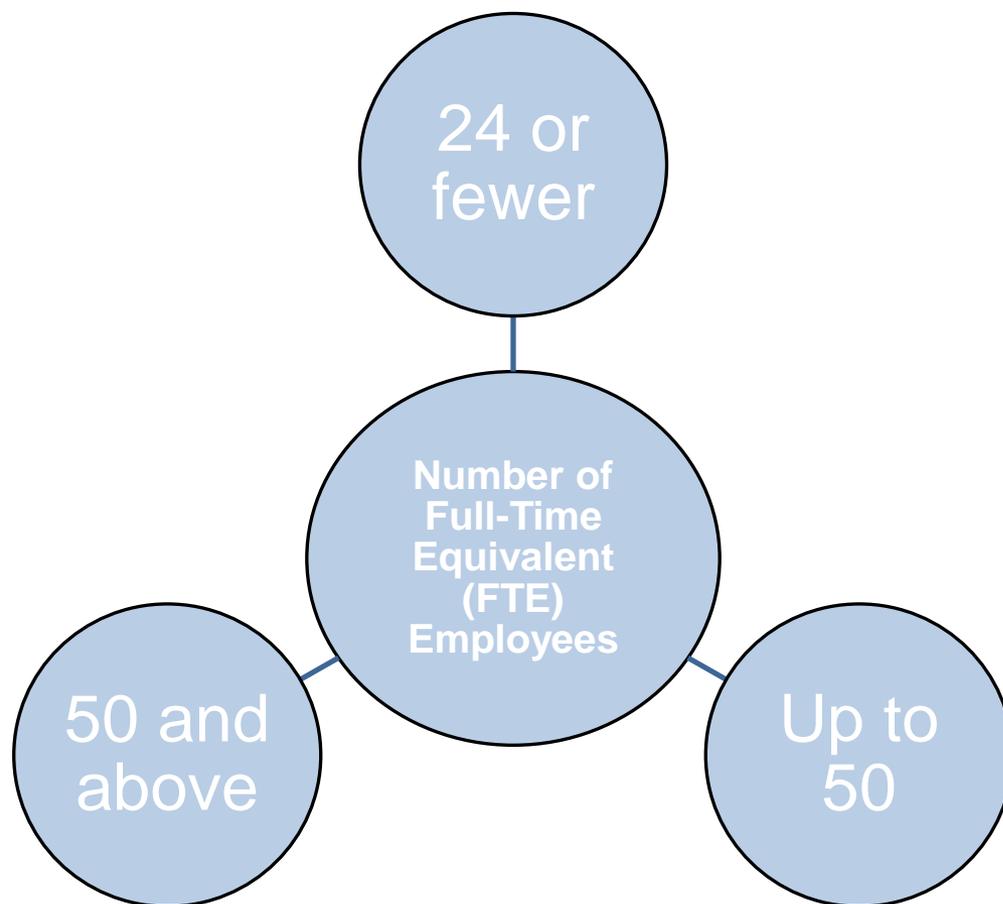
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- **6.6 Million Young Adults Have Coverage Through Parents' Plans:** 6.6 million young adults, including 3.1 million who were previously uninsured, now have health coverage through provision allowing young adults to stay on parent's plan until their 26th birthday
- **17 Million Children Cannot Be Denied Coverage Due to A Pre-existing Condition,** and in 2014, 129 million Americans with pre-existing conditions cannot be denied coverage or charged more
- **15 Million Americans Can No Longer Be Dropped by Their Insurance Companies:** Without ACA, the insurance industry could return to retroactively canceling coverage for a sick patient based on an unintentional mistake in their paperwork
- **6.1 million seniors saved over \$5.7 billion for prescription drugs:** In 2012, more than 3.5 million seniors and people with disabilities who reached the Medicare Part D coverage gap received more than \$2.5 billion in discounts, averaging \$706 per beneficiary. Since the law was enacted, 6.1 million seniors saved over 5.7 billion for prescription drugs.
- **Electronic Records Reform:** According to The Centers for Disease Control and Prevention's National Center for Health Statistics (NCHS), the percentage of doctors adopting electronic health records increased from 48 percent in 2009 to 72 percent in 2012. Furthermore, at least two thirds of physicians have computerized capability to improve patient safety through various electronic tools (electronic medication lists, etc.) as of 2012.

