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THE JOURNAL REPORT: SMALL BUSINESS
Running the Show

Time for a Checkup?

**Small businesses may want to revisit the idea of offering health insurance.
It may not be as unaffordable as they think.**

By JACLYNE BADAL
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Small-business owners who concluded a few years ago they couldn't afford health insurance for their workers may want to take another look. Insurers are offering more varied plans that include less-expensive options. Nonprofit groups and legislators have paved the way for small companies to band together in purchasing cooperatives to get lower rates. A handful of states now offer subsidies and credits to small businesses that offer health insurance -- and others have begun levying fines on those that don't.

Massachusetts, for instance, has worked with insurers on increasing options -- and lowering rates -- for small businesses. The state offers qualifying companies annual health-insurance subsidies of as much as $1,000 per employee for those on a family plan. It also has begun imposing fines of up to $295 an employee per year on small companies that don't provide health insurance.

Several other states are working on similar play-or-pay plans, including Pennsylvania and California. These plans generally require businesses to provide insurance or face a fine -- say, 4% of payroll for companies with a payroll larger than $200,000.

Here's a look at four broad health-insurance options that small businesses may find feasible.

Co-op Approach

Specialty wine retailer Vine Wine Inc. in Long Island City, N.Y., started offering coverage to its handful of employees in February 2006, after owner Talitha Whidbee discovered the HealthPass purchasing cooperative.

HealthPass, founded with a grant from New York City, reduces the administrative burden for employers by handling much of the back-end work. It gives small companies access to more than 30 coverage options from four carriers, who pay its costs.

Ms. Whidbee says she pays no more than $110 a month toward the premium of each of her three employees, who are part-time; the workers pay the rest, usually $100 to $200. Her younger workers with no children take the barebones plans; an older employee and Ms. Whidbee herself, who has a child, have more extensive coverage. Ms. Whidbee's involvement, meanwhile, was limited to a few conversations with an insurance broker and giving her employees a single form to fill out, which Ms. Whidbee returned to HealthPass by fax.

Ms. Whidbee contrasts her co-op experience with shopping for insurance on her own six years ago when she was the manager of a New York restaurant. At that time, she spent more than a month shopping for plans and in the end could offer employees only one plan, which carried premiums of about $340 a month, paid mostly by the employees. "You were either on the plan or not," Ms. Whidbee recalls.

HealthPass focuses on small businesses in New York City and surrounding counties. But other state and city groups have created similar options. Cleveland's Council of Smaller Enterprises helps more than 11,000 member businesses buy health insurance, making it one of the larger cooperatives in the U.S. By banding together, entrepreneurs can get reduced rates when buying everything from health insurance to workers' compensation. New Mexico created a Small Employer Insurance Program in 2006, which helps employers with 50 or fewer employees buy into a comprehensive health-insurance program.

Expanding Groups

For independent contractors affiliated with a larger organization, insurance options are also increasing. Peens Property Group Inc. in Lakewood Ranch, Fla., plans to let agents buy into the company's group plan in the first quarter of 2008. For the first time, LPL Independent Advisor Services is giving its national network of advisers the opportunity to buy group insurance for their families and full-time staffers. About 3,200 of the 8,000 eligible advisers had recently put in applications.

"We try to use scale to help advisers drive down the cost" of their individual coverage, says Bill Dwyer, president of LPL, a unit of San Diego-based independent broker-dealer LPL Financial Services. Extending group coverage to the advisers helps the company attract and retain talented workers.

When contractors and other small-business owners are part of a larger entity that doesn't offer a group plan, it might help to ask the parent organization about possible options, to keep it on managers' minds.

Meanwhile, group rates can be found in less obvious places, too. Buying an executive membership at the purchasing club **Costco Wholesale** Corp. for $100 a year, for example, can entitle a small business to health- and dental-insurance programs at prenegotiated rates. States where Costco offers this service: California, Washington, Oregon, Nevada and Hawaii. Costco says members can save from 5% to 20%, depending on the state.

Sorting Options

For small businesses that go it alone when purchasing insurance, it might help to engage an insurance agent to sort through options. Agents are typically paid by the insurers, so their services are free to the business.

One idea popular with agents is an employee-elect arrangement, which allows even small companies to choose from the gamut of a carrier's plans. In the past, small employers could offer only one or two plans to their workers. They sometimes felt obligated to pick the most comprehensive -- and expensive -- plan, so that employees with greater health needs had enough coverage. But as insurers try to snag market share by bestowing big-business options on small companies, there is more to choose from. Employees who need less coverage can opt for cheaper programs, thus reducing premiums.

Some carriers addressing this market, as employers keep cutting benefits to try to reduce costs, include **Aetna** Inc., Hartford, Conn., and Blue Cross of California, a unit of **WellPoint** Inc., and says Neil Crosby, director of sales at Warner Pacific Insurance Services, a Westlake Village, Calif., general agency that works with brokers and agents.

Employers who have a mix of young single workers and older employees tend to benefit most from employee-elect arrangements. Employers often pay 75% to 80% of the premium, and employees pay the rest, plus any upgrades.

Another option brokers find promising is an exclusive provider organization, or EPO, plan, which keeps premiums low in part by limiting choice of doctors and hospitals. With an EPO plan, people can get reimbursed if they see any doctor that has a relationship with the insurer. But they typically won't get reimbursed if they go outside the EPO's network of doctors and hospitals.

Empire Blue Cross Blue Shield, a subsidiary of WellPoint, recently introduced its Prism suite of EPO-based plans. These plans have a relatively low inpatient co-pay of $200 per admission, up to $500 a year, and a $25 co-pay for doctor's visits, it says in plan documents. A monthly premium in the Albany, N.Y., area is $256 for an individual and $666 for a family.

Similar plans that reimburse people when they go outside the network cost around $350 to $450 for an individual and $1,100 for a family, says Abby Waxenberg, a vice president at insurance broker Singer Nelson Charlmers, Teaneck, N.J. The plans cited do not include drug benefits.

Mark Wagar, president and chief executive of Empire, says the Prism plans are able to offer lower premiums in part because everyone is on the same EPO plan, helping keep the pool of plan participants large.

Consumers Decide

Another choice for small-business owners is a consumer-directed plan -- a high-deductible plan that works with a health savings account or a health reimbursement arrangement, two ideas that have become more popular within the past five years.

With an HRA, an employer can set aside money to help employees meet the new, higher deductible. The funds belong to the employer, and can be rolled over from year to year to pay for future medical expenses. Money from the fund spent on reimbursement is tax-deductible to the employer, which can heighten the appeal.

An HSA works similarly, only an employee or an employer can fund the account, and the money belongs to the employee. The funds are used to pay qualified medical expenses, and unused portions can be rolled over for use in future years. The account is tax-advantaged, meaning employees can invest the cash in products like mutual funds and let it grow tax-free. Withdrawals are also tax-free on qualified medical expenses. Plus, employees can get a break on taxes just by contributing. The Treasury Department estimates a single taxpayer making $60,000 a year and contributing $2,500 to an HSA can reduce his or her federal income tax by $625.

Ms. Waxenberg says HSA options tend to make the most sense for employers paying 100% or 50% of the premium. If the employer is paying 75% or 80% of the premium, neither the employer nor the employee sees enough of a break in their premium to feel good about the deal.

Employers should be aware, though, that they're likely to face some dissent from workers if they cut benefits and raise the employee's costs. "In those cases, you really need employees who understand the big picture," Ms. Waxenberg says.

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