

Health Care Reform: One Year Later

In just over a year since the passage of the Patient Protection and Affordable Care Act (PPACA), employers have already felt its effects, with an average 2% increase in enrollment as they extended eligibility for dependent coverage to employees' children up to age 26 (**Figure 1**). PPACA's rule requiring employers to automatically enroll newly hired, or newly eligible, full-time employees into a health plan will cause enrollment to grow by another 2% on average in 2014, when the provision is slated to go into effect (**Figure 2**).

More than a fourth of respondents (28%) said that compliance with PPACA mandates slated to go into effect in 2014 — most significantly, extending coverage to all employees working on average 30 or more hours per week, auto-enrolling new full-time employees, and ensuring that plans pay for at least 60% of covered services — will add at least another 3% to

their projected 2014 plan costs, with 15% expecting an additional 5% or more. About the same number (27%) predict a relatively modest increase of 2% or less, and 15% said their plans were already in compliance and would see no cost increase. The remaining 29% could not estimate the impact.

Despite concerns about costs, employers remain committed to offering medical coverage to their employees. Just 2% of survey respondents say they are 'very unlikely' to terminate medical plans after the insurance exchanges are operational, with another 6% 'likely' to do so.

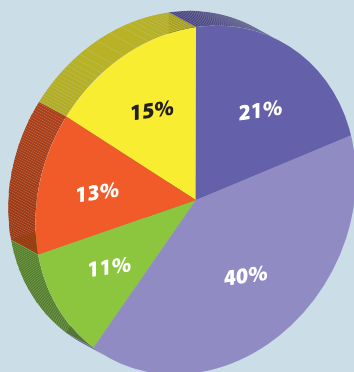
A year ago, employers were asked about their level of concern over six major provisions of PPACA, a question that was repeated in the current survey. The excise tax on high-cost plans, which is slated to take effect in 2018, emerged as their top concern then and remains their top concern today — even though it will not be implemented until 2018. The excise tax poses a 'very significant concern' for an additional 23%. About a fourth (28%) say it's only a 'slight concern' and a similar number (27%) say it's 'not an issue' for their organizations.

The excise tax provides employers with a strong incentive to keep health plan costs down. Their top long-term cost management strategy is to add or strengthen programs or policies to encourage more health-conscious behavior — 54% say they are very likely to pursue this strategy while another 38% say they are likely to do so. Another way to reduce plan cost is to carve out various nonmedical benefits such as dental and vision and offer them to employees as voluntary benefits. Over a fourth of respondents (29%) say they are very likely to take this approach.

As enrollment levels climb, some employers are considering ways to control their own spending on health benefits through other means. Nearly two-fifths (38%) say it's likely or very likely that they

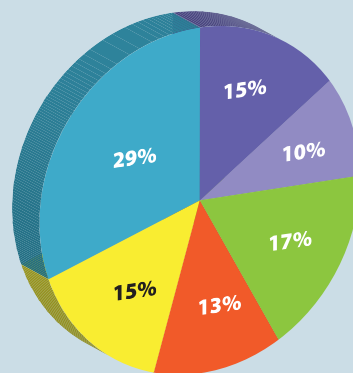
Figures 1 & 2

Figure 1: Growth of enrollment in 2011 due to extending dependent coverage to employees' children up to age 26



- Increased less than 1%
- Increased 1%-2%
- Increased 3%-4%
- Increased more than 5%
- N/A: in compliance prior to 2011

Figure 2: Anticipated cost increase in 2014 due to PPACA requirements



- No increase: already in compliance
- Increase of less than 1%
- Increase of 1%-2%
- Increase of 3%-4%
- Increase of 5% or more
- Don't know

Source: Mercer, August 2011

will reduce their spending on dependent coverage in relation to employee-only coverage. Of the largest survey respondents — those with 5,000 or more employees — 45% are likely to reduce spending on dependent coverage, compared to 30% of those with fewer than 500 employees.

Some employers are considering moving to some type of ‘defined contribution’ approach to pay for health coverage. More than a fourth of respondents (26%) say they are considering keeping the employer contribution the same for all plans offered, so that employees pay more for more expensive plans. Fewer (8%) are considering raising the employer contribution by a set amount each year, regardless of the actual increase in cost, with employees absorbing the rest of the increase, or simply providing employees with a fixed dollar subsidy to purchase coverage on their own (9%).

Of the employer-related reform provisions slated to go into effect in 2014, auto-enrolling new full-time employees seems to be causing the most headaches. Auto-enrollment is seen as a ‘very significant’ or ‘significant’ concern by about a fourth of all respondents (28%).

