

Health Benefits: How to Get Started

Where do I begin?

Before deciding whether or not you can afford to implement healthcare plans for your workers now or in the future, we recommend thinking through a few key questions.

- **How much does health insurance matter to your employees?**

While employer-sponsored health insurance is critical for some workers, others may value different benefits—more predictable schedules, for instance, or transportation reimbursement. You should think about offering health insurance as part of your longer-term hiring strategy. Employees will likely have different coverage needs, which may also impact your bottom-line budget. Have any potential employees said no because you couldn't offer insurance, or have any part-time workers turned down a full-time offer because you don't offer insurance?

- **What is your budget?**

Determine what you can reasonably afford at the outset to help pare down various plans and types of coverage. [This guide from FitSmallBusiness](#) offers some advice on estimating costs before you start browsing plan options. You can also download [the helpful Excel budgeting sheet](#) from Broughton Consulting (included in Module Three of the Human Capital Advantage curriculum). For more in-depth help with this step, consider working with a pro bono business advisor with expertise in HR or benefits. Pacific Community Ventures' [BusinessAdvising.org](#) is a free way to find a pro bono advisor.

- **How would you want to structure insurance coverage?**

Decide whether it makes the most sense for your business plan or annual budgeting to have tiers of employee coverage (e.g. coverage for full-time but not part-time staff), or to offer coverage only after workers have been employed for a certain amount of time (e.g. three month waiting period).

What does the law require?

Most likely, mandatory employer-sponsored healthcare does not apply to you. As of December 2017, if you have fewer than 50 full-time employees, then you are not subject to requirements under the [Affordable Care Act \(ACA\)](#) to provide your workers with health insurance coverage. Under the Shared Responsibility Provisions of the ACA (also known as the “play or pay”

mandate), only businesses that employ 50 or more workers full-time must offer health insurance or pay a tax penalty. For more on whether this law applies to you, see [the IRS website](#) on employer responsibility. Also worth noting is that for plan years beginning in 2018 onward, the [shared-responsibility affordability percentage](#) has shifted—employer-sponsored healthcare coverage will be considered affordable if the employee’s mandatory contribution for individual coverage for the least expensive plan option meeting ACA requirements [doesn’t exceed 9.56% of their annual household income](#). When offering health insurance to employees, consider providing a third party resource to answer any specific questions as these may be private.

Historically, under the Individual Shared Responsibility Provision of the ACA, all individuals have been required to demonstrate that they have health insurance or that they qualify for an exemption—or else pay a penalty fee. Since the law’s passage, this provision has meant that if you do not already offer group health insurance to your employees, you and your workers are each individually responsible for obtaining coverage on your own. However, the tax bill passed by Congress in December 2017 eliminates these penalty fees for individuals, in effect revoking the so-called individual mandate to have health insurance under the ACA. The law took effect in 2019, however, and the IRS has advised taxpayers to continue to report coverage as normal in the meantime.

What other laws should I be aware of?

If you’re unsure, consult a legal, tax, and/or HR expert to make sure you’re compliant with the law. To learn more about requirements that may apply to you under the ACA, [see this overview offered by eHealth](#). You can also look to government agency websites for basic guidance surrounding healthcare laws:

- The Department of Labor’s [Health Plans Guidance](#) provides an easy-to-navigate list of information and resources, organized by topic, on health coverage implementation and federal regulations.
- The IRS’s [Affordable Care Act Tax Provisions for Employers](#) offers information on coverage, reporting, payments, and tax credits.
- The Small Business Administration’s “[Stay Legally Compliant](#)” webpage helps business owners understand common state and local requirements.

As with all descriptions of benefits, business owners like you are encouraged to consult with legal experts to ensure you’re meeting all requirements and remain in compliance with local, state, and federal law.

Can tax incentives help me afford coverage?

Maybe, and they could mean significant savings for your business. Certain incentives have been put in place over the years to help smaller businesses offer insurance coverage, including the following:

TAX INCENTIVE

WHO'S ELIGIBLE

Tax-deductible premium payments. With group health plans, you can write off spending on employee premiums as a qualified business expense, deducting those costs from your total business taxes. [See the IRS website](#) for more information.

All business owners providing group insurance.

Small Business Health Care Tax Credit. The ACA established certain small business incentives to encourage business owners to buy coverage through the [Small Business Health Options Program \(SHOP\)](#) marketplace. Worth up to 50% of premium costs for employees under a group plan, the tax credit is designed to help small businesses like yours afford group health coverage purchased through SHOP. The credit favors business owners with fewer employees: the smaller your workforce, the larger the credit. Check out [Healthcare.gov](#) to see if the credit could help your business.

Business owners with fewer than 25 full-time equivalent employees who each make less than \$52,000 per year, and who pay at least 50% of employee premiums and purchase group plan health insurance through the SHOP marketplace.

Section 125 Plans or HSAs. Business owners can implement what's called a Section 125 plan, or a Health Savings Account (HSA), that allows employees to use pre-tax income for insurance premium payments under a group plan, reducing your overall payroll tax burden. Consult the [IRS website](#) for specifics.

Business owners who enroll in group health insurance and set up HSAs.

