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HR Compliance: Are Employers Ready for Health Care Reform?

In late June, the U.S. Supreme Court upheld the constitutionality of the individual mandate and related provisions of the Patient Protection and Affordable Care Act (ACA or Health Care Reform). On the eve of this important ruling, the ADP Research Institute[SM], a specialized group within ADP, wanted to gain insight into employers' attitudes and behaviors regarding certain ACA requirements, as well as the future of U.S. healthcare benefits, in general. In May 2012, the Institute surveyed human resources and employee benefits decision makers in a national sample of small (1-49 employees), midsized (50-999 employees), and large (1000+ employees) U.S. companies.

Contents

The Key Themes of the Survey

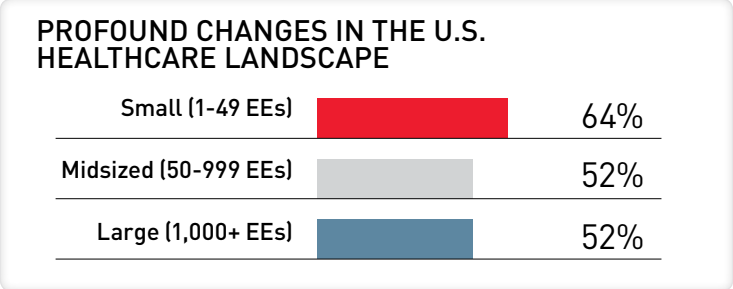
- Understanding Health Care Reform and employers' responsibilities under it presents perhaps the single biggest challenge to employers in the HR compliance area. The survey findings indicate that human resources and employee benefits decision makers are not very confident that they understand their responsibilities under the ACA, and their awareness of, and preparedness for, specific upcoming ACA requirements corroborates this. How prepared is your company to comply with the ACA?

- The escalating cost of employer-supplied health insurance is the other critical challenge facing employers in the employee benefits administration area. Survey participants recognize that these costs can actually prevent their company from achieving its business goals. The larger the company, the more likely they are to have a plan/strategy in place to control these costs. What they are doing also varies by size. What is your company doing to control healthcare costs?

Major Findings from the Survey

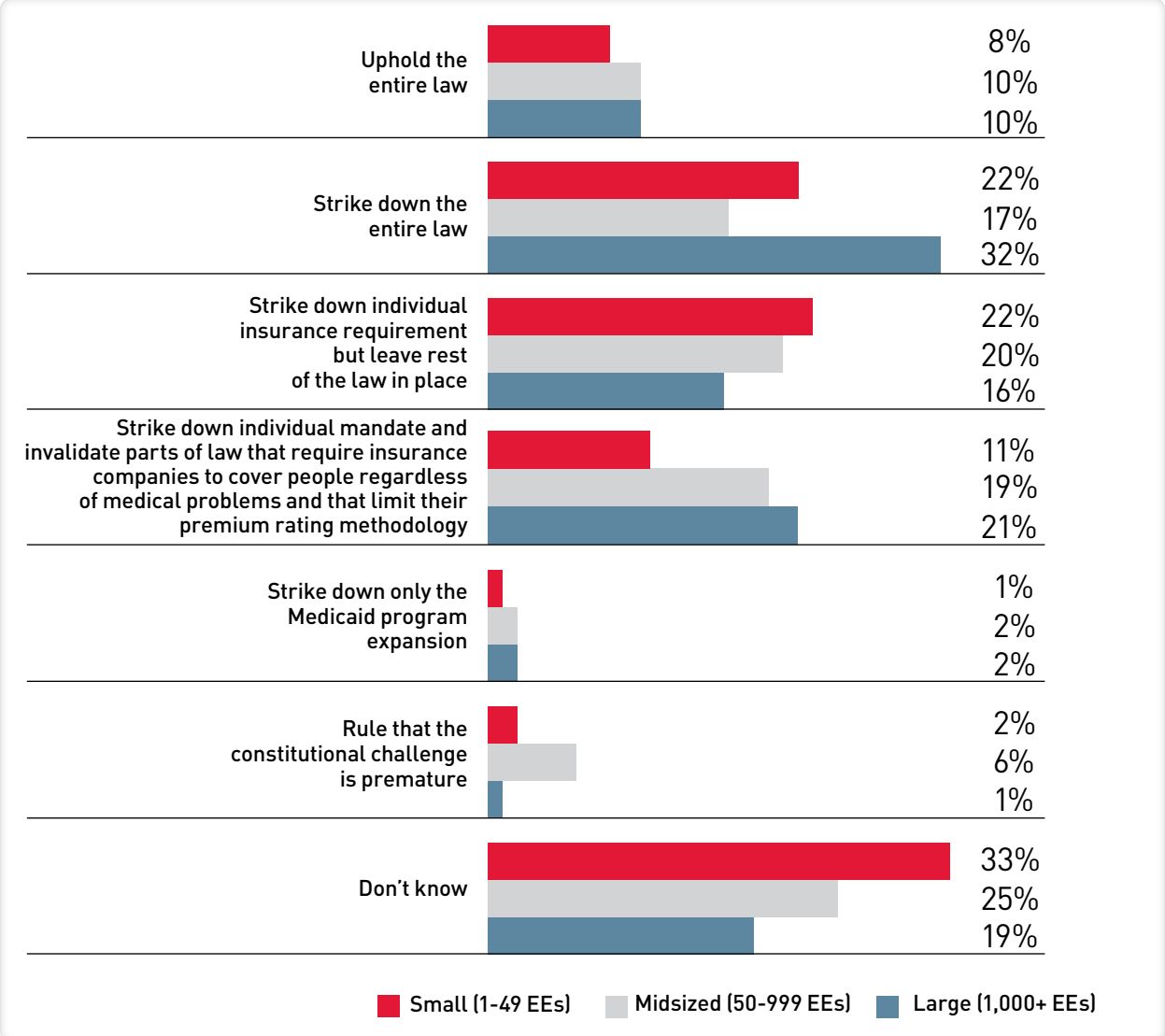
The U.S. healthcare landscape is going through profound changes.

