



Health Insurance

Fringe Benefit, or Dead Weight?

by Mark E. Battersby



It is a sad reality that few pressure cleaning contractors or equipment dealers can afford to offer their employees healthcare insurance. Double-digit increases in the cost of medical insurance are driving others to severely limit this popular fringe benefit, if not discarding it altogether.

A Tillinghast-Towers Perrin survey showed that in 2002, a whopping 88 percent of the corporate respondents predicted even more large increases in employee healthcare costs through 2006. That means that by 2007, many companies, large and small, will be looking at healthcare costs almost double of what they were at the start of the century.

What can any contractor or equipment business owner or manager do to fight this tide? No one wants the government to step in with convoluted solutions. Fortunately,

several unique strategies developed in recent years, combined with our tax laws, may help make healthcare insurance an affordable option for many pressure cleaning businesses—and their owners.

Instead of focusing on making the system cut costs through managed care of HMOs alone, many large companies are focusing on making the consumer more cost sensitive and health-conscious.

Contain the Costs

As many contractors and equipment dealers are all too aware, insurance carriers that write policies for small businesses tend to charge very high premiums. Often they

demand extensive medical information about each employee. If anyone in the group has a pre-existing condition, the carrier may refuse to write a policy. Or, if someone in the pressure cleaning business becomes seriously ill, the carrier may cancel the policy the next time it comes up for renewal.

Fortunately, many states are trying to ease this burden by passing laws that make it easier for small businesses to get health insurance and to prohibit insurance carriers from discriminating against smaller firms. However, until such time as more of these favorable laws are passed, there are a number of cost-cutting options that every contractor and dealer should explore.

A growing number of small businesses are, for example, banding together with other businesses to enjoy economies of scale and gain more clout with insurance carriers. Many business leagues, trade organizations and groups offer health insurance plans for small business owners and their employees at lower rates.

Your pressure cleaning business may have only a few employees, but united with other members of a group or association and their employees, you've got substantial clout. The carrier issues a policy to the whole association; your business's coverage can't be terminated unless the carrier cancels the entire association.

Associations are able to negotiate lower rates and improved coverage because the carrier doesn't want to lose such a big chunk of business. This way, even the smallest one-person company can choose from the same menu of healthcare options that big companies enjoy.

Associations aren't the only route to take. In some states, business owners or groups have set up health insurance networks among businesses that have nothing in common but their size and their location. Chambers of commerce, tenants' and merchants' associations, etc. are among the possibilities that every contractor and dealer should explore.

Consumer-Driven Healthcare

A few, larger pressure cleaning businesses are experimenting with so-called "defined contribution" products. These plans typically grant employees an annual cash allotment, called a persona account on something similar, to spend as they please for health. If that money is used up, employees face a fairly high deductible before more conventional medical coverage kicks in.

In many of these plans that are offered by insurance companies, trade groups, and others, any unused portion rolls over and is added to the following year's allotment. In some areas and certain fields, they are already available to small businesses.

Employers hope to see savings from employees who, when confronted with the real price tag for their medical services, decide to shop for better value. Under today's systems, the employee pays his or her \$15 co-pay and the doctors and hospitals have an employer's blank check from there on in.

One midwest company added just such a personal health account plan last year. Single workers pay about \$450 to participate in the plan provided by a private administrator, one of a growing number of companies offering defined contribution products to employers. Participants buying coverage for one person have a yearly allotment of \$750. If their medical spending exceeds that, they are responsible for the next \$500.

Once the employee hits \$1,700 in annual healthcare expenses, a more traditional, managed care plan kicks in, giving full coverage, generally, to those who use "in network" medical services.

Carrots and Sticks

One employer recently dangled a temporary monetary incentive in front of employees willing to make staying healthy a priority. For those who stopped smoking, received

regular screenings for breast and prostate cancer, and took other common sense health measures, the company agreed to pick up 75 percent of their health insurance tab, compared with 60 percent for others. That offer prompted 90 percent of the company's employees to opt for health.

Although this was a large business, the payoff with this strategy also applies to smaller businesses, even those with only a few employees. In

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this situation, the operation's workers' compensation bill was close to ten percent lower than it was less than a decade earlier. What's more, even in today's environment of steadily escalating costs, the company faces only a three percent increase in healthcare premiums instead of the more commonplace multi-year, double-digit hikes that others face.

Would a similar strategy, worked out with the help of competent advisers or your insurance company, be just as effective in your workplace?

Uncle's Helping Hand

Although tax deductible by a contractor or equipment business, contributions made by the business to provide (through insurance or otherwise) accident and health benefits are not taxable to the employees. An employer's deduction for contributions to a funded welfare benefit plan for sickness, accident, hospitalization, or medical benefits is governed by the tax law (Section 419).

Group health plans that fail to provide continuing coverage to qualified beneficiaries may subject employers to an excise tax. In fact, any group health plan that fails to satisfy the continuation coverage requirements or which discriminates in favor of key- or highly-compensated employees

may be subject to penalties in the form of an excise tax—or denied a tax deduction.

If the pressure cleaning business's so-called "welfare benefit plan" involves self-insurance, amounts added to a self-insurance reserve account are not currently tax deductible. Actual losses charged to that reserve account are, of course, deductible.

Under our income tax laws, self-employed contractor or dealer may deduct 100 percent of any amounts paid for health insurance coverage for themselves, spouses, and dependents. This deduction is limited to the actual income earned from the pressure cleaning business and reduced by a deduction for contributions made by the self-employed contractor or dealer to a retirement plan.

Only those benefits received by employee-shareholders owning two percent or less of an S corporation's stock are tax deductible by the corporation as a business expense. Employee-shareholders owning more than two percent of the S corporation

stock are treated in the same manner as partners in a partnership.

Today, an employee-shareholder who owns more than two percent of the S corporation's stock and who is thus treated as a partner, is entitled to deduct 100 percent of the amount paid for medical insurance for himself, his spouse, and dependents.

For purposes of this deduction, a two percent plus shareholder's wages from the S corporation are treated as the shareholder's earned income derived from the trade or business with respect to the plan providing the health insurance coverage is established.

Finally

If you are waiting for Washington to solve your healthcare problems, many experts say that the wait may be a long one. Healthcare continues to be the subject of vigorous debate on Capitol Hill. Some Democrats are talking about universal healthcare although the plans are short on detail.

Congress may consider passing legislation that will create tax credits for uninsured individuals. Other

items on the agenda include expanding medical savings accounts and increasing prescription drug coverage for seniors. All of which puts the question of healthcare insurance or coverage squarely back on the shoulders of every pressure cleaning business owner and manager.

The self-employed pressure cleaning business owner, partners, and shareholders in pressure cleaning businesses operating as S corporations can today deduct 100 percent of the amounts they spend on healthcare insurance for themselves, their spouse, and dependents. The business itself may claim a tax deduction for amounts spent on healthcare for employees.

Employees, of course, can safely ignore healthcare payments made by their employer for tax purposes. But, the question remains, can anyone really afford healthcare protection and, if they can, for how long?

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