simplify the business of life

A simple guide to health care reform for small business

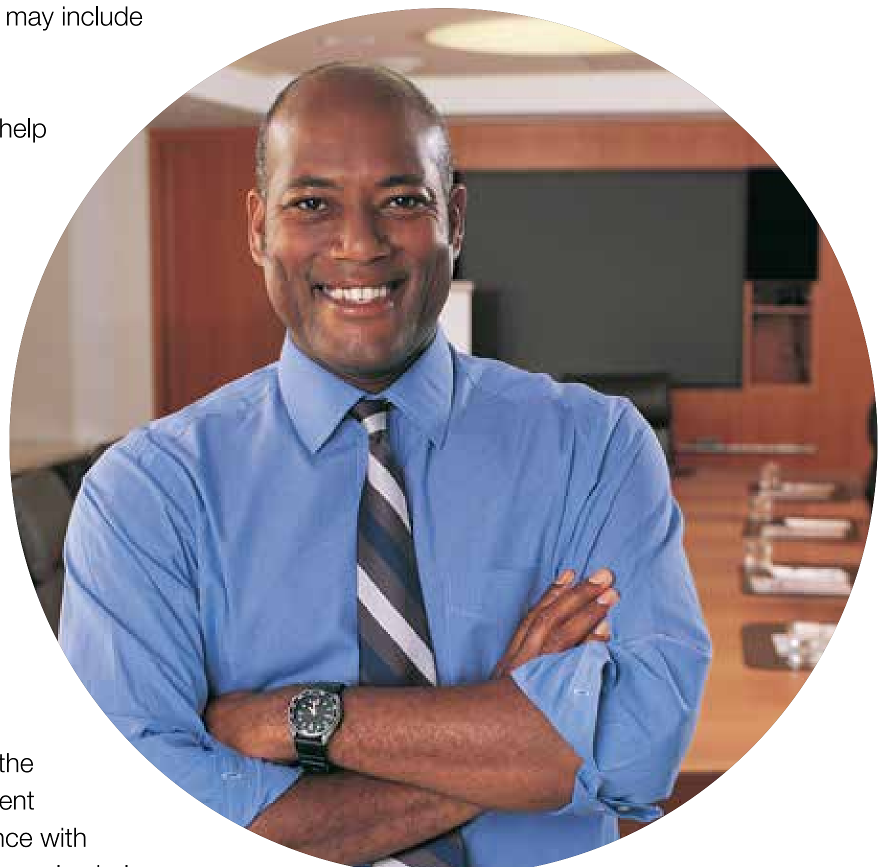
From a company that believes
in making things simple

Document prepared July, 2013

“Be prepared.”

– Motto of the Boy Scouts of America

After much discussion and debate, the Affordable Care Act (ACA) – all 2,400-plus pages of it – was signed into law in 2010. President Obama has said the process leading to the law’s full implementation in 2018 may include some “glitches and bumps.”

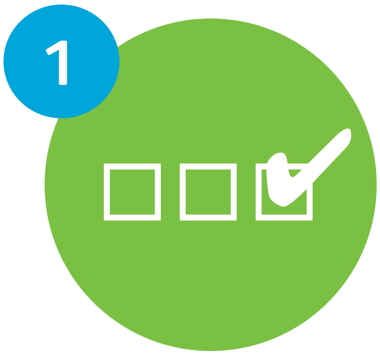


This Guide from Intuit is provided to help make the process as free of glitches and bumps as possible for small businesses. It’s not meant to be an all-inclusive compendium of information on the ACA, but rather a concise and useful Guide. We hope it serves you in that purpose.

In short, the best advice Intuit – or anyone for that matter – can offer small businesses is to follow the dictum of the Boy Scouts and “be prepared.” That means learning what’s essential about the ACA, especially as it relates to your business, and taking the appropriate action. The right enrollment strategy can help you be in compliance with the law and avoid a possible fine. It can also help you control costs, and satisfy your employees.

Although implementation of the ACA is well under way, its impact will truly begin to be felt January 1, 2014. Starting January 1, 2015, small businesses with 50 or more full-time employees must offer affordable health insurance to employees.

