ObamaCare Predictions For CFOs

Jun 25, 2014

Companies are in the thick of a string of significant mandates related to compliance with the Patient Protection and Affordable Care Act (ACA). The 2010 law has been praised for its intention of extending the right of health insurance to those who were previously shut out and criticized by the companies that have been confused by the details. Most companies still feel uncertain over how to comply, and have questions over whether health-care costs in general will ever go down.

As it is, the companies that have been predicted to take on the toughest burden with the ACA requirements (http://www.proformative.com/articles/your-burning-questions-about-health-care-act-finally-answered) – small businesses with just over 50 employees will be required to provide health care to their full-time employees or pay a penalty for each worker – have received a one-year reprieve, giving them more time to figure out how to cope. Some of those companies have decided to revisit their mix of employees. Some are considering taking on a higher number of part-timers or holding back on growth plans so that they don't hire additional workers that would put them over the 50-employee threshold.

At the same time, larger companies are widely affected as well, with decisions to make over what type of coverage makes sense for them in the long term. Companies continue to see a rising cost in health care, higher than the rate of inflation. Many of them are likely to conclude that the current way of how they provide health benefits to employees needs to change in some way over the next few years. CFOs at companies of all sizes will have to contend with the following considerations and decide whether they make sense for their company.

Taking a Wait-and-See Approach

"People are mostly waiting to see what will happen," says Benton Brown, a principal at consulting firm Tatum. They are holding onto hope that more delays by the Obama administration are imminent on some aspects of the law, and they're watching how other companies' changes to benefits plans are being received. Moreover, they are considering ways they can offset rising costs outside of changes to health benefits.

In the restaurant (http://www.proformative.com/blogs/doug-sleeter/2013/08/27/restaurant-accounting-with-quickbooks) industry, for example, which is made up of many franchises and smaller employers that are affected by the changes, the larger companies are preparing to absorb costs by raising menu prices and are considering other ways they can keep their expenses down, according to Dave Schnitt, CEO of IQ BackOffice, which provides finance, accounting, and HR outsourcing services. "For the smaller restaurants, it's a completely different story; they haven't really figured it out," he says.

Employers Will Not Stop Providing Health Coverage

In general, companies are thus far defying early predictions that they would use the law as a reason to completely drop the habit of subsidizing their employees' health-care needs. Nearly all (95 percent) of respondents to a 2014 Towers Watson/National Business Group on Health survey said this practice will continue to be a big part of the overall rewards package they provide employees going forward.

And other organizations' surveys have had similar findings. "Surveys we have done since 2010 clearly indicate that employers offer health benefits to recruit and retain talent, to keep people healthy and productive," says Larry Boress, CEO of the Midwest Business Group on Health, a nonprofit business coalition used by companies to benchmark and improve their health offerings. "They are not about to give up benefits that will cause them to lose valuable people."

In another recent survey, 77 percent of employers said they will likely offer health benefits to their active employees in 2016, according to the Private Exchange Evaluation Collaborative, which is made up of four business coalitions, including Boress's. This percentage is a decrease compared to the 89 percent that said they are providing such benefits in 2014.

Still, as most every employer feels there is a "war for talent" out there, at least for certain positions (like those in the finance department (http://www.proformative.com/questions/kpis-accounting-department-finance-department)), having an arsenal of benefits offerings is still viewed as a critical way to recruit top job candidates. What will change is the mix of benefits, how they're funded, and how employees access them and take responsibility for them.

What Will Change Over the Next Decade

While many companies for now are clinging onto the old way of doing things when it comes to health care, they are poised for change. Only 25 percent of respondents to the Towers Watson survey of large employers said they are confident they will still be offering health-care coverage to their workers in 10 years.

There are many reasons for this potential shift, and a lot of it has to do with the federal tax code. After all, if employers decided to eschew all this debate, drop health-care coverage altogether, and pile on extra wages for their employees to make up for it, they would be increasing the amount of taxable income their employees have to report each year. This obviously wouldn't be good for recruiting (http://www.proformative.com/questions/how-use-linkedin-recruiting) or retention purposes unless the majority of companies took the same route.

