

# Health Reform: Self-Employed Perspective



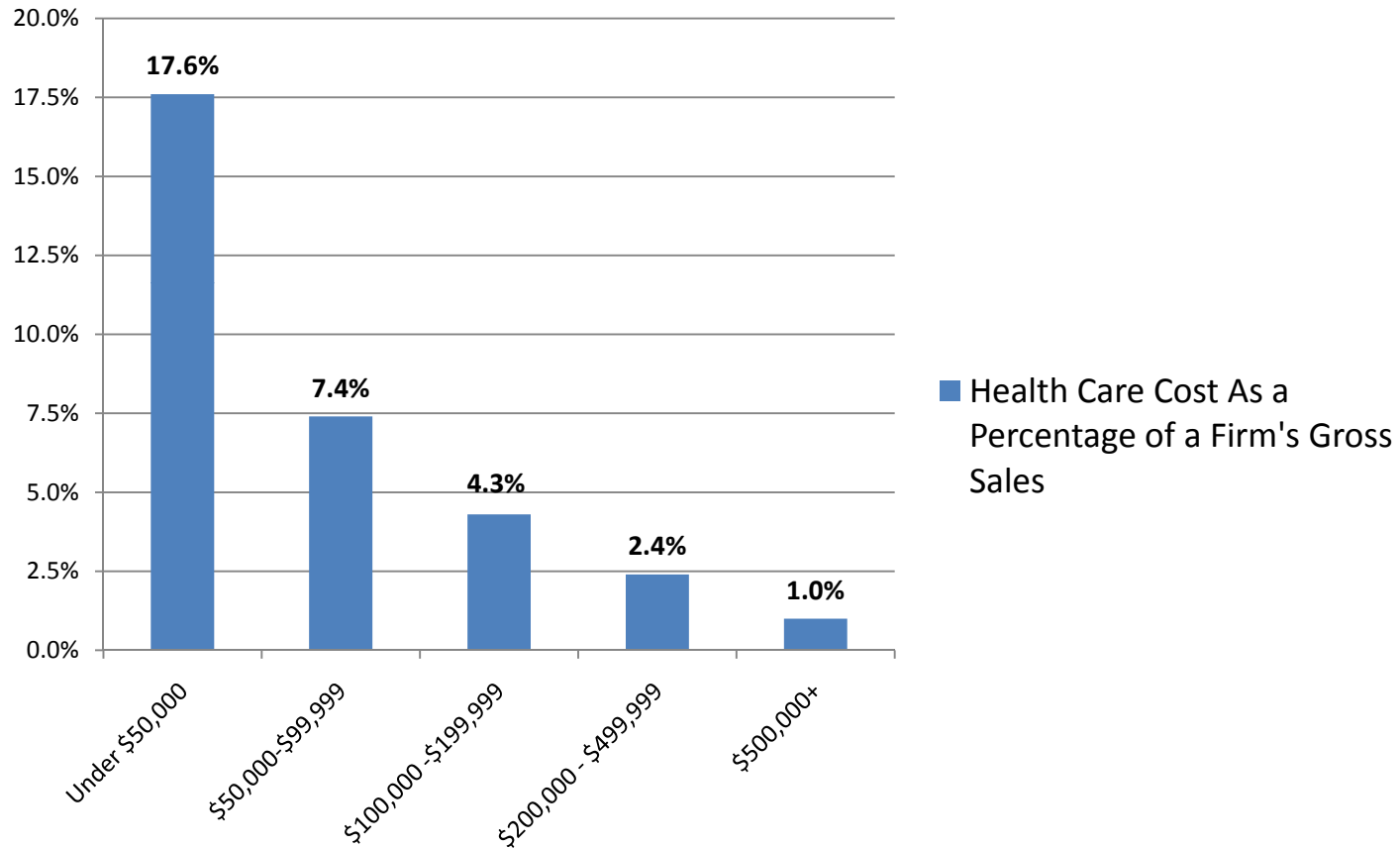
Prepared by the National Association for the Self-Employed (NASE),  
[www.NASE.org](http://www.NASE.org)

# The Self-Employed Face Unique Cost Hurdles for Health Insurance

- One-third of self-employed individuals are currently uninsured, with cost being the primary reason for their lack of insurance.
- 71 percent of self-employed individuals have gone uninsured at some point in their lives.
- From 2005 to 2008, the percentage of micro-businesses (firms with fewer than ten employees) that offered their employees health insurance dropped from 46 percent to 18.6 percent. Rising health costs were the primary reason given dropping coverage.

