

Small-Business Owners Squeezed by Health Insurance Debate

by Nancy Opiela

As the presidential candidates debate what to do about the 47 million Americans without health insurance and how to manage escalating costs and coordinate care for those with insurance, your small-business owner clients may feel the pressure that comes from being both part of the problem and the key to a future solution. As Ricardo Alonso-Zaldivar noted in a recent article in the *Los Angeles Times*, companies with fewer than 100 workers account for nearly two-thirds of the working uninsured and about 40 percent of all workers. What's more, among the small companies that offer coverage, many protect just the worker, not a spouse or children. Additionally, the Employee Benefits Research Institute's October 2007 *Issue Brief* reported that more than 35 percent of workers in private-sector firms with fewer than ten employees were uninsured in 2006, compared with 13 percent of workers in private-sector firms with 1,000 or more employees.

Clearly, because the next president's ability to reduce the number of the nation's uninsured hinges on support from small-business owners, the next administration could bring significant change for your clients in the field of health insurance. However, Leon Rousso, CFP®, of Leon Rousso & Associates in Ventura, California, isn't holding his breath waiting for change.

"Twenty years ago, I figured I should stop selling health insurance because there would be a national health care plan that would soon put me out of business," he notes. "Two decades later, I'm still in the business and we've had no major reforms."

Minimally, however, Rousso says the attention the presidential campaign is focusing on health care gives planners an easy hook into a health insurance conversation with small-business clients. And because health insurance affects everything from the business's ability to recruit and retain qualified employees to the owner's ability to meet health care expenses in retirement, it's a conversation worth having.

It's the Cost, Stupid

Even if you have never chatted with your business owner clients about health insurance, you certainly can guess their primary struggle with providing the benefit: cost. Donald Duncan, CFP®, CPA/PFS, CFA, of D3 Financial Counselors in Downers Grove, Illinois, says that business owners still committed to providing health insurance for their employees often feel as if they are choosing between the lesser of two evils.

"The company may commit to paying 20 percent of health insurance costs; however, as premiums increase, the employee's contribution continues to go up, yet it's buying less in terms of coverage," he says.

Todd Rustman, CFA, CFP®, CLU, of Capital Asset Management LLC in Newport Beach, California, adds that the uncertain economy is exacerbating the pressures on small-business owners who may have to make large budget cuts to retain profitability. "My clients continue to look hard at the rising cost of health insurance," he says. "Although the rate of premium increases might slow, it's a tough business environment where many are dealing with lower sales, so something has to give."

In fact, rising costs are prompting many of your business clients to reduce coverage or drop the benefit all together. In December 2007, the Employee Benefit Research Institute (EBRI) hosted a policy forum to assess reports that the U.S. employment-based health benefits system has reached a tipping point because of ever-rising costs. Interestingly, the forum found that among large companies there is general stability in terms of workers being eligible for health insurance benefits, the percentage of workers who have coverage, the share of premiums paid by workers, and the share of out-of-pocket costs paid by workers. However, EBRI found that the percentage of employers with fewer than 200 employees who offer health insurance benefits dropped from 68 percent in 2000 to 59 percent in 2007, constituting what researchers termed a "remarkable downward decline."

Another survey by the National Association of Professional Employer Organizations of 365 of its small-business members found that nearly one in ten said they would drop health benefits in 2008 or were not sure about continuing coverage because costs rose as much as 10 percent in 2007.

Additionally, the National Federation of Independent Business (NFIB), a lobbying organization for small business, underscored the issue of cost when it issued ten principles for health care reform. "Our current system of health insurance and health care is financially unsustainable and threatens the health and financial security of the American people," the organization said in a press release.

When asked the single most important problem facing the health care system today, NFIB reports that 74 percent of its members point to cost. Given a second choice, an additional 20 percent say it's cost. Yet in spite of increasing costs, few of the roughly half of NFIB's members who provide insurance benefits have ended coverage. As NFIB summarized in a press release for the survey, "The small-business problem is cost; the political system's problem is coverage. If the political system doesn't help small business with cost, small business can't help the political system with coverage."

In fact, that issue of how to get the most coverage for their business dollar is just the issue planners can help their clients resolve. Step one in that endeavor, says Keith Newcomb of Full Life Financial LLC in Nashville, Tennessee, is determining what the business owner wants to accomplish with the health insurance. Do they just need to insure themselves? If they have employees, do they want to provide insurance as a recruiting tool, or do they see themselves as a benefactor to their employees?

