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Effects of Health Reform on Arkansas Businesses • July 2010

Arkansas businesses, especially small businesses, will be impacted by the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. There are new financial incentives for small businesses and new responsibilities for larger employers, all of which will help provide health insurance coverage for employees.

Beginning in 2014, of the over 61,000¹ private-sector businesses in the state, only about 600¹ businesses will be required to offer employee health insurance who do not already offer it. Businesses with fewer than 50 employees will face no new requirements, and the 41,000¹ small businesses in Arkansas with the equivalent of less than 25 full-time employees who voluntarily offer health insurance to their employees will be eligible for tax credits beginning in 2010.

SMALL BUSINESSES

Small businesses employ 253,000² Arkansans and are vital to the success of Arkansas but are often unable to afford to offer health insurance coverage to their employees.

Health insurance is a significant expense for everyone, but even more so for small businesses that often pay much more than larger employers to receive the same policies and benefits. The smaller the business, the less likely it is to offer health insurance to its employees. One major health event for one employee can mean huge premium increases or even cancellation of coverage for the entire business. In addition, small businesses often pay lower wages, reducing the chance that employees are able to afford health insurance if they do not receive it through their employers.

The Patient Protection and Affordable Care Act of 2010 attempts to ensure coverage for workers while alleviating some of the financial burden on small businesses offering health insurance coverage to employees.

TAX CREDITS

Most of Arkansas's 61,000¹ private-sector businesses **will not** be required to offer health insurance to their employees, but **will be** eligible for tax credits if they offer coverage and contribute at least half of their employees' premium costs.

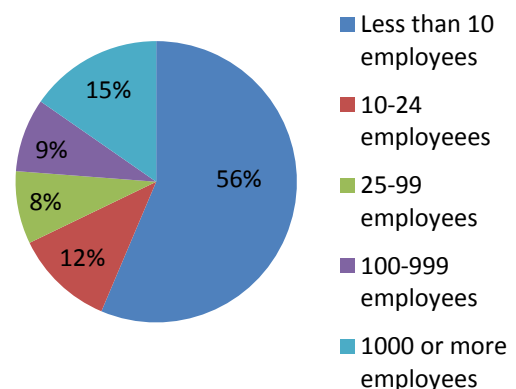
The 41,000¹ Arkansas employers who have fewer than 25 full-time equivalent employees and average annual wages under \$50,000 are eligible for tax credits, with the greatest credits going to the smallest businesses with the lowest-paid employees. These small businesses will be eligible for

SMALL BUSINESS IN ARKANSAS

The vast majority of private-sector businesses in Arkansas are small¹:

- 56% have less than 10 employees
- 73% have less than 50 employees

Arkansas Businesses By Size¹



However, most employees are employed by large businesses²:

- 50% of Arkansans work at companies with 1,000+ employees
- Over 67% of employees are at companies with 100+ employees
- 24% work at companies with less than 50 employees

a credit of up to 35% of an employer's eligible premium costs in tax years 2010-2013, and up to 50% for any two tax years after that. Tax-exempt businesses are eligible for up to a 25% credit in 2010-2013 and up to 35% for any two tax years after that. The federal tax credit will not be reduced by any state tax credits, deductions or subsidies.

In order to qualify for any premium tax credit, businesses must:

- ✓ have fewer than 25 full-time equivalent employees, not including seasonal workers (120 days/year or less), the owner and the owner's family members
- ✓ have average annual wages of \$50,000 or less, not including seasonal workers (120 days/year or less), or the owner and the owner's family members
- ✓ offer health insurance to all employees
- ✓ pay the same percent of each employee's premium, but at least 50% (prior to 2014, as long as employer pays at least 50% of each employee's premium, does not have to pay same percent of each employee's premium)