We’ll begin with the three important aspects of the law that relate most directly to small businesses:



The creation of new insurance exchanges.

This is called the Small Business Health Options Program (aka SHOP). This program will function like an online marketplace or exchange where health insurance is offered specifically for small businesses. The government’s implementation of this key component of the ACA is delayed. What does that mean to you? There’s more on this later in the Guide.

Penalties if some employers do not offer coverage.

Employers with 49 or fewer full-time employees are not required to offer health insurance. That’s so important; we’ll repeat it in italics: ***Employers with fewer than 50 full-time employees are not required to offer health insurance.*** But there are tax incentives if you do. Small businesses with 50 or more full-time employees will have to pay a penalty if they do not offer affordable coverage. There’s more on this later in the Guide.

Tax credit subsidies.

Small businesses with fewer than 25 full-time employees may be eligible for tax credits to assist in the cost of health insurance. To qualify, such businesses must have average annual wages below $50,000 and must pay at least half of the cost of their employee’s health insurance. There’s more on this later in the Guide.

15 things every small business needs to know.

Including yours.

1 Not all companies are required to provide insurance*.

Starting January 1, 2015, if you employ fewer than 50 full-time employees (someone who works 30 hours or more per week[1]), you're exempt from what's referred to as the "employer-shared responsibility" to provide health insurance to your employees. That said, your employees will still need to have health insurance starting January 1, 2015 – or they may be subject to a tax penalty.

If an employee's annual income is less than $9,350, or their household income is less than $18,700, they won't have to get health insurance in 2014. They're also exempt if they have to pay more than 9.5% of their annual income toward their health insurance premium. If none of these exemptions exist, the employee is required to get health insurance under the so-called "individual mandate" starting January 1, 2014.

If you don't offer your employees health insurance and want to, you currently have two options:

1. Shop on a private exchange (such as eHealthInsurance.com) that offers group plans from a variety of insurance carriers.
2. Contact an insurance broker.

When your state's online marketplace, called SHOP (Small Business Health Options Program), is up and running in 2015, you'll be able to go there to evaluate and compare affordable group insurance for your employees offered by private insurance companies.

2 An employee's portion of a plan's cost should not exceed 9.5 % of their household income.

One of the cornerstones of the new law is that health insurance be affordable. So the ACA stipulates that if an employer has 50 or more full-time employees, they must be offered "affordable" health insurance.

Since "affordable" is one of those terms that means different things to different people, you need to know this: If your employees pay over 9.5% of their household income for premiums, the coverage you're providing might not be considered affordable. This is the case regardless of whether the group insurance you're offering has already been in effect or is new.

Check with your insurance provider to be sure. Also check to make sure your plan provides the "minimum essential benefits" necessary to qualify under the new law. If it doesn't, you may have to request a revised plan from your provider.

** Applies mainly to businesses with fewer than 50 employees.*

[1] Currently the government is looking at whether to change this to 40 hours a week.

3 Some of your employees may qualify for a government subsidy or tax credit based on their income, household size, and other factors.

The ACA stipulates that the federal government will provide a subsidy or tax credit to low and middle-income individuals so they can better afford health insurance. Beginning in 2014, people who purchase insurance through an exchange may be eligible for the Premium Assistance Credit.

The credit is refundable and payable in advance directly to the insurer. The individual then pays the difference between the total premium and the credit. For employed individuals, the premiums can be made through payroll deductions. Direct subsidies are also available for a tax subsidy if their household income falls within 100 – 400% of the federal poverty level.

Here's an example: Let's say Mary is a schoolteacher and is single with one child. She earns $45,000 per year, which is around 300% of the federal poverty line. Under the health care law, Mary needs to devote 9.5% of her income, or $4,275, toward health insurance. If the average annual premium is $5,160, the government would subsidize the balance of $885. In the end, Mary would pay 83% of the premium and the government subsidy would cover 17%.

To help your employees learn if they qualify for a government tax credit or subsidy to buy health insurance, you can share with them this easy-to-use calculator:
http://blog.turbotax.intuit.com/2013/03/27/turbotax-health-care-eligibility-calculator/

4 Health and wellness are proven ways to offset the cost of insurance premiums.

Many midsize companies and large corporations have learned that perhaps the most effective way to help minimize the cost of health insurance for both the company and its employees is by aggressively promoting wellness. After all, healthier employees are sick less, have less chronic illness and disease, and require less health care. And wellness not only saves money on health care, it leads to fewer sick days and to more productive employees.