"Some business owners think of their employees as family members they want to provide for, others see their employees as resources," Newcomb explains. "Although both views could lead to providing insurance for employees, how the business owner sees his employees may lead to very different insurance choices."

Newcomb's question number two: What's your budget? "Together, the answers to these two questions provide valuable background and will point you in the direction of specific plans," he says.

Are Consumer-Driven Plans the Answer?

Increasingly, planners find that consumer-driven health plans that shift more cost and decision-making power to the plan participants are emerging as an innovative solution for small-business owners hoping to get the most bang for their benefit buck.

Consumer-driven plans typically pair a high-deductible health plan with tax-advantaged health savings accounts (HSAs) used to pay for the deductibles. Although fairly new, these plans are a growing, and somewhat controversial, part of employment-based insurance offerings. According to responses gathered at the EBRI forum, supporters believe that such plans will encourage consumers to become better informed, more cost-conscious users of health care. On the other hand, critics worry that patients will obtain fewer necessary and nonessential services alike.

Duncan says his clients appreciate the greater control and accept the responsibility of consumer-driven plans. "The concept makes sense to business owners because they like the control," he says. "Many don't view health insurance as an entitlement program. I agree that if your \$10 co-pay is all you ever see, you don't think twice about going to the emergency room for a stiff neck. Fostering an understanding of how much health care costs can only help get control of rising insurance costs. Ideally, insurance should be something that employees have control over, understand, and take responsibility for."

Another HSA plus, says Duncan, is that making a contribution to an employee's HSA is a beneficial way for a company to offer a bonus.

After the most recent rate premium increase of 44 percent, Newcomb switched his own practice's health plan to an HSA-eligible, high-deductible plan to pull his premiums down into a manageable range. "When we selected our initial, very rich health plan, a co-pay only plan with no lifetime cap, the difference in premium was fairly slight between our top-of-the-line plan and one that offered far less in terms of benefits. I remember a \$58 monthly differential," he notes. "Now that's not the case. There's a vast gulf in dollars that separates the top plans from the high deductible/HSA plans, and that led us to evaluate the options and compromise."

Still, Newcomb says there's plenty to like about an HSA. "Because we're investing dollars to cover a future deductible instead of paying a high premium, we're turning a certain expense into a possible expense," he notes. "Also, I tell healthy, high net-worth individuals that HSAs are a great tool to sock dollars away tax-deferred. If you can pay for your health care out of pocket, it's a great way to save. But at almost all wealth levels, if you are unhealthy, nothing accumulates in the HSA. The savings account is really just a revolving door, although there are some planning opportunities for each wealth segment. For example, if you are not in a position to make your HSA contribution and instead pay for all of your health care out of pocket, then the benefit is to turn medical expenses, from your annual physical to an eye exam, that are under the 7.5 percent deduction on federal income taxes into tax-deductible expenses."

Rustman has had a dozen or so clients move to an HSA-eligible plan. "Small employers particularly like the idea that, as employees become more involved in the cost side of their care, they don't see health insurance so much as a right, but as a true benefit," he says.

Still in the Dark

Rouso agrees that consumer-driven plans with HSAs are an obvious alternative for cost-conscious small businesses, but points out that many small businesses, for a variety of reasons, are still in the dark about their options. "These plans are too complicated for the average broker to deal with," he says. "In addition, due to the significant reduction in premiums [to HSAs] from which brokers are paid their commission, I believe there is no vested interest for the broker to educate himself and then his clients. This laziness on the part of many insurance brokers is a big mistake. When the employer eventually learns—and he will—about these plans and asks why he was not told about the option, guess who may lose a client. Once smart advisors understand these plans, they will be equipped to better work with qualified brokers to help business owner clients implement these programs."

Rouso admits that it often takes several passes to get an employer grounded in the HSA. "The same thing was true when HMOs were introduced over 20 years ago," he says. "There were a few learning curve years and then the rest is history. This is always the case with anything new. We need to give HSAs time to emerge. In my view, the complication is in the communications, not in the plan. With good, clear, detailed communications first to employers, and then employees when the plan is implemented, it's possible to avoid problems."

Rouso says one point that is often lost when considering consumer-driven plans is that although the high-deductible health plans do not cover claims until the deductible is reached, they pay very well after that. "This allows the underinsured or less affluent sector of our society to have excellent protection for catastrophic health needs."

