

# Small Business Employee Benefits and HR Blog

## The Simple Guide to Small Business Health Insurance



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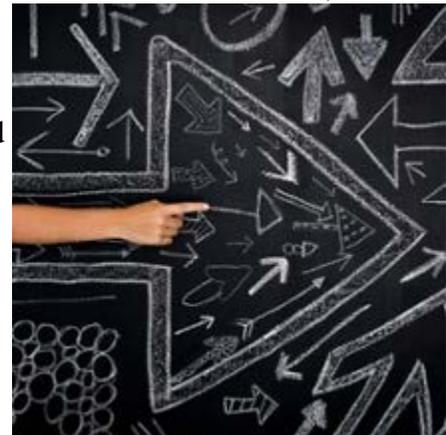
Building a successful business is hard work. Navigating small business health insurance, however, doesn't have to be.

While each small business has its own unique goals and challenges when it comes to finding health insurance, the good news is there are new opportunities for affordable health insurance. Wondering where to start? This guide breaks down [small business health insurance](#) basics for small business owners.

In this simple guide to small business health insurance, we'll cover the following topics:

- The Value of Health Insurance
- Small Business Health Insurance Basics
- Understanding Health Reform
- Planning for Health Insurance
- Budgeting for Health Insurance
- Evaluating Your Options

### **The Value of Health Insurance**



First, why do small businesses offer health insurance? Under the Affordable Care Act (ACA), small businesses do not have to offer health insurance, however there are several benefits of offering - and having - health insurance coverage.

Offering health benefits is valuable to your business because it allows you to:

- Recruit and retain top talent
- Promote health and wellness with employees
- Have coverage for yourself and your family

Additionally, the ACA requires all individuals to have health insurance. By offering access to health insurance, you're providing a means for your employees to have health insurance coverage and be compliant with the ACA individual mandate. We'll talk more about ACA a little later.

## **Small Business Health Insurance Basics**

In this section, we'll simplify common health insurance terms and concepts to help you navigate health insurance.

### **Two Main Types of Health Insurance**

There are two main types of health insurance available to small businesses: group health insurance and individual health insurance.

#### **1. Group Health Insurance**

Group health insurance is a type of policy purchased by an employer and offered to eligible employees of the company, and to eligible dependents of employees. The premium cost is typically split between the employer and employee, and there is a minimum percentage rate the employer must contribute to the premiums. Small businesses can purchase a group health insurance through a broker, online, or through the new ACA Small Business Health Options Program (SHOP) Marketplace.

*The Cost of Group Health Insurance:* In 2014, the average cost to cover a single employee with group health insurance was \$502/month or \$6,025/year. For family coverage, group health insurance cost \$1,403/month or \$16,834/year. These costs are generally split between the company and the employee.

#### **2. Individual Health Insurance**

Individual health insurance is a type of policy an individual purchases for himself and/or his family. As of 2014, all individual health plans cover employees regardless of health. Small businesses can set up a [premium reimbursement arrangement](#) to reimburse employees tax-free for individual health insurance - similar to how you would contribute to group health insurance premiums.

*The Cost of Individual Health Insurance:* The cost of individual health insurance will vary by employee. On average in 2014, individual health insurance cost \$346/month or \$4,152/year before premium tax credit discounts. In 2014, 87% received tax credits and paid, on average, only \$82/month across all types of plans - or \$984/year.

Here is a chart comparing the features of group health insurance and individual health insurance:

**Chart - Group vs. Individual Health Insurance**

	Traditional Group Health Insurance	Individual Health Insurance
Employees keep coverage when they switch jobs	✗	✓
Employees choose their network & doctors	✗	✓
Premium tax credits available	✗	✓
Coverage for pre-existing medical conditions	✓	✓
Coverage for essential health benefits	✓	✓
Average cost (2014) – single coverage	\$6,025/year	\$4,152/year <i>Without Premium Tax Credits</i>  \$984/year <i>With Premium Tax Credits</i>
How is the plan paid for?	The employer purchases the plan.  Employees reimburse the employer via paycheck.	Employees purchase the plan.  The employer reimburses employees via paycheck.

