

---

# HEALTH PLAN WEEK

---

Timely Business, Financial and Regulatory News of the Health Insurance Industry

## Tax Credit Might Help Small-Group Sales, But Some Say Parameters Are Too Rigid

January 17, 2011

A provision of the health reform law provides a tax credit to small employers who pay at least 50% of their employees' premiums. To find out if the credit has actually led to an uptick in new business, *HPW* randomly surveyed 25 health plan operators. The vast majority of them say they haven't experienced any bump in small-group sales. Most of those that have seen an uptick either attributed it to the improving economy, more affordable products, or admitted they couldn't explain it.

One anomaly, however, is Blue Cross and Blue Shield of Kansas City. An advertising campaign that focused on the credit boosted sales in the small-group market by 58% between April and December 2010, says Ron Rowe, senior director of small-group sales.

While proponents of the credit say it provides business owners some much needed relief from the high cost of health coverage, critics contend the parameters are so rigid that very few employers will qualify for the full credit.

The provision allows for a tax credit to employers that have fewer than 25 full-time employees and have an average annual salary of less than \$50,000. The biggest credit — 35% — is available to employers that have 10 or fewer full-time employees who have an average annual salary of \$25,000 or less. By Jan. 1, 2014, that credit will increase to 50%. The law also allows tax exempt organizations to take a 25% tax credit this year, which will go up to 35% in 2014.

The credit amount decreases based on the number of employees and average salary. As a result, a company that has 22 employees who earn an average wage of \$40,000 a year, for example, would have very little to gain from the credit, says Devon Herrick, Ph.D., a senior fellow with the Republican-leaning National Center for Policy Analysis.

“There was a lot of buzz [among insurance brokers] when this first came out. But the closer people looked at it, the more they realized it's not going to help much,” says Scott Leavitt, owner of Scott Leavitt Insurance & Financial Services in Boise, Idaho, and former president of the National Association of Health Underwriters. In Idaho, the average income is about \$33,000 a year. But the biggest tax credit is only available to employers that pay their employees an

average of about \$10 an hour, he tells *HPW*. Moreover, the average premium cost upon which the credit is based is determined by the federal government rather than on the actual premium paid by the employer.

In guidance issued last month, the IRS clarified that small businesses that offer “self-insured arrangements”— including health reimbursement arrangement (HRA)- based health plans — would not qualify for the credit. And while contributions to a health savings account (HSA) would not be considered “a qualifying arrangement,” the employer’s contribution toward the accompanying high-deductible health plan should be considered a qualifying arrangement, according to a recent memo from the Groom Law Group in Washington, D.C.

## **Is It the Economy or the Credit?**

A recent *Los Angeles Times* article cited an increase of 75,000 new members in UnitedHealth Group’s smallbusiness (2 to 50 employees) segment. While the article used the increase to illustrate the impact of the credit, “we can’t say if that’s tied to the tax credit,” United-Health spokesperson Daryl Richard tells *HPW*.

Rocky Mountain Health Plans (RMHP) has seen “significantly increased activity” in the small-group market in some regions of Colorado. But most of the new activity is in rural areas that were hit hardest by the economic downturn, says Neil Waldron, chief marketing officer and vice president of strategic initiatives. “We are attributing this to the improving economy as opposed to the tax credit,” he tells *HPW*.

While the credit might offer some financial relief to employers that are committed to offering health coverage to employees, Waldron says it’s not likely to be enough of an incentive to encourage employers to start offering coverage. While RMHP has educated its brokers and agents about the benefits of the credit, it has not used it as a marketing tool to attract new clients.

CareFirst, Inc., which operates Blue Cross and Blue Shield plans in Maryland, northern Virginia and Washington, D.C., says it is not anticipating a big rebound in the small-group segment in 2011. However, CareFirst tells *HPW* that because this segment is so price sensitive, it has taken “an aggressive position” by lowering the cost of some HMO options. The company also has introduced Healthy Blue, which offers incentives to members who maintain good health.

But with prices still on the rise in the small-group segment, combined with a still-wobbly economy, any increase in business is probably due — at least in part — to the tax credit, contends John Arensmeyer, founder and CEO of The Small Business Majority (SBM), a California based small-business advocacy group. “It seems likely to be at least a factor in any increase” of sales, he tells *HPW*. “We’re hoping to see some data once more businesses file their taxes.”