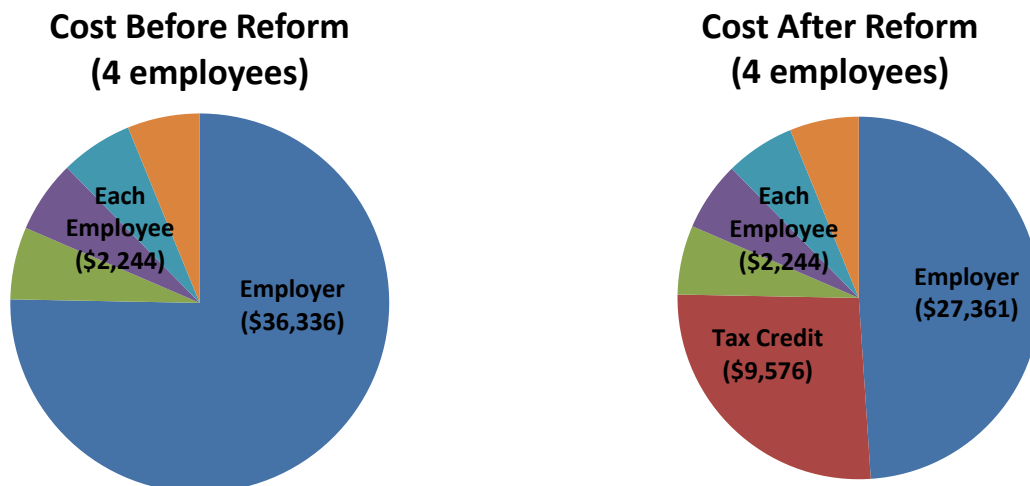
To receive the maximum credit (35% for for-profit, 25% for tax-exempt), a business must also:

- ✓ have fewer than 10 full-time equivalent employees
- ✓ pay average annual wages of less than \$25,000

Eligible premium costs include:

- ✓ employer contributions to premium costs, but not employee contributions or salary reductions under cafeteria plans)
- ✓ premium contributions paid only for non-owner and non-family member employees, including any premium contributions for seasonal workers (120 days/year or less)
- ✓ all premium contributions paid since January 1, 2010 are included
- ✓ total eligible premium costs are capped at the state average premium costs, which is \$4,329 for an individual policy and \$9,677 for a family policy in Arkansas in 2010³
- ✓ dental, vision and other limited-scope plans qualify, but must meet eligibility as a separate plan

Arkansas employers pay an overall average of 73.4%⁴ of employee premium costs, or about \$8,051^{4,5} annually for each family plan. The smallest employers (less than 10 employees) pay 75.3%⁴ of employee premium costs, or about \$6,840^{4,5} annually for each family plan. A for-profit employer offering family coverage to four full-time non-family employees who have average annual wages of \$25,000 or less will pay about \$27,361 annually for insurance, and will be eligible to receive a tax credit of about \$9,576 for 2010. The following charts show employer's annual premium costs now and with the tax credit:



EMPLOYER RESPONSIBILITY

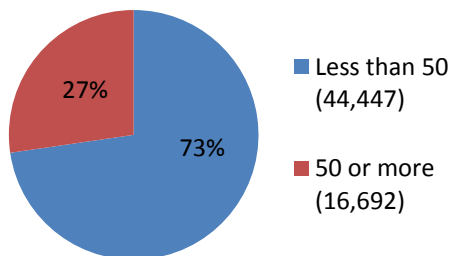
Beginning in 2014, some businesses will be required to share responsibility for offering health insurance coverage to their employees. Businesses with the equivalent of less than 50 full-time employees will not be required to offer insurance to their employees, or to share the cost of coverage in any way. **A great majority of Arkansas businesses fall into this category and will not be subject to any new requirements.**

The 17,000¹ Arkansas businesses with the equivalent of 50 or more full-time workers will be expected to offer health benefits starting in 2014. About 96.4%⁶ of these businesses already offer health insurance to their employees, leaving about 600 that do not already offer coverage and will be required to.