Employers are already considering how to manage the cost of the auto-enrollment requirement. Among survey respondents that currently offer only one medical plan, most will simply use their current plan as the default plan for auto-enrolling new full-time employees. Among those respondents that currently offer a choice of medical plans, 65% will use their current lowest-cost plan as a default plan; 29% will use their standard plan (the plan with the highest enrollment) and 7% will add a new plan as the default for auto-enrollment. The largest employers — those with 5,000 or more employees — are the most likely to add a new plan (11%).

Invitations to complete an online questionnaire were sent to the organizations that participated in the National Survey of Employer-Sponsored Health Plans, which used a national probability sample of private and public employers; 894 employers completed the survey. Full text is available online. Web site: www.ribgh.org/resources/Mercer%20PPACA%20One%20Year%20Later.pdf

Trends and Tradeoffs in Employee Medical Benefits

Over the past five years, the vast majority of companies surveyed (88%) have increased employee cost-sharing, copays, and/or deductibles. Almost half (42%) have shifted to a high deductible plan or health savings account (HSA), and 38% have reduced health benefits (i.e., coverage levels, family care). However, just 2% have eliminated dependent coverage. A surprising one-fifth (21%) of companies surveyed have reduced or eliminated salary increases and/or bonuses for employees in order to continue offering employee medical benefits.

A smaller number of companies surveyed (9%) have reduced nonmedical benefits and 8% percent have moved to self-insurance as a result of rising costs over the past five years. Almost half (47%) said that they provide medical benefits to their employees through self-insurance. Particularly for larger organizations, self-insurance is a popular option — 89% of respondent companies with more than 500 employees are self-insured.

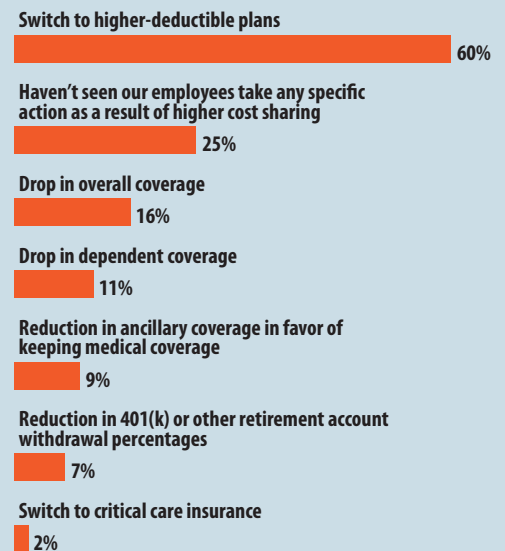
Many employers haven’t yet fully embraced voluntary products as a way to control cost increases. Only 4% and 3%

have shifted from employer-paid policies to voluntary policies for medical coverage and nonmedical benefits, respectively.

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Figure 3

EMPLOYEE ACTIONS OVER THE PAST FIVE YEARS, POSSIBLY AS A RESULT OF INCREASED EMPLOYEE COST SHARING



Source: Turner and Thompson, June 2011

So, as a result of this increased cost sharing, employees too are making hard tradeoffs when it comes to their benefits decisions. Sixty percent of companies have seen their employees switch to a higher deductible plan over the past two years, while 16% and 11% have seen drops in overall and dependent coverage, respectively (**Figure 3**).

Yet, one-quarter (25%) of companies reported that they haven't seen their employees take any specific action as a result of increased cost-sharing, perhaps implying that many employees have simply accepted that they are more responsible than before for their medical insurance costs.

Looking ahead to the next five years, companies remain open to considering a number of options that will continue to result in less disposable income for employees. Most popular options include increasing employee deductibles and premiums, with 79% saying that they would consider both. Further, 48% would think about instituting wellness programs, 37% would consider instituting a high deductible plan and/or HSA, and 31% would think about becoming more focused on claims modeling and claims management. There is some silver lining for employees — just 12% would consider discontinuing their medical plan entirely.

Employee medical benefits represent a major portion of total compensation costs — for the most recent fiscal year, 38% of companies reported that providing employee medical benefits costs between 6% and 10% of total compensation and 35% say it was between 11% and 20%. Almost half (47%) of companies say that providing employee medical benefits for the most recent fiscal year cost more than 10% of their total compensation costs. And this cost has grown — more than half (54%) said that their company's medical benefits costs have increased more than 20% over

the past two years, and 58% of companies have increased employee medical benefit costs by more than 40% in the past five fiscal years.

