

# Healthcare Reform and California Small Businesses

How the new law impacts your bottom line

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Riverside, California

# About Small Business Majority



- **Small business advocacy organization** – founded and run by small business owners
- **National** – based in CA– with additional offices in Washington, DC, NY, OH, CO and MO
- **Research and advocacy** on issues of top importance to small businesses (<100 employees) and the self-employed
- **Very focused on reducing healthcare costs** over the past 6 years

# Small businesses struggling with costs



- ❗ **Soaring cost** of health insurance – especially for small businesses – doubled in last decade – 5X rate of inflation
- ❗ Small firms pay **18% more** than large businesses
- ❗ **29.5% self-employed:** uninsured (CA: 826,000)
- ❗ **25% of small employers:** uninsured (CA: 175,000)
- ❗ Our study: small business **health costs would more than double** by 2018 – \$2.4 trillion total (\$243 billion in CA) without any reforms

# Small businesses struggling with costs



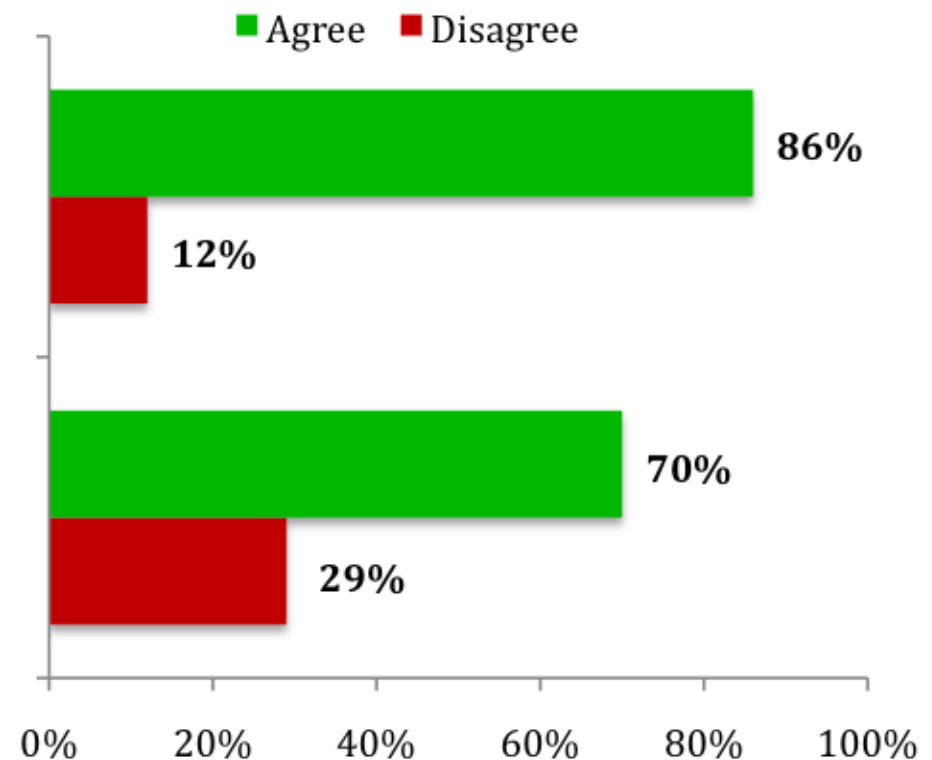
**Our opinion survey:** 86% of CA small businesses don't offer because of **cost**; 70% of those who do offer say they are struggling to do so

**My business cannot afford to provide health coverage.**

(Asked of those who don't provide coverage)

**My business is really struggling to afford the cost of health coverage.**

(Asked of those who do provide coverage)



# Topics for discussion today



- **Tax credits** available to most employers who cover their workers
- **Grandfather provisions** to allow employers to keep plans they already have
- **California high-risk pool** that sells insurance to individuals with pre-existing condition
- **Employer responsibilities** for healthcare benefits
- **Cost containment** provisions to cut waste and improve efficiency
- Open **marketplace** to maximize choice and competition
- **Your questions and comments**

- **In effect now** (as of tax year 2010)
  - \$40 billion in credits by 2019
- Which businesses are eligible?
  - Fewer than **25** full-time employees
  - Average annual wages **<\$50,000**
  - Employer pays at least **50%** of the premium cost

# Small business tax credits



- Tax credits on a **sliding scale**:
  - Up to **35%** of premium expenses for 2010–13
  - Up to **50%** of premium expenses for any two years beginning 2014
- Tax credits do not cover premium expenses of owners or their families
- Tax credits can not be claimed by the self-employed