While planners expect the high deductible health plan/HSA combination to really take off once it reaches some critical mass, studies show that, although growing, consumer-directed health plans remain a small source of coverage in the health insurance market. Further, the EBRI forum found that many employers do not view them as the solution to ever-rising costs. EBRI's forum notes include the following statistics: The Kaiser Family Foundation estimates that about 10 percent of employers currently offer their workers consumer-driven health plans; CIGNA Healthcare has just 5 to 10 percent of its overall membership in a consumer-driven plan, although the company is continuing to see "significant growth."

Analyses of the experiences of those currently covered by a consumer-driven health plan could be a key to promoting increased use. As reported to EBRI at the December 2007 forum, a CIGNA study of 120 employer groups representing 800,000 to 900,000 members' activity in 2005 and 2006, found members who enrolled in a consumer-driven plan for the first time registered a 4 percent reduction in medical spending, compared with a 9 percent increase for those in traditional plans. In the second year of enrollment, those in consumer-driven plans showed a 5 percent increase in medical spending, compared with 10 percent for traditional plan participants. The CIGNA study also found that consumer out-of-pocket spending for the two types of plans was about the same, and quality did not decrease for consumer-driven plans.

Notably, however, participants at the EBRI forum did not embrace consumer-driven plans as a solution for businesses. In fact, three business group plans, considerably more sweeping than the current consumer-driven model, emerged. A Committee for Economic Development (CED) plan envisions moving to some type of national health insurance exchange from which individuals, who would be given a fixed contribution, could buy health insurance. The ERISA Industry Committee proposals resemble the exchange plan of the CED, but would cover both health and retirement benefits. The HR Policy Association is seeking dramatic changes to control health care costs, improve efficiency, and improve quality.

Other Options?

Other than consumer-driven plans, is there anything else planners can suggest to their small-business owner clients to help them control the cost of offering health insurance as a benefit? Tracey Baker, CFP®, spokesperson for the Financial Planning Association's campaign with Aetna, "Plan for Your Health," and vice president at CJM Wealth Advisers Ltd. in Fairfax, Virginia, suggests that small-business owners look for an appropriate professional organization that offers members the benefit of buying insurance. "If you are an architectural firm, check with AIA to see if they have a group insurance program you can be a part of," she says. "As the cost of providing health insurance becomes increasingly prohibitive to many small employers, more associations and professional groups are banding together."

Todd Rustman, too, has clients who use professional associations or preferred employer organizations that negotiate for premiums on members' behalf to contain insurance costs. But he notes a drawback: the trade-off for a lower premium is that they must give up control in terms of company and policy selection. "For many small-business owners who went into business so they could be the boss, that's a real negative. They want a hand in designing their insurance," he says.

Some of the small employers he works with who don't offer insurance benefits give their employees a bonus, an annual payment that they can direct to covering out-of-pocket health care costs. "For the employee who has insurance through a spouse, this is a nice benefit," says Rustman.

Bruce J. Temkin, MSPA, EA, principal in The Temkin Group in Brentwood, Tennessee, is a nationally recognized expert on qualified plans and serves on the board of directors of the Small Business Council of America. He says the Internet encourages one-person businesses and that many executives now retire and go on to form a consulting firm. That makes it more important than ever for financial planners to consider the benefits of having their one-person small business incorporate as a C corporation.

"In addition to pension benefits, the C corp allows the business owner to set up a medical reimbursement plan that could be hugely beneficial to the business owner, particularly if he has extraordinary medical expenses," says Temkin.

Temkin continues, "Unlike health insurance, these medical reimbursement plans have no limitations. That is, the client could pay for a visit to a psychiatrist or a chiropractor, even the dentist—services that are not covered by even the most beneficial health plan. Again, there is no limit. Whatever it costs, it costs, and that amount is a line

item deduction before the Social Security tax on the federal tax form. If you have other employees, of course, you'd have to provide the same benefits for everyone, so the cost would be prohibitive, but a C corp is a great option for a one-person business. And, as an aside, there's no Social Security tax on the pre-tax contributions that either the employee or the employer make into an HSA."

Counsel Owners on Health Plan Options

Even if a planner doesn't sell insurance, Rousso says it's important to counsel business owners on what to look for in a health plan. "Making just a few simple points in a conversation can have a big impact," he says. "The most important factor is out-of-pocket maximums and premiums. My bottom line is that employees do not need to protect all the nickel and dime claims. I want my clients' employees to be protected against losing their homes and their security, not a new toy. I also want them to get the best care available. Most plans, after the out-of-pocket max is reached, pay the same: 100 percent of covered services. Take the premium difference between one plan and another. Subtract the out-of-pocket difference and you will soon learn why insurance companies make so much money on the more expensive plans."

