

HEALTH INSURANCE MEANS BIG DECISIONS FOR SMALL BUSINESSES

BY JOHN SPOTO

For most small business owners, securing affordable, quality medical care for their families, their employees and themselves is one of the most important financial priorities and largest financial liabilities.

In fact, determining whether to even start a business can hinge on this one issue, and for good reason.

Today, medical insurance is not an option; it's a necessity. The insurance you carry can mean a big difference in the quality of treatment you receive. Meanwhile, unexpected or uninsured medical costs can easily cripple a business, bankrupt a family, and place a heavy burden on the future.

THE OPTIONS

There are two basic categories of health insurance plans from which small business owners can choose. They are:

- ▶ Individual/family plans: Typically used by self-employed individuals with no employees, and;
- ▶ Small business/group plans: For business owners with employees.

Which option you choose will depend on the number of employees, the policies available through various trade associations or state-provided plans, and state regulations in effect at the time you make your decision.

The National Association of Insurance Commissioners or your state's Division of Insurance websites are good sources of information about health insurance programs and

issues in your state.

In addition, most people will choose between a Health Maintenance Organization (HMO), a Preferred Provider Organization (PPO), or a high deductible plan that is eligible for Health Savings Accounts (HSA).

▶ **HMO:** Provides broad coverage at low cost. Choice of health care providers limited to those within network. Primary care physician may need to determine the level of care and when you need to see a specialist. Services outside network generally not covered, except for emergencies.

▶ **PPO:** Similar to HMO, except with a wider selection of health care providers. Typically doesn't require permission from primary care doctor to see specialist.

▶ **HSA eligible plan:** Usually a PPO with a high deductible. Linked to a special bank account into which pre-tax dollars are contributed for future medical expenses. Using a high-deductible health insurance plan lowers monthly premiums. Tax deductions can be earned on HSA contributions.

CHOOSING THE RIGHT PLAN

The best plan isn't necessarily the one with the lowest premiums. Rather, it's the plan that best fits your needs at the lowest total cost.

Analysis comes down to assessing what features are most important to you and your employees, and then

estimating potential out-of-pocket costs.

To do this, familiarize yourself with important terms that impact your out-of-pocket costs, including "co-payment," "deductible," "co-insurance" and "annual out-of-pocket maximum." Make a list of the types and frequency of the health care services you expect to use in the upcoming year and the flexibility you want in choosing providers.

In general, the more risk and potential cost you want the insurer to take on, and the more flexibility you want in selecting health care providers, the higher the monthly premiums will be.

Be sure to include taxes in your cost calculation, because it is how much you pay after accounting for taxes that really matters. Most small business owners are allowed to take a deduction for health insurance expenses. As with most tax issues, when in doubt, speak with your accountant.

If the prospect of analyzing your options seems daunting, consider using an independent insurance agent who sells policies from different insurers and specializes in health insurance plans. Be sure to do your homework to clearly define your needs, so you can assess the quality of the advice being offered and make an informed



IMPLICATIONS OF REFORM ACTS

The combination of the 2010 Patient Protection and Affordable Care Act (known as the Health Reform Act) and the 2010 Tax Relief Act affect businesses differently, so it's important to do research to determine how yours will be impacted.

Generally, businesses with less than 50 employees will benefit in a couple of ways. First, the opportunities for entrepreneurs to deduct health care costs and receive tax credits have been expanded. Second, once health care reform is fully implemented in 2014, small companies will be able to join an exchange under the Small Business Health Options Program allowing them to pool their buying power to reduce premiums.

decision on the best policy.

For most entrepreneurs, access to high-quality medical care and protection against catastrophic financial loss are top priorities. Doing your research, understanding your options, and striking a balance between the coverage you need and what you can afford will go a long way toward helping you achieve those goals. **MVB**