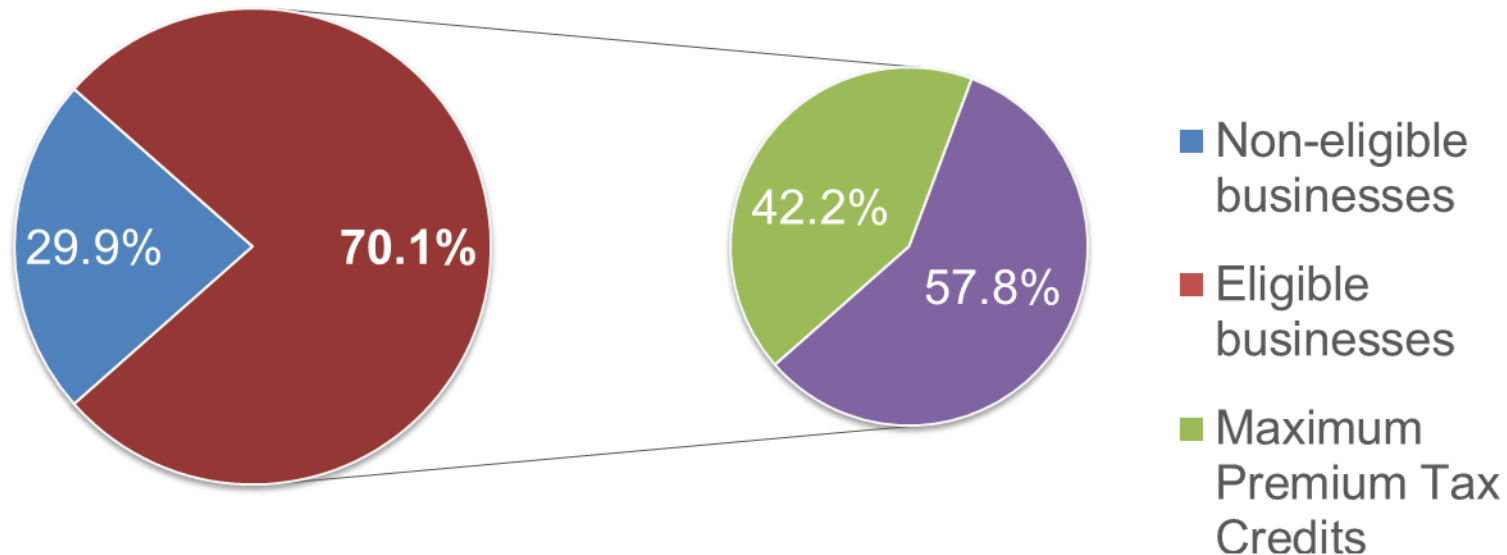


# Small business tax credits



**Our report:** 375,310 CA businesses are eligible (70% of all small businesses); 158,000 CA businesses eligible for the maximum credit