This brief article, *No-Cost Ways to Promote Employee Health*, explains why promoting health isn't just the right thing to do – it makes excellent business sense:
http://blog.intuit.com/employees/no-cost-ways-to-promote-employee-health/

This article, *4 Ways to Promote Employee Fitness*, is also brief and contains useful tips and advice:
http://blog.intuit.com/employees/4-ways-to-promote-employee-fitness/

This article, *Employee Wellness Programs Keep Your Small Business Healthy, Wealthy, and Wise*, discusses the benefits of health risk assessments, employee incentives for health improvement, and other proven methods of encouraging employees to become more engaged in improving their health: http://blog.intuit.com/employees/employee-wellness-programs-keep-your-small-business-healthy-wealthy-and-wise/

5

Open enrollment for individual plans for 2014 begins on October 1, 2013 and ends on February 28, 2014.

As you may know, the time period during which employees select their health coverage is called "open enrollment."

The ACA created a new open enrollment period for health insurance plans. However, there's some confusion among consumers about this period due to the fact that the first open enrollment period will be different than the open enrollment period in subsequent years.

For this reason, we suggest you communicate the following information to your employees: In 2013, the year of the first open enrollment period, people can begin enrolling in new health plans on October 1, 2013. This enrollment period will extend through February 28, 2014.

Coverage for plans enrolled in before December 31, 2013 should begin on January 1, 2014. For those enrolling in January or February of 2014, expectations are that coverage will begin the month following enrollment. After this initial open enrollment period expires, all subsequent open enrollment periods will begin on October 15th and end December 7th.

Coverage for enrollments performed during this time will begin on January 1st of the following calendar year. Actual enrollment into a qualified health plan can be performed at a health exchange, an insurance company, or an insurance brokerage.

6

If your employees' annual income is less than $9,350, they won't be required to get health insurance in 2014*.

Employees are also exempt if their household income is less than $18,700 or if they have to pay more than 9.5% of their annual income toward health insurance premiums.

We suggest letting employees who fall in this range know that for the first year they're exempt – but if they do not fall into one of these categories then they could be penalized.

In 2014, the penalties for not having health insurance are as follows:

- $95 per adult
- $47.50 per child
- Up to $285 per family or 1% of the annual family income, whichever is greater

These penalties go up considerably in 2015 and again in 2016, after which they level off.

** Applies mainly to businesses with fewer than 50 employees.*

7

What exactly is SHOP, why is it delayed, and what does it mean to you?

As explained earlier, SHOP (Small Business Health Options Program) is a small business marketplace set up by each state where employers with fewer than 50 employees can group health insurance for their employees.

One key to understanding SHOP is this simple fact:
SHOP is run by the government, but insurance is still handled by private industry.

Some people believe SHOP is where they'll go to enroll in a new government-run insurance plan, which will be offered along with the private health care insurance plans currently available. This is not the case. There is no government-run insurance plan or single-payer system established under the ACA. The government will only run the exchanges, and the insurance industry will still be run by private companies.

Importantly, the implementation of SHOP and the employer-shared responsibility is delayed by a year due to its complexity. Small businesses will still have the ability to purchase a health plan for your employees through a health insurance exchange set up under the law. But your employees won't have a choice of plan. Because of the delay, the 33 exchanges run by the federal government will only allow employers to pick a single plan to offer all employees. States running their own exchanges will have the option to offer choice, but won't be required to do so.

8

Some small businesses are eligible for health care tax credits.

Although the ACA doesn't require businesses with fewer than 50 employees to provide health insurance, it does offer tax credits for eligible small businesses that provide insurance to their employees for the first time, or maintain the coverage they already have.