How Will ACA Impact Small Businesses?

It often depends on the size of the business.

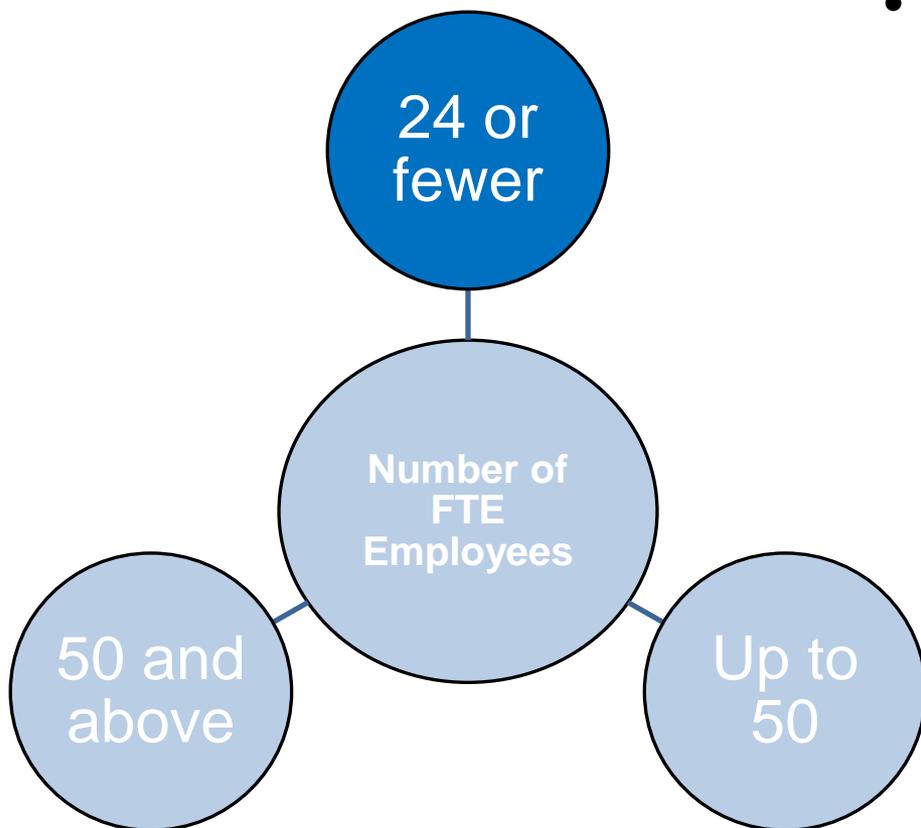
How many employees does the business have?



Affordable Care Act

Small Business Health Care Tax Credit

Businesses with 24 or Fewer FTE Employees



- If these smaller businesses provide coverage, they may qualify for the **Small Business Health Care Tax Credit** to help offset costs:
 - Must have average annual wages below \$50,000; and
 - Contribute 50% or more toward employees' self-only premium costs