More than half of human resources and employee benefits decision makers in companies of all sizes see the U.S. healthcare landscape going through profound changes that will leave it fundamentally different. (Small = 64%, Midsized = 52%, Large = 52%)



Human resources and employee benefits decision makers were not expecting the Supreme Court to uphold the Patient Protection and Affordable Care Act.

The majority of decision makers in small, midsized, and large companies were expecting the Supreme Court to strike down as unconstitutional all or parts of Health Care Reform (Small = 59%, Midsized = 65%, Large = 71%). **However, one-fifth to one-third did not know what to expect.**



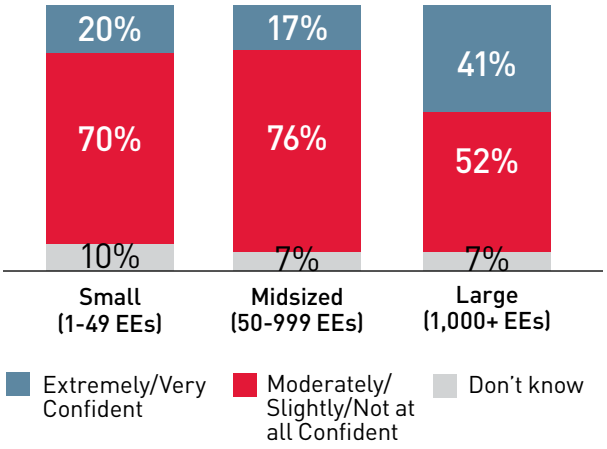
*NOTE: "EEs" = "employees"

There is a low level of confidence among employers in understanding ACA requirements.

Many of the ACA's coverage mandates, like coverage to age 26 and elimination of lifetime caps on essential benefits, have already been implemented. However, the ACA establishes many new compliance requirements that employers will be required to implement or ensure are implemented.

Fewer than half of human resources and employee benefits decision makers across all sized companies are highly confident that they understand employer responsibilities under the ACA, even though the law was first enacted in March 2010. (Extremely/Very Confident: Small = 20%, Midsized = 17%, Large = 41%)

