

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

May 2013

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# Small Business and Health Care

According to the National Federation of Independent Business, since 1986 the **NUMBER ONE** concern for Small Businesses every year 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. About 360,000 businesses and business owners who provide health insurance received the tax credit in 2011.
- **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



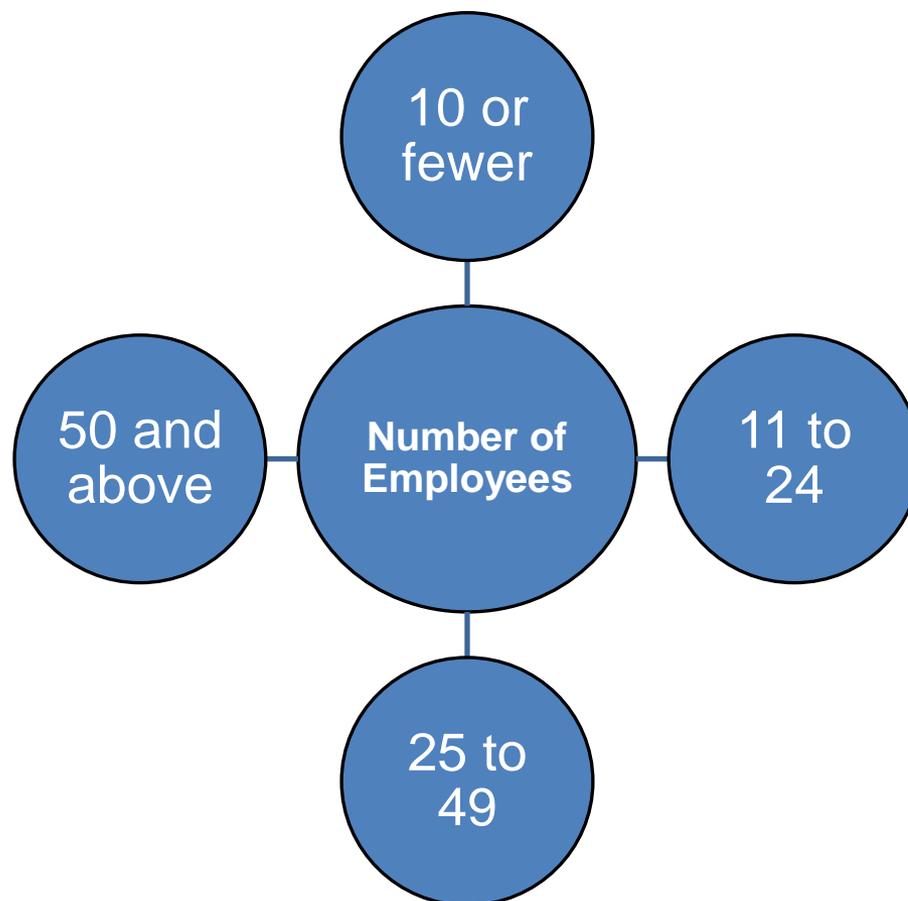
The Affordable Care Act is already making a difference for all Americans by offering strong consumer protections, improving quality and lowering costs, and increasing access to affordable care

- **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.

