

ACA IMPACTS: A TRANSFORMATION OF THE BENEFITS LANDSCAPE

It took one Supreme Court decision and two elections before the Affordable Care Act (ACA) was finally acknowledged to be “the law of the land.” But now that it is, companies are taking a careful look at its many provisions and delays in order to determine what guidelines they must follow and what strategic actions they should take. As we approach the watershed year for its implementation, the ACA has become omnipresent for American healthcare. It is projected that it will result in approximately 30 million new covered lives and \$1.2 trillion in government expenditures through 2022, \$1 trillion of which will be individual tax subsidies. But what will it mean for employers, which account for 95 percent of all commercial health coverage currently in the United States?

ACA Provisions

The scale and changes of ACA provisions impact the employer-sponsored healthcare model as we know it today. Analyzing the financial impacts well in advance and making necessary budget adjustments will be helpful for employers as they prepare for the changes that are coming as well as the projected increases in healthcare costs. Closely monitoring plan design and employee eligibility to ensure compliance with minimum coverage requirements mandated by the ACA will likely be an additional administrative consideration for large employers.

A one-year delay in the enforcement of the employer mandate announced by the Obama Administration in July 2013 will allow employers more time to be more thorough and rigorous in their approach to creating and refining the necessary systems and protocols required for complying with the ACA.

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Company A	Tasty Restaurants
Covered FTHes	2,500 (12,000 total)
Location	Multi-State
Demographics	Young, hourly, large turnover
Income	Low to middle
Education	High School
ACA Considerations	Per-employee penalties Income vs premium penalties Exchange coverage costs Reporting requirements

PAY	\$2,000	PLAY	\$7,600
	x 2,470		x 2,500
	<hr/>		<hr/>
	\$4,940,000		\$19,000,000

Company B	Awesome Software, Inc.
Covered FTHes	5,645 (5,900 total)
Location	Two & Telecommuters
Demographics	Diverse, salaried & stable
Income	Middle to high
Education	Undergraduate to Graduate
ACA Considerations	Cadillac Tax Auto-enroll Reporting requirements Total Compensation

PAY	\$2,000	PLAY	\$10,600
	x 5,615		x 5,645
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	\$11,230,000		\$59,837,000

The Employer Mandate

The employer mandate, also referred to as Employer Shared Responsibility (ESR), is a primary focus for employers, introducing legislation that affects plan design, funding and benefits administration. Often referred to as the 'Pay or Play' decision, employers now have to play by ACA rules or pay stiff federal penalties. The employer mandate requires employers with more than 50 full-time employees (FTE) to provide insurance coverage for those working, on average, more than 30 hours per week. If an employer "opts out" of providing coverage, the mandate institutes a \$2,000 penalty per employee (minus the first 30). If an employer chooses to offer coverage, it must meet the affordability and minimum coverage requirements or the employer will be subject to a \$3,000 penalty for each FTE that receives a federal subsidy from a public marketplace.

Look-Back Provision

Perhaps one of the most complex aspects of the ACA is the Look-Back provision, which institutes a measurement period to calculate the number of hours worked for each variable or seasonal employee against the 30-hour full-time standard. It provides a maximum wait period for coverage of 90 days for new-hire employees who are expected to work full-time. The provision consists of three key components. The first is the measurement period itself, which determines if work hours equal or exceed the 30-hour average. The second is an administration period, which is the time allotted for employers to determine eligibility and complete enrollment after the measurement period. The third portion is the stability period, or the minimum period for which the eligible employee can receive benefits. This period cannot be less than the measurement period. The measurement and stability periods can range from 6 to 12 months while the administration period is capped at 90 days.