Leon Rousso says planners should counsel their clients to review their health insurance choices 45 days before an open enrollment period and always during a rate action or benefit modification by the carrier. He explains, "Although rate increases seem to be more stabilized among all plans (less cherry picking, as in years before), it is always a good idea to do a market analysis at this time. It can give smaller employers, typically under 50 employees, a little leveraging ability if they find comparable plans for less money. They can sometimes use this to negotiate a reduction in renewal increases with their current carrier. No insurance company wants to lose a client and no employer likes changing companies. This is not always possible, but it doesn't cost anything to try, and will bring plenty of rewards to the advisor if the clients can save money."

Adds Donald Duncan, "The business owner doesn't have the time to stay on top of this fast-moving industry; it takes a commitment from the planner to do that. Interestingly, however, business owners often are pretty entrenched with the insurance agent they have, especially if they insure their property in addition to providing health insurance for their business. For that reason, it can be frustrating because it can take a lot of encouragement for small-business owners to make a change. Of course, at some point, the health insurance premiums become so painful that the business owner is more receptive to a change."

Tracey Baker adds that in addition to agent loyalty, business owners often are reluctant to switch companies. "When that's the case, it may be the best use of a planner's time to start with the company the client has and look to make changes in coverage under the same corporate umbrella," she says. "Also, if you have a client who really likes the doctor he has, make keeping that doctor a priority as you evaluate health insurance options."

If you are looking for professional help evaluating health insurance options, Duncan suggests contacting brokers rather than captive agents. "A broker is going to give you a broader perspective as to what's available," he notes. "Once you have some kind of idea what kind of plan you're looking for, bring in a professional who has lots of experience and works with many companies to help you comparison shop. A good broker will know where the best deals are and what companies offer superior service."

But Keith Newcomb believes it may be wiser for planners to educate themselves rather than rely on health insurance salespeople to service their clients. "Initially, for my own insurance, rather than shopping for a policy, I shopped for an agent," he explains. "I was thinking that when I found someone I felt comfortable with I could use them as a resource for my clients. Yet, I was dissatisfied with the service I received, and by the time I finished learning enough to get my own insurance, and forging relationships, I had a structure in place to begin to help clients. I have tried a couple of times in intervening years to shop my own coverage around to various agents, and they have yet to deliver a better deal than I could find for myself. Frankly, it's difficult to find agents who deliver the kind of service my clients are accustomed to in the financial planning relationship."

Newcomb stresses that because the planner understands business owners' objectives with their business, planners who are so inclined to get into the insurance area can provide tremendous added value to clients. "It takes some work up front, but the more areas the planner can help a client in, the stronger the overall client relationship," he concludes. "Health costs are a financial planning issue. People want to retire early, so Medicare is not the ultimate answer. Particularly as premiums increase, health care planning has to be part of overall financial planning—and I think the tide is turning and more planners are embracing that notion and are willing to talk about the big picture."

That's wise because the EBRI forum found that although employers are very concerned about the rising cost of health insurance, it's unlikely they will bail out on providing the benefit. The general thinking is that although the health insurance system may be dismantled and revised over the course of the next several years (or decades), it's likely that employers will still end up paying one way or the other. For that reason, business owners are eager to participate in the process and be an active part of any future solution—and there's plenty planners can do to help.

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Sidebar

Where Can Planners Get Information?

For planners trying to stay on top of changes in the health insurance arena and help clients make choices about coverage, Plan for Your Health (www.PlanforYourHealth.com), a public education campaign from Aetna and the Financial Planning Association, provides a strong resource. The Web site focuses on five life events when women need to re-examine their health benefits—career, marriage, family, living single, and retirement—and offers consumer-friendly tools, tips, and content that support well-informed decision-making.

Notably, as part of the campaign, Aetna and the Financial Planning Association have teamed up with [Wiley Publishing](#) to offer free copies of *Navigating Your Health Benefits for Dummies*, co-authored by Tracey Baker. "There's a button on the site where you can click and get your free copy," says Baker. "Naturally it's a great resource for planners, but it's even something planners could tell their clients to request themselves so they have a user-friendly resource to help them make informed decisions about health benefits."

According to Leon Rousso, the U.S. Treasury's Web site at www.ustreas.gov is a great place for unbiased information on health savings accounts. "I would recommend this site for both business owner/decision makers and advisors," he notes.