



National Association for the Self-Employed (NASE) **Reform Priorities**

The NASE supports health reform that will:

- *Lower Costs:* the self-employed need immediate financial assistance with health care costs. The primary objective of reform legislation must be to contain costs and provide individuals and micro-business with long-term premium (cost) stability. Affordability is the single most important factor determining whether the self-employed and micro-businesses purchase coverage for themselves and/or provide it to their employees.
- *Create Parity:* the tax treatment of health coverage must be reformed so that all receive the same tax benefits regardless of whether coverage is purchased on their own or accessed through an employer.
- *Allow Choice:* the self-employed must have their choice of doctors, choice of plans, and the ability to choose what is best for their business and family when it comes to health coverage.
- *Increase Access:* market reforms must be implemented that will allow individuals to obtain coverage regardless of their health status.
- *Provide Meaningful Coverage:* the self-employed need access to quality, affordable health policies, not bare bones coverage.
- *Promote Transparency and Simplicity:* the self-employed need a health care system that makes accessing, purchasing, and utilizing health care simple and easy. Trustworthy information on costs and coverage options must be readily available.
- *Be Fiscally Responsible:* micro-businesses want reform that is fiscally responsible and does not lead to massive deficits or increased taxes on business or citizens.

NASE Perspective on Key Reform Components

Mandates

The majority of NASE's micro-business members oppose both an individual and employer mandate. Most of our members would be affected by an individual mandate since due to their size, the majority would be exempt from an employer mandate based on the current reform proposals introduced in Congress.

NASE is willing to compromise on the mandate issue if, and only if, the following were provided in the final health reform bill:

- A substantial and easy to calculate refundable tax credit for small business, including the self-employed.
- Full deductibility for health insurance for the self-employed (i.e. inclusion of S.725/H.R. 1470.)
- Expansion of Health Reimbursement Arrangements (HRAs) to allow the self-employed business owner to participate in the plan.

Exchange/Gateway

The NASE supports the creation of an Exchange or Gateway as well as other pooling mechanisms such as cooperatives to increase access to coverage and create administrative efficiencies.

The NASE prefers the creation of a national Exchange or Gateway in order to create the largest pool possible to ensure the greatest cost savings, which may not be accomplished through smaller state-based Exchanges or Gateways.

Additionally, we would like to emphasize the importance of an Exchange in providing the self-employed, micro-businesses and their employees with easy to understand information regarding insurers and benefit options available to them. This should be a central component of any Exchange or Gateway design.

Tax Provisions

The NASE supports the use of tax credits to assist in making health care more affordable for the self-employed and micro-business. As mentioned, any reform bill should include a substantial and easy to calculate refundable tax credit for the self-employed, micro-businesses and their employees.

At present, two key tax items for the self-employed have been excluded from the current reform proposals:

- *Fix for the deductibility of health insurance for the self-employed.* Under the current tax code, corporations are able to deduct health insurance premiums as a business expense and to forgo payroll taxes on these expenses. In addition, their employees are able to pay for health coverage with pre-tax dollars. However, sole proprietors are unable to deduct premiums as a business expense. Since they do not receive this deduction, they are required to pay significantly more in self-employment tax, their payroll taxes. How much is the extra tax each year? The self-employed must pay 15.3% in self-employment taxes. A business owner paying \$6,000 per year on health insurance must also pay \$918.00 in additional self-employment taxes because of this inequality in the tax code, a substantial sum for the smallest of businesses. There is legislation in the House (H.R. 1470) and Senate (S.725) to level the playing field for the self-employed, yet these provisions have not been included nor offered as amendments to the larger health reform bills.
- *The expansion of Health Reimbursement Arrangements (HRAs).* 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. A key benefit of an HRA is that they do not require the business owner to purchase a group health plan. Thus, setting up an HRA can offer some financial assistance to employees of micro-businesses that are unable to afford group health insurance. Additionally, since cost is such a crucial factor for the self-employed, an HRA gives the owner consistency and stability in health benefit costs. At present, sole proprietors are not eligible to participate in an HRA; an inequity that negatively impacts millions of business owners and employees. Improving Health Reimbursement Arrangements to allow the self-employed business owner to participate in the plan would significantly increase the number of owners and employees of micro-businesses receiving health benefits and financial assistance with medical costs. Why is this so important to health reform? Due to their size, the self-employed will be exempt from the employer mandate included in health reform legislation. HRAs would be a great way for them to receive and provide to their employees some financial assistance for health care costs.

Market Reforms

The NASE supports market reforms that would remove the use of health status as an underwriting mechanism for access to coverage. Additionally, we support rating reforms that would help the self-employed with both access and affordability.

Benefits

The NASE supports access to meaningful coverage, not limited or scheduled benefit policies for the self-employed and micro-business. Current health reform legislation creates a

committee or advisory council to determine an essential benefits package (i.e. a minimum level of coverage allowed.) The determination of an essential benefits package can play a large role in the cost of coverage. Analogous to states and their various mandates, the more robust the coverage, then the more expensive the plan will be for the self-employed and micro-business. There must be a balance between cost and coverage to maintain affordability. We urge Congress to heed this balance when considering the creation of an essential benefits package.

Public Plan

The NASE opposes the creation of a government-run public health plan. We support the role of government as regulator, not provider of health care.

Key reasons for opposition to public plan option:

- Based on the government's management of Medicare/Medicaid and Social Security, NASE members feel that the federal government is unable to effectively manage health care.
- The self-employed want a less complicated, less bureaucratic health care system. They feel the involvement of government in providing health care will only increase bureaucracy.
- NASE members are highly concerned about the costs associated with a public plan option. With record deficits they feel that it is fiscally irresponsible to take on this additional financial burden.
- There is overwhelming concern that a public plan will not lower costs, but will in fact increase costs over time and thus result in higher taxes.

For more information on micro-business perspectives on health reform, please visit the [Research section](#) of the NASE Web site.