

SMALL BUSINESS

Health Coverage Options Primer™



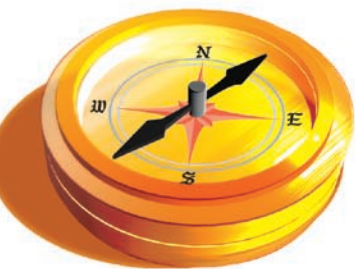
This Primer will help you discover and understand health coverage options for you and your small business including products, eligibility, tax issues and affordability.



FOUNDATION
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BlueCross
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*Helping Californians
navigate public & private
health care options*

Finding health coverage that works for your company.

Options are available to Californians and are offered through either private health coverage or publicly-sponsored programs. No Californian should be without health coverage, go without routine medical care or be forced to use the emergency room for their medical needs. If you, your family or your employees are without health coverage, this Primer can help you find affordable or free health coverage options.

Five facts about small business health coverage.

- 1** Your employees are guaranteed to qualify for health coverage, even if they are sick or have been sick.
- 2** Employee health coverage is affordable.
- 3** The initial enrollment cost of employee health benefit premiums cannot be raised more than 10% of the standard published rate.
- 4** Employers have the option to pay all or a portion of their employees' premiums.
- 5** It is more cost-effective to provide your employees with health coverage than to give them a raise.

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Reasons to offer health coverage to your employees:

1. Improve Employee Morale

Studies show that your employees will stay on the job longer and value their employment more if you offer a health coverage program.

2. Recruit and Retain the Most Desirable Employees

In general, there are specific types of expected benefits that experienced employees will require. Topping the list of must-have benefits is health coverage but many job applicants also demand a retirement plan, disability insurance, dental, vision and more. Tell prospective employees there are no benefits, and topflight candidates will often head for the door.

3. Increase Productivity

Healthy employees and their productivity at work are directly related. Increase your company's productivity and generate more money by offering your employees health insurance. According to The Commonwealth Fund, "Sickness and health problems among working-age Americans and their families carry an estimated price tag of \$260 billion in lost productivity each year" (www.cmwf.org).

Who is eligible for health coverage?

By law, in a small business (2-50 employees), everyone who works a minimum of 30 hours per week* is eligible for health coverage. Furthermore, small businesses are guaranteed health coverage regardless of any employee's preexisting health condition.

What about my employees who have been sick in the past?

Some employees with preexisting health conditions may have a waiting period prior to receiving health coverage. Refer to the California state law AB 1672 for more details.

What if I am unable to extend coverage to my employees' dependents?

Small businesses with part-time employees or contractors, or businesses that cannot afford to extend coverage to dependents, can provide a valuable service to their employees by referring them to one of the public programs.

* The employer has the option of including employees in the company health coverage who work between 20 and 29 hours per week. Check with your insurance com

Cost of health care.

Health coverage is affordable!

YES! Health coverage is affordable, and as the employer, you can decide how much of your employees' premium you want to pay. For example, some employers pay:

- ✓ 100% of the coverage cost for employees and dependents.
- ✓ A percentage of the coverage cost for employees and dependents.
- ✓ 100% just for the employee.

How to budget for health coverage.

Set up a defined contribution plan to budget the cost based on a certain amount per month per employee. Employees then choose the coverage they want. If the coverage the employee chooses is more than the budget then the employee will make up the difference. If the coverage the employee chooses is less than the budget the difference can be used to purchase supplementary coverage including vision, dental or a health savings account.

Premiums are tax deductible.

For the employee who shares in the cost of the premium with the employer, the employee's share is funded pretax. As such, the employee pays less in payroll taxes and saves on Social Security taxes.

What about for the employer? Employees reduce their pretax income by the amount of the insurance premium expense. Since the employee portion of the premium is deducted before taxes, the employer saves on Workers Compensation, Social Security matching and State Disability taxes.

Cash vs. coverage.

Fact: \$2,000 of health coverage is less expensive for you as an employer, and more beneficial for your employees than just giving your employees \$2,000 in cash. How is this possible? The only way to give your employees cash is via employee raises. This costs the employer an estimated additional 14% in payroll taxes and the employee will only receive an estimated 66% of the intended raise. For example:

What is the true cost and benefit of:

- A. Giving your employee a \$2,000 raise.
- B. Paying \$2,000 towards the employee's health coverage.

| Employer's True Cost | A: Raise | B: Health Coverage |
|-----------------------------|-----------------|---------------------------|
| Employer's Initial Cost | \$2,000 | \$2,000 |
| ADD Taxes Paid * | + \$273 | + \$0 |
| LESS Tax Reduction ** | - \$796 | - \$700 |
| NET Cost to Employer | \$1,477 | \$1,300 |

* Employer Taxes: Social Security 6.2%, Medicare 1.45%, Worker's Comp. 6%.

** Based on an estimated 35% tax rate.

The net cost to the employer for health coverage is lower than the net cost of a raise.

| Employee's True Benefit | A: Raise | B: Health Coverage |
|--------------------------------|-----------------|---------------------------|
| Employee's Intended Benefit | \$2,000 | \$2,000 |
| LESS Taxes Paid * | - \$685 | + \$0 |
| ADD Tax Reduction ** | - \$0 | - \$0 |
| NET Benefit to Employee | \$1,315 | \$2,000 |

* Employee Taxes: Social Security 6.2%, Medicare 1.45%, Federal Income Tax 20%, State Income Tax 5.8%, CA SUI/SDI Tax 0.8%.

** Based on an estimated 35% tax rate.

The net benefit to the employee for health coverage is higher than the net benefit of a raise. Actual benefits for health coverage paid to the employee or providers by the insurer are received tax-free up to \$5 million in a lifetime.

