

## **Employer plans for dealing with health care reform evolving as 2014 draws closer – new Mercer survey**

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Many employers are still scrambling to prepare for provisions of the federal health care reform law going into effect next year – and trying to assess the impact the changes will have on health plan enrollment and cost. A new survey of nearly 900 employers, released today by Mercer, highlights how employer thinking on reform has evolved over the three years since the Patient Protection and Affordable Care Act (ACA) was signed into law.

The survey found that employers have upped their estimates of the cost impact of the ACA. In 2011, 25% of survey respondents expected the law would have little or no impact on cost (adding less than 1%). In 2013, only 9% expect to get off so easily. And now 19% of respondents expect cost to rise significantly (by 5% or more), compared to just 15% in 2011.

"As we approach 2014, it's a bit concerning that 32% of employers know little about the actual cost impacts of the new changes," said Mercer President and CEO Julio A. Portalatin. "The Affordable Care Act affects each organization differently as the impact on many fronts will persist well beyond the 2014 period with many variables to consider. Employers are now turning in greater numbers to consultants like Mercer for help understanding options and learning the approaches being taken by similar companies."

While employers can calculate how many employees will be newly eligible for coverage, they can only guess how many will actually elect coverage. All individuals are required to have health coverage in 2014, but because the tax penalty for not obtaining coverage insurance will be relatively low in 2014 – just \$95 per individual or 1% of household income, whichever is greater – some employees may still choose to go bare.

Changes in contribution strategy will also make it harder to predict enrollment levels. Some employers are attempting to protect themselves from big jumps in enrollment by raising employee contributions for coverage, particularly for dependents. Nearly a third (30%) of respondents say they will require a bigger paycheck deduction for dependent coverage next year, and 13% will raise the contribution percentage for employee-only coverage. These changes may affect enrollment decisions in families where both spouses have coverage available.

When the surveyed employers were asked if they were budgeting for an increase in enrollment in 2014, just 17% say they are; 42% say they are not and 41% still haven't decided.

The survey found that about a fourth of employers (23%) still unsure of how they will track and record the hours of employees who work variable hours, as is required by the new law in order to verify that all employees working 30+ hours are offered coverage. "Tracking employee hours and maintaining accurate records will be critical for employers, since they will need access to this information later in the event of an audit or to defend themselves against penalties for 2014 and beyond," said Tracy Watts, Mercer's health care reform leader.

Most of the employers surveyed (78%) say they are concerned about the communication requirements associated with the new law – such as educating employees about their choices and supporting informed decision-making.

### **Looking ahead to 2018**

While the bulk of the reform law will be effective in 2014, the provision that may ultimately have the biggest impact on employer-sponsored health coverage is the excise tax on high-cost plans that goes in to effect in 2018. To avoid a 40% excise tax, employers must keep total health plan cost below a threshold of \$10,200 for an individual and \$27,500 for a family in 2018.

“ This provision could be the real game-changer,” said Ms. Watts. “ Employers have consistently told us that they will do whatever is necessary to avoid the tax, and given the rate of increase in health benefit cost, that may require fundamental changes in the type of health benefit they provide and how they provide it.”

Over a third of employers say they have begun taking steps now to avoid the tax in 2018. Most commonly, they are focusing on high-deductible consumer-directed health plans (either by adding a plan or taking steps to increase enrollment in an existing plan). Many say they will add or expand health management programs in an effort to reduce health care spending by improving workforce health.

While few large employers plan to terminate their medical plans and send employees to the public health exchanges (just 7% of those with 500 or more employees), many say they would consider using a private health exchange, in which the employer provides funding and the employee shops online to choose a medical plan and sometimes other benefits as well. A private exchange allows employers to provide a defined contribution amount for employees to use to purchase benefits; the medical options in the private exchange are designed to comply with the ACA. About a third of the employers surveyed say they are considering offering a private exchange within two years (32%), and about half are considering it within five years (47%).

Mercer introduced a private exchange, Mercer Marketplace, earlier this year. Mercer Marketplace allows employers to continue offering competitive benefits to their workforce, a key attraction and retention tool, while actively managing their spending and administrative responsibilities. More information about Mercer Marketplace is available from Mercer consultants and online at [www.mercermarketplace.com](http://www.mercermarketplace.com).

Mercer's US health care reform page provides up-to-date information on the ACA and Mercer's latest thinking on its implications for employers:

<http://www.mercer.com/articles/us-health-care-reform>.

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