About 30% of small-business owners who now offer coverage say the tax credit will make them more likely to continue providing coverage, according to an SBM survey of 619 employers with fewer than 50 employees. And one-third of surveyed employers that don’t now offer health

coverage said they'd be more likely to do so because of the tax credits, according to the study results, which were released Jan. 4.

SBM also found that more than half of surveyed business owners were only "a little or not at all familiar with" the tax credit provision. Arensmeyer says health plans and brokers should be using the tax credit as a marketing tool.

### **K.C. Blues Plan Credits Credit**

The Kansas City Blues plan partnered with H&R Block to create a tax calculator to help small companies figure out their potential savings based on the reform law. The calculator is available at [www.BlueKCTaxCredit.com](http://www.BlueKCTaxCredit.com). Eighteen Blue plans nationwide are now also using and/or marketing the tax calculator, the insurer says.

The Kansas City Blues plan began promoting the tax credit last spring — shortly after the reform law was enacted— in combination with a new defined contribution product, Blue Choice. An advertising campaign around the tax credit, and a tax calculator, contributed to an additional 400 new employer groups, of which 38%, or 151 groups, were previously uninsured, Rowe tells *HPW*.

Aetna Inc. says it has no data that would suggest the tax credit is driving more small-group sales. "Even if we did see an uptick, it would be impossible to determine what, if any, role the tax credit played," spokesperson Cynthia Michener tells *HPW*. However, a small-group tax estimator tool that Aetna launched less than two months ago has already attracted tremendous interest from agents and brokers.

Since it launched, she says the tool has had 13,733 unique visits with 35,711 views. "We also had a sold-out broker webinar with 660+ brokers registered," she tells *HPW*. The calculator helps small-business owners determine whether they are eligible for the tax credit.

Utah-based Select Health also has launched a tax calculator that can help small employers, as well as agents and brokers, determine if they qualify for the tax credit. The company also has been explaining the credit to small businesses at Chamber of Commerce meetings throughout Utah, says spokesperson Stuart Sutherland. The company's small-group enrollment numbers have "remained pretty consistent" since the tax credit was announced.

### **New Tax Credit for Sole Proprietors**

While the credit might reduce the cost of employee coverage, it won't offset coverage costs for sole-proprietors or the self-employed. However, a provision of a law signed by President Obama in September allows the self-employed to deduct their health insurance premiums as a business expense for their 2010 taxes.

"Up until that time, sole proprietors were the only business entity that was not able to do this," says Kristin Oberlander, a spokesperson for the National Association for the Self-Employed (NASE). While the deduction is available only for the 2010 tax year, NASE is lobbying to have

the provision extended or made permanent. The self-employed make up about 80% of the nation's small employers, according to NASE.

For 2010, the cost of eligible premiums can be included on Schedule SE [Self-Employment] as a deduction that reduces net earnings. The savings can be up to 15.3% of the coverage cost. "For example, if you paid \$10,000 for family coverage, you could save as much as \$1,500," Oberlander says.

To see Aetna's calculator tool, visit [www.aetna.com/ employer-plans/small-business/tax-credit-calculator/ index.html](http://www.aetna.com/employer-plans/small-business/tax-credit-calculator/index.html). To see Select Health's calculator, visit [www.selecthealth.org/taxcredit](http://www.selecthealth.org/taxcredit). To see the Kansas City Blues plan's calculator, visit [www.BlueKCTaxcredit.com](http://www.BlueKCTaxcredit.com).

To see IRS Notice 2010-82, which expands on previous guidance issued regarding the small-employer tax credit, visit [www.irs.gov/pub/irs-drop/n-10-82.pdf](http://www.irs.gov/pub/irs-drop/n-10-82.pdf).

Contact Michener at [michenerc@aetna.com](mailto:michenerc@aetna.com), Mary Beth Chambers for Rowe at [mary.beth.chambers@bcbsks.com](mailto:mary.beth.chambers@bcbsks.com), Oberlander at [koberlander@naseadmin.org](mailto:koberlander@naseadmin.org), Herrick at [devon.herrick@ncpa.org](mailto:devon.herrick@ncpa.org), Leavitt at [saladl@aol.com](mailto:saladl@aol.com) and Arensmeyer at [jarensmeyer@smallbusinessmajority.org](mailto:jarensmeyer@smallbusinessmajority.org).