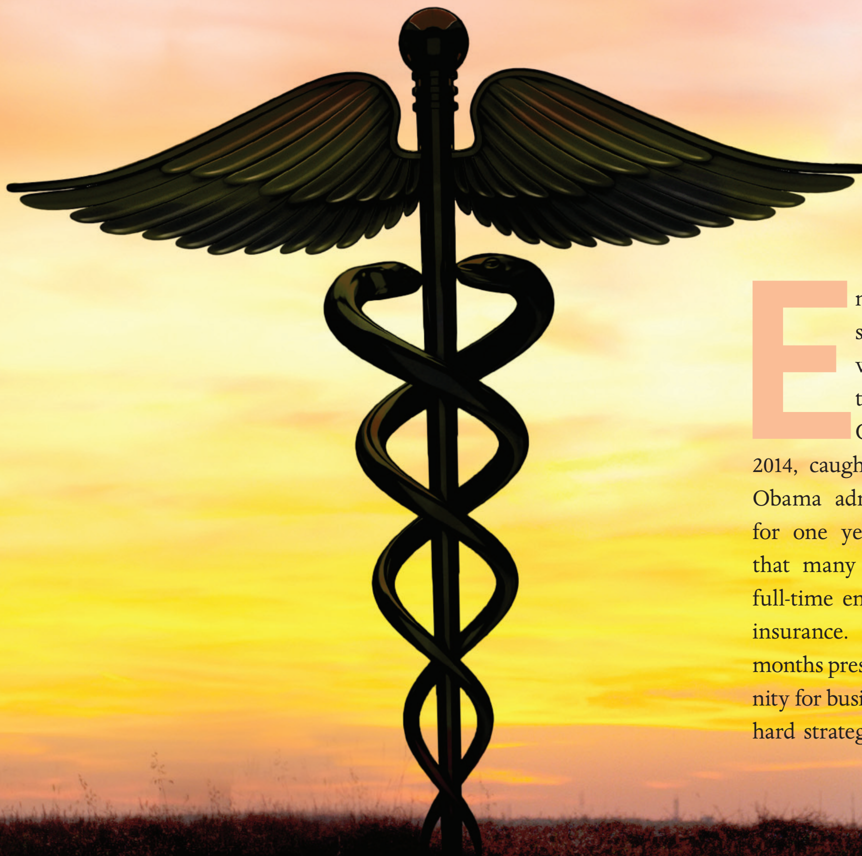
Time to Get STRATEGIC

By Gary B. Kushner, SPHR, CBP



Employers that were scrambling to comply with the Patient Protection and Affordable Care Act by Jan. 1, 2014, caught a break when the Obama administration delayed for one year the requirement that many must provide their full-time employees with health insurance. So the next several months present an ideal opportunity for business leaders to take a hard strategic look at how their

health plans fit with organizational and HR strategies.

For many employers, it has been a long time since they considered these basic questions:

- Will we offer benefits?
- Who will be offered benefits?
- How rich will the benefits be?

Employers deciding not to offer health benefits should consider the impact that decision could have on the organization and what—if anything—they would replace the value of the benefits with. How would the decision affect recruiting and retention, not just for leaders and top managers but throughout the organization? The impact will depend on the employer's market—its industry, workforce size and geographic region—and the answer may differ for certain employee groups.

A big-box retailer may not care about retaining benefits for greeters, though it might want to do so for managers. On the other hand, a high-end retailer whose salespeople represent its competitive advantage may need to offer health benefits to attract and retain the right talent. So, though both employers operate in the retail industry, their strategies will be different.

Or a fast-food restaurant might not care about offering health insurance to an employee who works the counter because, if that person leaves, there is a large available talent pool for that position and training time for a new hire will be minimal. A tech company interested in hiring and retaining a programmer, however, will need to consider its entire rewards package, including compensation, health insurance and other benefits.

These are all important considerations, but employers should not stop here. This year's open enrollment period demands that they dig deeper.

