



# Health Insurance for the Small & Mid-sized Business

**A**s a business owner, health insurance can be one of the most highly valued benefits you make available to your employees. Providing health insurance to your employees makes good business sense.

- Employees want health insurance and often cannot get it or afford it on their own. Offering health insurance can:
  - Make it easier to recruit quality employees;
  - Reduce the cost of staff turnover; and
  - Result in more satisfied, more productive employees.
- Employees with health insurance will generally be healthier, which will result in:
  - Higher productivity; and
  - Lower absenteeism
- Employer-based health insurance offers tax advantages to both you and your employees.

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*This guide was prepared by the Pacific Business Group on Health in collaboration with The Governor's Conference on Small Business & Entrepreneurship.*

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## What options are available to offer insurance to my employees?

**G**roup coverage allows you to cover all your employees without regard to their health status, although the cost of coverage may be impacted by the health status of your employees and their dependents. In California, small employers with 2-50 employees are guaranteed the right to buy health insurance. In other words, insurers may not decline to issue coverage to your business. For the 2-50 segment, premiums are age-rated and vary by geography (up to 9 regions in California) and family size, and there are rate bands that limit the premium adjustment for the health status of your employees. Groups with more than 50 employees are typically rated based on demographic information.

When buying group insurance, a licensed agent can help you explore various insurance plan options. In providing this service, the agent receives a commission directly from the insurance company for the sale and servicing of the policy. For all small businesses, your cost is the same whether you use an agent or go directly to the carrier.

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## Which type of plan and benefits should I offer?

**H**ealth care is very personal and different employees have different needs. Depending upon location and size, you may be able to find multiple plan designs or benefit options so employees have some choice. These options may be available from a single carrier or from several. These arrangements allow your employees to choose, for example, between an HMO and a PPO within one insurance carrier or between two HMOs with different copays and benefits. See page 6 for a description of the various types of insurance plans.

Other factors to consider in selecting coverage include:

- Are your employees mostly young and single? These employees are likely to anticipate very low medical costs and thus offering an HMO with higher copays or a higher deductible with employer contributions to a Health Savings Account (HSA) may meet their needs.
- Employees with families or specific health care needs may want more flexibility in choosing between an HMO and a PPO, or between two different HMOs with differing networks or benefits.
- Where are your employees located? If some or all of your employees are in rural areas, you will need to make certain that the insurance carrier you select has a comprehensive network within a reasonable distance.
- What is the pay range in your industry? Medical costs will tend to be more predictable in an HMO. A high deductible health plan (HDHP) with an HSA will have lower premiums and higher out-of-pocket expenses but offers an additional tax-saving vehicle.
- What types of services are excluded under the health plan and are there any waiting periods for coverage of specific treatments?

## **Help Employees Stay Healthy**

- Regular checkups, cancer screenings and immunizations are an important part of staying healthy. Consider “first dollar coverage” for preventive care and keeping the health plan copays low enough that employees can afford basic preventive care.
- Provide maternity services and the prenatal care that is vital for a healthy pregnancy.
- Smoking is directly linked to poor health and many serious chronic diseases. Make sure the health plan includes a comprehensive smoking cessation program, with online self-help tools and coverage for smoking cessation drugs.
- Obesity is reaching epidemic proportions and leads directly to serious health problems. Consider health plan services that help employees lose weight. If the health plan does not offer such a program, consider what else you can do as an employer to encourage employees to maintain a healthy weight and create an overall culture of wellness.
- Alcohol and drug abuse can severely impact an employee’s job performance. Consider whether your health plan offers programs for alcohol and drug abuse treatment.
- A healthy lifestyle, with good eating habits, adequate exercise, and low stress, will contribute to an employee’s general health and productivity. Look for health plans that have programs like online learning modules on diet and nutrition, programs that assist an employee in tracking exercise goals and activities, and even stress reduction programs.

## **Help Those with Chronic Illness Stay Well**

- Chronic diseases such as diabetes, asthma and cardiac disease take a severe toll – but increasingly these are conditions that can be managed so individuals are healthy and productive. Make sure the health plan has disease management programs to better assist ill employees (or family members) in managing these diseases.
- With a chronic disease, taking the right medications can be critically important and make a significant difference in the employee’s health. Consider whether your plan has programs to encourage adherence to treatment such as lower copays or feedback and reminder tools.

