

## MEDICAL INSURANCE: SELF EMPLOYED HEALTHCARE VS. SMALL GROUP PLANS

We've already established that a company's share of employee medical insurance premiums can be considered a tax deduction but let's consider medical insurance coverage in general. Health insurance is a hot topic these days. Having enough when you need it but not paying through the nose is the goal of anyone, regardless of whether you own your own company or work for someone else.



There are some tax breaks with regard to healthcare even for those who choose not to go the traditional corporation route. If you are self employed, or own more than 2% of an S-corp, newer IRS regulations allow you to deduct 100% of your health insurance premiums, provided you show a net profit for the year. It is important to note that you cannot take any deduction for months where you were eligible for a group plan such as with a former employer or under your spouse's employer's health plan.

Self-employed businesspeople are eligible for several kinds of individual medical plans. If you leave your employer to start your own company, you are allowed to continue your former employer's health coverage at your own expense for at least 18 months. This is courtesy of a regulation known as COBRA (Consolidated Omnibus Budget Reconciliation Act). Unfortunately, what you'll often find - especially if your former employer was paying a fair portion of your health insurance premiums - is that the cost of coverage under COBRA can run from quite expensive to truly outrageous.

The self-employed are also targets for ill conceived self-employed insurance packages or individual healthcare coverage. You'll get lots of offers from insurance brokers and agents which run the gamut from "too good to be true" to "my COBRA plan looks cheap compared to this". "Too good to be true" self-employed insurance plans generally work like this: you pay a relatively low premium but have a high deductible. Buyer beware - be sure to read the policy! Deductibles - or the amount that must come out of your pocket before the plan pays for anything - for these plans can range from \$1,000 to over \$4,000. Some plans will even impose this deductible on a "per covered individual" basis. This means if you are insuring a family of four under a policy with a \$4,000 individual deductible, you could be looking at upwards of \$16,000 in out-of-pocket expenses before the plan pays for anything. Makes COBRA coverage look like a bargain! Add this to the fact that, unlike group plans offered by employers,



individual plans can impose pre-existing condition clauses, or even turn you down for coverage altogether due to health issues. Pre-existing conditions include all kinds of health issues which Murphy's Law dictates won't be a problem until you are covered by a health plan which precludes them.

And then there are the plans which cost a fortune. Insurance companies generally don't like to insure individuals. In a group insurance plan owned by a company, the insurance company is assuming the risk of both sick and healthy employees. Averaged out, the premiums paid for the by healthy tend to cover the costs generated by the sick. Not as much of a sure thing with individuals. The insurance company wants to insure that the premiums you pay are going to balance any costs you incur for healthcare. So they are going to charge you lots of money to make sure they don't face a loss for your potential future illnesses. Unfortunately, the older you are or the more dicey your health history is, the more you are going to pay.



Another fairly new option for the self-employed is a Health Savings Account (HSA). Similar to an IRA, you can put funds into the plan tax-free in order to be reimbursed for out of pocket medical expenses. Naturally, there are limitations imposed by the IRS on how much tax-free money you can set aside. You will also need to go through an HSA administrator and enroll in a high deductible health plan to qualify for the HSA.



Corporations, on the other hand, are eligible to purchase small group medical insurance plans. Small corporations may also be able to buy into healthcare cooperatives where multiple small businesses are pooled together to achieve better group rates. While the rules vary from state to state, small group medical plans are generally fully insured. The technical aspects of medical insurance plans tend to be complicated, but in a

nutshell, fully insured means that your company will pay a premium to an insurance company for managing and assuming the risks of employee healthcare coverage. This eliminates the complex and perilous administration of a self insured plan, where your company would take full control of the management, as well as assets and losses, of health care coverage.