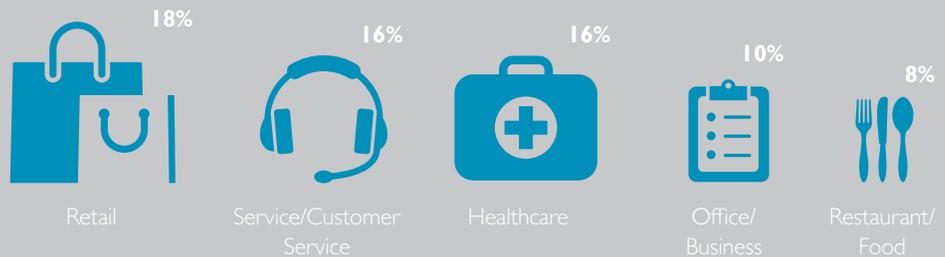
However, employers have a degree of flexibility in that the measurement and stability periods can differ across four groups: part-time and full-time employees, collective bargaining and non-collective bargaining employees, employees located in different states and employees of different entities. With such a high percentage of hourly employees in the workforce, calculating time worked for benefit eligibility presents the unique administrative task of accurately tracking enrollment status throughout the year. It's important for employers to realize that the first measurement period will occur in 2014 despite the Look-Back provision's association with the delayed employer mandate.

HOURLY WORKFORCE STATS

Statistics reveal a significant portion of the U.S. workforce is compensated on an hourly basis and the industries that will be most impacted by the Look-Back provision when determining benefit eligibility.

U.S. workers paid by the hour **59%**

Top 5 Industries for Hourly Workers



7 of the top 10 fastest-growing occupations are low-wage hourly jobs.



Plan Design Considerations

The ACA has set guidelines for determining minimum value for employer health plans by instituting a tiered system of standard plan ratings. This system formalizes four acceptable levels of coverage based on an actuarial value percentage that defines coverage levels of plans offered through public marketplaces. Called 'metal tiers', these rank in descending order based on actuarial value: Platinum (90%), Gold (80%), Silver (70%) and Bronze (60%). While these standards are not mandated for large employer coverage, they could have an impact by resetting coverage expectations. Until recently, many insured employees were accustomed to the coverage provided by platinum and gold level plans. Many employers, having to cover fewer employees, were able to offer a higher coverage level at a lower price that would attract and keep the best industry talent. However, as some employers prepare to provide coverage to a significantly higher percentage of their workforce, employees that previously received generous coverage may experience reduced contribution from their employers. Additionally, employees accustomed to the silver or bronze levels may be transitioned to bronze level coverage or see an increase in premiums.

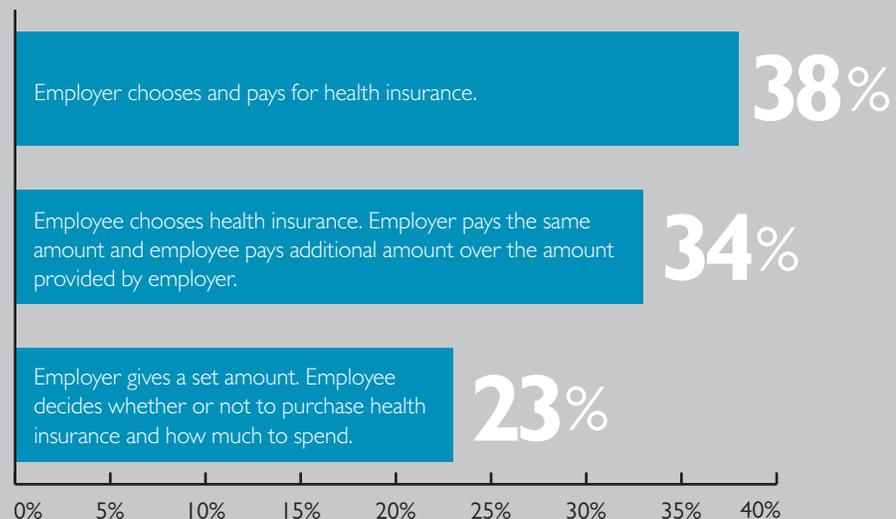
Indeed, the 'Cadillac Tax' that goes into effect in 2018 will likely render most platinum plans obsolete by imposing a 40 percent excise tax on the value of health plans exceeding a certain threshold. Currently, the thresholds are estimated to be \$10,200 for individual coverage and \$27,500 for family coverage and will be adjusted depending on actual medical inflation between now and 2018. Theoretically, the tax may help contain healthcare costs by influencing employers to offer plans with higher deductibles, which in turn engages employees in a more balanced, cost-sharing coverage model. A survey of U.S. companies conducted by the International Foundation of Employee Benefit Plans revealed that 17 percent of employers had already revised health plans in 2012 in preparation for the implementation of the excise tax. While some employers are increasing deductibles as a strategy to circumvent the tax, others are reportedly investigating disease management and wellness programs that promote healthier lifestyle choices for their workforce.