## **Get the Best Care When the Worst Happens**

- When faced with a new diagnosis or the potential need to have a procedure, make sure that the health plan will help your employees make the right choices for themselves with “decision support.” Look for a plan that has programs to help your employees learn about treatment options, understand potential risks of various treatments, explain potential outcomes, and account for their personal preferences.
- The plan should help your employees identify hospitals or doctors that are shown to demonstrate higher quality and better outcomes, have a track record for improving patient safety, use resources efficiently, or have more experience as measured by the volume of certain procedures. Sometimes a plan will offer lower premium in conjunction with a “high performance network,” but make sure the top doctors and hospitals are selected based on both quality and cost.

## **Help Employees Take Responsibility for Their Health Care**

- Incentives can help employees focus on improving their health and changing risky behaviors. Some plans offer rewards or prizes for completing a health risk appraisal or participating in online programs to manage health risks.
- Your workforce is likely very diverse. Look for a plan that offers health education materials in multiple languages and recognizes cultural diversity. Check if the plan’s doctor directory lists the languages spoken in a doctor’s office, or provides other demographic information.

## **Give Employees the Information to “Buy Right”**

- No matter what plan design you choose, health care can be very expensive. Make sure your health plan provides information to your employees on what their care is costing them – and costing you. Your employees should know their potential financial exposure.
- Incentives can help employees spend their health dollars wisely. For example, lower copays for generic prescription drugs vs. brand-name drugs can help employees get the best value.
- Lower out-of-pocket costs can encourage use of more cost-effective services. For example, a lower copay for outpatient surgery compared to inpatient services can save money overall and reduce your employees’ financial exposure.

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**What are the benefits and plan designs that will make a difference for my employees?**

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## How much will health insurance cost and how do I split the cost with my employees?

There are several things to consider when deciding what to contribute to a health insurance plan. Obviously, what you can afford is a major factor. But remember, by providing health insurance you are likely lowering your costs in other areas of your business. Reducing employee turnover and missed work days due to illness are indirect, but very real, savings that can offset the direct cost of health insurance. Additionally, the costs are tax-deductible and you will not pay FICA taxes on the portion of employee pay that is applied to insurance premium coverage.

Most insurance companies require that the employer contribute a substantial portion (often at least 50%) to the cost of employee-only coverage. Many also require a minimum participation level among eligible employees, usually 50-75% of employees working 30 or more hours a week who are not covered under other plans. These provisions help assure that carriers are getting a "fair" mix of healthy and less-healthy employees. Generally, there is not a requirement to contribute to coverage for your employees' dependents, but you can do so.

What your employees can afford to contribute toward their premiums is another factor you need to take into account when setting your contribution toward their premiums. You will want to contribute at the very least an amount that encourages enough of your employees to sign up so that you meet the insurer's minimum enrollment criteria.

The tax code also offers a way for all employee contributions to be tax deductible and not subject to FICA or FUTA withholdings. Depending on income level, the IRS can help employees pay for health coverage by letting them receive Earned Income Credit immediately instead of at the end of the year. For more information, see the link under *Additional Resources* and consult your agent.

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## What resources are available for my employees if I am not able to provide insurance coverage for them?

There are a number of California State programs to assist individuals without company-sponsored health insurance. All of these programs have specific eligibility and financial criteria. For more detailed information, see the link under *Additional Resources*.

- **Medi-Cal.** Low wage or part-time workers may be eligible for Medi-Cal.
- **Access for Infants & Mothers (AIM).** This program provides low cost health insurance coverage to uninsured, middle income pregnant women. The total cost is 1.5% of the subscriber's adjusted annual household income.
- **The Healthy Families Program (HFP or also SCHIP).** This program provides low cost health, dental and vision coverage to uninsured children, until the age 19, in working families.
- **County Children's Health Initiative Program (C-CHIP).** This program provides funds for individual counties to sponsor programs. There may be county programs available in the areas where your employees live.
- **Major Risk Medical Insurance Program (MRMIP).** This program provides health insurance for Californians unable to obtain coverage in the individual health insurance market because of pre-existing health conditions.

## Action Plan Checklist

Here are the essential tasks associated with shopping for and purchasing health insurance for your small business. [www.HealthCoverageGuide.org](http://www.HealthCoverageGuide.org) will walk you through these tasks. Use this checklist to keep track of where you are in the process.