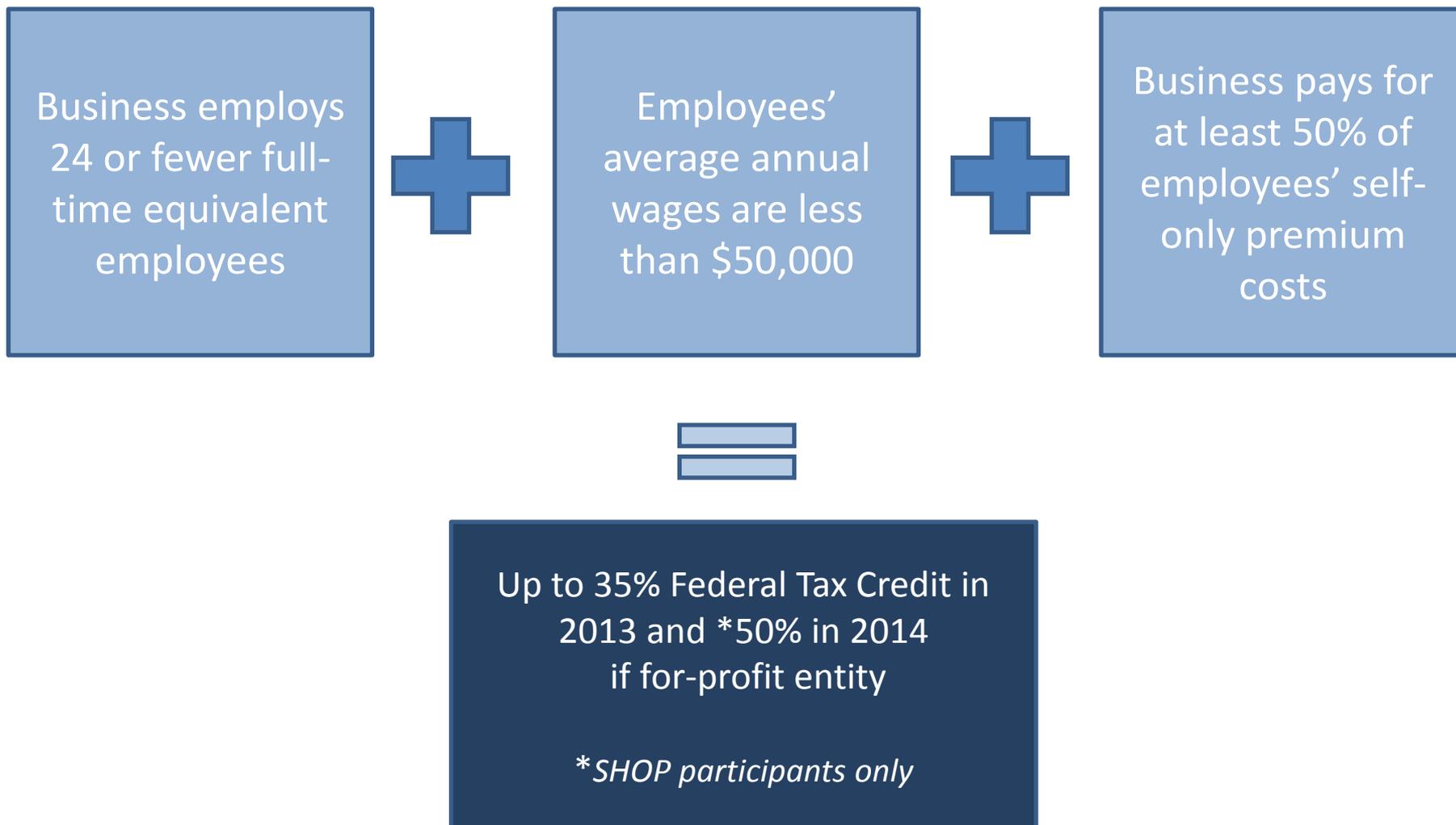
Note: The **maximum tax credit** is available to employers with 10 or fewer full-time equivalent employees and average annual wages of less than \$25,000