For now there is the increasingly popular option of directing employees to use private exchanges, online marketplaces that are completely separate from the federal government's much maligned public exchanges (many surveys predict the vast majority of workers will be moved to one type of exchange or the other by the next decade or so). While private exchanges existed before the ACA, and were used for retirees, they have since multiplied in number and prevalence, according to Boress. They can give employees a wider selection and choices over their plans. Nearly half of employers are planning to consider or will use a private exchange for their full-timers before 2018, according to the Private Exchange Evaluation Collaborative study, with only 25 percent of them believing that doing so will save them money.

At this time, however, the exchanges are not mature and the landscape is so varied that most employers are not yet ready to make the leap, preferring to see how early adopters fair with them. "We are not recommending that people jump into this early on," Boress says. "Let's see how the rates come out and watch employees' and employers' experience with the exchanges and give it time." Besides the uncertainty over whether the exchanges could provide employers cost savings in the long run, this option could also be a tough call for employers who like to have complete control over their benefits program. While they are touted for giving employees more control over their options, the exchanges limit how much control employers have over the details.

A looming deadline is largely responsible for prodding companies to consider the option of exchanges anyway. In 2018, the so-called Cadillac tax takes effect. This 40 percent excise tax will be placed on employee benefits programs that are deemed to be on the higher-end of programs around the country. The fact is many employers do currently offer higher-end employee benefits, experts say, and will have incentive to change their benefits strategy before they have to take the tax hit.

Other Alternatives Gaining Traction (or at Least Consideration)

Senior finance executives, such as Proto Labs CFO Jack Judd (http://www.proformative.com/articles/don-t-be-just-accountant-your-whole-life-advice-jack-judd-proto-labs) , have evaluated many options over the past year, including self-insurance. Finance chiefs on the Proformative site have frequently debated whether they should consider self-insurance (http://www.proformative.com/questions/self-funded-vs-fully-insured?page=1) for their company. Judd told the community his company is staying fully insured (http://www.proformative.com/questions/self-funded-vs-fully-insured) for now but has not ruled out giving it more consideration down the road. "A self-insured plan does expose you to more accounting work each quarter," he warned earlier this year. "You will always have a lag in claims that need to be tracked. You will also have more variability in your expenses from period to period."

The higher amount of work involved in administering self-insured plans – which entail taking on the risk and administration of paying employees' claims – discourages smaller businesses from taking them on, but an increasing number of companies with fewer than 50 employees are considering it (even though any employer that self-insures is encouraged to pay for stop-loss insurance (http://www.proformative.com/questions/self-insured-health-insurance)). Just over half of private-sector workers in the U.S. (58.5 percent) are in self-insured plans, as of 2011, according to the Employee Benefit Research Institute. By opting for a self-insured plan (http://www.proformative.com/questions/self-funded-vs-fully-insured?page=1) , "we felt that we could more economically manage the process by setting premium rates similar to fully insured plans, ensuring that the excess generated in the fat years was maintained for the lean years, and understanding our claims as a means to manage future claims," wrote Don Wademan, vice president of finance and accounting for Lester Electrical, which has about 200 employees.

Other options that are seeing more traction include health savings accounts, wellness programs, spousal surcharges (about one-quarter of companies charge employees $100 per month whose dependents include a spouse who could be on another plan, according to the Towers Watson survey), and even in-house clinics. The latter is mostly reserved for the largest of companies that can afford to justify having a medical practitioner making regular visits onsite in a designated space.

None of the changes underway has actually reduced the cost of health care. Total costs – the amount both employers and employees pay in contributions – is predicted to be $12,535 per employee this year, up from $11,938 in 2013, according to Towers Watson.

Sarah Johnson is a business writer and editor based outside Boston.