



How Employers Can Keep Benefits Competitive After the ACA Rollout

It's harder than ever for employers to design and administer employee benefit offerings that are compliant and competitive. The new health care paradigm (consumerization), new regulatory requirements (the Affordable Care Act, or ACA), and a new generation of employees (millennials) are presenting unprecedented challenges for HR departments across the country.

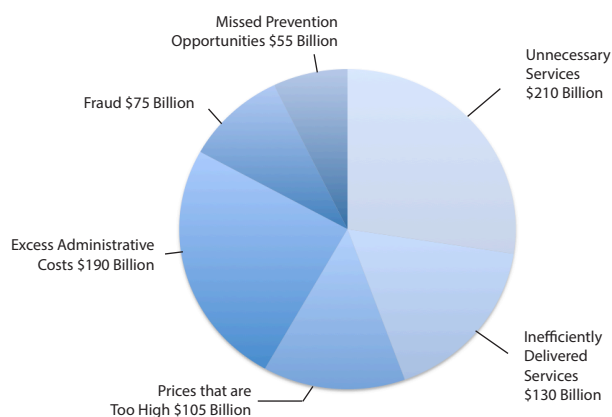
Before the rollout of the ACA, benefits administration and regulatory compliance were annual concerns. Now, however, thanks to the law's continual changes, an HR department can easily spend all its time trying to ensure ACA compliance and prepare for the next open enrollment period. Strategic HR goes out the window.

How can you put together a benefits package that complies with the ACA, meets the needs of a workforce with different expectations than their predecessors, and is competitive with the offerings of your industry peers?

This white paper will unpack some of health care reform's most important legal requirements, explore the expectations of today's workforce, and provide guidance on selecting an expert partner to handle compliance, administration, and competitive benchmarking.

A Cultural Shift: The Consumerization of Health Care

It's no secret that the U.S. health care system is inefficient. A 2012 report from the Institute of Medicine estimated that of the \$2.6 trillion spent on health care in 2011, as much as \$750 billion was wasted.¹ This waste comes from a combination of unnecessary or inefficient services, missed opportunities for preventive care, needless administrative costs, inflated prices, and even fraud:²



¹ Institute of Medicine, "Best Care at Lower Cost: The Path to Continuously Learning Health Care in America", 2012

² *The Washington Post*, "We spend \$750 billion on unnecessary health care. Two charts explain why.", 2012

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The result: as health care grows at an unsustainable rate, Americans aren't getting any healthier. The backlash against this ineffective system has been the main impetus behind health care reform, which includes not only the ACA, but changing reimbursement models; a focus on accountable, integrated care; and a shift toward preventive, holistic medicine.

The goal of all these changes is to make medicine once again about health, and to put power back in the hands of the consumer. Health insurance exchanges have given consumers more visibility into how health plans work, how much they cost, and how they compare to each other, empowering them to make the best choice for their unique needs.

These changes have delighted some consumers, and might ultimately make the American health care system more efficient and effective, but they can create headaches in the short term for employers. If consumer-focused care is now the norm, how can you ensure that your benefits offerings are in line with it?

A New Legal Landscape: The Affordable Care Act

The ACA is over 900 pages long.³ As of April 2014, there had been 40 changes to the law.⁴

The discussion could end here—those staggering numbers alone communicate the difficulty employers face in attempting to understand the law, how it applies to them, and how its frequent updates may impact their business.

One requirement that hasn't changed is the ACA's so-called "play or pay" mandate, under which employers with 50 or more full-time equivalent employees (FTEs) are required to offer "affordable" health coverage, or be subject to a financial penalty. Affordable coverage is defined as paying for at least 60% of covered expenses (the "actuarial value") at a cost not to exceed 9.5% of an employee's W-2 wages for employee-only coverage. Therefore,

- If you don't offer coverage to your employees, and even one employee receives a premium tax credit or subsidy to purchase health insurance from an exchange, you must pay a penalty (\$2,000 x the number of FTEs minus 80, per year).
- If you do offer coverage, but it does not pay at least 60% of covered health expenses or its cost to employees exceeds the 9.5% of income threshold, your employees can opt to purchase plans from an exchange instead, and you must pay a \$3,000 penalty for every FTE who receives a subsidy.

The question for employers then becomes which option to choose: Do you save money by opting not to offer coverage and just paying the penalty? Is it worth it to take that approach? It's not simply a cost issue. These are some other questions to consider:

³ Patient Protection and Affordable Care Act, 42 U.S.C. § 18001 (2010).