Small Business Health Care Tax Credit

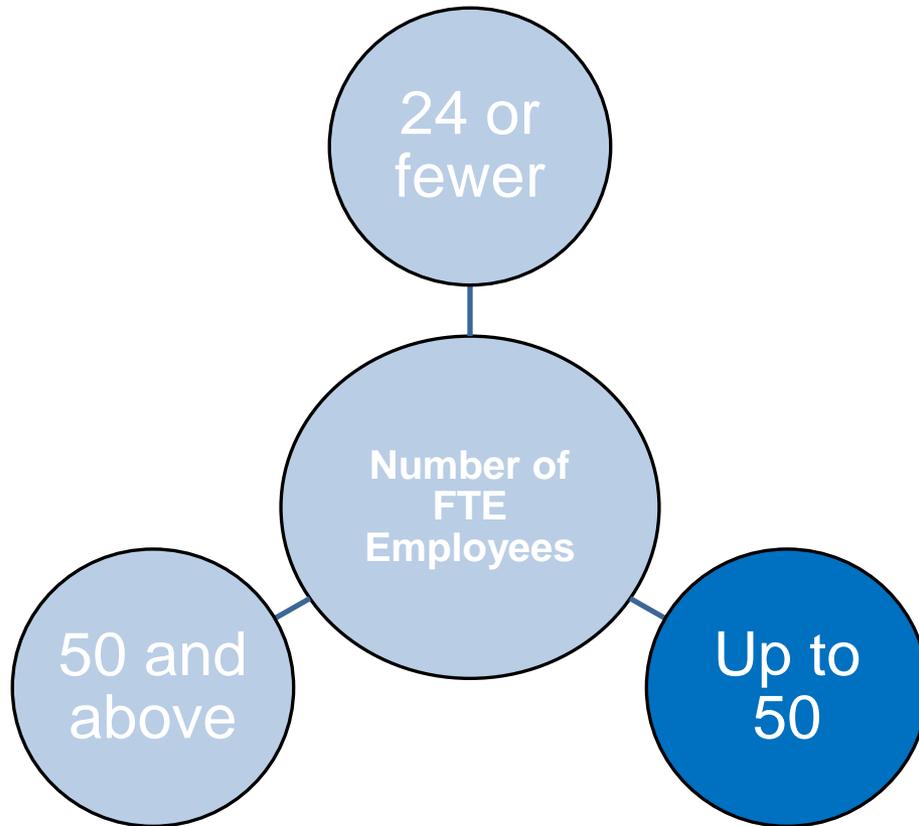


- In 2010 - 2013, **up to 35%** of a for-profit employer's premium contribution
 - Employers can still deduct remainder of contribution
 - Credit can be claimed through 2013
- Starting in 2014, the **credit goes up to 50%**
 - To take advantage of the credit, business must buy coverage through one of the new small business health insurance Marketplaces known as SHOP
 - Credit can be claimed for any 2 consecutive taxable years beginning in 2014 (or beginning in a later year) through the SHOP
- Note that this is a Federal credit, and that some states may also have additional tax credits available

Small Business Health Care Tax Credit



Businesses with Up to 50 FTE Employees



- Starting January 2014, if a small business of this size chooses to offer coverage, there is a new way to do so: **Small Business Health Options Program (SHOP) Marketplace**
- Enhanced SB Health Care Tax Credits available for eligible employers participating in SHOP

Affordable Care Act

January 1, 2014:
Health Insurance Marketplaces

More Access to Affordable Care: Health Insurance Marketplaces

SHOP = Small Business Health Options Program

- Part of the new Health Insurance Marketplaces (sometimes called “Exchanges”)
- Spurs competition for customers based on price and quality, rather than by avoiding risk
- Offers access to health insurance plans that must include certain “Essential Health Benefits”
- Will pool risks for small groups and reduce administrative complexity, thereby reducing costs
- Works with new insurance reforms and tax credits to lower barriers to offering health insurance that small employers face

Removing the Obstacles: Choice and Transparency

The SHOP Marketplace offers small employers:

- A choice of health plans
- Meaningful comparisons between plans
- Access to the Small Business Health Care Tax Credit
- Extra help:

SHOP Employer Call Center

1-800-706-7893 / 1-800-706-7915 – TTY

and

HealthCare.gov

Who Can Use the SHOP Marketplace?

