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What Health Insurance options do small employers have?

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None of us were ever handed an instruction booklet on how to implement or manage healthcare and other insurance needs of our business. This is a big decision since the total cost typically ranges from 10% to 25% of payroll. As a small employer, this can be especially challenging (budget-wise and limited options). Below we briefly outline the three most common strategies for small employers.

What is Small?

Technically, “Small” is an employer with less than 500 employees. However, when it comes to healthcare, an employer with over 100 employees has similar options as those with 100,000 employees (albeit a smaller budget). So we consider “Small” employers as those with under 100 employees.

In the true small group market, employers at various sizes face different challenges in offering healthcare benefits to their employees. For example, those that have at least 20 employees are subject to different COBRA, Medicare and FMLA rules. At 50 employees, the ACA large group rules apply. At 50 or 100 employees customized pricing is applied which can hurt or help employers depending on employee demographics and claims history.

What are the small group options (and what cost less)?

For companies with 15 to 50 (or sometimes 100) employees, the typical options include:

- **Direct**, fully insured policy with a medical carrier (multiple plans can be offered). This is especially beneficial to groups that are older or less healthy than average.

- **Private Exchange** offering multiple carriers and plans. This is good when you want to offer a lot of choice. However, the Exchange vendor may charge high fees and such programs can get complicated.
- The **Public Exchange** is useful when employees may be eligible for a government subsidy
- **Level Funded or Self-Funded** policies are useful if you have a healthier group. Related to this are Higher Deductible plans coupled with an HRA (employer funded account, only used if employees have expenses).
- **PEO:** A professional employer organization can provide savings and additional services, but employers need to be careful that the PEO admin fee or future rate increases don't wash away any savings or the value of added services.

For companies with under 15 employees, it is especially challenging. Though their choices are similar to the above, very often they tackle healthcare in one of following three ways:

1) **Stipends**: This, in essence, is just additional income to employees. Even if you say its for healthcare, it is still taxed as fully taxable income. There is no special business expense tax deduction here. This is the least efficient and least effective way of helping employees secure health insurance coverage.

2) **ICHRA**s (Individual Coverage HRA) or QSEHRAs (Qualified Small Employer HRA): These have increased in popularity due to some regulatory changes. In essence, you as an employer, are offering funds to employees to purchase individual healthcare policies on their own, but with tax favored funds. The negatives to these solutions include: 1) no guidance is provided to employees, 2) individual policies generally cost more (~10% to >20%) than group policies, and 3) limitations exist such as group size, funding amount, and classes of employees eligible.

3) **Group policies** offer more flexibility and budget control than many employers realize. Some employers are under the impression that they have to subsidize most of the cost of a plan and must have most employees covered. Some carriers, however, are very flexible and do not require any minimum participation or subsidizing of the cost. In essence, an employer can provide access to the lower cost or better value of a group plan, without subsidizing any of the cost.

With choices #2 and #3 above, the employer is allowed to deduct, on the company's tax returns, the amount of the company's payment towards the employee's total premium cost. Partners in a partnership, and employee owners of S-corporations essentially deduct their own health insurance premiums on their individual returns. Keep in mind that partners in a partnership and employee owners of S-corporations cannot participate in an HRA on a tax-favored basis unless the partners spouse is a W-2 employee and not a partner.

For these last two options, the tax benefits can be huge. Also, for almost all small group policies, the carriers pay independent advisors (insurance brokers) fees, whether the client uses one or not. This can ease communication and enrollment tasks (along with plan design and contract negotiation, depending on company size). Note that over 80% of employers use an employee benefit advisor. Whatever you, as a business owner or senior executive choose to do, use whatever resources you have available to you to help make the right decision.