Defined Contribution

Defined contribution, rather than the currently dominant defined benefits model, is becoming increasingly prevalent as employers lay the groundwork for a benefits strategy that offers employees more choice while controlling healthcare costs. With a defined contribution model, employers provide each employee with a specific dollar amount or percentage of their salary to spend on health coverage as well as other ancillary products they may choose to offer. Employees are then able to decide how they want to allocate their employer's contribution and out-of-pocket expenses based on personal and financial preferences and their individual healthcare needs. Depending on many factors, including risk tolerance, some may be interested in a more economical, high deductible health plan, which can then be supplemented with additional voluntary benefit products. Others may prefer coverage that allows for a lower deductible and higher premium. Accustomed to evaluating products online, today's employee is likely to pay greater attention to the value of the plans offered and carefully evaluate their true benefit needs. Encouraging consumerism in selecting benefit plans can help employers design more cost-effective and competitive benefit packages.

WORKER PREFERENCE FOR OBTAINING HEALTH INSURANCE - 2012

The Health Confidence Survey conducted in 2012 by Employee Benefit Research Institute and Mathew Greenwald & Associates examined Americans' satisfaction with healthcare today as well as public opinion on the future of the healthcare system in the U.S.



Presenting benefit offerings in a highly accessible and easy to navigate environment makes it easier to communicate the value of the plans and help employees decide which are best fit to their needs. More and more employers are adopting modern benefits administration systems that can guide both employers and employees through these considerations while providing the flexibility to address changing business needs and compliance under the ACA.

Software & Support

A cloud-based software solution can facilitate ACA compliance for both employers and insurance carriers, creating a user-friendly online benefits marketplace that streamlines enrollment and reduces the administrative encumbrance of managing a multitude of benefits. Organizations that implement cloud-based software that is responsive to changing requirements, offers flexible configuration and enforces business rules at all levels are well positioned to adapt to changes and manage increasingly complex processes. This flexibility can also be supplemented by educational material in the form of comprehensible decision support tools such as videos, avatars, virtual shopping carts or cost estimators.

Ensuring Employee Communication Delivery

Employee communication is an important component for ACA compliance. Software solutions to deliver mandated notifications and track which employees in fact receive the required communication can help employers counteract the risk of incurring penalties.

Summary of Benefits & Coverage

The U.S. Department of Health and Human Services (HHS) requires standards for summaries provided by insurance carriers of health plans, including minimum essential benefits coverage. Failure to provide enrollees with this information will result in a \$1,000 fine for each fault. This provision of the ACA is contained under Section 18B of the Fair Labor Standards Act and also mandates that the employer notify employees regarding the ACA's existence by October 1, 2013 – a requirement that has not been altered by the delay of the employer mandate.

**LIVE HEALTHIER
PAY LESS**



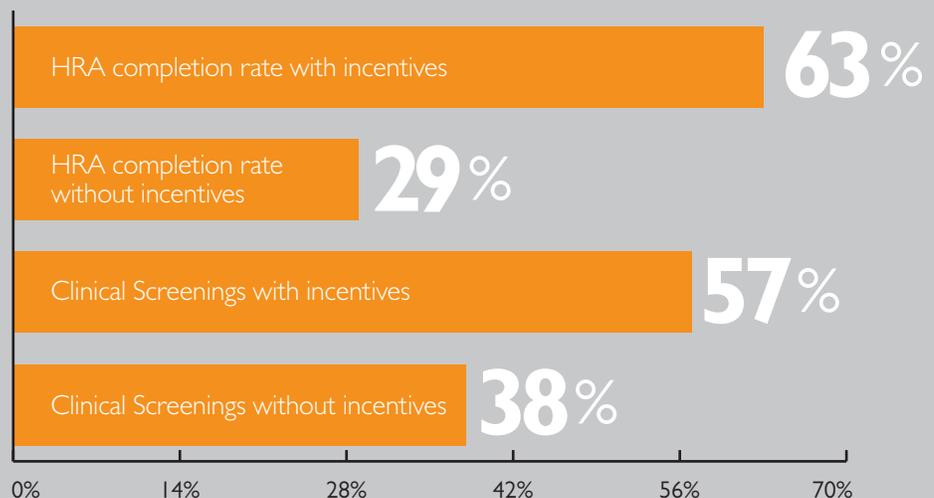
Final regulations regarding nondiscriminatory wellness programs in group health coverage will permit employers to offer rewards of up to 30 percent of the cost of coverage for participating in a wellness program and meeting certain health-related standards. Furthermore, the law will increase the maximum permissible reward to 50 percent for wellness programs designed to prevent or reduce tobacco usage. These rewards can be in the form of premium discounts, waivers of cost-sharing requirements or benefits that would not be provided.