⁴ Galen Institute, "40 Changes to ObamaCare...So Far", April 8, 2014.



- If you don't offer health coverage to your employees, will employee satisfaction and retention rates suffer?
- What are your competitors doing? Will they lure employees away from you with richer benefit packages?
- Will health benefits increase the productivity of your employees, making it worth the investment?

Employers have to worry about more than compliance: they must balance regulatory issues with cost effectiveness and employee satisfaction and retention. Most employers lack the time and resources to strike this balance effectively.

A New Generation of Employees: Millennials

Finally, on top of the shift toward consumerization and the compliance burden placed on them by the ACA, employers must understand and cater to the needs of millennials. These employees represent a new generation that will eventually edge out baby boomers as the majority of the workforce. Of the 80 million millennials in the U.S. today, half are already in the workforce, and millions more join each year.⁵

Technically, millennials are people born between the years of 1980 and 2000, but the following traits aren't confined solely to that age group—in fact, they are becoming more widely shared by Gen X and even boomers. The following are of most concern for employers:

- **Independence:** These consumers are used to doing their own self-directed research, making their own purchasing decisions, and using self-service tools to do everything from answering their own tech support questions to paying their bills. When it comes to benefits, they want tools that allow them to research, shop, and compare on their own.
- **Strong online presence:** The best place to connect with these employees is online. They spend most of their waking hours on a computer, tablet, or smartphone—for business and for pleasure. If they can't access their benefits information online, they may feel alienated or frustrated.
- **Emphasis on options:** These employees are used to using online tools to compare options: car insurance quotes, travel booking, even takeout restaurants. They expect to be able to customize their benefits package according to their lifestyle, with choices for medical, dental, vision, and even life, disability, wellness programs, and pet insurance.

⁵ *Time*, "Millennials vs. Baby Boomers: Who Would You Rather Hire?", 2012.



- **Accustomed to cost-sharing:** Millennials don't expect rich plans with low deductibles, premiums, and co-pays the way the previous generation did. They are comfortable paying high deductibles, as long as they have low premiums and the ability to set aside money for health care through health savings accounts (HSAs) and flexible spending accounts (FSAs).

These expectations can be tied back to the demand for options and independence—millennials prefer to dictate how their health dollars are spent. As younger (and therefore generally healthier) health care consumers, millennials generally have lower medical claims and can benefit from high deductible plan designs.

With these trends and preferences in mind, it's up to employers to design a competitive benefits package that offers options, self-service research and decision tools, and online access...while not running afoul of the ACA.

The Solution: Partner with an Expert

As we've shown, the ACA has complicated the process of benefits selection and administration. Add in the tight resources of most HR departments and the need to benchmark your offerings against those of your competitors, and the problem becomes almost insurmountable. The best solution is to seek out an expert partner to handle your compliance issues, benefits enrollment and administration, benchmarking, communications, and plan design.

This partner should be dedicated to understanding the ACA (and each amendment to it), so that you don't have to. They should have the expertise to help you design a benefits package with the variety of options your employees want.

Your partner should have the technology expertise to help you build an online presence for your employee benefits, whether that means a private health insurance exchange, self-service portals, or digital resources and decision tools—coupled with the ability to perform competitive market analysis to ensure that your benefits package is on par with employers competing for the same talent as you are.

To protect you from unexpected rate increases or plan changes, the ideal partner should be planning for next year's open enrollment as soon as this year's is complete. The ultimate goal is for the partner to manage tactical benefits duties so that your HR professionals can be free to focus on employee recruitment and retention, compensation issues, and other strategic, value-adding work.



How Do You Know When You've Succeeded?

If your employees are satisfied with the options available to them, and they experience benefits selection and enrollment as a smooth process with no surprises, then you've achieved success in the post-reform world. If your HR department is able to focus on growth and improvement strategies, rather than benefits administration and compliance wizardry, then you know you're doing it right.

Johnson & Dugan acts as that ideal partner for employers, handling the compliance and administration burdens to free HR departments to do their true calling. With plan design, benefits administration and communication, competitive benchmarking, and compliance audits, Johnson & Dugan enables employers to thrive in the wake of the ACA.

Johnson & Dugan is a one-stop employee benefits and human resources consulting and support services company. For over twenty-nine years, Johnson & Dugan's highest priority has been to make it easy for companies of all sizes to expertly plan and administer employee benefits. A partnership with Johnson & Dugan will help you align your benefits strategy to broader initiatives, reduce your HR workload and improve efficiencies company-wide.

Contact us to learn how we can make it easier for you along the way.

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