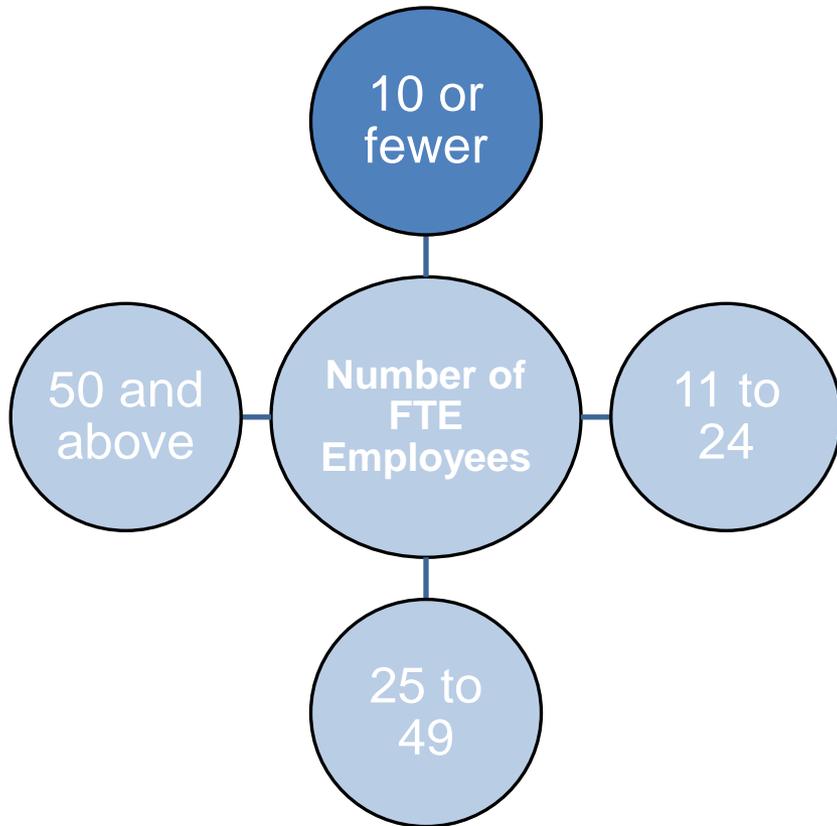
How many employees does the business have?



# Affordable Care Act

## Small Business Health Care Tax Credit

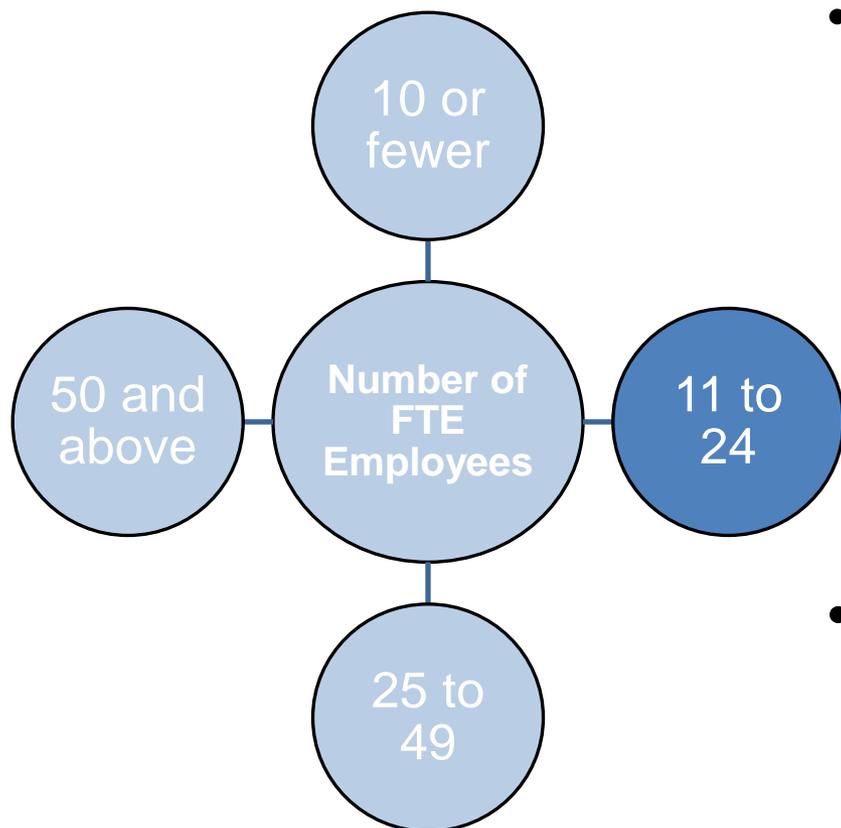
# Businesses with 10 or Fewer FTE Employees