### Step 1: Get organized.

- Organize information about your business.
  - Basic information such as the type of business, when the business started, etc.
  - Quarterly salary and wages for last two quarters.
  - Employee census information on all W2 salary employees and owners.
  - Use standard forms from agent/broker/insurer or visit [www.HealthCoverageGuide.org](http://www.HealthCoverageGuide.org) to download the Employee Census Data form.
- Choose a date at least 30 to 60 days from when you start the process for coverage to begin.
- Draft a budget.
  - Calculate the total amount you can spend.
  - Calculate per-employee cost you're willing to spend.
  - Consider cash flow issues.

### Step 2: Understand coverage, choice of providers, and cost-sharing options.

- Decide what type of coverage you want to provide, such as HMO, PPO, or HSA.
- Decide how important choice of providers is to you and your employees.
- Decide how costs will be shared. Here are some items to consider:
  - How much will employees contribute toward the premium?
  - How much will employees have to pay for copayments or co-insurance?
- Understand coverage rules and options.

### Step 3: Find a broker or agent.

- Learn about how brokers and agents work.
- Ask for referrals from sources you trust.
- Be sure to understand any fees you may be charged in addition to the health insurance premium.  
Note: California small business health insurance premiums already include broker or agent commissions. The cost does not change if you use an insurance company representative.

### Step 4: Understand other insurance arrangements.

- Purchasing alliances.
- Trade and professional associations.

### Step 5: Evaluate plans with your broker or agent.

- Weigh the benefits against the plan costs.
- Research the insurers:
  - Financial stability.
  - Ease of administration.
  - Overall quality of service.
- Consider cost-saving strategies.
- Review at least two or three health insurance carriers.
- Review at least two or three different health insurance plan options.

### Step 6: Close the deal and implement the plan.

- Sign the contract before the quote expires, usually in 30 days.
- Communicate plan choices to employees.
- Distribute and collect enrollment materials for those to be covered.
- Copy and return all original materials for enrollment before the requested effective date.

The Action Plan Checklist is from [www.HealthCoverageGuide.org](http://www.HealthCoverageGuide.org). This Web site provides unbiased information about health insurance for the California small business owner with 2 to 50 employees. Also available in Spanish at [www.GuideCoberturaSalud.org](http://www.GuideCoberturaSalud.org).

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## Health Insurance Plan Types

- **HMOs (Health Maintenance Organizations)** generally offer very comprehensive coverage, with most preventive care services covered with a modest copay. Usually, a member must choose a primary care provider (PCP) who will manage their overall care. Specialty referrals occur within a designated medical group or IPA (independent practice association of individual doctors and group practices). Women can see an ob/gyn without the need for a referral. In an HMO, care must be obtained within a network of hospitals and doctors. Except in a true emergency, care received outside the network will not be covered. With an HMO, an employee is less likely to have unexpected large medical bills, as most or all services will be available with a copay, as opposed to a deductible and then a percentage of the balance.
- **PPOs (Preferred Provider Organizations)** offer a broader network of doctors and hospitals and do not require use of a PCP for referral to a specialist. Some basic services, such as a doctor office visit, will often be covered with a copay but other services require that a deductible be met first, before insurance covers any of the cost. Once the deductible has been met, the employee coinsurance can range from 20-50% of the remaining cost after the deductible has been met. In a PPO plan, the employee can also choose to have care from a non-network provider, although they will be liable for a higher proportion of the costs. In general, policies with a higher deductible and/or coinsurance will have a lower premium.
- **POS (Point-of-Service)** plans are a hybrid of HMOs and PPOs, allowing an employee to have HMO-like benefits if they use certain providers, but still have out-of-network benefits available, typically at a significantly higher cost share.
- **HDHPs (High-Deductible Health Plans)** are usually PPO plans with a significant deductible (perhaps as high as a few thousand dollars), although some preventive care benefits may be available without having to meet the deductible. These types of plans generally have lower premiums because the employee is usually responsible for all the costs up to the deductible. HDHPs have significant out-of-pocket costs, which can be a barrier to access. There are some HDHP plans, however, that have copays for certain services, rather than having to meet the deductible first.
- **HSAs, HRAs, and HIAs (Account-based plans)** allow employers and/or employees to set aside money on a tax-free basis to pay for current or future medical expenses. These programs work alongside HDHPs and each type of program has very specific IRS regulations that dictate how much can be contributed (usually adjusted annually), what expenses are eligible and what happens to money remaining in the account at the end of the year.
  - **HSAs (Health Savings Accounts)** allow an employee and/or employer to contribute money on a tax-free basis to pay current or future medical expenses. Unspent employer contributions to an HSA are owned by the employee even if they terminate employment. HSAs also enable employees to save money on a tax-free basis to pay for medical expenses after retirement.
  - **HRAs (Health Reimbursement Accounts)** allow an employer to contribute funds to reimburse their employees' medical expenses. Unlike HSA contributions, HRA funds are not distributed until an employee has made a claim. The employer establishes rules as to whether those funds rollover and are available in subsequent years. If an employee terminates, unused funds revert to the employer.
  - **HIAs (Health Incentive Accounts)** are an embedded component of some HDHPs. Unlike other reimbursement methods, HIA funds are contributed by the insurance company. Similarly to HSAs, HIA money accumulates over time and is used to pay for current medical expenses. In addition, employees may be rewarded for certain activities such as weight loss, quitting smoking, and annual exams through additional contributions to the HIA.
- **Individual and Family Coverage** is sold by all of the major HMO and PPO health insurers. To learn more about the costs, benefits and risks of these health plans, talk to a licensed agent. The premium will vary with the age, location, family size, in some circumstances individual health status and actual policy benefits of those seeking this coverage.