Types of private plans.

| HMO (Health Maintenance Organization) | PPO (Preferred Provider Organization) |
|--|--|
| HMO members, except in emergency situations, must use a specific doctor or clinic for their routine medical care. | PPO members choose their doctor from a listing of medical providers within their PPO network. |
| HMO Advantages | PPO Advantages |
| <ul style="list-style-type: none">✓ HMO members' doctor visits, hospital charges and many other medical care expenses are covered at 100% after a small co-payment such as \$5 or \$10 per visit.✓ HMO plans do not require you to pay an annual deductible before services are covered and usually have no lifetime maximums.✓ HMO providers conveniently take care of most paperwork, so members do not have to complete claim forms.✓ HMO providers do not have preexisting limitations. | <ul style="list-style-type: none">✓ PPO members have flexibility in choosing health care providers because benefits are paid for both in-network and out-of-network services. Furthermore, when in-network providers are used, out-of-pocket expenses are lower and no claim forms are required.✓ Some PPO benefits have a zero deductible. |
| HMO Disadvantages | PPO Disadvantages |
| <ul style="list-style-type: none">✓ HMO members do not have the flexibility of selecting their own health coverage providers.✓ No benefits are paid if a member decides to go to a health coverage provider that is not in the network. | <ul style="list-style-type: none">✓ The value of a PPO plan depends on the availability of providers, by area, in the network.✓ Claim forms are required for out-of-network benefits. |

Overall, many insurance companies allow your employees to choose the type of plan they want and allow multiple plans on one billing. They may also allow another carrier to coexist with coverage in the same group. This means you could offer HMO and PPO plans from two different companies at the same time.

Publicly-sponsored programs.

As an employer, you have the opportunity to inform your employees of California's publicly-sponsored plans if you decide not to cover their dependents or provide health coverage. Below are a few of the health coverage options. For a complete list visit, www.coverageforall.org or call the Uninsured Help Line at 800.234.1317.

| Demographic | Available Program |
|---|--|
| Children in moderate-income families. | Healthy Families Program 800-880-5305 • 888-747-1222 www.healthyfamilies.ca.gov |
| Children ineligible for state programs. | Healthy Kids Plans 510-763-2444 CaliforniaKids 818-755-9700 www.californiakids.org |
| Pregnant women and infants. | Medi-Cal 800-824-0088 • 888-747-1222 www.medi-cal.ca.gov AIM: Access for Infants & Mothers 800-433-2611 www.aim.ca.gov |
| Low- or no-income adults without dependents. | Medically Indigent Adult Program (MIA) also known as County Indigent Program |
| Low-income individuals & families. | Medi-Cal 800-824-0088 • 888-747-1222 www.medi-cal.ca.gov |
| Immigrants awaiting legal status. | Restricted Medi-Cal California's Medicaid Program 800-952-5253 |
| Individuals unable to obtain private health insurance due to a medical condition. | MRMIP: Major Risk Medical Insurance Program 800-289-6574 www.mrmib.ca.gov |
| Other programs and resources. | Information about Medicare (age 65 and up) 800-952-5253 www.medicare.gov VA Medical Benefits Package 877-222-8387 www.va.gov |

What additional health benefits can I offer to my employees?

Section 125 Plan. This refers to the IRS section describing how to set up a Premium Only Plan (POP), Flexible Spending Account (FSA), funding the employee portion of the premium, or reimbursement account funded by the employee, respectively. In the case where an employer is not paying 100% of the premium for the employee or dependents, and the employee is paying the difference, Section 125 allows the employee to deduct their portion of the premium before taxes. As mentioned earlier, this saves the employee and the employer money on mandatory taxes and insurance plans. The implementation of the POP is simple and has no ongoing cost to the employer.

In the case of an FSA, an employee can put away a certain amount of pretax money to pay for medical costs not covered by the insurance plan and still obtain the benefit of paying for health coverage on a pretax basis. Every company that has an offering of low first-dollar coverage should have a Section 125 FSA or Health Savings Account option.

HSA (Health Savings Account). Under HSAs plans, an employer offers a low first-dollar plan (low premiums) with a savings plan funded by the employee. The funds going into the savings plan on a monthly basis are taken out pre-tax from the employee's check. The deposits are tax deductible to the employee, and earn interest. If the employee stays healthy, the funds accumulate. When the employee needs money for health related expenses, they can withdraw the funds (via a debit card) to pay the expense. The funds come out of the account tax-free. HSAs are only available with compatible high deductible health plans.

How do I get my company enrolled?

Like an individual, small businesses vary. Some are mature and have funds for health insurance. Others who are just starting out, may not.

As a small business, you may not have the luxury to employ a Human Resources Department, and doing all of this work yourself can be tedious and confusing, as well as keep you from doing your normal work. Insurance companies will work with you directly and help you through the enrollment process for health coverage. Most employers use a licensed health insurance broker to give them unbiased information on which plans are best for them, and in most cases, brokers offer their services at no cost to the employer.

The broker is also trained to set you up with the Section 125 plans or HSA plans to help you and your employees get the most for your dollars. In the event you have a problem with the insurer or need to shop the market, the broker is there to act as your advocate throughout the process.

California has a good health coverage system. If we utilize the tools provided, coverage is available at an affordable cost.

**For more information, call the
California Uninsured Help Line at
800-234-1317
or visit www.coverageforall.org.**



For more information
or to order *free* employer and
consumer brochures, call:

California Uninsured Help Line™
800-234-1317

*Helping Californians navigate
public and private health care options*

