Large Employers’ Response to the ACA
Task Force on Federal “Health Reform” Implementation
National Conference of State Legislators
May 4, 2013
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Health Costs Even More Noticeably Out of Sync with Rest of Economy Since 2008

• **Health Care Costs Overall** – $2.6 trillion (2009), 18% GDP

• **Comparing Health Care to Wages** – 76% Increase Health Costs in Past 10 Years, Overwhelming the 30% Gain in Personal Income

• **Comparing Health Care To Overall Economy** – For 31 of the Last 40 Years, Health Care Has Grown Faster Than the Economy.

• **If Prices of Other Products Had Grown as Fast as Health Care Since WWII**–
  • A Dozen Eggs: $55
  • Gallon of Milk: $48
  • Dozen Oranges: $134

Source: US Institute of Medicine, 2013
States, Municipalities, Counties, School Districts Face Same Unsustainable Costs as Employers

Health care spending is projected to nearly double as a share of the economy.

Payers and Consumers Increasingly Questioning the Value for What We Pay

Wasted Expenditures – $750 billion (2009)

Source: US Institute of Medicine, 2013
Waste in Health Care Is Squeezing Out Consumer Spending, Consumer Saving and Other Public Expenditures Costs

- Waste Could Pay the Entire Department of Defense Budget in 2009 and Have $100 Billion Left
- Waste Could Pay Salaries of All First Response Personnel Nationally for 12 Years
- Waste Could Pay the Entire Nation’s Infrastructure Costs for 1.5 Years—Roads, Railroads, Water, Telecom, Airlines…
  Waste Could Pay the Health Insurance Premiums (Employee and Employer Contributions) for 150 Million Workers…or More than All the Uninsured
- Waste Could Pay the Tuition and Fees for Every 18-24 Year Old to Get 2 Years of College
- Waste Could Pay ______________ in [Name Your State] for ______ Years

Source: US Institute of Medicine, 2013

ACA Expands Coverage Overall and Changes How People Have Coverage—More in Government Programs, Fewer in Employer Plans

Source: Congressional Budget Office, February 2013
The Bottom Line: ACA Makes Coverage More Expensive for Employer Plans and Employees

- Direct—Benefit Mandates and New Plan Rules
- Direct—ACA Fees, Assessments, Penalties Estimated at $436-756 Billion (CBO 2013, Joint Committee on Taxation 2010)
- Indirect—Revenue Shifting by Hospitals and Physicians and because of Expansion of Medicare Discounts

Employers’ Confidence about Offering Health Benefits in 10 Years Remains Near All-time Low

Key Questions for Each Company’s Health Care Strategy?

- Big Picture: What Are the Implications of “Health Reform” for Our Rewards Program and Talent Management Strategy?
- How Is the Company Preparing for Pay or Play Mandate in 2014?
- What Is the Company’s Strategy toward Exchanges, Private and Public?
- What Is the Company’s Strategy to Avoid the Excise Tax in 2018?

How Is the Company Preparing for the Employer Mandate?

- Affects Full-Time Employees Only—30+ Hours/Week
- **Is the Coverage Comprehensive Enough?** Determine the Actuarial Value of Your Plans (Does the Plan Pay ≥ 60% of the Total Allowed Expenses for Benefits for Self-Only Coverage for at Least 1 Plan Offered?)
- **Is the Coverage Affordable?** Estimate the Percentage of Household Income that Your Employees Pay in Contributions or Use Safe Harbor Based on Percentage of What You Pay Employees (Is the Employee Contribution Amount for Self-Only Coverage for at Least 1 Plan Offered ≤ 9.5% of Your Employees’ Incomes?)
- **Do You Offer Coverage to Dependent Children?** (New Requirement from Latest Regulations)
- **Factor in Added Costs for Employees Who Previously Opted Out of Your Company’s Coverage?**
Response Depends on Type of Employers?

Type of Employer:

- Don't Offer Coverage Today
- Offer Coverage Today but in High Turnover, Part-Time Jobs, Non-Technical Employees—Perhaps Not Enough
- Offer Coverage Today with High Labor Competition, Long-term Employment, Technical Employees—Perhaps Too Much
- Offer Coverage Today and Strong Culture of Health or Health as Key Part of Business Strategy—Getting It Just Right
- Offer Coverage Today and in Health, Insurance or Related Industries

Companies with Certain Attributes Will Face More Complex Challenges with 2014 Employer Mandates

- Productivity and Differential Performance Materially Influence Results
- Workforce Has a Diverse Range of Occasional and Part-time Workers
- Many Employees Are Low-Wage Earners
- Contracting Represents a Material Part Of How the Organization Delivers Or Manages Its Services
- Low Margin Or Non-Profit Business
- Labor Cost Represents a Significant Portion Of Overall Costs

Some workforce segments not eligible for health care benefits, but may work "full-time" hours

Some workforce segments eligible for health care benefits, but not participating
Employers’ Likely Actions to Manage Workforce


What Other Factors Do We Weigh In Decision to Pay or Play besides Cost of Health Benefits vs. Penalties?

Many Factors to Weigh In Pay or Play Decision:

- Direct Health Benefit Costs Only One Factor
- Future Changes in Employer Penalties
- Tax Implications for Employers
- Compensation Implications
- Employees’ Likelihood of Qualifying for Federal Subsidies
- Impact on Other Benefit Costs (Workers Comp/Disability/Medical Leave)
- Employee Morale and Productivity
- Ability to Attract and Retain Talent
Leading Employers Are Managing Their Health Care Costs Today to Stay within a “Corridor” of Costs Tomorrow

2018

- 40% Excise Tax Cap Ceiling ($10,200/$27,500)

  - Plan value needs to be low enough to avoid the excise tax

  - Manage cost trend
  - Improve workforce health
  - Reduce risk factors
  - Optimize vendor performance
  - Manage high-cost claim risk
  - Minimize non-core benefits

2014

- Minimum plan of 60% actuarial value and affordable to employees

  - Plan design needs to be high enough to avoid penalties

Top Priorities for Employers’ Health Care Strategy In 2014

1. Examine health care benefits, employee subsidies and out-of-pocket costs in a total rewards framework
2. Manage company subsidy as part of a total rewards budget rather than a health plan budget process
3. Increase employee contributions in tiers with dependent coverage at higher rate than single coverage
4. Structure employee contributions based on employees taking specific steps
5. Adopt new payment methodologies that hold providers accountable for cost of episode of care, replacing fee for service
6. Offer telemedicine for professional consultations
7. Fund AHP contributions offer Savings Realized aligned to wellness or health management behaviors
8. Offer specialty treatment providers/networks
9. Formally track quantitative outcomes from all vendors
10. Use reference-based pricing in medical plan
11. Contract directly with physicians, hospitals and/or ACOs
12. Provide access to a private or corporate health exchange

Source: 2013 TW/NBGH Employer Survey on the Value of Purchasing Health Care
Key Thoughts for States

• Think Strategically about the Impact of Your ACA-Related Decisions on the Business Climate in Your State
  • Your Decisions Will Affect Cost of Labor, Relative Attractiveness to Business in Your State
  • Failure to Expand Medicaid Could Raise Costs for Your Employers
  • Subsidizing Employed Medicaid Eligibles with Employer Coverage May Be Win-Win for State and Employers
  • Decision in 2017 or Later to Let Larger Employers Participate in Exchanges May Mean Federal Subsidies for Their Employees’ Health Care Costs, May Also Lower Exchange Costs