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## Additional Resources

<http://www.healthcoverageguide.org/>

The California HealthCare Foundation offers an excellent overview on health insurance for small employers. The Website highlights the steps involved in making a decision and shopping for health insurance. The Action Plan Checklist is available to download at [http://www.healthcoverageguide.org/hcg\\_files/pdf/hcgactionplanchecklist.pdf](http://www.healthcoverageguide.org/hcg_files/pdf/hcgactionplanchecklist.pdf).

[http://www.opa.ca.gov/report\\_card/hmorating.aspx](http://www.opa.ca.gov/report_card/hmorating.aspx)

It is produced by The Office of the Patient Advocate (OPA), an independent office within the California State government, provides educational information about HMOs for consumers and annually reports on the quality of the HMO plans and medical groups in California.

<http://reportcard.ncqa.org/plan/external/plansearch.aspx>

The National Committee for Quality Assurance provides a health plan comparison tool.

[http://www.opa.ca.gov/english/about/consumer\\_information/HMO\\_Guide.aspx](http://www.opa.ca.gov/english/about/consumer_information/HMO_Guide.aspx)

The California Office of the Patient Advocate publishes a consumer guide with valuable information on how HMOs work, as well as consumer rights and responsibilities.

[http://www.nahu.org/legislative/MSAs/HsAs-HSSAs/HSA-FSA-HRA%20Chart\\_2008.pdf](http://www.nahu.org/legislative/MSAs/HsAs-HSSAs/HSA-FSA-HRA%20Chart_2008.pdf)

The National Association of Health Underwriters compares HSAs, HRAs and FSAs.

<http://www.welcoa.com/wellworkplace/index.php?category=22>

Welcoa provides a wide range of resources to assist a small business in implementing a simple and effective wellness program.

<http://www.irs.gov/individuals/article/0,,id=129062,00.html>

This link provides information on Earned Income Credit and how employees may qualify to receive a portion of their credit throughout the year to assist in paying for health insurance.

<http://www.mrmib.ca.gov/MRMIB/MRMIB4.html>

California offers various public programs for low wage workers and children.

This guide to Health Insurance for the Small and Mid-Sized Business was a collaboration of the health caucus of The Governor's Conference on Health and The Pacific Business Group on Health (PBGH). The caucus is made up of representatives from The California Chamber of Commerce, The National Federation of Independent Business (NFIB), The National Association of Women Business Owners (NAWBO) – Sacramento Valley Chapter, The Small Business Majority, The San Diego Business Healthcare Connection, Small Business California, and individual small business owners.

PBGH is one of the nation's top business coalitions focused on health care. Our large purchaser members spend billions of dollars annually to provide health care coverage to more than 3 million employees, retirees and dependents. PBGH is a respected voice in the state and national dialogue on how to improve the quality and effectiveness of health care while moderating costs. Partnering with the state's leading health plans, provider organizations, consumer groups and other stakeholders, PBGH works on many fronts to promote value-based purchasing in health care. PBGH plays a leadership role in many health care quality initiatives that seeks to provide consumers with standardized comparative quality information on health plans, medical groups, physicians, and hospitals. For additional information or an electronic copy of this guide, visit [www.pbgh.org](http://www.pbgh.org).

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