



## ***Where Pennsylvania Businesses Go To Grow***

## **II. Improvements to the Affordable Care Act**

### **PROBLEM**

SMC continues to have many concerns regarding the impact of the Affordable Care Act (ACA) on small businesses. Health care costs are among the largest costs that small businesses incur and the law fails to adequately address health care costs and insurance premium prices. The number one problem small businesses have with health insurance is that it simply costs too much.

#### *SMC Member Illustration*

Some small companies are experiencing huge increases in their premiums, up to nearly 300%, and some have been forced to drop coverage altogether.

- **Employer #1:** 189% increase, 6 employees, \$2,126 to \$6,135/m=\$73,630/year – Rep. Mike Doyle.
- **Employer #2:** 69% increase, 6 employees, \$3,676 to \$6,233/m=\$74,805/year – Rep. Mike Kelly.
- **Employer #3:** 283% increase, 2 employees, \$524 to \$2,004/m=\$24,057/year – Rep. Keith Rothfus.
- **Employer #4:** 49% increase, 11 employees, \$12,775 to \$19,004/m=\$228,056/year – Rep. Mike Doyle.

Growing health care costs impact small businesses in many ways. They affect wages, pull money away from important investments in workforce training, research and development, and expansion, put businesses that compete globally at a competitive disadvantage, and hurt job creation.

National Small Business Association (NSBA) 2014 health care survey found that:

- 33% of small businesses held off hiring because of health care costs.
- More than 50% said they held off on salary increases for employees as a direct result of high insurance costs.
- Since 2009 (the first time NSBA conducted a similar health care survey), the average per-employee health premium reported in the survey has increased by 90%. Today the average monthly per-employee cost of health insurance premiums for a small firm is \$1,121 (\$6.72/hr.). In 2009 small firms reported \$590 (\$3.54/hr.) per month.

Costs must be controlled because many employees now have high-deductible plans, meaning they are responsible for 100% of the cost for many tests and procedures. If an employer drops coverage and sends individuals into the Health Insurance Marketplace, some Bronze level family plans have an \$11,000 deductible with co-pays of \$50 and \$90 for primary care and specialists in addition to \$8,000 in premium payments.

### **SOLUTIONS**

The ACA must be modified so it better controls costs and is less destructive to the businesses that create the most jobs. The primary focus should be on targeted legislation with the goals of clarifying, improving or lessening the burdens of the ACA on small businesses and addressing the damage to the small group insurance market.

SMC strongly believes the following steps can be taken to improve the ACA and control health care costs:

**I. Modify the ACA's definition of a "full-time employee" from an employee who averages 30 hours of work per week to one who averages 40 hours of work per week.**

This is a commonsense fix that will improve the ACA. It will help smooth the transition and make the employer mandate less disruptive to the traditional labor system.

The employer mandate is scheduled to go into effect on January 1, 2015. Under the employer mandate, a full-time employee (FTE) is defined as one who averages at least 30 hours of work per week. Employers will be required to provide health insurance to all employees who work 30 hours or more per week or pay penalties. For employers who have structured their workforce and benefits based on a 40 hour full-time definition, this new definition could pose problems. The 30-hour definition will motivate employers to cut hours and jobs. Employers who have employees who work between 30 and 39 hours will be forced to decide whether to provide health benefits or reduce hours below 30 so that they aren't covered by the mandate.

If employers choose to cut workers' hours below 30, it will make it more difficult for employees to working only one job. Existing data already shows that the 30-hour definition is already causing many workers to have their hours cut below 30 hours. According to a 2013 survey on behalf of the International Franchise Association (IFA) and the U.S. Chamber of Commerce, 208 decision-makers in franchise-owned businesses, even with the employer mandate a year away, are reducing hours and replacing full-time workers with part-time workers because of the ACA.

- 31% reduced worker hours
- 15% reduced number of staff
- 27% replaced full-time employees with part-time workers

**II. Create options for the states to establish more restrictive or less restrictive age-rating bands.**

The current 3:1 allowable age-rating band is a primary factor in driving up premiums for current policyholders. To prevent rate shock in the small group and individual market, age-rating bands should be changed from 3:1 to the 5:1 rate band that has been used by the insurance industry. Expanding the age-rating bands from 3:1 to 5:1 will have the greatest single impact on health insurance premiums. This will become fully apparent in the fall when small group rates go up for those with ACA compliant plans.

