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### **The Case for Health Care Coverage**

**While their cost continues to climb, health care benefits are critical for small business owners who want to stay healthy and competitive. Before you go without, consider your options, because a good plan is more affordable than you think.**

*By Matt Alderton*

#### *What You Need to Know*

- Purchasing group health insurance through a trade association.
- Health plans can help you save money with their benefits.
- Save money by living a healthy lifestyle.

Nate Simmons didn't always provide health insurance for his employees. He found out the hard way, however, that he should. A partner at Backbone Media, a small PR agency based in Carbondale, Colo., he used to offer his 10 employees a "wellness stipend" that they could use to fund a gym membership or pay premiums on their own health insurance.

"But when one of our employees crashed on her mountain bike and required \$10,000 in medical services, we were shocked to discover that a few of our employees, including the one who crashed, had pre-existing conditions that made [obtaining] independent health insurance difficult or impossible," Simmons says. "It was at that

point that we decided we needed to offer a group plan."

So that's what he did. He now offers his staff \$200 each month toward participation in a group plan. The costs, however, are absurd, he notes — and every year they inflate further. "Health insurance companies seem to raise the prices by double digit percentages every year," Simmons says. "Our last plan increased 15 percent in one year and 25 percent the year after."

Health insurance isn't cheap, but it's important to have, according to Kristie Darien, executive director of the National Association for the Self-Employed (NASE) in Washington, D.C. "Many small businesses are like a family," she says. "When you have a small office, you tend to get to know each other very well. You have a personal stake in [your employees] and you want to provide for them the best that you can."

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Offering health benefits also helps to attract and retain top talent. Luckily, there are affordable options — if you look for them. All it takes is a little bit of patience, a lot of research and a willingness to think outside of the traditional benefits box.

#### **The Big Picture**

There are nearly 20 million micro-businesses — businesses with fewer than 10 employees — in the United States, according to NASE, and every year, fewer of them can afford health care. "It's not a pretty picture," Darien says.

A 2005 survey of America's smallest businesses by NASE pointed out that while a business generating more than \$500,000 per year spends just 2.3 percent of its gross revenues on health care coverage, a sole proprietor making less than \$50,000 per year spends 18.7 percent of his or her gross revenues. More than half of respondents to the same survey said they did not currently offer — and did not plan to offer — health benefits for themselves or their employees. The No. 1 reason? Cost.

"We have no negotiating power as a small business," Simmons says, "so we pretty much have to take whatever is offered."



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What's offered these days, however, is more diverse than most people realize, according to Sam Gibbs, senior vice president and general manager of Mountain View, Calif.-based eHealthInsurance.

"Don't get discouraged," he says. "If you look hard enough, you can find a plan that's just right for you and your employees."

Here's a quick look at your best options:

**Indemnity Plans:** Also known as fee for service plans (FFSs), they allow employees to see whatever doctor they wish; the insurance company will cover a certain percentage of medical expenses once an initial deductible is paid.

**Managed Care:** They use "networks" of physicians and include Health Maintenance Organizations (HMOs), which typically have lower out-of-pocket costs but less flexibility; Preferred Provider Organizations (PPOs), whereby you pay a flat co-pay to see network physicians; and Point of Service (POS) plans, which are similar to HMOs but cover more preventive care services.

**Consumer-Directed Plans:** They are relatively new and involve special employer- and employee-funded savings accounts, which double as retirement savings accounts. Withdrawals can be made tax-free in order to pay for approved medical expenses. They're often coupled with lower-cost high-deductible health plans (HDHPs) to help employees pay medical expenses until their annual deductible is paid, at which point their insurance kicks in.

**Self-Insurance:** You pay employees' insurance claims directly, but a third-party company handles all of your administrative paperwork. A stop-loss insurance policy protects you from overpaying, so that once you've paid a set amount of employee health costs, insurance pays the rest.

**Catastrophic Insurance:** It's ideal for self-employed entrepreneurs who only need insurance in case of an emergency. It has high deductibles and low monthly payments and covers only major expenses, such as hospital stays, but not routine doctor visits.


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#### Cut Costs, Not Coverage

No one type of plan is guaranteed to be cheaper than another. Consider these cost-cutting strategies, though, to maximize your savings across the board:

**Get Group Power:** Many small business owners have to apply for health insurance as individuals, which is more expensive. If you can, pursue group coverage instead. Group coverage can often be purchased at discounted rates in unusual places, including trade associations, wholesale clubs, unions and churches, as well as coalitions of independent business owners known as local purchasing alliances.

**Get Tax Breaks:** If you're healthy, consider a consumer-directed plan in order to take advantage of the tax breaks associated with it. Health Reimbursement Arrangements (HRAs) are tax-deductible for the self-employed while Health Savings Accounts (HSAs) allow you to set aside pre-tax dollars for medical care.

**Educate Yourself:** Ask family and friends for referrals. Talk to experts. Read all there is to read online. And once you have a plan, study its rules so that unexpected fees don't burn you.

**Stay Fit:** Save money on out-of-pocket health costs by exercising and eating right. Your premiums will stay lower if you stay healthier.

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