



Carolyn McClanahan, Contributor
I discuss all things money and medicine.

INVESTING | 6/23/2013 @ 3:15PM | 32,411 views

Employer Based Coverage Or Obamacare Plan? Which Is Better?

A common theme of the email I receive concerns the cost of employer based coverage versus buying health insurance on the new exchanges. Employer based coverage is considered too expensive by many people and they hope policies through Obamacare will provide some relief. This post explores the difference between the two options.

Employer Based Coverage

There are currently four benefits to having employer based coverage over individual coverage:

1. Employer based coverage is guaranteed issue, which means you could have any health problem in the world and not be turned down for insurance. This benefit isn't special under Obamacare, as now individual plans will also be guaranteed issue.
2. Employer based coverage is governed under federal law and provides better benefits such as pregnancy care and better mental health care. Individual policies are governed by state law, and each state varies in the requirements placed upon insurers. For example, Florida does not require pregnancy coverage in individual policies. Under Obamacare, all individual policies sold on the exchange will have minimum required benefits such as pregnancy coverage and mental health coverage. This will bring them up to par with group coverage.
3. Employers count health insurance as a business expense which means the benefit is not taxed. Employees also have the benefit of paying their part of the premium on a pre-tax basis when it is purchased through their employer. This means they save money on taxes when buying employer based health insurance. Individuals who earn W2 income (meaning they are employed by others) and buy individual insurance cannot deduct the premiums on taxes unless they itemize. Even then, they can only deduct the amount of premiums that are over 10% of their adjusted gross income. This is a tall barrier to meet and most will end up paying for health insurance on an after tax basis, which means they pay more for health insurance. This tax treatment does not go away under Obamacare.
4. Employers pay part of the premium for the employee. If the premium is \$6,000 per year, they pay at least \$3,000 of that premium. In recent years, employers have finally shared with employees how much that benefit is worth. Previously, the employees had no idea what the employer paid and only found out how much the actual premium cost once they separated from service and were subject to COBRA premiums.

Individual Coverage

There is currently one benefit to having individual coverage – if you are healthy and young, you can purchase individual coverage rather cheaply. Many savvy employees realize they can buy individual coverage for less



Which should you choose? (Photo credit: Wikipedia)

money than their premiums for employer based group coverage. Why is it so cheap? Coverage is not guaranteed issue and has few required benefits. If an insurance company can cherry pick healthy people, it can charge lower premiums. With Obamacare, the potential “cheapness” of individual coverage goes away because it will be guaranteed issue and provide essential benefits. The cost will be on par with employer based coverage because of these changes.

So what should you do – go with your employer’s coverage or go to the exchange?

The most likely answer? **Go with your employer’s coverage** – if they offer it. Here are the reasons:

1. If your income is less than 400% poverty level (about 66% of the population,) you will qualify for premium tax credits. HOWEVER, if your employer coverage is deemed “affordable” under the rules of Obamacare, and you do not accept the coverage, you WILL NOT be eligible for the premium tax credits.
2. Since the premium costs between individual and group insurance are predicted to be pretty much comparable, most likely, your employer based coverage is going to be less expensive to you. Why? Your employer has to pay at least 50% of the premium cost (see correction below.) Please remember that “less expensive” may not mean “affordable” in your mind. Many people feel that paying anything over the price of Starbuck’s coffee for health insurance is not affordable.
3. Premiums for health insurance paid through an employer are paid on a pre-tax basis which means your tax bill is reduced. Premiums paid on an after tax basis (individual insurance) are more expensive. Unless you have 1099 income in addition to W2 income (meaning you work for an employer and have some job on the side,) your health insurance premiums will be more expensive if you pay directly.

Of course, this advice is subject to change – be sure to check out the health insurance exchange when it opens October 1, 2013. Your employer will also provide information on their plans along with your options. Fascinating times are ahead.

Questions, comments? Post here, follow me on Twitter [@CarolynMcC](#), or email at Carolyn.mcclanahan@gmail.com. Email comes last in my world, and I appreciate your patience.

Correction: The employer pays some of the cost, and will be required to keep premiums below 9.5% of your income starting in 2015. They do not have to pay 50% of the cost. The 50% rule is for small employers who receive a premium tax credit.

This article is available online at:
<http://www.forbes.com/sites/carolynmcclanahan/2013/06/23/employer-based-coverage-or-obamacare-plan-which-is-better/>