EMPLOYER RESPONSIBILITY

Businesses with the equivalent of less than 50 full-time employees **will not** be required to offer insurance. If they do, they are eligible for a tax credit.

Arkansas Businesses 50+ Employees¹



In Arkansas, 27% of all businesses will be required to offer health insurance to employees. Only about 600¹ of these businesses do not already offer coverage.

Businesses of this size that **do** offer coverage to their employees will be expected to share the cost for any full-time employee who forgoes his or her employer plan and receives a premium subsidy when purchasing insurance through an exchange. A business will pay a penalty of \$3,000 for each employee receiving a subsidy, with the total payment capped at the amount that would be assessed if the business did not offer insurance at all (\$2,000 for each full-time employee, with no assessment for the first 30 employees). If no employees receive a premium subsidy, the business does not pay anything.

Businesses of this size that **do not** offer any coverage to their employees will be subject to different penalties. If these businesses have at least one full-time employee who receives a premium subsidy through an exchange, they will be expected to pay a fee for every full-time employee, even if not all of those employees receive premium subsidies. The business will pay a penalty of \$2,000 for each full-time employee, but will not be assessed for the first 30 full-time employees. If no employees receive a premium subsidy, the business does not pay anything.

Almost all employers with 200 or more full-time employees will be required to automatically enroll their employees in their employer-offered plan.

HEALTH INSURANCE EXCHANGE

States are required to establish, as an agency or nonprofit entity, health insurance “exchanges” for individuals and for small businesses by 2014. The employer exchange—the Small Business Health Options Program (SHOP)—is intended to expand affordable options for small businesses, lower the challenge and expense of offering health insurance to employees, and assist in compliance with new requirements. Businesses with 100 or fewer employees will be able to purchase insurance through the SHOP beginning in 2014, and may continue to participate as they grow beyond 100 employees. After 2017, states may allow employers with more than 100 employees to begin to participate in the exchange.

OTHER PROVISIONS

Wellness Program Grants & Incentives

Health care reform encourages wellness and disease prevention by providing funding for demonstration projects, pilot programs, and grants to businesses. Grants are available beginning in 2011 for businesses with less than 100 employees that start wellness programs for employees, with funding available for up to five years. Starting in 2014, employers may offer increased incentives to employees who participate in health and wellness programs; currently premium discounts are capped at 20% but will increase to 30%, and to 50% for some.

Early Retiree Reinsurance Program

A temporary reinsurance program will help offset employers’ costs for providing health insurance to early retirees (age 55-64). Employers must apply to qualify and, once approved, may make claims. Claims may be made after any covered person reaches \$15,000 in eligible costs (claims and other qualified costs) in a plan year. The amount refunded will be 80% of eligible costs between \$15,000 and \$90,000. For example, if a retiree incurs \$18,000 in costs, the refund would be \$2,400, or 80% of \$3,000 (the amount over \$15,000). If that retiree’s covered spouse also incurs \$200,000 in costs, a separate refund would be allowed for \$60,000,

or 80% of \$75,000 (the amount between \$15,000 and \$90,000). Payments are made directly to employers, not to insurance companies or to employees, and employers must have a program in place to help control employee's premium costs. For more information, including eligible costs, visit <http://www.hhs.gov/ociio/regulations/errp/index.html>.

Cost Savings

Several cost savings measures are included to help insulate small businesses from increasing health insurance costs or from losing coverage altogether:

- insurance companies may not cancel coverage when people become sick (2010)
- in the small group market, health plans will be required to offer rebates to enrollees if they pay out less than 80% of premiums for direct medical care and quality measures (2011)
- establishment of simplified and uniform operating rules for health plan administration (2013)
- insurance companies may not restrict coverage or base premium prices on health status (2014)

Additional Taxes & Requirements

Some additional requirements provide for specific taxes or additional activities which may affect businesses in Arkansas. Some of those provisions, and the years they become effective, are:

- 10% tax on tanning services (2010)
- Chain restaurants and vending machines must disclose food's nutritional information (2011)
- Pharmaceutical industry pays additional taxes (2011)
- Employers must provide value of insurance on employees' W-2 forms (2011)
- Prescription drug coverage (i.e. Medicare Part D) no longer deductible (2013)
- 40% tax on high-benefit insurance (premiums of \$10,200/year individual or \$27,500/year family) (2018)

CONCLUSION

Arkansas employers will play a large role in how they choose to participate in both the opportunities and requirements of health care reform. This overview only touches on the most prominent aspects of health care reform that will affect Arkansas businesses. Other provisions and specific circumstances will affect business owners in various ways, both as employers and as individual consumers.

Note: Information shared in this overview is based on the law as it is known at this time and is ACHI's best interpretation of the information. As the law continues to be written into rules, it will be further interpreted. Details may change during this process.

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Endnotes

¹ Agency for Healthcare Research and Quality. "Insurance Component State and Metro Area Tables: Table II.A.1 (2008) Number of private-sector establishments by firm size and State: United States, 2008." *AHRQ 2008 Medical Expenditure Panel Survey-Insurance Component*. Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. n.d. Web. 30 June 2010. <http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2008/tia1.pdf>. (Note: "Definitions and descriptions used for this survey can be found in the Technical Appendix. Totals may not sum exactly because of rounding.") (Staff Note: Some numbers rounded to the nearest 1,000.)

² Agency for Healthcare Research and Quality. "Insurance Component State and Metro Area Tables: Table II.B.3 (2009) Number of full-time private-sector employees by firm size and State: United States, 2009." *AHRQ Medical Expenditure Panel Survey*. Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. n.d. Web. 30 June 2010. <http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2009/tiib3.pdf>. (Note: "Definitions and descriptions of the methods used for this survey can be found in the Technical Appendix. Totals may not sum exactly because of rounding.") (Staff Note: Number rounded to the nearest 1,000.)

³ S. Department of the Treasury, Internal Revenue Service. "Internal Revenue Bulletin No. 2010-21: Rule 2010-13, pages 691-692. Part I. Section 45R. - Average Premium for Small Group Market for Determining the Small Employer Health Insurance Credit (Also Section 38(b))." *www.IRS.gov*. U.S. Department of the Treasury, Internal Revenue Service, 24 May 2010. Web. 16 July 2010. <<http://www.irs.gov/pub/irs-irbs/irb10-21.pdf>>.

⁴ Agency for Healthcare Research and Quality. "Insurance Component State and Metro Area Tables: Table II.D.3 (2009) Percent of total premiums contributed by employees enrolled in family coverage at private-sector establishments that offer health insurance by firm size and State: United States, 2009." *AHRQ 2009 Medical Expenditure Panel Survey-Insurance Component*. Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. n.d. Web. 26 July 2010. <http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2009/tiid3.pdf>. (Note: "Definitions and descriptions used for this survey can be found in the Technical Appendix.")

⁵ Agency for Healthcare Research and Quality. "Insurance Component State and Metro Area Tables: Table II.D.1 (2009) Average total family premium (in dollars) per enrolled employee at private-sector establishments that offer health insurance by firm size and State: United States, 2009." *AHRQ 2009 Medical Expenditure Panel Survey-Insurance Component*. Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. n.d. Web. 26 July 2010. <http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2009/tiid1.pdf>. (Note: "Definitions and descriptions used for this survey can be found in the Technical Appendix.")

⁶ Agency for Healthcare Research and Quality. "Insurance Component State and Metro Area Tables: Table II.A.2 (2008) Percent of private-sector establishments that offer health insurance by firm size and State: United States, 2008." *AHRQ 2008 Medical Expenditure Panel Survey-Insurance Component*. Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. n.d. Web. 30 June 2010. <http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2008/tia2.pdf>. (Note: "Definitions and descriptions of the methods used for this survey can be found in the Technical Appendix.")