Source: National Association for the Self-Employed (NASE) 2008 Survey, *Health Coverage: A Micro-Business Perspective*

# Smallest Businesses are Hardest Hit by High Health Costs



Source: National Association for the Self-Employed (NASE) 2008 Survey, *Health Coverage: A Micro-Business Perspective*

# Patient Protection and Affordable Care Act (H.R. 3590) Pros & Cons for the Self-Employed

## PROS

- Insurance market reforms such as banning health status from being used by insurance companies to determine whether an individual or small business gets access to health insurance.
- Premium assistance, though limited, to individuals and small employers.
- Creation of a health marketplaces known as Exchanges.

# Patient Protection and Affordable Care Act (H.R. 3590) Pros & Cons for the Self-Employed

## CONS

- Insufficient immediate cost savings on health coverage for the self-employed and micro-business
- Exchange design
- New benefit requirements

## CON: Insufficient Immediate Cost Savings on Health Coverage for the Self-Employed

- The self-employed will have to wait until 2014 to receive any financial assistance to afford health coverage.
- Those self-employed business owners with an individual household income above \$43,320 or a family (of 4) household income above \$88,200 will experience a 10 to 13 percent increase in health costs after reform, yet receive no financial assistance for health coverage they will be mandated to purchase.
- Small employer tax credits are immediately available in 2010, however they are temporary. A small business would have to drop existing employer-based coverage in 2014 and purchase new group coverage in the Exchange in order to continue receiving premium assistance. The assistance in the Exchange is only available to small employers for two years leaving them to face higher health costs in 2016. In addition, according to NASE research only 18.6% of micro-businesses were providing employer-sponsored coverage in 2008 and thus would have access to this credit.

## CON: Exchange Design

- State-based or regional Exchanges as laid out in H.R. 3590 will be less effective than a national Exchange to lower the cost of coverage and attract competition.
- A larger pool will lower costs and provide greater administrative efficiencies.

## CON: Requirements on Benefits Too Costly for Self-Employed

- The Senate legislation creates an essential health benefits package and all insurance policies, in and out of the Exchange, will be required to meet these qualifications.
- According to CBO, the Senate bill swings the delicate pendulum between cost and benefit mandates too far, leaving those in the individual market such as the self-employed to pay anywhere from 10 percent to 13 percent higher premium costs after reform.



# How to Fix Health Care to Provide the Self-Employed with Immediate Cost Savings

## Providing Immediate, Bottom Line Cost Savings on Health Coverage for the Self-Employed:

- Make tax treatment of health care costs fair for all businesses
- Expand Health Reimbursement Arrangements (HRAs) to assist the self-employed in providing financial assistance to their workers for health costs
- Provide premium assistance for individuals and families upon enactment of a final health reform act

# Make Tax Treatment of Health Care Costs Fair for All Businesses

## ISSUE:

Sole proprietors, which over 22 million and represent 78% of all small businesses in the United States, are the only business entity that does not receive a full deduction for health insurance costs.

Since they do not receive this deduction, they are required to pay significantly more in self-employment tax, their payroll taxes, than larger businesses.

### **How much is this extra tax?**

This inequity results in the self-employed paying 15.3 percent in additional taxes.

# How Much is this Extra Tax?

Under the Patient Protection and Affordable Care Act (H.R. 3590), the self-employed will have to pay the following in extra taxes:

Individual Coverage	Family Coverage
\$5,800 premium costs*	\$15,200 premium costs*
X	X
<u>15.3 % self-employment tax</u>	<u>15.3 % self-employment tax</u>
<b>\$887.40 in extra taxes</b>	<b>\$2,325.60 in extra taxes</b>

\* According to the Congressional Budget Office analysis of health premium costs in 2016 once provisions of H.R. 3590 have been fully implemented.

# How Much is this Extra Tax?

The self-employed who do not qualify for the tax credits in H.R. 3590 (those with a household income above \$43,320 for individuals and above \$88,200 for a family of four) will receive **no** financial assistance for health costs, yet will be mandated to purchase coverage.

In fact, due to new benefit requirements in H.R. 3590, they will have to pay **10 to 13 percent higher premium costs** than they would without reform.