## Small Businesses That Are Eligible for Premium Tax Credits for 2011





# Grandfathering: “If you like what you have, you can keep it”

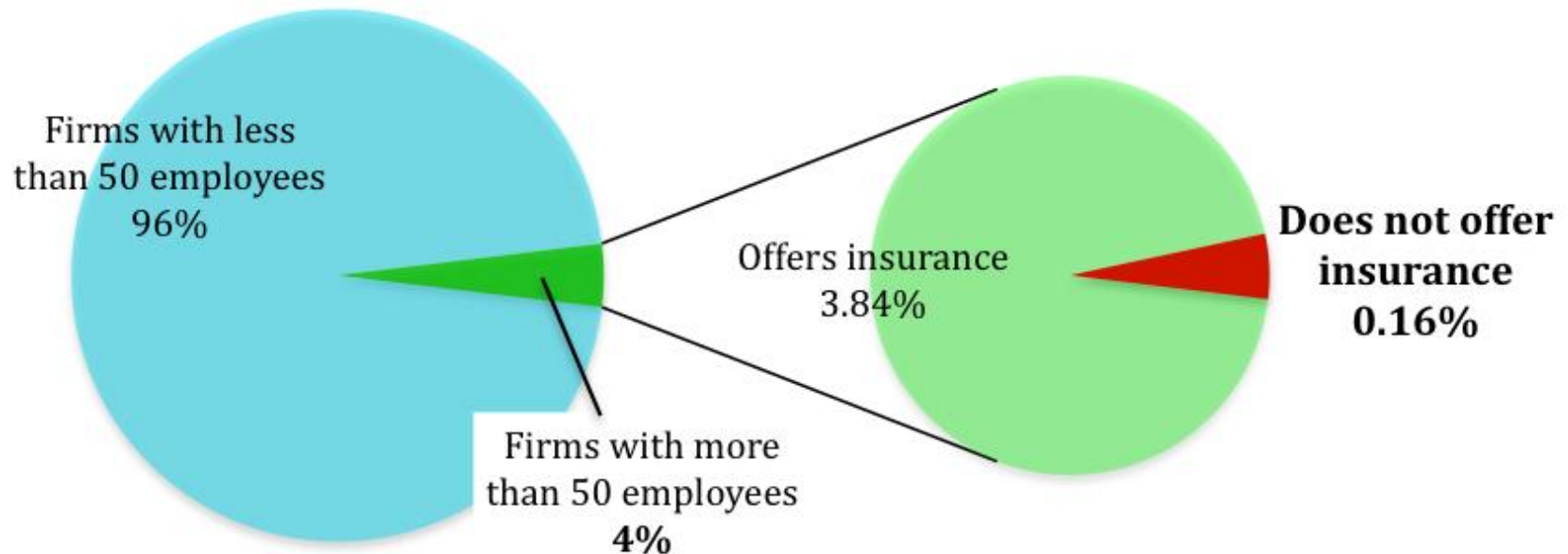


- A **grandfathered plan** is a health plan in which a small business was enrolled on **March 23, 2010**
- Grandfathered plans do **not need to comply** with several insurance reforms, but do need to comply with **some** provisions
- Regulations allow for **making several changes** (adding employees, changing carriers) without jeopardizing grandfather status
  - **Significant changes** (dropping specific benefits, radically increasing premiums, etc.) may be cause for **losing** grandfather status

# Shared responsibility



- **No business** required to offer coverage; large firms *may pay fee* for not offering
- Businesses with **fewer than 50 FTEs** – 96% of all businesses – are **exempt** from any fees



# Counting Your Employees



*Am I above or below 50 full-time equivalent employees?*

- Full-time employee: at least 30 hours per week
- Part-time employee: at least 15 hours a week
- Seasonal employees:  $\leq 120$  days per year (are only counted during the month(s) in which they are employed)

## **Example:**

40 full-time employees

+ 15 part-time employees (work total of 270 hours per week)

**49 full-time equivalent (business exempt from fee)**

# For larger employers (>50 FTEs)



- Fail to offer coverage- **\$2,000** for each full-time employee per year, **excluding the first 30 full-time employees.**
  - Firms only pay fee if at least one worker qualifies for federal financial assistance in Exchange.
- Failing to offer “affordable” coverage- **\$3,000** per year for each full-time employee receiving federal financial assistance in exchange
  - What is “affordable”?
    - Employee’s required contribution toward the plan premium exceeds 9.5% of income, or plan pays for less than 60% (average) of healthcare expenses

# Additional responsibilities



- **W2 reporting – informational only**
  - Allows workers to see how much employer is spending on health benefits
  - Firms with fewer than 200 workers exempt until further notice
- **Summary of health plan** – Insurers provide employers a summary of benefits; employers must share info with workers (Sept. 2012)

# Preexisting Condition Insurance Plan (formerly called high-risk pools)



- Available to individuals -- incl. **self-employed**
- In effect **now** (accepting applications at [www.pcip.ca.gov](http://www.pcip.ca.gov))
- **Eligibility**: People who have been uninsured for six months and have been denied for a preexisting condition
- Premiums recently **reduced**, and paperwork requirements **eased**
- California plan runs on federal funding (\$879 million over 5 years) – No state dollars spent

# Cost Containment – *Cutting costs saves small businesses money*



- Exchanges leverage **pooled purchasing power** to lower premiums
- Ensure that **more \$\$ go to medical care**
- Premium increases are now **reviewed by state**
- Incentives for **prevention and wellness**
  - Grants for up to 5 years to small employers that establish new **wellness programs**
- Other incentives for **administrative efficiency and modernization** (e.g. pay for performance)
- Expanded coverage and individual responsibility requirement – **reduce hidden tax**