CONFIDENCE IN UNDERSTANDING EMPLOYER RESPONSIBILITIES AS REQUIRED BY ACA



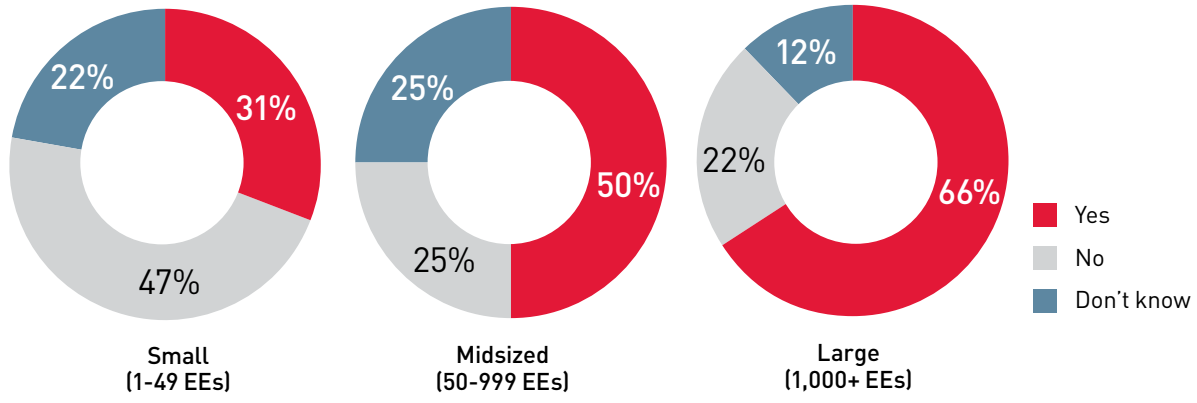
Summary of Benefits and Coverage (SBC)

Provide Summary of Benefits and Coverage (Fall 2012 Open Enrollment): Low level of preparedness in small and midsized companies for this imminent ACA requirement.

ACA requires health plans and health insurance issuers to provide participants with a summary of benefits and coverage (SBC) by the first day of the first open enrollment period beginning on or after September 23, 2012. The SBC rule applies to both fully-insured and self-insured plans (whether or not grandfathered), and to employers of all sizes and types, as well as to health insurance issuers that offer group or individual health insurance coverage. Retiree-only and HIPAA-excepted benefits plans (e.g., stand-alone dental and vision plans) are not subject to the SBC requirements.

Half or more of small and midsized companies are not prepared to provide the SBC, and a third of large companies are also not prepared for this requirement. (Are prepared: Small = 31%, Midsized = 50%, Large = 66%)

PREPARED FOR NEWLY REQUIRED SUMMARY OF BENEFITS COVERAGE



W-2 Reporting of Value of Health Insurance

W-2 Reporting (January 2013): In companies that meet the threshold for this requirement, there is a high level of awareness of its impact. Companies will rely heavily on internal staffs to do the necessary calculations.

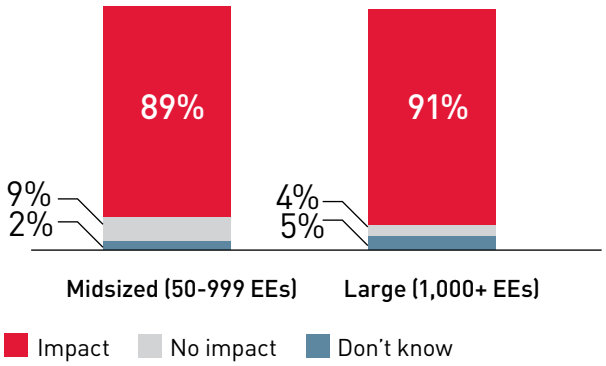
The value of employer-provided health insurance benefits provided after January 1, 2012 must be reported in box 12, code DD, beginning with the Form W-2 issued in January 2013. Employers who issued fewer than 250 Forms W-2 in the prior calendar year (i.e., 2011 for 2012) are not subject to the W-2 health insurance benefits reporting requirements.

Benefits that do not have to be included on the Form W-2 include contributions to any Archer MSA, health reimbursement arrangement or health savings account. Employee assistance programs, wellness programs, and on-site medical clinics are only to be included in the aggregate reportable cost if the employer charges a premium with respect to COBRA coverage for such benefits. Dental plans and vision plans that are not integrated with the medical plan do not have to be reported.

Eighteen percent of midsized companies and 87% of large companies filed 250 or more Forms W-2 in 2011 and, therefore, are subject to the W-2 requirement.