Source: Kaiser 2014 Annual Employee Health Benefits Survey & 2014 Federal Health Insurance Marketplace Data

## Types of Health Insurance Plans

Whether you're looking at individual health insurance or group health insurance, there are several different types of health plans available. The four [common types of health insurance](#) are:

### 1) PPO Health Insurance Plans

Preferred Provider Organization (PPO) plans are the most common. Employees covered under a PPO plan need to get their medical care from doctors or hospitals on the insurance company's list of preferred providers in order for claims to be paid at the highest level.

### 2) HMO Health Insurance Plans

Health Maintenance Organization (HMO) plans offer a wide range of health care services through a network of providers that contract exclusively with the HMO, or who agrees to provide

services to members. Employees on this plan will typically need to select a primary care physician (“PCP”) to provide most of their health care and refer them on to a HMO specialist as needed.

### **3) HSA-Qualified Health Insurance Plans**

HSA-qualified plans are typically PPO plans designed specifically for use with Health Savings Accounts (HSAs). An HSA is a special bank account that allows participants to save money – pre-tax – to be used specifically for medical expenses in the future.

### **4) Indemnity Health Insurance Plans**

Indemnity plans allow members to direct their own health care and generally visit any doctor or hospital. The insurance company then pays a set portion of the total charges. Employees may be required to pay for some services up front and then apply to the insurance company for reimbursement.

## **Key Health Insurance Terms**

Finally, to understand various coverage options, you need to understand these five basic health insurance terms:

1. *Health Insurance Premium* - Your premium is what you pay monthly, quarterly, or annually to be part of a health insurance plan.
2. *Deductible* - Your deductible is the amount you must pay for covered services before your health insurance starts to pay.
3. *Co-Pay* - Your co-pay is a flat dollar amount you pay your healthcare provider for a covered service.
4. *Co-Insurance* - Your co-insurance is the percentage of allowed charges for covered services that you're required to pay. If the plan has a deductible, you pay the coinsurance for covered services after the deductible is met.
5. *Out-of-Pocket Maximum* - Your out-of-pocket maximum is the maximum amount of money you will pay for covered services during a benefit period (for example, over the course of a year). This financial responsibility can vary from plan to plan but can include copayments, deductibles, and coinsurance.

## **Understanding the Impact of Health Reform**

As a small business, it is important to understand the key provisions of the ACA (aka Health Reform). Understanding these reforms will help you navigate the best small business health insurance for you and your employees - as well as take advantage of new cost-saving opportunities.

### **Employer Mandate**

As a small business owner, you may be asking yourself, "Do I have to provide health insurance to employees?" No business has to offer health insurance. However, the ACA includes a mandate for certain large employers (with 50+ full time equivalent employees) to either offer qualified and affordable health insurance, or pay a tax penalty. This is commonly referred to as the [Employer Mandate](#) or Employer Shared Responsibility Fee.

## **Individual Mandate**

Most Americans are required to have health insurance, or pay a tax penalty if they don't. This ACA provision is called the [Individual Mandate](#) or Individual Shared Responsibility Fee. Coverage can include job-based health insurance, individual health insurance, or insurance through a government program such as Medicaid or Medicare.

## **Health Insurance Marketplaces**

The Health Insurance Marketplaces are new websites where you can shop, compare, and enroll in an individual health insurance plan or a small business "SHOP" health insurance plan.

Each state has a Marketplace that is either run by the state (ex: CoveredCA.com), or the federal government (HealthCare.gov). The Marketplaces are intended to make shopping for health insurance easier and give individuals and small businesses access to the healthcare tax credits.

## **Premium Tax Credits**

The federal government provides discounts for health insurance to eligible individuals and families. The discounts, called premium tax credits, help many people buy more affordable individual or family health insurance coverage through the new state Health Insurance Marketplaces. The discounts can be applied directly toward your premium at the time of purchase.

You are [eligible for a premium tax credit](#) if you meet certain income requirements and do not have access to affordable health insurance through an employer or government program such as Medicaid or Medicare.

## **Small Business Health Care Tax Credit**

Lastly, the [small business health care tax credit](#) was designed to help small businesses provide health insurance coverage to employees. The tax credit is worth up to 50% of your contribution toward employees' premium costs (up to 35% for tax-exempt employers). The tax credit is highest for small businesses with fewer than 10 employees who are paid an average of \$25,000 or less. The small business health care tax credit is only available for two consecutive taxable years.

