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Small Business

What Obamacare Means for Small Employers in 2013

By [Karen E. Klein](#) on October 04, 2012

<http://www.businessweek.com/articles/2012-10-04/what-obamacare-means-for-small-employers-in-2013>

This June, the U.S. Supreme Court [ruled in favor](#) of the constitutionality of the Patient Protection and Affordable Care Act, often called Obamacare, clearing the way for the law's implementation. Some small business owners are still ignoring the implications of reform or are in denial about it, says Jay Starkman, chief executive of Engage PEO, a Fort Lauderdale professional employer organization that handles administration and payroll for 100 small businesses. "We get some employers who say [health-care reform is] going to be repealed and others who say they'll make changes when they have to," says Starkman.

Regardless of what small employers hope happens to the law, a new Kaiser Family Foundation [study](#) of insurance coverage for businesses with fewer than 25 employees shows that reforms such as the ability to buy insurance on exchanges and the prohibition on barring people with preexisting conditions may affect as many small business business owners as employees of small businesses.

The study examined where small business owners get their personal coverage, as opposed to earlier studies that focus on where their employees get coverage. It found that small business owners are in similar straits as their employees: One-quarter are uninsured and half rely on a family member for coverage or buy private health insurance, if they can afford and qualify for it. Only 19 percent get insurance through their companies.

In contrast, 60 percent of non-elderly Americans get employer-sponsored coverage. Sixty percent of entrepreneurs who buy private insurance have incomes up to 400 percent of the poverty level, qualifying them for tax credits under the Affordable Care Act; 83 percent of the small business owners who are

uninsured would be eligible for subsidized coverage under the law.

Preliminary data from another study of employers that have 10 to more than 500 employees, the 2012 National Survey of Employer-Sponsored Health Plans, predicts that the average per-employee cost of health coverage will rise about 6.5 percent in 2013 and that 58 percent of employers surveyed plan to shift costs to their employees to reduce the increase, says George Lane, principal at Mercer, the human resource consulting company that conducts the annual survey.

The study found that while very few employers anticipate canceling their health benefit plans after reform is fully implemented, smaller employers are nearly three times as likely to say they will. When asked whether they plan to terminate employee health coverage in five years, after reform is fully implemented, 16 percent of smaller employers (between 10 and 499 employees) said they believed they would terminate their plans. Only 6 percent of larger employers said they would cancel coverage once insurance exchanges go online and individual mandates and employer penalties become effective. (The penalties will not apply to companies with fewer than 50 employees.)

While 2014 will be a banner year for major portions of the reform law to take effect, including the opening of insurance exchanges, below are some provisions going into effect in 2013 that may affect small business owners and the self-employed. (For a more comprehensive timeline, see Kaiser's [interactive tool](#).)

Exchange enrollment. Open enrollment for individual and small business health insurance exchanges begins Oct. 1, 2013. “Exchanges are probably the most important provision of health-care reform for small businesses because they will help lower costs and improve choice of plans,” says Erin Musgrave, communications director at Small Business Majority, an advocacy group that has pushed for health-care reform.

States have until the middle of November 2012 to declare whether they will operate their own exchanges or default to exchanges operated by the federal government. There is some question about how many states will have their exchanges ready for business by the Jan. 1, 2014, target date. The exchanges will allow individuals and small businesses with up to 100 employees to shop for qualified health insurance coverage online, using a one-stop option.

Tax implications. As in recent years, dating to tax year 2010, eligible employers that provide health coverage will again get a tax credit for up to 35 percent of their contribution toward employee insurance. The credit is calculated based on average wages and number of employees; it goes up to 50 percent for tax year 2014.

High-income individuals. For singles with modified adjusted gross income over \$200,000 and married taxpayers with \$250,000 MAGI, a 3.8 percent Medicare contribution tax will apply for tax year 2013 to investment income, including interest, dividends, annuities, royalties and rents.

W-2 reporting. Tax form W-2s issued in January 2013 for wages paid in 2012 must for the first time include a line showing the benefit employees receive from their employer-sponsored health care. The provision is an attempt to make health-care benefits and spending more transparent. Small companies may face an increase in their W-2 preparation costs to cover gathering that information and reporting it, Starkman says.

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