What does the Patient Protection and Affordable Care Act (PPACA) Mean for Small Business?

The Supreme Court’s decision last June confirmed the constitutionality of the Patient Protection and Affordable Care Act (PPACA), often called ObamaCare, and the President’s re-election in November ensured the law will be implemented in stages through 2014. Nevertheless, despite all of the news coverage, rhetoric and impassioned debate on the subject, most small business owners and entrepreneurs do not understand what impact this eventuality will have on their companies.

Many of the more popular provisions of the law have already gone into effect. For example, insurance companies now must allow children the option to be covered under their parents’ insurance plans until they are 26-years old, a provision which it is estimated as many as 6.6 million Americans have taken advantage of. Equally importantly, insurers can no longer turn away children with preexisting conditions, and uninsured people who are ill can now purchase coverage in high-risk pools set up by the Federal government.

Very few people took issue with these consumer-friendly, logical, if not long-overdue reforms to health insurance. Nevertheless, once fully implemented ObamaCare will have significant implications for small businesses. The PPACA requires that by 2014, all businesses with at least 50 employees must provide health care insurance benefits which pays for at least 60 percent of covered health care expenses. Further, employees may not be forced to pay more than 9.5 percent of their family income for coverage offered by their employers (before deductions and adjustments.) Those who don’t offer these minimum health benefits to their employees will be subject to penalties ranging from $2,000.00 - $3,000.00 per employee per year.

Although 2014 will be the year for major portions of the reform law to take effect, including opening insurance exchanges, other provisions will go into effect in 2013 which may affect small business owners and entrepreneurs, including:

W-2 reporting - For the first time, issued in January 2013 for income earned in 2012 must include a line item showing the benefit employees received from their employer-sponsored health care. This will make health-care benefits and reporting more transparent, but likely at an increased cost to employers for W-2 preparation.

Tax Credits to Employers – As has been the case in recent years, eligible employers that provide health coverage to employees will get a tax credit for up to 35% of their contribution toward employee insurance. This tax credit will increase to 50% for 2014.

Health Insurance Exchange Enrollment – Under the PPACA, states have the option of running their own exchanges or default to exchanges operated by the Federal government. These exchanges will allow individuals and small businesses with up to 100 employees to shop for qualified health insurance coverage online. Enrollment is set to begin in October 2013. These Small Business Health Options Program or “SHOP” exchanges will act as
somewhat of a clearinghouse for plans and providers, with the goal of moderating group-plan premiums once the state- and federally-run exchanges are online in 2014. They may also provide some insulation to price shocks within the individual markets.

Waiting Periods – Employers can retain waiting periods of up to 90 days for new employees without being penalized.

Wellness Programs - Small employers may receive grants for up to 5 years for offering incentives for participation in programs and for achieving health goals.

Medicare Contribution Tax – For high-income earners above $200,000 for individuals and $250,000 for married taxpayers, a 3.8% Medicare contribution tax will apply for tax year 2013 to investment income, including interest, dividends, annuities, royalties and rent.

Critics argue ObamaCare threatens the very existence of small companies that can’t afford to offer health coverage in these difficult economic times, and it may curb hiring among other companies so that they retain fewer than 50 employees to avoid having to provide health insurance. Of course, the actual implications for small businesses and how they adapt to the changes in benefit requirements remains to be seen.

Regardless of your political or philosophical beliefs, the PPACA’s implementation appears inevitable. Small business owners should meet with their health care counsel to evaluate their current health plans and options, and to create a game plan for the future. This will ensure you are compliant under the Act regardless of the size of your company or your plans for growth. Once the exchange is implemented, you can evaluate with open eyes whether to continue offering health insurance as a benefit to your employees, or perhaps pay them to obtain their own coverage on the open market.

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