

COULD SMALL BUSINESSES COPE WITH MANDATORY HEALTH INSURANCE?

What would they have to do if health care reforms pass?

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Provide employee health insurance, or pay a penalty? Small business owners worry about having to face that choice. That possibility moved a step closer to reality in mid-July, as three of five Congressional committees approved new legislation to remake American health care - legislation that could expand health insurance coverage to 46 million uninsured Americans, with potentially harsh consequences for business owners.^{1,2}

Two variations of pay-or-play. The House version of the bill would levy a fine on employers that don't offer health coverage - a fine as large as 8% of a company's annual payroll. However, some businesses could qualify for tax credits and some very small firms wouldn't have to pay such penalties.²

The Senate alternative would spare small companies (25 workers or less) from annual penalties. It would require a business with 25 or more employees to fork over \$375-750 per worker annually if that business refused to offer health coverage or paid less than 60% of employees' monthly health plan premiums.^{2,3}

Could businesses handle this? After all, some companies have considered dropping health plans altogether. Health insurance premiums paid by businesses have increased more than 200% in the last ten years, according to a Kaiser Family Foundation report; in 2008, single coverage averaged \$4,704 and family coverage \$12,680. The report found that less than half of businesses with three to nine employees offered health plans at all last year.²

The House version of the bill would require a small business with a payroll of \$250,000 or more to provide coverage or be penalized. The penalty would actually be a sliding-scale payroll tax: it would be 2% of payroll at \$250,000 and climb to 8% of payroll for companies with \$400,000 payroll or greater.³

What if you're self-employed? No break for you. In the Senate version of the bill, any self-employed individual would have to buy health insurance or pay a \$750 penalty annually. However, insurers could not use past claims history or pre-existing medical conditions to deny you coverage. Individuals whose income is within four times the poverty level (i.e., \$88,000 or lower for a family of four) could qualify for subsidies.³

As for the House version, it asks self-employed individuals to buy coverage or pay a tax equivalent to 2.5% of the difference between their adjusted gross income and the tax filing threshold (which was about \$9,000 in 2008). Sliding-scale subsidies would be offered to self-employed Americans so that they would not have to spend more than 11% of their income on health coverage. As in the Senate bill, insurers could not wiggle out of providing coverage by citing pre-existing medical conditions.³

What would the long-term impact be? In the bleakest scenario, businesses would be hard pressed to offer workers decent wages or decent health coverage. Nationally, fewer and fewer companies are offering health benefits in the first place. A 2008 National Small Business Association poll found that just 38% of small companies could afford health plans at all, compared to 67% of small businesses in 1995.⁴

A sunnier outlook comes from the Small Business Majority, a nonprofit advocacy group founded by small business executives. Its report examined three scenarios using different levels of employer tax credits and employer payments. It concluded that the proposed health care reforms could save small businesses as much as \$855 billion, and preserve as many as 128,000 jobs that would have been lost because of runaway health insurance costs.⁴

Stay tuned. Will Congress give business owners more of a break? Could penalties be reduced, or requirements eased? Will fewer businesses offer health plans, assuming that their employees could qualify for federal subsidies toward individual health insurance? At this point, there are more questions than answers - but with the median health insurance cost for U.S. businesses already at about 11% of payroll, any increase would be unkind.²

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Citations.

¹ nytimes.com/2009/07/18/health/policy/18health.html?hp [7/17/09]

² dallasnews.com/sharedcontent/dws/bus/stories/DN-localhealth_16bus.ART.State.Edition2.4bde27c.html [7/16/09]

³ businessweek.com/smallbiz/content/jul2009/sb20090716_683119.htm [7/16/09]

⁴ cbsnews.com/stories/2009/06/16/politics/main5092451.shtml [6/16/09]