- 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

# Businesses with 11 to 24 FTE Employees



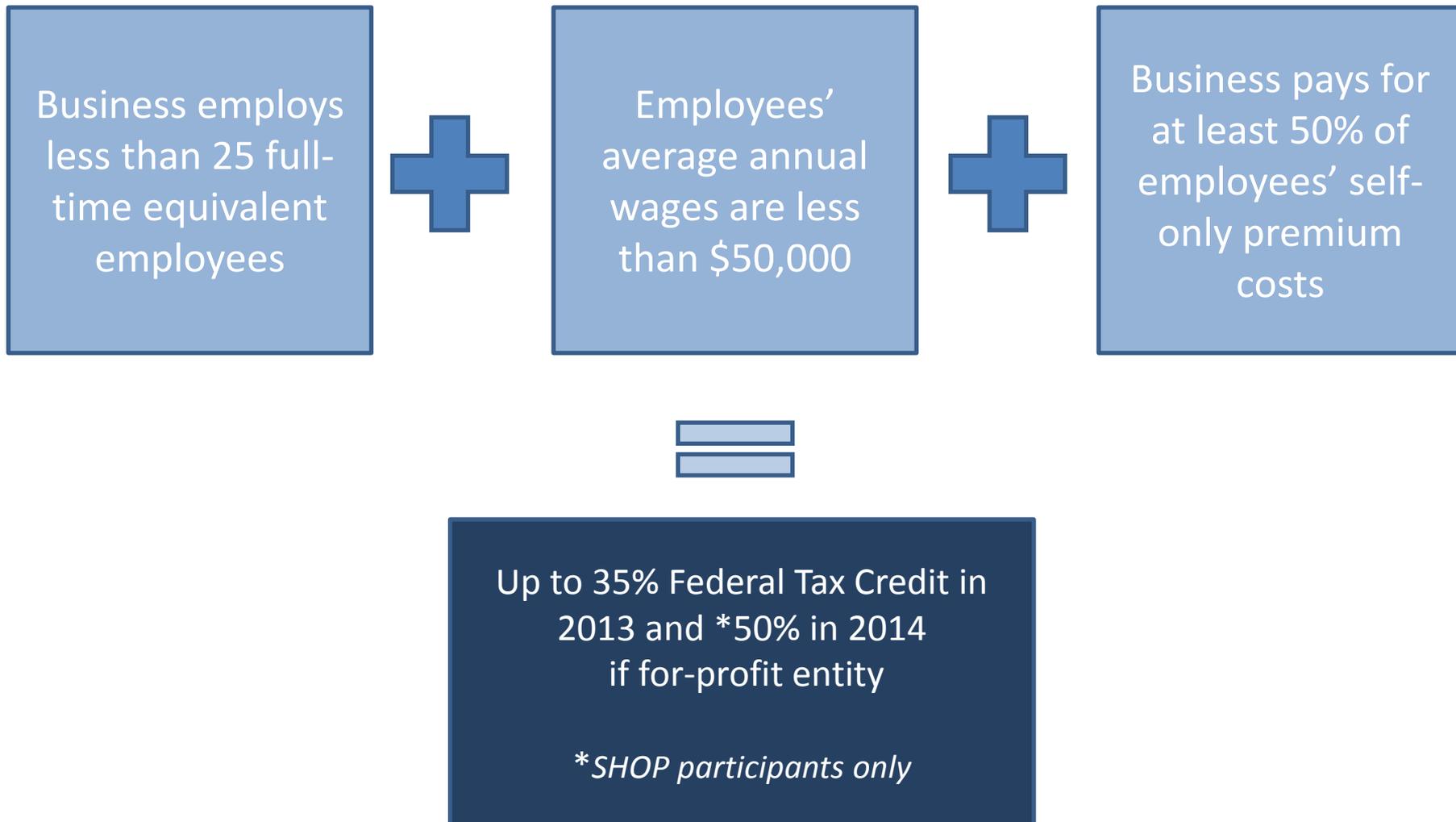
- May qualify for the **Small Business Health Care Tax Credit** if they choose to provide coverage:
  - Must have average annual wages below \$50,000; and
  - Contribute 50% or more toward employees' self-only premium costs.
- **Note:** Credit works on a sliding scale, i.e., for each FTE above 10 and average annual wages above \$25,000, the credit is reduced

