

NEWS RELEASE

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16.6 Million Small Business Employees Could Benefit from Affordable Care Act Provisions Starting This Year

3.4 Million Workers in Firms Likely to Take Up Tax Credit by 2013

Small Businesses Are the First Group to Receive Direct Subsidies Under the Affordable Care Act; Tax Credits Could Provide \$40 Billion Benefit to Small Businesses Over the Next Ten Years

New York, NY, September 2, 2010—16.6 million small business employees work in firms that will be eligible for tax credits under the Affordable Care Act (ACA), according to a new Commonwealth Fund report. The credits, designed to offset health insurance premium costs and help small businesses afford and maintain health insurance, are available in taxable years beginning in 2010. Researchers estimate that by 2013, 3.4 million workers may work in firms that take advantage of the tax credit. The tax credits increase in value in 2014, from up to 35 percent of the employer's premium contribution to up to 50 percent.

The report, *Realizing the Potential of Health Reform: Small Businesses and the Affordable Care Act of 2010*, finds that relief for small businesses is greatly needed, as most of the erosion in employer health coverage over the last decade has taken place in small firms. Nearly all firms (98 percent) with 200 or more employees offer health benefits compared to only 46 percent of firms with fewer than 10 employees. In addition, 52 percent of workers in firms with fewer than 50 employees are uninsured or underinsured.

Report authors and Commonwealth Fund researchers Sara Collins, Karen Davis, Jennifer Nicolson, and Kristof Stremikis, note that small businesses are the first group to receive direct subsidies under provisions of the Affordable Care Act. The Congressional Budget Office (CBO) estimates that the tax credits could provide up to \$40 billion in support to small businesses over the next 10 years and reduce their health insurance premiums 8 to 11 percent by 2016, the report states. Additional savings will be realized by 2020 through provisions that reduce administrative spending and increase competition among insurers participating in insurance exchanges.

“The Affordable Care Act is a big step forward for small businesses and their employees,” said Commonwealth Fund President Karen Davis. “Not only will business owners see immediate benefits from the tax credits, but owners and employees alike will be protected from steep premium increases

and high out-of-pocket costs, ensuring they will have access to the stable, secure health insurance they deserve.”

In order to qualify for the tax credits, which eligible employers can claim on their tax returns starting with taxable year 2010, employers must pay at least 50 percent of their employees’ health insurance premiums, the report explains. The tax credits are determined by the business’ size and average wage. For example, a firm with 10 or fewer full-time employees and average wages of \$25,000 or less would qualify for the maximum 35 percent credit. The credit phases out as average wage and business size increase—firms with workforces between 10 and 25 employees or average wages between \$25,000 and \$50,000 receive smaller credits. The tax credits increase to 50 percent of the premium contribution in 2014, but are limited to two years. Tax-exempt organizations are also eligible for the tax credits, but at a lower rate: 25 percent in 2010 and 35 percent in 2014. Rules for how to apply for and receive the credit are available at www.IRS.gov.

In addition to the tax credits, several other ACA provisions going into effect in 2010 will benefit small businesses and their employees:

- **Administrative Cost Limits.** Currently, small businesses have among the highest share of their health insurance premiums going toward administrative costs, according to the report. For example, administrative costs and profits account for between 15 and 25 percent of health insurance premiums paid by businesses with fewer than 50 employees. In contrast, only 5 to 15 percent of premiums paid by businesses with more than 50 employees go toward administrative costs and profits. Beginning in 2010, health plans will be required to report the proportion of premiums spent on things other than medical care. Furthermore, starting January 1, 2011, health plans providing insurance to small businesses and individuals will be required to limit spending on administrative costs to not more than 20 percent of premiums. Health plans that exceed the limits will be required to give rebates to enrollees.
- **Annual Review of Premium Increases.** Small business premiums could also be driven lower as the ACA requires the Secretary of Health and Human Services (HHS) and individual states to establish processes to review insurer’s premium increases. HHS recently announced an initial set of grants to 45 states and the District of Columbia of \$46 million to help states carry out premium review. In addition, health insurers will be required to justify unreasonable rate increases publicly, and insurers that demonstrate a pattern of unreasonable increases may be excluded from participating in insurance exchanges starting in 2014. The agency is to release guidelines on what constitutes an unreasonable premium increase.
- **Preexisting Condition Insurance Plans.** Employees of small businesses who do not have coverage through their employers and who have been unable to secure health insurance because of a health condition will benefit from new Preexisting Condition Plans (PCIPS). Now available in most states, PCIPS will be open to people who have been uninsured for at least six months and who have a health problem that has made it difficult for them to gain health insurance. Premiums will be set for a standard population in the individual insurance market and cannot vary by more than a factor of four, based on age. The PCIPS will operate until

2014 when state insurance exchanges become available.

The remaining ACA provisions that will most affect small businesses and their employees will take place in 2014, including:

- **Participation in State Health Insurance Exchanges.** Five million workers are estimated to either gain health insurance or have their coverage stabilized and improved through their employers once state-run health insurance exchanges are up and running in 2014, according to the report. Businesses with fewer than 50 or 100 employees, depending on the state, will be eligible to purchase health insurance for their workers through the exchanges. All plans offered through the exchanges will have to meet federal essential benefit standards, have no lifetime or annual limits on what insurers will pay, and must limit out-of-pocket costs to \$5,950 for a single person and \$11,900 for a family. Deductibles for small businesses can be no greater than \$2,000 for a single policy or \$4,000 for a family policy.
- **Essential Benefit Standards.** Beginning in 2014, all health insurance plans sold in insurance exchanges and through the small group market will have to provide a standard, comprehensive benefit package.
- **Health Status Can No Longer Factor Into Premiums and Coverage Decisions.** Currently, insurers can deny coverage or charge exorbitant premiums based on health status. As of 2014, insurers participating in the health insurance exchanges or selling insurance in the individual and small group markets will only be able to use certain factors to determine premiums: 1) whether an individual or family is covered; 2) the geographic area where coverage is being offered; 3) age, but by no more than a factor of 3 to 1; and 4) tobacco use. In addition, as of 2014, insurers cannot deny coverage to people with preexisting conditions.
- **Affordable, Comprehensive, Stable Health Insurance for Workers Whose Employers Don't Offer Insurance.** People working for small businesses who aren't offered insurance through their employers will be eligible to buy health insurance through the insurance exchanges. Workers with incomes up to \$88,000 for a family of four who are buying their own coverage through the exchanges will be eligible for subsidies to help them pay their premiums. In addition, Medicaid is expanded to include everyone earning up to 133 percent of the federal poverty level, which is \$29,327 a year for a family of four.

“When it comes to purchasing health insurance, small businesses have long been at a disadvantage compared to larger firms. Because of high costs, many of them stopped offering health insurance or asked employees to pay larger percentages of premiums,” said lead author and Commonwealth Fund Vice President Sara Collins. “This new, regulated health insurance marketplace evens the playing field and gives small businesses comprehensive, affordable options for covering their workers.”

This report is part of a series of briefs The Commonwealth Fund is producing to highlight the effect of the ACA on various segments of the population. For more information, please visit the Fund's updated timeline of coverage provisions in the ACA at:

<http://www.commonwealthfund.org/Content/Publications/Other/2010/Timeline-for-Health-Care-Reform-Implementation.aspx>.

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