## **Planning for Health Insurance**

Now that you understand the basics of health insurance and health reform, it's time to assess and plan for health insurance. Here's a simple set of questions to help you assess your unique health benefits needs, goals, and strategy.

### **1. Who will the health insurance cover?**

Who will the company offer health benefits to, and of these “eligible employees,” who will participate?

*Answering this question will help you budget for health insurance, and understand what type of plan you are eligible for.*

### **2. What is your health benefits budget?**

How much can you (or would you like to) contribute to health insurance? Consider monthly, annually, and long-term budgets.

*The cost structure of health benefits will vary by the approach you take. See the following section on budgeting.*

### **3. What do employees value most?**

Discuss coverage preferences with your employees. Do they prefer full coverage at a higher cost? Do they prefer a high-deductible plan with an HSA? Would they prefer a healthcare allowance to use toward an individual health plan of their choice?

*While you may not be able to meet all requests (set this expectation up-front), employees' input will be valuable to your decision-making.*

### **4. Who will manage the health insurance?**

Who will administer the health insurance internally? What capacity do they have (time-wise, etc.) to manage the administrative functions?

*Smaller companies often don't have a dedicated HR team member. Rather, HR activities are part of a payroll, operations, and/or an administrative role. If this describes you, individual health insurance reimbursement may be attractive because it takes 5 minutes/month to administer online.*

### **5. What are your health benefits goals?**

What other goals do you have with your health benefits program? What is important to you? What is a deal breaker? At the end of the year, what makes the program a success?

*For more health insurance planning worksheets, download our complimentary resource - [Health Benefits Planning Workbook](#).*

# Budgeting for Small Business Health Insurance

As you evaluate and plan for health insurance, budgeting is an important step. As mentioned previously, consider how much can you (or would you like to) contribute to health insurance. Also consider monthly, annually, and long-term budgets, as well as recruiting and retention goals.

The cost structure of health benefits will vary by the approach you take.

*Group Health Insurance:* Monthly premiums are generally paid for by both the employer and employees. In most states, employers are required to cover at least 50% of the monthly premium for their employees. This is called a cost-sharing percentage or minimum contribution. Keep in mind what the company can afford, and also what employees can afford. Premium rates usually increase annually.

*Individual Health Insurance Reimbursement (aka Premium Reimbursement):* The company sets any contribution amount, so the budget is completely up to the company. There is no minimum cost-sharing amount. The reimbursement plan could provide a flat \$200/month to employees, and employees would cover any remaining amount of their premium. Or, the plan could be customized by type of employee - for example, provide \$300/month to managers and \$150/month to part time clerical staff. Maximum annual costs increase only if you decide to raise the allowance amounts.

For budgeting worksheets, download our complimentary resource - [Health Benefits Planning Workbook](#).

## Evaluating Your Small Business Health Insurance Options

Now, it's time to evaluate your options. You have two core options.

### Option 1: Group Health Insurance

To summarize, the benefits of group health insurance are:

- Full-coverage is available for you and dependents.
- Some companies offer more than one plan.
- Eligible small businesses can offer a SHOP health plan and access small business health care tax credits.

### Option 2: Individual Health Insurance

To summarize, the benefits of individual health insurance are:

- It's high-quality health coverage for you and your employees

- It costs 20% to 60% less in comparison to group health insurance. And for those eligible, premium tax credits are available to help lower the cost even more.
- It's flexible. Employees choose their plan, coverage level, and doctors and clinics.
- It's portable. Employees can take the plan to any job (as long as they're still paying the premium).
- It can be paired with premium reimbursement (your small business can set up a formal plan to reimburse employees for their premium expenses tax-free).

## **Conclusion**

Navigating small business health insurance and health reform can feel daunting. We hope this guide has broken down health insurance so you can understand the health insurance basics, assess your health insurance goals, and evaluate the best health insurance solution for you, your family, and your small business.

*What questions do you have about small business health insurance? Leave a comment. We'd be happy to help answer them.*