# Small Business Health Care Tax Credit

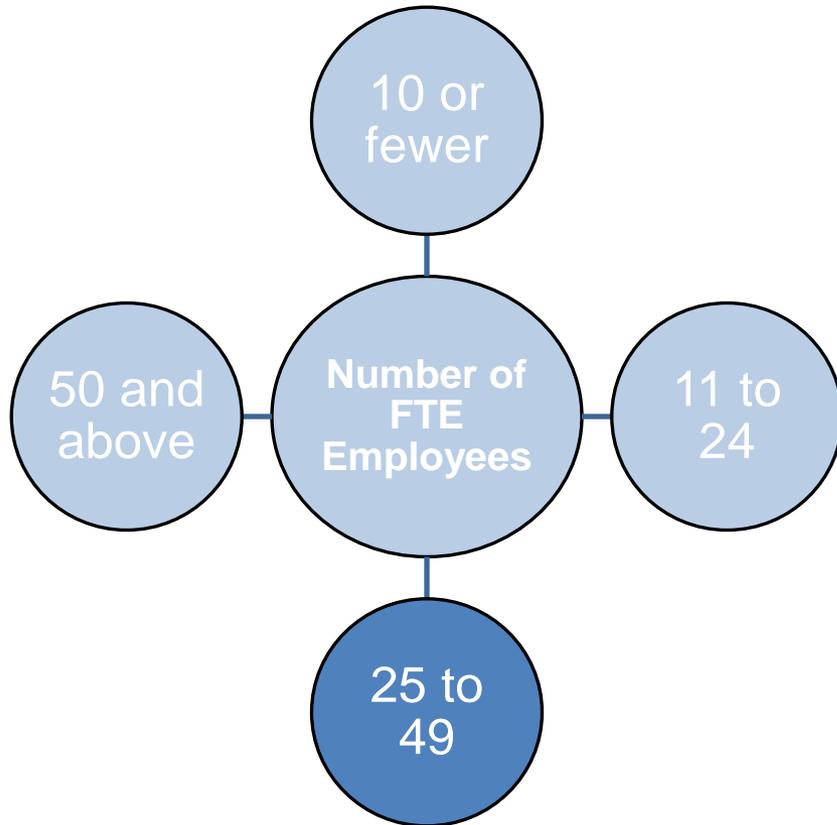


- In 2010 - 2013, **up to 35%** of a for-profit employer's premium contribution
  - Employers can still deduct remainder of contribution
  - Credit can be claimed through 2013
- Starting in 2014, the **credit goes up to 50%**
  - To take advantage of the credit, business must buy coverage through one 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

