



Making Health Care More Affordable for Small Businesses

Health care costs are on the rise, and too many small business owners and employees cannot afford coverage. A recent poll by the National Federation of Independent Business revealed that most small business owners want to provide health care for themselves and their employees, but they cannot afford it. Fortunately, two new health care tools can help small businesses lower their health care costs dramatically: Association Health Plans and Health Savings Accounts.

Association Health Plans (AHPs)

- AHP legislation will allow small businesses to band together through trade and professional associations to purchase affordable health packages for themselves and their employees.
- AHPs level the playing field. By joining together, small employers will enjoy greater bargaining power, economies of scale, and administrative efficiencies, all benefits already enjoyed by large companies.
- AHPs will make insurance more affordable for small businesses. The Congressional Budget Office has estimated that small businesses obtaining insurance through AHPs will enjoy premium reductions of 13 percent on average.
- Because insurance will be more affordable, more small firms will provide it to their employees. According to CBO, in between 330,000 and 2 million American workers and their families would obtain health insurance through AHPs.
- AHPs would be certified by the U.S. Department of Labor and would have to meet certification standards developed by the DOL. Only bona fide trade or industry associations that have been in operation for three years or more could sponsor AHPs, which would have to meet strict requirements designed to protect participants and maintain solvency.
- A number of provisions will prevent AHPs from 'cherry-picking' the healthiest population of workers. The legislation makes it clear that AHPs must comply with the Health Insurance Portability and Accountability Act (HIPAA), prohibiting group health plans from excluding high-risk individuals or employers with high claims experience.
- AHP legislation passed the House in June 2003; the Senate has yet to act.

Health Savings Accounts (HSAs)

- HSAs, created as part of last year's Medicare reform, are tax-free savings accounts that can be used to pay for medical expenses incurred by individuals, their spouses or their dependents.
- Individuals, their employers, or both can contribute funds each year to HSAs. Contributions are tax-free. Interest and investment earnings are tax free. Withdrawals for qualified medical expenses are tax free.
- HSAs save their owners between 10 and 35 percent in out-of-pocket medical expenses. And because insurance premiums will be lower, HSAs will make it easier for small business owners to purchase health insurance for their employees.
- HSAs offer choice: Participants can spend their money on the health care services that they want, when they want them. No one can tell them how to spend their HSA money, or what doctor they have to go to.
- HSAs are portable, so a worker does not have to depend on a particular employer to enjoy the benefits of having an HSA. Like Individual Retirement Accounts, HSAs are owned by the individual, not the employer. If a worker changes jobs, the HSA goes with him or her.
- To set up such an HSA account, a worker or his employer must first obtain a high-deductible insurance policy to cover major medical expenses. The premiums for such high-deductible plans are much lower than traditional plans, but they provide coverage for surgery, hospital stays and other large expenses. Having obtained coverage for major medical bills, workers can cover routine medical expenses – such as visits to the doctor, or over-the-counter drugs – by setting up a HSA of up to \$2,600 for an individual, or \$5,150 for a family (indexed annually for inflation.).