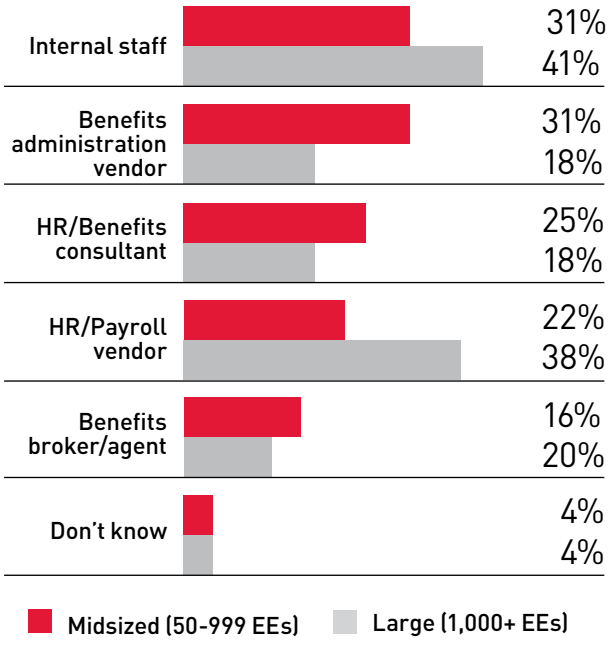
Most human resources and employee benefits decision makers in companies that filed 250 or more Forms W-2 in 2011 think their company will be impacted by this regulation. Very few do not think so or are not sure (No impact /don't know: Midsized = 11%, Large = 9%).

IMPACT OF 2013 W-2 REPORTING REGULATIONS ON COMPANIES



Companies subject to this regulation will use multiple methods to calculate the value of their employees' health benefits. Midsized companies will most likely use internal staff and their benefits administration vendor for this, while large companies will most likely use internal staff and their human resources and payroll vendor.

WHO WILL PERFORM CALCULATIONS TO VALUE EES' HEALTH BENEFITS



Base: Issued 250 or more W-2s in 2011

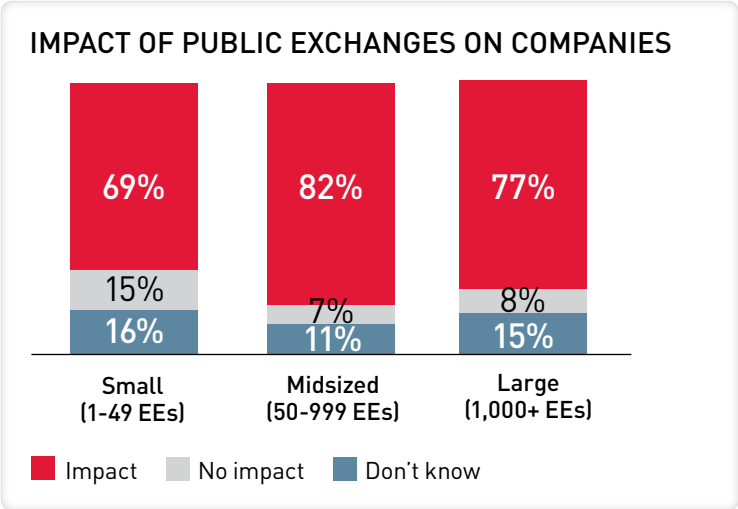
Healthcare Exchanges

Impact of Public Exchanges (January 1, 2014): The perceived impact is widespread across company sizes, although a small but significant number do not agree or are not sure.

The ACA requires states to establish health insurance Exchanges (a marketplace where individuals and businesses can purchase medical health insurance) by January 1, 2014 (if they do not, the federal government may establish Exchanges for them). Small employers will be eligible to participate in such Exchanges beginning in 2014 through the Small Business Health Options Program (SHOP) Exchange. For this purpose, a small employer is generally an employer with 100 or fewer employees, although for 2014 and 2015, states may choose to define a small employer as an employer with 50 or fewer employees. Beginning in 2017, states can choose to permit large employers (i.e., those with at least 100 employees) to participate in a SHOP Exchange.

In 2013, all employers, regardless of size, will be required to provide information to their employees about Exchanges in the state(s) in which employees reside.

While the majority of human resources and employee benefits decision makers in all companies expect some degree of impact resulting from the establishment of public Exchanges on January 1, 2014, roughly a fifth to a third do not or are not sure (No impact/don't know: Small = 31%, Midsized = 18%, Large = 23%).