Recently there have been numerous delays and waivers to permit continuation of non-compliant ACA plans, which has provided temporary relief to small employers. Pennsylvania is among nine states that permit renewals of non-compliant plans. The federal government authorized states to allow extensions of existing plans through 2017 for those in the 2-50 employee category.

Non-compliant ACA plans save employers money because they don't have to meet new federal standards.

***SMC Member Illustration:***

- Use of the 3:1 age-rating bands has driven up premiums as much as 300% in some cases.
- One member company was forced to eliminate group coverage because of the cost of ACA compliant coverage. Their group coverage expired March 1, 2014 so they could not take advantage of the change ordered by President Obama granting extensions to those companies with non-compliant ACA plans. The company was offered a renewal rate that was more than triple what the company had been paying, making health insurance unaffordable.

## **BACKGROUND - Age Rating Bands**

“Prior to the ACA, 42 states allowed health insurance rates to vary by a ratio of 5 to 1 or more (5:1). These ratios are based on the broadly accepted premise that utilization of health care services is correlated with age and that health insurance only works if younger and healthier consumers are part of the risk pool.... ”

“For example, in a state with a 5:1 age band, the ratio limits the amount an older individual will pay to no more than five times more than what a younger individual pays in premium dollars. This level of rate variation is intended to balance the need for adequate risk-pooling and affordability, recognizing that strict limits on premium variation based on age (e.g., 3:1 or 2:1) has the effect of driving up premiums for younger individuals. The ACA requires modified community rating in the small group and individual markets and will limit premium variation based on age to 3:1. This represents a dramatic and likely destabilizing change in how rates are regulated in state insurance marketplaces.”

*Adapted from America's Health Insurance Plans*

### **III. Repeal the medical device tax.**

Beginning in 2013, the ACA imposed a new medical device excise tax paid by the manufacturer, producer, or importer equal to 2.3% of the price of the medical device. The tax is levied on all types of medical devices, from heart stents and pacemakers to MRIs and ultrasounds.

- The tax is detrimental to medical innovation. The tax is on revenue, not profit, so that a small company that is not yet profitable bears the biggest impact. This tax hits medical device companies especially hard in states such as Pennsylvania that are leading the way in medical innovation.
- Higher costs for the manufacturers of medical devices are likely to be passed on to health care entities (often small and solo practice physicians and hospitals) and patients who rely on them.
- Device manufacturers will cut jobs.

#### *SMC Member Illustration:*

- The manufacturer has revenues, but is stifled by paying the medical device tax on gross sales; they do not make a profit. The amount of tax paid could be used to hire two new employees, which are needed to keep up with compliance. The company makes a unique medical device that evaluates patients for concussion and is currently limited to a small market. They do not have sufficient dollars to invest in research and development that would launch them into a newer, more sophisticated product that would open up a larger market, enable expansion and create jobs. They can see the goal, but they can't reach it and the medical device tax is a part of the problem.

### **IV. Repeal the onerous health insurance tax.**

The tax dramatically increases insurance costs for already struggling business owners and employees, and is contrary to the goals of health care reform. An increased cost for small businesses, such as the health insurance tax (HIT), translates to restrictions on their ability to grow and create jobs

The ACA's HIT is one of the largest tax increases in recent times and will raise the cost of small business health insurance premiums. The ACA assesses a tax on all health insurance companies based on their "net premiums" written. Unlike most taxes, the ACA dictates an aggregate amount that must be collected each year as a result of this tax: \$8 billion in 2014, growing to \$14.3 billion by 2018, and indexed for inflation thereafter.

The HIT is not levied on unions and self-insured companies so it disproportionately falls on those small companies and individuals who already pay among the highest premiums for coverage. The only insurance plans that factor into the equation for purposes of determining the insurance company's portion of the HIT are fully insured plans.

Those subject to the HIT include:

- 87% of small business owners who purchase in the fully insured market – almost 2 million small businesses.
- The owners and 26 million employees they cover.
- 12 million workers and self-employed individuals who buy insurance on their own.

A Congressional Budget Office (CBO) report confirms that the HIT "would be largely passed through to consumers in the form of higher premiums for private coverage."

- The cost of family premiums will increase by as much as \$500 a year per family and \$5,000 over a decade.

Adapted from "NSBA: Repeal the Health Insurance Tax"  
<http://www.nsba.biz/wp-content/uploads/2013/01/Repeal-Health-Insurance-Tax.pdf>

\*SMC Business Councils statements on the issues are in part adapted from the issue statements of our national affiliate the National Small Business Association (NSBA).

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