Type of Coverage	Premium Costs*	Self-Employment Tax	Amount of Taxes
Individual coverage without reform	\$5,500	15.3%	\$841.50
Individual coverage after reform	\$5,800	15.3%	\$887.40
Family coverage without reform	\$13,100	15.3%	\$2,004.30
Family Coverage after reform	\$15,200	15.3%	\$2,325.60

What does this mean to the amount of taxes the self-employed must pay?

**5.5% Increase in Taxes**

**16.0% Increase in Taxes**

\* According to the Congressional Budget Office analysis of health premium costs in 2016 once provisions of H.R. 3590 have been fully implemented.

# Make Tax Treatment of Health Care Costs Fair for All Businesses

## SOLUTION:

Equalizing the tax treatment of health costs for the self-employed in H.R. 3590, as recommended in the Equity for Our Nation's Self-Employed Act (S.725), would lower health costs for all self-employed in our nation.

*Estimated bottom line cost savings to the self-employed:*

**\$887\*** for those with individual coverage

**\$2,325\*** for those with family coverage

### NOTE:

The NASE supports the effort of Senators Landrieu, Lincoln, Shaheen and Bayh (**S. Amdt. #3013**) to provide the self-employed with a 50% business deduction for their health costs for the purposes of self-employment tax in H.R. 3590. This is a good first step in leveling the playing field and providing health care cost savings for the self-employed.

\* Based on the Congressional Budget Office analysis of health premium costs in 2016 once provisions of H.R. 3590 have been fully implemented. If implemented in 2009, S. 725 would save self-employed business owners \$738 for those with individual coverage and \$2,046 for those with family coverage based on Kaiser Family Foundation's 2009 average costs of family and individual coverage in the United States.

# Help the Self-Employed Provide Financial Assistance to Their Workers for Health Costs

## ISSUE:

Skyrocketing premium costs have caused a massive drop of employer-based coverage in the micro-business demographic.

- In 2005, 46.2 percent of micro-businesses (firms with fewer than ten employees) offered their employees health insurance. In 2008, that number dropped to 18.6 percent. The primary reason for dropping employer-sponsored, group health coverage was cost.\*
- A majority of micro-businesses feel it is necessary to offer health coverage as a benefit to attract qualified workers.

\*Source: National Association for the Self-Employed (NASE) 2008 Survey, *Health Coverage: A Micro-Business Perspective*

# Expansion of Health Reimbursement Arrangements (HRAs)

Improving Health Reimbursement Arrangements (HRAs) to allow the self-employed business owner (sole-proprietor) to participate in the plan would increase the number of micro-business owners and employees receiving health benefits and financial assistance with medical costs.

## What is a Health Reimbursement Arrangement?

- HRAs are a flexible benefit option that allows small business owners to reimburse employees tax- free for out-of-pocket medical costs, including health insurance premiums. Furthermore, the reimbursements are tax-deductible for the business.
- An HRA allows the business owner to determine the maximum amount of annual reimbursement an employee will receive, whether the HRA funds may be rolled over to the next year and if so, how much of an employees' HRA funds can be rolled over to the next year.
- HRAs are extremely flexible and easy for the self-employed to set up and administer. This is an important feature for a business owner who is responsible for managing every aspect of their business.
- An important component of HRAs is the non-discriminatory rules that apply to them. If an HRA is set up, the benefits must apply to all employees. A business owner is not allowed to offer the benefit to only certain employees or allow some to have a higher amount of annual reimbursement.
- An HRA does not require the business owner to purchase a group health plan. An important feature considering only 18.6% of micro-business owners offer employer-based coverage to their workers.

# Why is Health Reimbursement Arrangement (HRA) Expansion Important to Health Reform?

- All self-employed and micro-business will be exempt from an employer mandate, however current reform proposals will require they and their workers have health coverage.
- Under the Patient Protection and Affordable Care Act, the self-employed (sole-proprietors) are unable to take advantage of the small employer tax credit, leaving them with no assistance to provide coverage to their workers.
  - An HRA can assist self-employed business owners that are unable to afford group insurance to offer some financial assistance to their employees.
  - Since cost is such a crucial factor for micro-business when it comes to health benefits, an HRA gives the owner consistency when it comes to benefit costs.
  - Additionally, micro-business employees would likely receive more generous HRA reimbursement amounts if the self-employed owner receives the same benefit.