Issues to Consider

If leaders decide they will provide employee health insurance, there are a number of qualitative issues to consider. For starters, if the plan has retained its grandfathered status, is it worth keeping? While most of the health care reform law applies to both grandfathered and nongrandfathered plans, there are seven requirements that apply only to nongrandfathered ones.

Employers that keep their grandfathered plans cannot change the co-insurance percentage employees pay or increase deductibles or other plan design elements beyond a certain point. So, the trade-off for staying grandfathered is that the organization will have to maintain an overall richer plan design.

Next, consider other plans that are subject to the health care reform law's requirements. If dental and vision plans are wrapped into the health plan, they are covered by the law. If, however, both plans are separate from the health plan and have separate plan documents, even if they are with the same carrier, they are not subject to the health care reform law.

Then, depending on the size of the company and how covered plans are funded, the plans must meet specific requirements. They must:

- Meet actuarial value requirements and pay at least 60 percent of the allowed costs for covered services.
- Comply with the requirements to provide essential health benefits if the plans are sponsored by a small employer.
- Provide coverage to all full-time employees—those regularly scheduled to work 30 or more hours a week—and their children,

Requirement for Nongrandfathered Plans

Seven requirements under the health care reform law apply only to nongrandfathered plans:

New insured plan nondiscrimination rules. Fully insured health plans will be prohibited from favoring highly compensated employees.

Minimum design requirements. Plans must cover essential health benefits and deductible limits. For 2014, this requirement applies only to small employers.

Appeals process standards. Employees have a right to appeal their health insurance plan decisions. If payment is still denied, they have the right to external reviews.

Preventive benefit cost-sharing requirements. There is no cost sharing—no co-payments or co-insurance—for immunizations or preventive care.

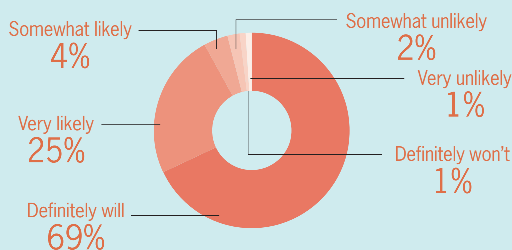
Emergency services prior authorization. Employees may seek emergency care at a hospital outside the plan's network without prior approval from the health plan.

Emergency services out-of-network cost sharing. Health plans may not require higher co-payments or co-insurance for out-of-network emergency room services.

Participants' choice. Plan participants may select as a primary care physician a pediatrician or gynecologist without getting a referral from another doctor.

Most Employers Will Continue Coverage

In *2013 Employer-Sponsored Health Care: ACA's Impact*, the International Foundation of Employee Benefit Plans reports on a survey of 966 company representatives, including benefits and HR professionals, who predicted the likelihood of continuing health care coverage for all full-time employees in 2014. The survey was conducted before the employer mandate was delayed.



Percentages do not total 100 percent due to rounding.

59%

The percentage of organizations that are developing or plan to develop a new health care strategy plan in response to reform.

Source: *Health Care Reform—Challenges and Strategies*, based on a survey of 818 HR professionals, Society for Human Resource Management, 2013.

ILLUSTRATION BY TIM COLLINS FOR *HR MAGAZINE*

up to a child's 26th birthday. Employers do not have to offer coverage for spouses.

- Meet affordability requirements, which state that the employee's share of the cost of an individual premium may not exceed 9.5 percent of household income. A safe harbor provision allows employers to use the employee's income as listed in Box 1 of the W-2 as a substitute for household income.