As a result, 75% of companies surveyed have increased their employees' contribution to medical benefits costs in the past two years. Thirty-one percent of businesses have increased the percentage each employee contributes out of their pay toward medical benefits by 6 to 10 percentage points and 15% said the percentage increased by 11 to 25 percentage points. Just 24% said employees' percentage contribution remains the same.

When asked about total employee benefits programs, including health care coverage and other benefits such as disability, vision, and dental insurance, as well as wellness program such as gym memberships and weight loss programs, companies were squarely focused on health insurance — 76% said that providing medical insurance coverage for employees was important, while just 35% said that providing as many employee benefit options as possible to their employees was important.

Companies seem to be equally focused on keeping costs down for both the company as a whole and their employees. Fifty-two percent said that keeping costs on employee benefits to a minimum for the organization was important, and 54% said that keeping costs on benefits to a minimum for the employees was important.

This survey consisted of two studies. The qualitative survey consisted of 11 in-depth interviews with senior financial executives and the quantitative portion consisted of an online survey of 156 financial executives. Full text is available online. Registration is required. Web site: www.corpsyn.com/whitepapers/245-trends-and-tradeoffs-in-employee-medical-benefits.html

Benefits Administration Trends, Insights and Strategies

Despite the emphasis most organizations continue to place on reducing administrative costs, respondents identified health care compliance as their single most important issue. This isn't surprising in light of the sheer complexity of health care reform, the multitude of changes and implications that HR professionals must absorb and communicate to the organization, and the costly penalties that would result from compliance violations. Indeed, many HR professionals have described health care reform as the single biggest issue to impact their discipline in the past decade (**Figure 4**).

Administrative cost reduction was the second most popular response. The fact that it placed so highly, despite the effort that many organizations have put into reducing costs over the past several years, is likely the result of multiple factors, including the aggressive rate at which health care costs continue to rise and the ongoing financial pressures that the economy continues to place on organizations.

When the responses were broken out by employer size, participants from companies with more than 5,000 employees cited reducing administrative costs as their top concern (at 70%) and health care compliance as their number two concern (at 60%).

Once again, compliance scored highly among respondents' concerns (59% rated their concern 'high') but it was edged out by 'provide proper communication resources'

(cited by 61%). It's very likely, however, that these two responses are intertwined: the communication of compliance-related information is helping to drive up concern regarding proper communication resources. HR must determine the most effective ways to communicate all of this change to employees while at the same time addressing another top concern: 'expanding benefit offerings and reducing costs,' (56% rated this of 'high' concern).

It is no surprise that respondents widely cited cost sharing, plan design changes, and employee wellness programs as part of their strategies to contain costs. Another strategy that employers are widely implementing is dependent eligibility management (**Figure 5**). With health care costs continuing to rise, dependent eligibility audits will continue to grow in popularity. What is surprising is that more than 70% have not yet restructured their retiree benefits (for those that have these plans).

This survey was conducted among senior executives, directors, and managers directly responsible for employee benefit plan decisions and for achieving the strategic goals of their organizations. Responses were collected from more than 131 employers of all sizes and from a wide variety of industries. Full text is available online. Registration is required. Web site: www.prweb.com/releases/2011/6/prweb8547114.htm

Figures 4 & 5

Figure 4: Most important benefits-related issues for employers, 2011.

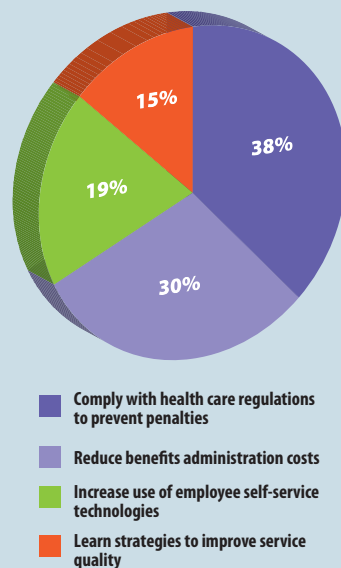
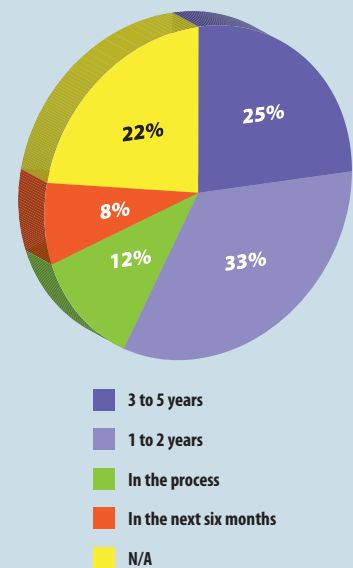


Figure 5: Length of time employers have been utilizing dependent eligibility audits.