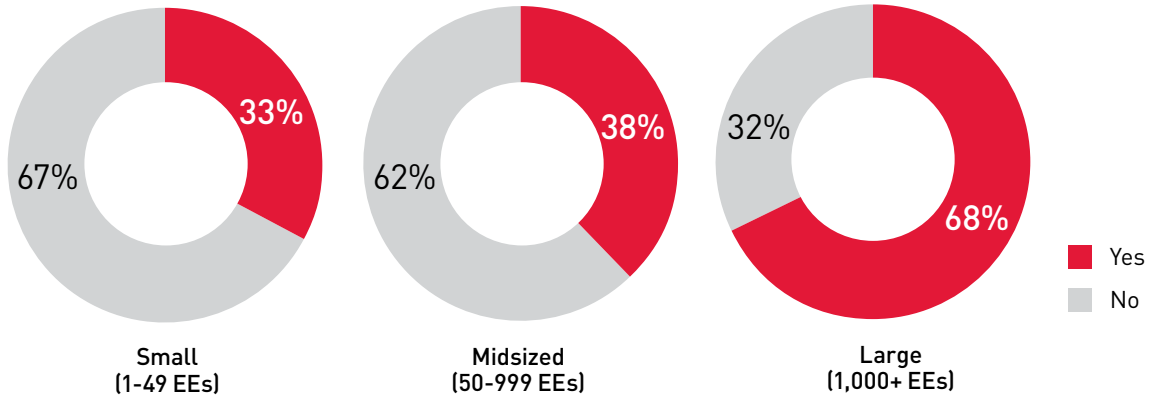


Notify Employees About Public Exchanges (March 1, 2013): Low level of awareness in small and midsized companies.

Effective March 1, 2013, all employers will be required to notify all employees and new hires about the establishment of the public Exchanges and that they may be able to shop for coverage on the Exchanges (for coverage that becomes effective in 2014). Employers will also have to notify employees about the eligibility rules for premium assistance for coverage in the Exchange and explain that, if the employee chooses coverage through the Exchange, the employee will lose the employer's pretax contribution towards coverage under the employer's plan.

Most human resources and employee benefits decision makers in small and midsized companies are unaware of the upcoming employee notification requirement, and even in large companies, a third are not aware. (Unaware: Small = 67%, Midsized = 62%, Large = 32%).

AWARENESS OF REQUIREMENT TO NOTIFY EMPLOYEES OF PUBLIC EXCHANGES



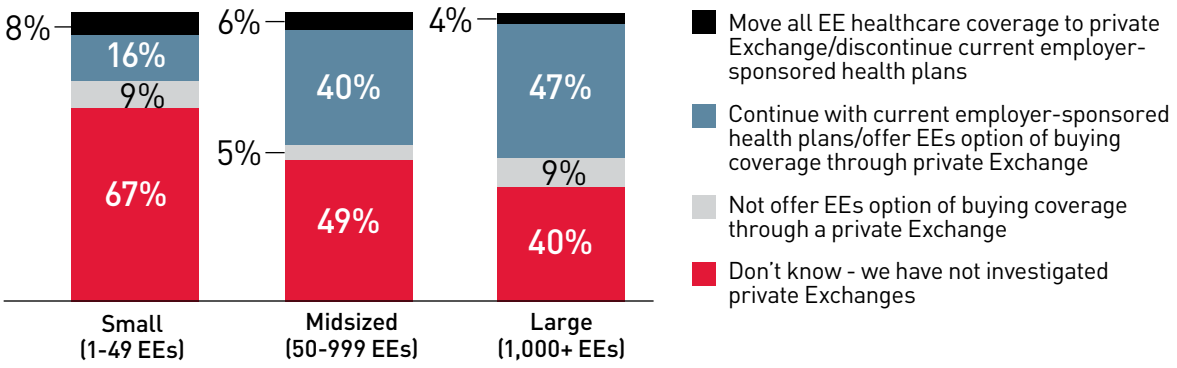
Private health Exchanges are emerging as a health insurance alternative, but many companies still have to investigate them.

Private health Exchanges are also being established by third-party administrators and insurance companies to offer employers an alternative source for healthcare coverage. These Exchanges can contain numerous plan choices from multiple health insurance carriers (however, under the ACA, the subsidies available to eligible individuals in the state-run Exchange are not available through private Exchanges).

A significant percent of human resources and employee benefits decision makers in all sized companies do not know what their companies will do regarding private Exchanges; this is a new area still to be investigated. This is especially true in small companies (67% unsure).

If they have decided what to do about private Exchanges, companies definitely lean towards offering them along with their traditional employer-sponsored plans, rather than in place of them.