Play or Pay

The health care reform law applies only to employers with 50 or more full-time equivalents (FTE), so employers must first calculate how many FTE they have to determine whether they must comply with the law's employer responsibility provisions. Employers with 50 or more FTE could face a penalty if any full-time employees buy coverage through a health insurance exchange and receive a government subsidy. Penalties can vary:

- If the employer does not offer health benefits, it will face a penalty of $2,000 a year times the number of full-time employees it has, minus the first 30 employees.
- If the company offers a health plan, but the plan does not meet applicable rules, the penalty will be the lesser of the $2,000 penalty described above or a $3,000-a-year penalty for each full-time employee who buys coverage through an exchange and receives a subsidy.

WEB

For links to more information on health care reform, including a tool to calculate the number of full-time equivalent employees an organization has, see the online version of this article at **www.shrm.org/0813-health-care-reform**.

Some employers look at the fines and believe it makes more economic sense to pay the penalties instead of offering health care, but this can be shortsighted. Here's why.

Jeff, chief financial officer of Slant Lines, a hypothetical architectural firm with 75 full-time employees, knows that his employees make the company a marketplace leader. Even so, Jeff decides to stop offering health insurance and just pay the penalty.

Currently, Slant Lines' family health coverage costs $15,000 a year; employees pay $3,000 of that amount. Susan, an up-and-coming designer, walks into HR and asks about receiving replacement compensation for the $12,000 the business had been paying toward family coverage.

Slant Lines' leaders want to retain Susan, so they agree to pay her the $12,000 difference. But Susan points out that she will now have to pay Social Security and FICA taxes as well as federal and state income taxes on the $12,000. In addition, the company will have to pay its share of FICA taxes. Suddenly, Slant Lines' leaders realize that the liability for discontinuing the health care plan for Susan alone—including penalties, additional compensation and taxes—will cost the company $17,609. That's a 47 percent increase above what they pay when offering health benefits.

Another issue employers need to consider: the so-called Cadillac tax. This new federal excise tax will be assessed on insurance companies for costly health plans—those that are in excess of $10,200 for individuals and $27,500 for family coverage. Even though the tax will not go into effect until 2018, employers would be wise to do projections, based on current health care benefits costs and reasonable inflation estimates, to see if they may be subject to the tax. If the impact will be substantial, employers can begin to make the necessary changes to their plans during the next two or three years rather than all at once for the 2018 plan year.

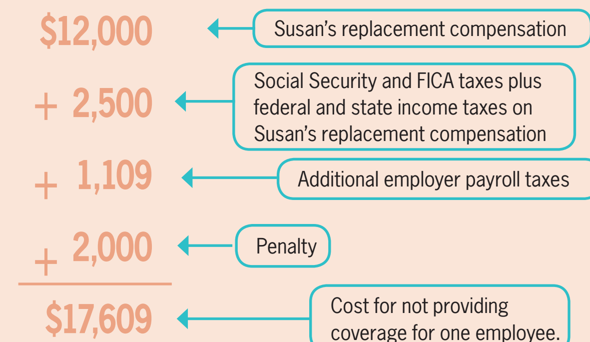
74%

The percentage of organizations that define part-time employees in the same way as the health care reform law.

Source: *Health Care Reform—Challenges and Strategies*, Society for Human Resource Management, 2013.

The Price of Dropping Health Care

Slant Lines represents a fictional architectural firm with 75 full-time employees. Currently, the company pays $12,000 toward health care coverage for Susan, a valued employee. If the company drops coverage, it will cost Slant Lines:



Source: Kushner & Co.

Plan Designs

When considering health plan designs, HR professionals should go back to those basic strategic questions concerning the organization's objectives. If you are looking for best-of-the-best employees and have been providing health care coverage as part of a total rewards strategy, you will conduct the same analyses you did before health care reform: Will you offer in-network and out-of-network benefits; a health maintenance organization, preferred provider organization or consumer-directed health plan; a health reimbursement arrangement or a health savings account; wellness incentives? Will the plan be fully insured or self-funded? You must also make certain your plans meet the law's requirements, based on your size and funding.

In addition, a good communication plan will be essential to educate employees about the changes coming and to remind them about the value of their health benefits—and the fact that you provide those benefits because you value them.

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