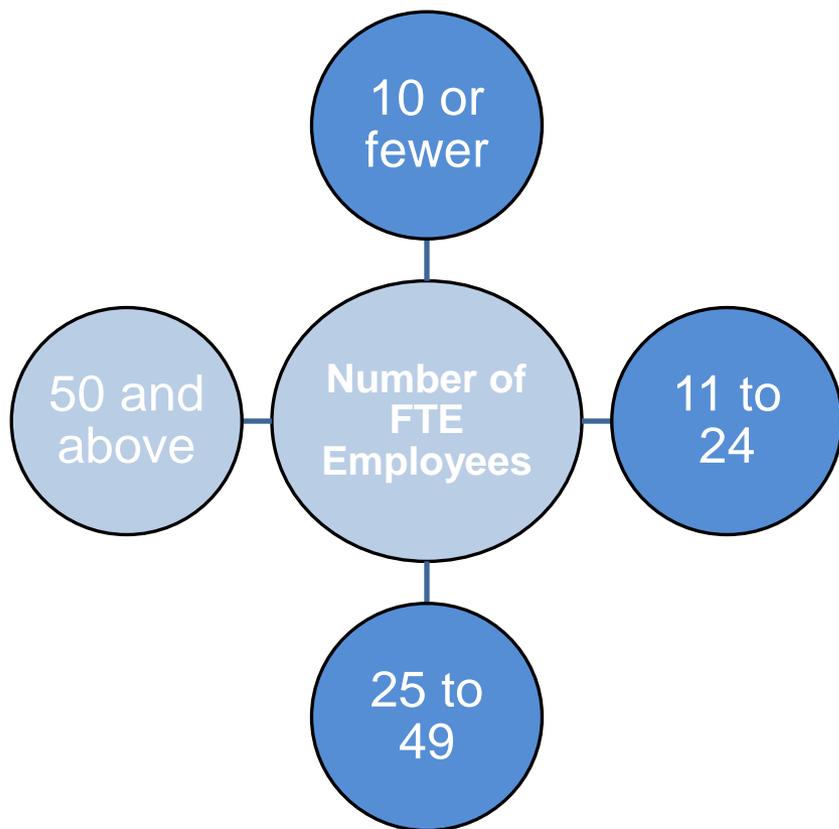


# Businesses with 25 to 49 FTEs Employees



- Not eligible for small business health care tax credits on the federal level
- State *might* have credits available

# Recap: Businesses with Fewer than 50 FTE Employees



- If business chooses to provide insurance to employees, explore eligibility for **Small Business Health Care Tax Credits** if size, wage and coverage requirements met
- Starting January 2014, if a small business of this size chooses to offer coverage, there is a new streamlined way to do so: **Small Business Health Options Program (SHOP)**
- 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
- Provides “Essential Health Benefits” -- same level of benefits & services that would be covered in most employer-based plans
  - Most states will use small group health insurance products as benchmark for core package of Essential Health Benefits
- Helps employers better predict and control health insurance expenses.
- 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

# More Access to Affordable Care: Health Insurance Marketplaces

## Through a SHOP, smaller employers can:

- Offer employees a meaningful choice of qualified health plans from different private health insurers
- Decide which qualified health plans to make available to employees
  - SHOP can allow employers to offer a single plan
- Decide how much to contribute toward premium costs
- Collect employee share of premiums through payroll deduction
  - Premium contributions can be made with **pre-tax dollars**
- Get one monthly bill, make one monthly payment to SHOP
- Take advantage of enhanced level of Small Business Health Care Tax Credits

# Enrolling in SHOP: Who, When & How

## Which small businesses are eligible?

- Businesses with generally 50 or fewer employees (some states may allow businesses with up to 100 employees)
- In 2016, employers with up to 100 employees will be eligible to participate
- Once a business enrolls, it can grow and still remain in SHOP

## When can businesses enroll?

- Starting October 1, 2013 for coverage beginning January 1, 2014
- Thereafter, throughout the year on a monthly basis

## How can businesses enroll?

- Through a broker, OR
- Directly through the SHOP. Visit [www.healthcare.gov](http://www.healthcare.gov) for more information and to sign-up for alerts