PLANS VIS-À-VIS PRIVATE EXCHANGES

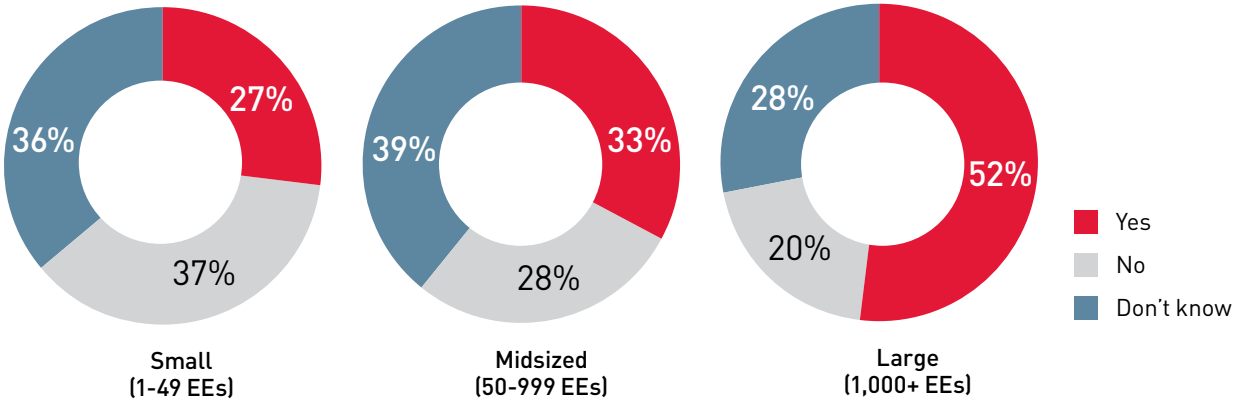


Private Exchanges in conjunction with defined-contribution healthcare funding are starting to gain traction, especially in large companies.

A defined contribution approach is where the employer provides a specific amount of money to the employee, it belongs to the employee, and can be used by the employee to pay all or part of the cost of the healthcare plan that best meets his/her needs. Benefits can be purchased by the employee on a before-tax basis – similar to how employer-provided plans operate today. The employer contribution could increase in future years based on the Consumer Price Index, not healthcare inflation.

Half (52%) of human resources and employee benefits decision makers in large companies say they will implement private Exchanges in conjunction with a defined-contribution healthcare funding approach versus a quarter to a third of small and midsized companies. But in all size groups a significant percent don't yet know what their companies will do.

IMPLEMENTING PRIVATE EXCHANGES IN CONJUNCTION WITH A DEFINED-CONTRIBUTION FUNDING APPROACH



Shared Responsibility

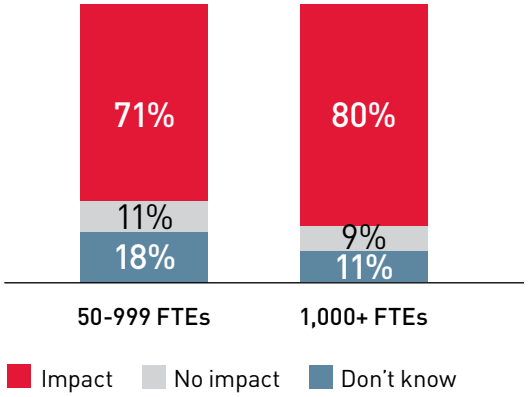
Shared Responsibility Provisions (2014): In companies subject to these provisions, there is some uncertainty about whether they apply. And significant numbers have not calculated their potential exposure to penalties under these provisions.

Employers with 50 or more full-time equivalent employees (FTEs) will be subject to the ACA's Employer Shared Responsibility provisions, which require that such employers have to either provide heathcare benefits to employees working
at least 30 hours per week (or at least 130 hours per month) or face potential penalties (if employees who work for them obtain coverage through an Exchange and qualify for and receive a subsidy in the Exchange).