Small employers:

- With 50 or fewer full-time-equivalent employees in 2014
- Who offer coverage to all of their **full-time** employees
 - generally those working 30 or more hours per week on average

Self-employed use Health Insurance Marketplace

Including:

- Sole proprietors and shareholders > 2% S corp. with no employees
- Their spouses

Using the SHOP Marketplace: When & How?

When can small employers enroll in SHOP coverage?

- Get started now
- Complete by December 23, for coverage that takes effect as early as January 1, 2014
- Enroll anytime year-round for coverage that takes effect later

How can businesses enroll in SHOP coverage?

- In states using the Federally Facilitated SHOP
 - For 2014: “Direct Enrollment” using agent, broker or insurer
 - For 2015: enroll through agent, broker, insurer or SHOP online
- States running their own SHOP have their own enrollment processes
 - Agent, broker, HealthCare.gov or SHOP Employer Call Center can tell you which SHOP Marketplace you use

The Federally Facilitated SHOP: Direct Enrollment

Much like what many small employers do today

Work with an agent, broker or insurance company to:

- Learn about offerings
 - Can also use new tools on HealthCare.gov, or
 - Get help from Marketplace Navigator or other assister
- Select a plan
- Get a premium quote
- Have employees enroll
- Pay first month's premium to the insurance company

No need to wait for SHOP eligibility notice before enrolling

SHOP Eligibility: What You Need to Know

- **What Eligibility means in the Federally Facilitated SHOP**
 - That the SHOP Marketplace has determined that you meet requirements to buy SHOP coverage
- **Required to claim Small Business Health Care Tax Credit**
 - Before filing your business tax returns for 2014 tax year
 - You must also meet all other requirements for the tax credit
- **Not required before “direct enrollment” in a SHOP plan**
 - May help you get benefits of coverage and tax credit sooner
 - If SHOP later finds you ineligible, you can't claim tax credit but your insurance company is not required to end your coverage.

SHOP Eligibility: How to Apply

Only the employer can apply

To apply to the Federally Facilitated SHOP Marketplace, you can:

- Ask an agent, broker or insurance company for help
- Get help from a Marketplace Navigator or assister
- Get the application and instructions from HealthCare.gov
- Apply by phone through the SHOP Employer Call Center

The SHOP Marketplace will notify you:

- By phone and e-mail
- By regular mail on request
- Within 3-5 days of receipt

How SHOP Works: Moving Toward Employee Choice

A key goal of the SHOP:

Options for small employers and their employees

- Such as offering employees a single plan or a choice of plans
- The SHOP in each State has some discretion over which options offered

In 2014:

- The Federally Facilitated SHOP Marketplace offers employer choice, but no employee choice option
- States running own SHOP can offer employee choice option -- many do