Source: Secova, May 2011

Health Insurance Coverage: Estimates From the National Health Survey, 2010

In 2010, the percentage of persons uninsured at the time of interview was 16% (48.6 million) for persons of all ages. Among adults aged 18-64, the percentage uninsured at the time of interview increased from 21.1% in 2009 to 22.3% in 2010. Among adults aged 19-25, 33.9% (10 million) lacked coverage.

A total of 60.3 million (19.8%) persons of all ages were uninsured for at least part of the year. Adults aged 18-64 were more than twice as likely (26.7%) as children (11.6%) to experience this lack of coverage. There was a decrease in the percentage of children who had been uninsured for at least part of the past year, from 12.8% in 2009 to 11.6% in 2010. Among adults aged 18-64, there was an increase in the percentage that lack coverage for at least part of the year from 25.6% in 2009 to 26.7% in 2010. Among adults aged 19-25, 41.7% had been uninsured for the past year.

Data also revealed that 13.3% (35.4 million) of persons under age 65 had been uninsured for more than a year. Adults aged 18-64 were more than three times as likely as children to have been uninsured for more than a year. Among adults aged 19-25, the percentage that had been uninsured for more than a year increased from 22% in 2009 to 24.1% in 2010.

In 2010, 61.2% of persons under age 65 were covered by private health insurance plans. Almost two-thirds (64.1%) of adults aged 18-64 were covered by a private plan, compared with 53.8% of children under age 18. Private coverage decreased for adults aged 18-64, from 65.8% in 2009 to 64.1% in 2010. Among adults aged 19-25, 51.0% were covered by a private plan in 2010.

Hispanic persons were more likely than white, black, and Asian persons to be

insured, to have been uninsured for at least part of the past 12 months, and to have been uninsured for more than a year. More than one quarter of Hispanic persons were uninsured, and more than one third had been uninsured for at least part of the past year.

For all persons under age 65, the percentage who were uninsured was highest among those aged 19-25 (33.9%) and lowest among those under age 18 (7.8%). Starting at age 18, younger adults were more likely than older adults to lack health insurance coverage. Among adults, men were more likely than women to lack health insurance coverage at the time of interview.

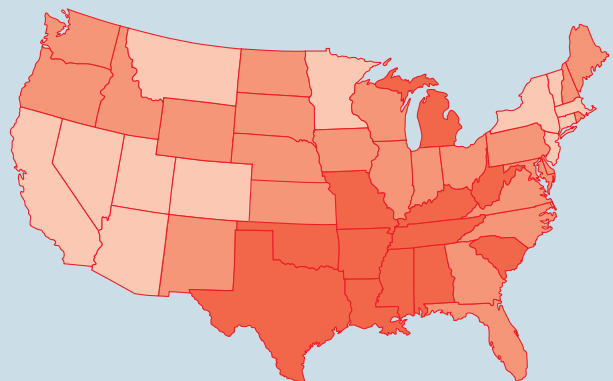
Nationally, 18.2% of persons under age 65 years lacked health insurance coverage in 2010. However, approximately one in four persons under age 65 in Arizona, Florida, and Texas, and one in five persons under age 65 in California, Georgia, and North Carolina, lacked coverage. By contrast, rates of noncoverage in Illinois, Maryland, Massachusetts, Michigan, New York, Ohio, Pennsylvania, Virginia, and Wisconsin were lower than the national average.

During 2010, 25.3% of persons under age 65 years with private health insurance were enrolled in a high deductible health plan (HDHP). Almost 50% of persons with a private plan obtained by means other than through employment were enrolled in a HDHP.

The data for this report are derived from the Family Core component of the 1997-2010 National Health Survey, which collects information on all family members in each household. Data analyses for the 2010 NHS were based on 89,665 persons in the Family Core. The 25 page report is available online. Website: www.cdc.gov/nchs/data/nhis/earlyrelease/insur201009.pdf

Percent of Obese Adults in the United States, by State, 2010

- 20%-24% (includes Alaska & Hawaii)
- 25%-29%
- ≥ 30%



Source: Centers for Disease Control and Prevention, August 2011