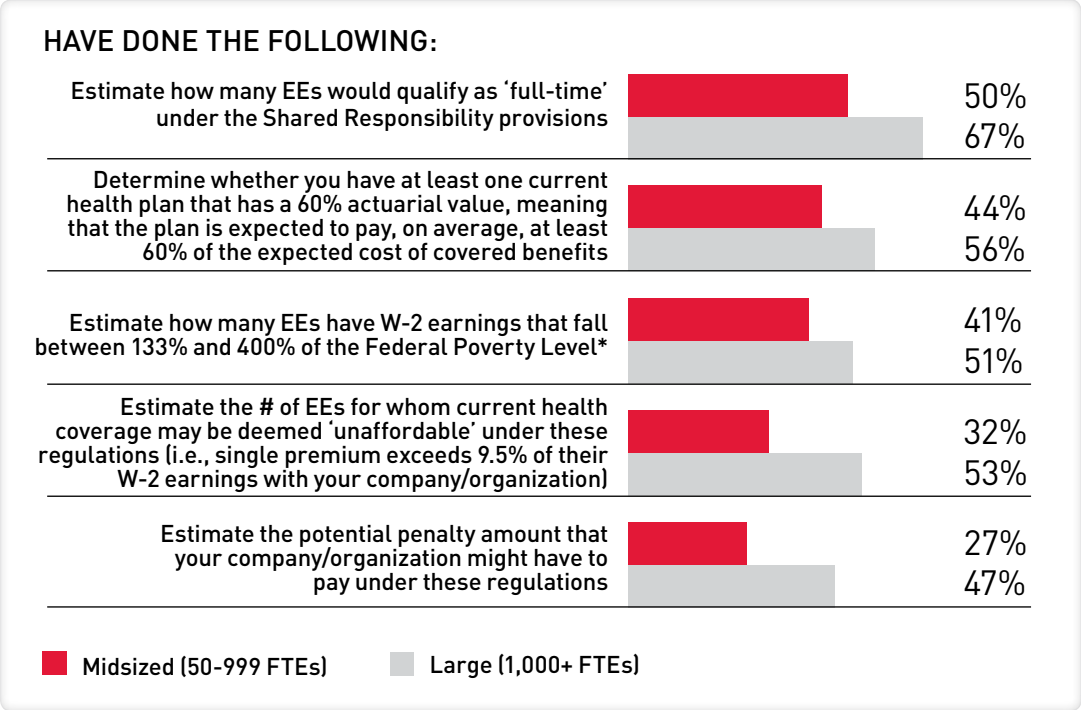
In addition, employers who offer health insurance coverage will have to meet two additional requirements in order to avoid potential penalties: the coverage must have at least a 60% "actuarial value," and the coverage must be "affordable," meaning that the employee contributions for single coverage cannot exceed 9.5% of an employee's "household income" — which we expect means the employee's Form W-2 earnings. "Actuarial value" consolidates a plan's various cost-sharing mechanisms into a single measure that allows consumers to evaluate the plan's overall financial protection.

While most human resources and employee benefits decision makers in companies with 50 or more FTEs do think their companies will be impacted by the Shared Responsibility provisions of the ACA, a significant percent do not think so or are not sure (Midsized = 29%, Large = 20%).

IMPACT OF 2014 SHARED RESPONSIBILITY PROVISIONS ON COMPANIES

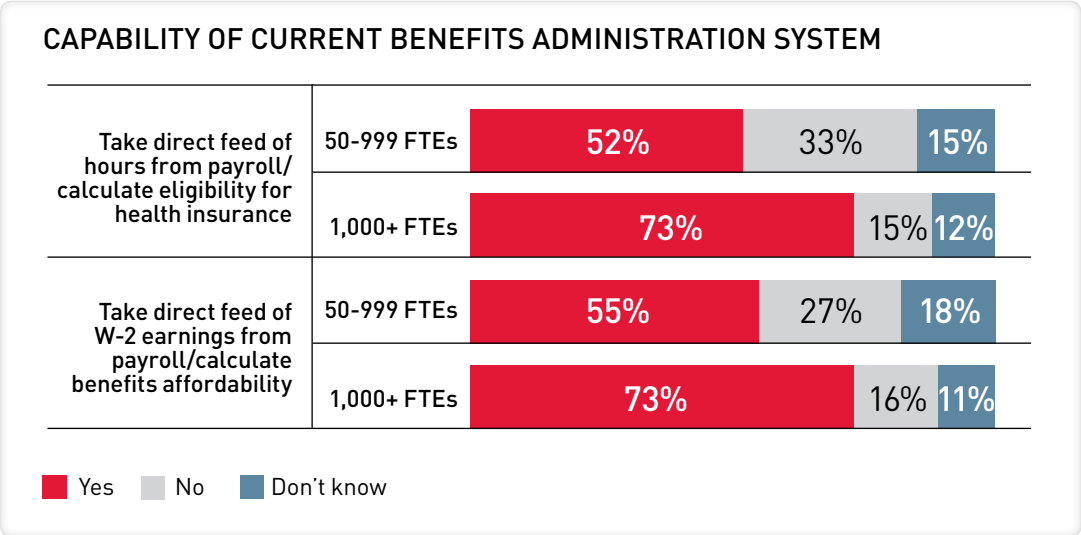


Midsized companies are much less likely than large companies to have done the necessary analysis to understand their company's potential exposure to penalties from violations of the Shared Responsibility provisions. But even among large companies, fewer than half have taken action to quantify their potential liabilities under these requirements (47%).