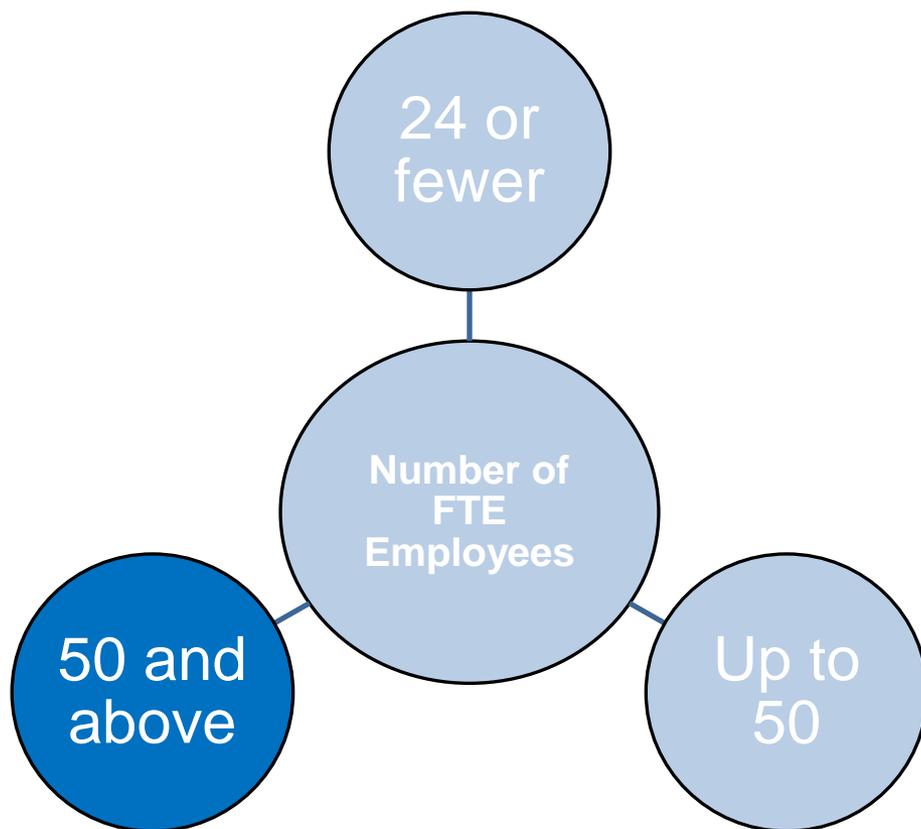
2015 and after:

- The SHOP in all states must offer small employers an employee choice option
- The SHOP can choose to make additional options available to employers

Affordable Care Act

2015:
Employer Shared Responsibility for
Employee Health Insurance
Coverage

Businesses with 50 or More FTE Employees



Employer Shared Responsibility Provisions

Nearly All Small Firms Are Exempt from Employer Shared Responsibility

- ACA exempts all firms that have fewer than 50 employees – nearly 96 percent of all firms in the United States or 5.8 million out of 6 million total firms – from any employer shared responsibility requirements. These 5.8 million firms employ nearly 34 million workers.
- Many firms that do not currently offer coverage will be better able to do so because of lower costs and wider choices in the SHOP Marketplaces.

Key Definitions

- **Full-Time Employee:** an employee who is employed on average 30 hours or more per week (or at least 130 hours of service in a given month).
- **Full-Time Equivalent (FTE) Employee:** a combination of employees, each of whom individually is not a full-time employee because they are not employed at least 30 hours per week, but who, in combination, are counted as the equivalent of a full-time employee.
 - *For example, two employees each of whom works 15 hours/week are added together to equal one full-time employee.*
- **Controlled Group Employers:** employers with common owners or who are otherwise related are aggregated together to determine whether they meet the threshold number of 50 or more FTE employees.

If employer meets 50 full-time/FTE employee threshold, two scenarios for potential shared responsibility payment

- **EITHER**

(1) An employer does not offer coverage to at least 95% of its full-time employees (and their dependents), **OR**

(2) The coverage offered to employer's full-time employees is not "affordable" or does not provide "minimum value"

- **AND**

At least one full-time employee receives a premium tax credit in the individual Marketplace

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Note: An applicable large employer might also be subject to this payment if it offers coverage to at least 95%, but less than 100%, of its full-time employees, and one or more of the full-time employees who are not offered coverage receives a premium tax credit.

Employer Shared Responsibility: Insurance Coverage Standards

Coverage Provides Minimum Value

- Plan must cover, on average, at least 60% of the plan's total cost of incurred benefits
- HHS and IRS have an [online calculator](#) employers can use to input their plan details and determine if it meets the 60% value threshold.