To qualify for a health care tax credit of up to 35% (up to 25% for non-profits), a small business must meet these criteria:

- Have 25 or fewer full-time equivalent employees
- Pay average annual wages between $25,000 and $50,000
- Contribute at least 50% or more toward your employees' self-only health insurance premiums or 50% of the average small group premium for your state

In 2014, the small business tax credit goes up to 50% (up to 35% for non-profits) for qualifying businesses. What's more the tax credits are available for a total of two consecutive years, and are based on a sliding scale. Employers with 10 or fewer full-time employees and paying annual average wages of $25,000 or less qualify for the maximum credit.

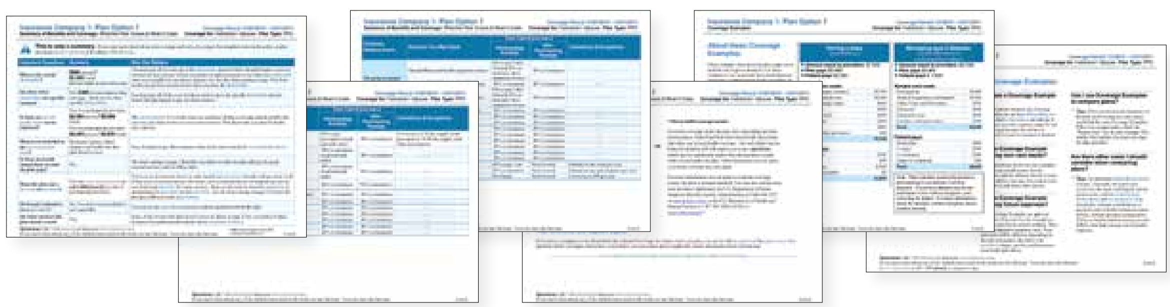
9

Employers are required to provide employees with a standard "Summary of Benefits and Coverage (SBC)."

The Summary of Benefits and Coverage (SBC) is a series of FAQs that answer many of the most important questions consumers have raised about the new law. This document is considered so essential to helping people understanding the law and to its successful implementation, that all businesses eligible for the Fair Labor Standards Act (FLSA) must provide the document to their employees. You can find the SBC at: http://www.dol.gov/ebsa/pdf/CorrectedSampleCompletedSBC.pdf

The SBC must be provided on the first day of the open enrollment period. Employees not enrolling during open enrollment must be provided the SBC on the first day of the plan year.

Although penalties for not providing the SBC to employees may be imposed, the Department of Labor's self-stated approach to compliance is to work with employers in a flexible manner, especially during the first year of applicability.



10

Beginning January 1, 2014, employees who are eligible for employer-provided health coverage will not have to wait more than 90 days to begin coverage.

Beginning in 2014, the ACA will prohibit group health plans and group health insurers from imposing waiting periods greater than 90 days of employment.

The penalties for non-compliance are significant: up to $100 per day. Therefore, it's important that you review the waiting periods and eligibility requirements under your group health plan to make sure it complies with the new 90-day waiting period requirements effective for policy and plan years beginning on or after January 1, 2014.

Most significantly, if the group health plan or insurance policy has a standard coverage effective date beginning the first day of the month following the end of the waiting period, then plans will need to be amended so that the maximum waiting period is less than 90 days. If not amended, circumstances could exist whereby coverage does not begin until the 91st day of employment, which would be longer than the maximum period provided for under the Act.

For additional information and guidance on this topic, here is a useful IRS document on how employers should apply the 90-day rule: http://www.irs.gov/pub/irs-drop/n-12-59.pdf

11 Beginning with health coverage provided on or after January 1, 2014, employers that sponsor self-insured plans must submit reports to the IRS detailing information for each covered individual.

As you may know, self-insured plans, unlike fully insured plans, are generally those in which the employer retains the risk associated with paying covered health expenses, rather than paying a premium and transferring the risk to an insurance company. Some sponsors retain the risk for a subset of the benefits, but transfer the risk for the remaining benefits to health insurers – that is, they finance the plans' benefits using a mixture of self-insurance and insurance.

If your small business is self-insured, you must report to the federal government on whether you offer health coverage, the total number and names of those receiving coverage, and the cost of the plan. The first report is due in 2015 for the year 2014.