These notifications can be displayed to employees within an online enrollment system, capturing confirmation that the employee reviewed with electronic acknowledgement forms. In addition, offering a declination survey reminds the employee of the individual mandate if they choose to decline coverage and emphasizes the importance of accepting coverage if they are not eligible for premium subsidies. By capturing this information within the system, employers can keep an ongoing record of employee activity and enrollment status to satisfy the reporting requirements under the ACA.

Using a configurable solution, employers can easily gauge an individual's health status on several important fronts, including tobacco use and wellness program participation, both of which impact premium rates under the ACA. These factors are taken into consideration before appropriate health plan options and rates are recommended to the employee based on the business rules indicated by the employer. If an employee designates that they use tobacco, employers can choose to offer a cessation program that can result in reducing the employee's out-of-pocket costs. Discounts for participation in corporate wellness programs and individual health assessments can also be made visible during enrollment, allowing employees to realize savings associated with healthier lifestyles. By proposing questions to employees within a simplified enrollment workflow, they are afforded a more personalized shopping experience. This interview approach to shopping for benefits allows the employee to tailor their coverage based on their specific healthcare needs. It can also provide employers with a valuable opportunity to implement programs that can reduce future coverage costs.

INCENTIVES WORK: RAND 2012 EMPLOYER SURVEY

According to the RAND 2012 Employer Survey, employers who use incentives for screening activities (Health Risk Assessments (HRA) and Clinical Screenings) report significantly higher participation rates than those who do not. The survey also suggests that employers view wellness programs as positive and experienced reduced healthcare costs (61%), decreased absenteeism (78%) and increased productivity (80%).



Employers can leverage other channels to deliver easy to understand educational resources that provide explanations of complex terms and concepts introduced by the ACA. According to CNBC.com, YouTube now reports one billion unique users each month. This widespread use of streamed video and their ability to reach a large audience makes visual media a valuable corporate teaching tool. Videos can also provide instructional support for HR teams as they tackle the implementation of complex processes to comply with new legislation.

In addition, personalized decision support tools that offer employees insight into how health-related behaviors impact out-of-pocket costs can be incorporated during the plan shopping process, helping employees become more informed healthcare consumers. To provide more granular information, tools that integrate historical claims data for each individual along with national benchmarks have been developed to better estimate expenditures. Accessing this type of advanced decision support can lead to greater cost transparency for employees, reducing the need for additional research as well as the high volume of questions HR departments are flooded with during an open enrollment season.

A mobile presence is increasingly important as many of the newly covered individuals under the ACA will likely fall into the younger demographic that may rely more heavily on their mobile devices to stay connected and obtain up-to-date information. Medline Plus reports that as of 2012, 27% of young Americans between the ages of 26 and 35 do not have health insurance. With the introduction of the individual mandate, everyone will be required to purchase adequate health insurance or pay a penalty. Many young people will likely look for health insurance options on mobile devices. According to a Pew Internet report from 2012, 45 percent of young adults between the ages of 18 and 29 do most of their online browsing from their mobile phones. As such, it is extremely beneficial for employers with a mobile reliant workforce to provide the same ease and accessibility to their benefits information from a smartphone or tablet.

With the implementation of the ACA already well underway, it is imperative for employers, no matter their industry, to engage in preparation and action that will allow them to quickly and effectively transition. The adoption of modern software and support services that incorporate the multitude of capabilities necessary to successfully adapt and comply with the ACA will likely continue among large employers.

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