Tax deductible HRA or HRP payments. Under a Health Reimbursement Arrangement/ Account (HRA) or a similar Health Reimbursement Plan (HRP) (both Defined Contribution Health Plans, described in more detail below), business owners can set aside funds to reimburse employees—up to a specified amount determined by you, the employer—for certain medical expenses determined by the employer. HRA and HRP payments are both tax deductible.

Business owners who cannot afford or choose not to participate in a traditional group plan, and elect instead to help fund employees' individual health insurance payments with an HRA or HRP (for more on these arrangements, see below).

For more on tax incentives that may apply to you, we recommend consulting this helpful guide

provided by SimplyInsured.

[Learn more](#)

COVID-19 Resources

Tailored resources to help you make decisions around expanded health benefits at your small business, help you reopen safely, and your employees build resilience in the midst of COVID-19.

[COVID-19 Resources](#)

What are my peers doing?

Understanding what other businesses like yours offer with regard to healthcare can help you make decisions about whether to offer coverage, what types of plans work best, and ways to gain a competitive advantage in the labor market. Consider the following:

- **While the majority of businesses with fewer than 10 workers don't offer health insurance, a significant portion does.** In 2016, an estimated 46 percent of so-called "very small businesses" (3-9 employees) nationwide provided health insurance to their workers.
- **Premium costs remain high for small business owners.** In 2015, business owners paid on average \$5,179 on premiums for a single employee on a group plan and \$12,591 for a family—and unfortunately, costs continue to rise.
- **Small business owners with group insurance plans typically shoulder the majority of the premium costs.** As of March 2017, among private industry businesses with fewer than 50 employees, small business owners paid on average 78 percent of premium costs, while employees paid 22 percent.
- **For an average small business in 2017, health insurance costs represented only a small percentage of employee income.** Businesses with fewer than 50 workers spent, on average, the equivalent of 6 percent of total employee income on health insurance per worker in 2017. Total costs for all employee benefits (including mandatory contributions to social security and Medicare) made up just over one quarter—26.6 percent—of employee total income on average.

What are my health insurance plan options?

There are two main things to know about implementing health benefits: what your options are, and how to go about finding the best one for your business. We'll start with basic ways of finding coverage first, before delving into more detail about insurance options.

Common ways to find a health insurance plan

- **Start by comparing options on your own, online.**

Search for group plans and quotes by consulting the Small Business Health Options Program (SHOP) federal and state-run exchanges, or look for private insurance exchanges or individual insurance providers. When using an online exchange, you will be asked questions about your business location, number of employees, and employee ages and genders. Once you've entered your data, online marketplaces will present you with estimates for group healthcare plans. If you'd like more personalized advice, you have the option to consult with a broker.

- **Meet with a broker to compare options.**

Consulting an insurance broker is generally free to you, as brokers' commissions are factored into insurance premiums. Some brokers will charge additional fees, however, so it is important to ask about upfront costs when selecting a broker. You can request to meet with a broker using online health insurance exchanges, looking at listings of brokers in your area, or asking for recommendations from another business owner or trusted advisor. Unlike insurance agents, who work for individual insurers, brokers are independent, and can offer you advice and information on a range of providers. This option is preferable for business owners who want tailored advice on choosing a plan, and prefer working with an individual rather than an automated service. For more on finding a broker, see this helpful resource on [HealthCoverageGuide.org](https://www.healthcoverageguide.org).

Basic types of healthcare benefits

There are three common options for small business owners who want to provide health benefits—including medical, dental, and vision insurance—to their workers. These include:

- **Group or employer-sponsored insurance:** a group plan that you select that is the same for all of your workers.
- **Individual insurance:** a plan selected by each employee individually.
- **Defined Contribution Health Plans:** employer-funded reimbursement systems commonly

used in conjunction with individual insurance (or with group insurance, in the case of Integrated HRAs).

Learn more about each of these options below:

Group/Employer-Sponsored Health Insurance

WHAT IT IS	<p>Under group or employer-sponsored insurance, you and your qualified employees are all enrolled in the same plan (or one of a limited range of options) offered by an insurance provider and selected by you from a public or private exchange, sometimes with the help of an insurance broker. The coverage is typically for individuals, but may also cover dependents (depending on what the business can afford). Employees and employers usually share the costs of premiums, but employers are required to contribute a minimum percentage—generally 50%.</p>
HOW TO ACCESS	<p>Search on Small Business Health Options Program (SHOP) federal and state-run exchanges, private insurance exchanges, or via an individual insurer. Brokers are accessible for each of these options.</p>
BEST SUITED FOR	<p>Business owners who have been operating for multiple years and have some form of HR management systems in place— or else can outsource management to a benefits specialist—and are able to meet the minimum participation and contribution rates for a group plan. For more on deciding if a group plan is right for you, see Zane Benefit’s post on weighing your options.</p>
ADVANTAGES	<p>Employee satisfaction and retention. Many workers are drawn to jobs that offer health insurance, and participation in a group plan saves them the trouble of conducting research and selecting a plan on their own. Tax benefits for business owners. Employers’ contributions to employee premiums are tax deductible. Additionally, employers who buy insurance through the SHOP marketplace and employ fewer than 25 people can qualify for a tax credit worth up to 50% of the cost of your employees’ premiums. To see if you qualify, visit the SHOP website. Tax benefits for workers. The cost of coverage is not included in employees’ taxable income at the state or federal level, meaning lower overall employee income taxes and FICA (Medicare and social security) contributions (when factoring in the cost of healthcare benefits to total employee income). Employees’ contributions to coverage can also be made with pre-tax income, increasing their buying power.</p>