For additional information and guidance, here is a useful IRS document on the topic:
http://www.irs.gov/pub/irs-drop/n-12-32.pdf

12 Why you might get a rebate from your insurance company, and what to do with it.

In an effort to make sure consumers are getting the most value for their health care dollars, the ACA requires that all health insurers spend a percentage of each premium dollar on medical care rather than administrative costs. This percentage is known as the minimum Medical Loss Ratio (MLR). The MLR is 80% for small group (and individual) businesses, and 85% for large group businesses.

What happens when an insurer doesn't meet this ratio? They're required to give rebates to their policyholders, which is typically an employer who provides a group health plan.

Once the employer receives this rebate, you must determine how to distribute the funds to the plan's participants according to Department of Labor guidance. Employer policyholders have 90 days to distribute the rebates to participants, after which you must establish a trust to hold the funds. If your employees paid premiums pre-tax through a Section 125 cafeteria plan, MLR rebate amounts are considered taxable wages.

For more information on the federal tax treatment of MLR rebates, refer to the IRS's FAQs. We suggest you consult your benefits advisor or lawyer before distributing an MLR rebate to plan participants.

13

How to ease your employees' financial burden*.

Even if you can't afford to offer your employees company-sponsored health insurance, you can still help them save – without spending any money yourself. How? By establishing an HSA (Health Spending Account) for every employee who wants one.

An HSA is like a personal savings account, but the money is used to pay for health care expenses. The employee owns and controls the money. This lets them save an average of 15% on taxes and use pre-tax dollars to pay for individual insurance as well as for appropriate out-of-pocket health expenses such as co-pays and prescriptions.

In addition, premiums on HSA insurance individual plans are typically much lower than other health insurance. Lower premiums, coupled with tax advantages, are two ways HSAs can be a big help to your employees.

14

What happens if a small business doesn't comply with the ACA*?

If you have fewer than 50 employees:
You do not have to provide health insurance so you will not be taxed or fined in any way.

If you have 50 or more full-time employees:
You're required to provide health insurance in accordance with the ACA. If you don't, you could face a penalty of $2,000 per employee starting with the 31st employee.

15

The Cost of Care: An interesting and enlightening infographic*.

The cost of health care has been on the rise, and employer-sponsored insurance is on the decline. The ACA will affect the health care trend in a big way, and it has important implications for small businesses. To learn more, check out the information in this infographic: https://healthcare.intuitlabs.com/blog/cost-of-care

** Applies mainly to businesses with fewer than 50 employees.*

More information and helpful links

Patient Protection and Affordable Care Act:
http://en.wikipedia.org/wiki/Patient_Protection_and_Affordable_Care_Act

Small Business Health Options Program:
http://www.dol.gov/ebsa/pdf/shop.pdf

Fair Labor Standards Act (FLSA):
http://www.dol.gov/compliance/laws/comp-flsa.htm

Shop on a **private exchange for health insurance** at eHealthInsurance.com

Calculate qualification for a government tax credit or subsidy to buy health insurance:
http://blog.turbotax.intuit.com/2013/03/27/turbotax-health-care-eligibility-calculator/

If you offer a health plan:
Here is the DOL's approved **written notice** for your employees, expires November 30, 2013:
http://www.dol.gov/ebsa/pdf/FLSAwithplans.pdf

If you do not offer a health plan:
Here is the DOL's approved **written notice** for your employees, expires November 30, 2013:
http://www.dol.gov/ebsa/pdf/FLSAwithoutplans.pdf

Article, *No-Cost Ways to Promote Employee Health*:
http://blog.intuit.com/employees/no-cost-ways-to-promote-employee-health/

Article, *4 Ways to Promote Employee Fitness*:
http://blog.intuit.com/employees/4-ways-to-promote-employee-fitness/

Article, *Employee Wellness Programs Keep Your Small Business Healthy, Wealthy, and Wise*:
http://blog.intuit.com/employees/employee-wellness-programs-keep-your-small-business-healthy-wealthy-and-wise/

How employers should apply the **90-day rule**: http://www.irs.gov/pub/irs-drop/n-12-59.pdf

For employers that sponsor **self-insured plans**, here is a useful IRS document:
http://www.irs.gov/pub/irs-drop/n-12-32.pdf

Cost of Care infographic:
https://healthcare.intuitlabs.com/blog/cost-of-care

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