# Insurance Rebates - “80/20 rule”



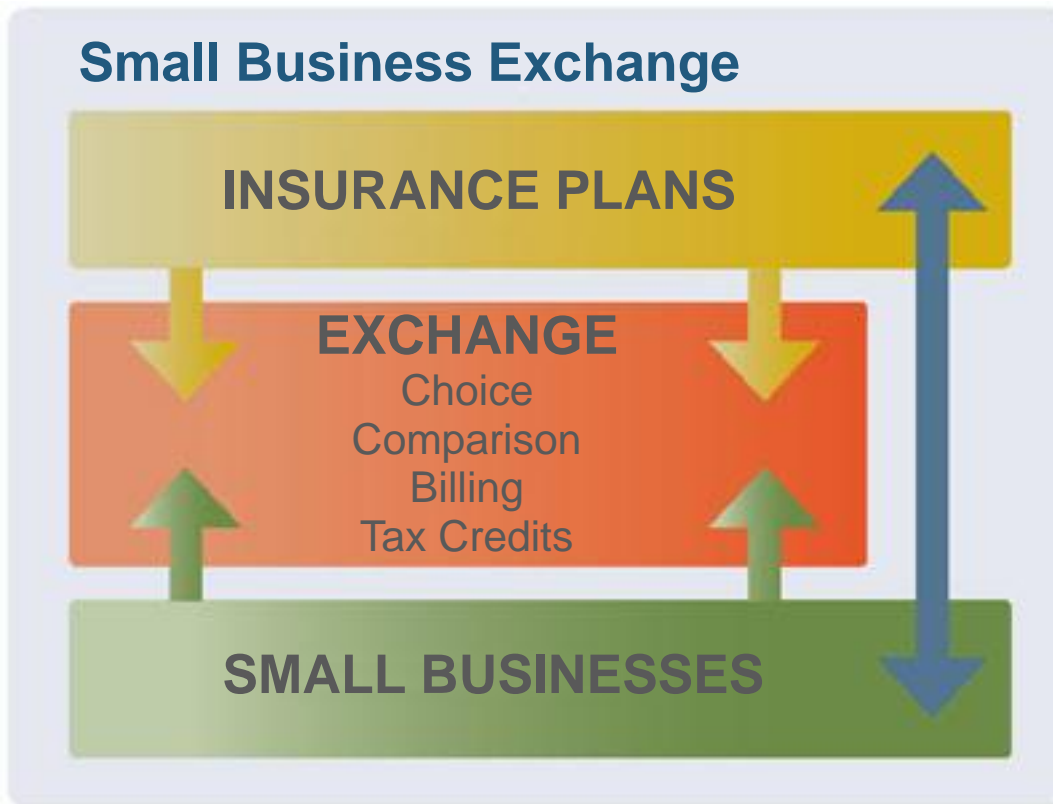
- Requires insurers to spend **at least 80%** of small business premiums on medical claims
  - Limits administrative costs to **20%**
- If carriers don't meet their marks, must issue **rebates** for the difference by August 1 every year.
- An estimated **\$1.1B** were issued in 2012 nationally; including 28% of all small business plans
- California rebates (2012):
  - **\$74M** refunded to 1.9M CA residents
  - **\$42M** refunded to small business plans
  - **\$206** average per family (small business plans)



# What is a Health Benefit Exchange?



- **One-stop shop web portal**



- **Large marketplace** to shop for commercial insurance
- **Compare** plans for information about price, quality and service
- Plans **organized by level**: bronze, silver, gold, platinum
- **Calculator** to compare costs across plan options
- **Streamlined** billing process

# What is a Health Benefit Exchange?



- Two Exchanges: individuals; small businesses
- Opening on **January 1, 2014** (pre-enroll begins Oct. 1)
- **Voluntary**
  - Members of Congress and staff **required** to use Exchange
- Exchanges **designed by states** -- or by federal gov't if a state so chooses
  - State-based exchanges mean **increased flexibility** and more input from **small businesses** and other stakeholders
- **Not a new concept** - Business groups, non-profits and state gov'ts already run similar programs in CA, CT, MA, NY, UT

## Our Exchange: “Covered California”

- **First in the nation.** Enacted in 2010 – bipartisan
- Governed by **independent public** board
- Holding dozens of **public board meetings**
- Hired former business leader as **Executive Director**; hiring more staff now
- Received federal \$\$ for planning; Exchange self-funding by 2015; **no state dollars** spent
- **Stakeholder advisory panels** providing input from small business owners and business organizations
- Board meeting in **Inland Empire** on April 25

# California's Key Decisions



- **Active Purchaser:** Exchange will **negotiate** with insurers
  - Standard products will provide **Apples-to-apples** comparison
- **Employee Choice:** Employer selects “tier” of coverage; worker selects insurer
- **Brokers** can sell Exchange products; will be paid market commission rates by Exchange.
- **HR Services:** COBRA administration, HSAs, wellness plans, etc.
- **Public-private partnership:** Administrative management to be done by private-sector vendor

# For more information



- Our website: [www.smallbusinessmajority.org](http://www.smallbusinessmajority.org)

- Information Summary
- Detailed FAQ
- Tax Credit Calculator

- CA Healthcare Coverage Guide: [healthcoverageguide.org](http://healthcoverageguide.org)



- California Health Benefit Exchange [www.healthexchange.ca.gov](http://www.healthexchange.ca.gov)

- Health Law Guide for Business: [www.healthlawguideforbusiness.org](http://www.healthlawguideforbusiness.org)

## Sacramento Office

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### Connect with us!



@SmlBizMajority



Small Business Majority

### Ways to Get Involved:

- Receive a monthly newsletter
- Share your story for media requests
- Letters to the editor/Op-eds
- State events/Roundtables
- Fly-ins
- Webinars for business organizations