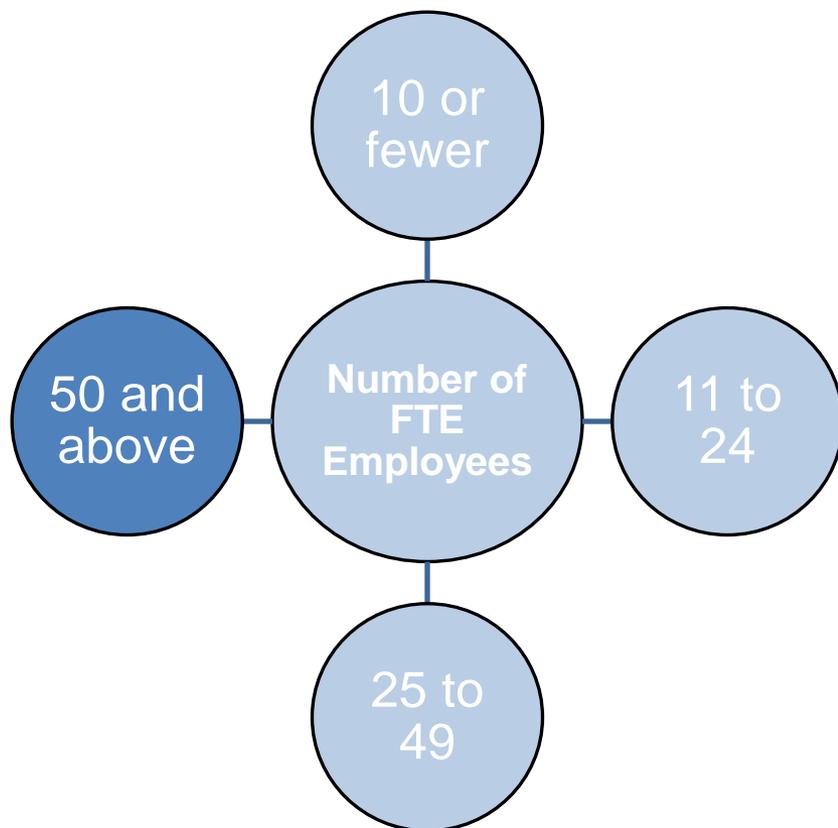
# Affordable Care Act

January 1, 2014:  
Employer Shared Responsibility for  
Employee Health Insurance  
Coverage

# 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 more able to do so because of lower costs and wider choices in the SHOP Marketplaces

# Businesses with 50 or More FTE Employees



## Employer Shared Responsibility Provisions

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

# 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 is developing a 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

# Employer Shared Responsibility Payments: Two Scenarios



## Coverage Not Offered to Substantially All Full-Time Employees

- Payment applies if any full-time employee receives a premium tax credit in the individual Marketplace
- **Payment owed:** \$2K/year per full-time employee ABOVE 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)

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

- **Payment owed:** \$3K/year per full-time employee who receives a premium tax credit in Marketplace
- Payment calculated on monthly basis = \$250/month
- Payment based on number of full-time employees who receive premium tax credit for that month
- This payment can't exceed payment in Scenario # 1

## Additional Key Points

- There is no payment owed for non-coverage of part-time employees
- If employer offers affordable coverage that provides minimum value to a full-time employee and it's declined, there is no liability for that employee
- No payment is owed if an employee obtains insurance through means other than the insurance Marketplace (e.g., spouse's insurance)
- Beginning in 2015, 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 the competitive advantage and resulting goodwill from their employees

# Self-Employed Business Owners and Health Insurance Coverage



- Starting in 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
- ✓ Medical Loss Ratio rebates
- ✓ 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

# ACA Provisions Looking Forward

- ✓ Beginning 2014, 90-day maximum waiting periods for otherwise eligible new hires to begin coverage
- ✓ Starting in 2014, additional incentives/rewards to provide workplace wellness programs will be in place (e.g. max reward increases to as much as 50% for smoking cessation programs)
- ✓ For employers with 50 or more full-time or FTE employees, new information reporting requirements on health insurance coverage offered. First reports due 2015
- ✓ 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 2015

# Small Business Resources



[www.sba.gov/healthcare](http://www.sba.gov/healthcare)

[www.healthcare.gov](http://www.healthcare.gov)

[www.irs.gov](http://www.irs.gov)

[www.dol.gov/ebsa/healthreform](http://www.dol.gov/ebsa/healthreform)