DISADVANTAGES **Cost.** While group plans in theory offer lower prices than individual plans, many small business owners still find the premium costs too high. Additionally, coverage costs can vary year-to-year, especially for companies that employ workers with consistent health problems, as insurers can raise prices if spending exceeds expectations in a given time period. **Minimum requirements.** Business owners interested in a group plan often must meet minimum contribution and employee participation rates to be eligible (e.g. an insurer could have the policy that 75% of all eligible employees must be enrolled in the plan—though it can vary by state). Small business owners with only a handful of employees often cannot get enough buy-in from their staff (due to high costs) to elect to use a group plan. **Lack of flexibility.** From an employee’s perspective, they don’t have much choice in selecting a plan, and either must enroll in the one their employer has selected for them, or choose from a limited range of options the employer approves.

Individual Health Insurance

WHAT IT IS In this model, you as the business owner encourage your workers to purchase insurance on their own. To reduce costs for your workers, you can offer defined contribution plans in conjunction with individual insurance, such as a Health Reimbursement Arrangement/Account (HRA) or a Healthcare Reimbursement Plan (HRP), outlined in the table below.

HOW TO ACCESS Healthcare.gov federal or state-run exchanges, private insurance exchanges, or an individual insurer.

BEST SUITED FOR Business owners who cannot afford or are ineligible for group coverage, and/or do not have the in-house capacity to administer a group plan.

ADVANTAGES **Flexibility.** Unlike group or employer-sponsored insurance, this isn’t a one-size-fits-all approach. Individual insurance allows workers to select their own plans based on their desired monthly payments and the level of coverage they need. **Mobility.** With individual coverage, your employees know they have the freedom to keep their insurance if they leave their job for any reason.

DISADVANTAGES **Perception.** Many current and potential employees associate a good job with employer-sponsored health insurance. Putting the onus on the employee to obtain coverage with individual insurance can sometimes be enough to deter talented workers for whom an employee-sponsored plan is a must-have. **Cost.** Unfortunately, rates for individual insurance remain high. If your business can't offer HRA or HRP options to offset insurance costs and medical expenses, some employees will elect to go without coverage and face penalty fees, or purchase poor-quality plans that require more out-of-pocket spending.

Defined Contribution Health Plans (DCHPS)

WHAT THEY ARE DCHPs (sometimes called "Section 105 plans") are funds that are set aside, tax free, which your business makes available to your employees to pay for certain medical expenses. [The plans can come in different forms](#), including Health Reimbursement Arrangements (also called Health Reimbursement Accounts, or HRAs), the more recently developed Healthcare Reimbursement Plans (HRPs), Medical Expense Reimbursement Plans (MERPs), or Medical Reimbursement Plans (MRPs). While the terminology (and acronyms) can get confusing, there are many resources out there that can help you decipher the differences (for starters, Zane Benefits [has some helpful resources](#)). DCHPs are paid for solely by you, business owners, unlike HSAs to which employees contribute. Rather than an actual savings account, a DCHP is essentially an agreement between you and your employees: you promise to reimburse your employee for out-of-pocket health expenses and premium fees as they arise, within a certain limit each year.

HOW TO ACCESS Talk to an HR professional or utilize [benefits administration software](#), as these arrangements can be legally and administratively complicated. For more on how these platforms can help your business, see the section on technology solutions below.

BEST SUITED FOR Business owners who cannot afford or are ineligible for group coverage, and/or do not have the in-house capacity to administer a group plan. Some plans, like [Qualified Small Employer HRAs](#), are only available to businesses with fewer than 50 full-time equivalent employees.

ADVANTAGES

Cost control. You can decide how much you want to contribute toward your employees' healthcare costs each year, rather than dealing with potential (and sometimes unpredictable) cost changes with group plans. **Savings.** A DCHP can save your business money by ensuring that you only pay for services and treatments employees use. **Tax benefits.** Contributions are tax-deductible to business owners, and tax-free to employees.

DISADVANTAGES

Legal complexity. With the passage of the ACA, HRA plans have had to adapt to stay compliant, causing some confusion among business owners. DCHPs are also subject to additional federal regulations like HIPAA and ERISA, and sometimes other state and local laws. In San Francisco, for example, the citywide "[Health Care Security Ordinance](#)" set strict laws regarding minimum employer contributions toward employee health insurance costs, including reimbursement plans. **Higher upfront costs for employees.** DCHPs put the burden of upfront costs on your workers. While saving your business money, the plans are designed to make your employees more cost-conscious in their healthcare choices, the idea being that if they have to pay for expenses out-of-pocket, they will choose less expensive plans, services, and medications.