Coverage is Affordable

- Coverage is unaffordable if the full-time employee's share of self-only coverage costs more than 9.5% of his/her annual household income
- **Affordability safe harbor:** If the cost to the employee of a self-only plan is not more than 9.5% of his/her wages as reported on Box 1 of the W-2, it's deemed affordable for purposes of Employer Shared Responsibility

Employer Shared Responsibility Payments: Two Scenarios



If Coverage Not Offered to At Least 95% of Full-Time Employees, Then

- Payment applies if any full-time employee receives a premium tax credit in the individual Marketplace
- **Payment owed:** \$2K/year times number of full-time employee (minus 30)
- Payment calculated separately for each month for which coverage not offered (\$166.67/month)
- Payment based on employer's number of full-time employees for that month (minus the first 30)

If Coverage Offered to Full-Time Employees, But Either Not Affordable or Does Not Meet Minimum Value, Then

- **Payment owed:** \$3K/year per full-time employee who receives a premium tax credit in Marketplace*
- Payment calculated on monthly basis = \$250/month
- This payment can't exceed payment described in Scenario # 1 (left hand column)

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* This payment could also apply if an employer offers coverage to at least 95%, but less than 100%, of its full-time employees, and one or more of the full-time employees who are not offered coverage receives a premium tax credit.

Other Key Points

- No employer payment is owed for non-coverage of part-time employees even if they receive a premium tax credit in the Marketplace
- If employer offers affordable coverage that provides minimum value to a full-time employee who declines it, no employer payment is owed for that employee
- No payment is owed if an employee obtains coverage through means other than the individual Marketplace (e.g., spouse's family coverage)
- To avoid a payment, employers that offer coverage to full-time employees must also offer coverage to the dependents of those full-time employees who are children under age 26 (coverage need not be offered to spouses)

ACA Offers Strong Incentives for Employers to Continue to Offer Coverage

- The cost of providing coverage is tax deductible by the employer. By contrast, employer shared responsibility payments are non-deductible.
- Employers that offer coverage have greater flexibility to tailor the coverage to provide those benefits most valued by their workforce and will enjoy competitive advantage in recruiting and retaining employees.

Self-Employed Business Owners and Health Insurance Coverage



- Starting in January 2014, the individual shared responsibility provision calls for each individual to have **minimum essential health coverage** for each month, qualify for an exemption, or make a payment when filing his or her federal income tax return.
- **Minimum essential coverage** includes employer-sponsored coverage (including COBRA; retiree coverage; employer coverage through spouse), coverage purchased in the individual market, Medicare, Medicaid coverage, Children's Health Insurance Program (CHIP) coverage, Veteran's health coverage, TRICARE, and others as identified by the Department of Health and Human Services.
- Sole proprietors (business owners without a common law employee), though not eligible for SHOP coverage, may purchase coverage through the new individual **Health Insurance Marketplaces** which will open in January 2014, with enrollment starting October 1, 2013
 - *Advantage*: Individuals may qualify for individual **premium tax credits and/or cost sharing reductions** on a sliding scale based on income through the Marketplaces.

Other ACA Provisions Impacting Small Businesses

- ✓ Summary of Benefits and Coverage Disclosure Rules
- ✓ W-2 Reporting of Annual Health care costs (unless required to file fewer than 250 W-2s in year prior)
- ✓ Annual tax deductible cap for employee contributions to Flexible Spending Accounts is \$2,500
- ✓ Employers covered by FLSA must notify employees about the new Health Insurance Marketplace by October 1, 2013

ACA Provisions Looking Forward

- ✓ Starting in 2014, plans can't impose waiting periods of more than 90 days for otherwise eligible new hires to begin coverage.
- ✓ Starting in 2014, employers may use additional incentives/rewards under workplace wellness programs (e.g. max reward increases to as much as 50% for smoking cessation programs).
- ✓ Starting in 2015, employers with 50 or more full-time or FTE employees will have new information reporting requirements detailing health insurance coverage offered. First reports due 2016.
- ✓ Also in 2015, there will be new information reporting requirements for issuers of health insurance coverage – applies to employers of any size that have self-insured health plans. First reports due 2016.

Small Business Resources



www.Business.USA.gov

www.sba.gov/healthcare

www.healthcare.gov