* May be eligible for an Exchange subsidy

Midsized companies are much less likely than large companies to have a benefits administration system capable of taking a direct feed of hours from payroll to calculate employees' eligibility for health insurance or of taking a direct feed of W-2 earnings from payroll to calculate benefits affordability.

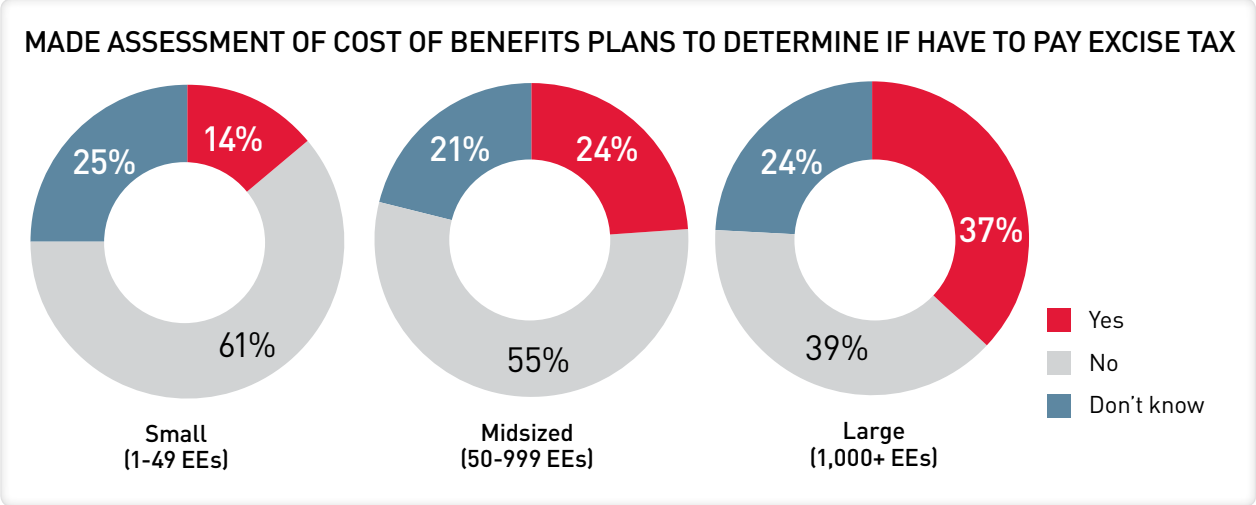


Tax on "Cadillac" Plans

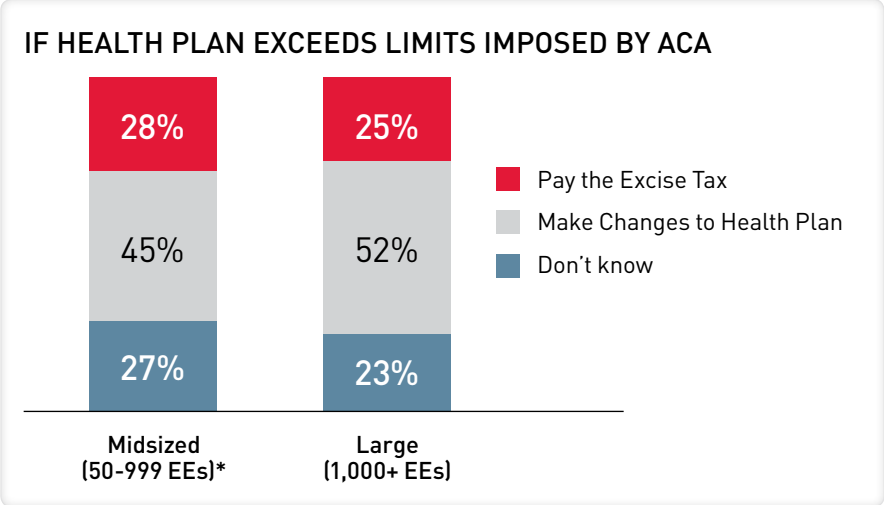
Excise Tax Assessment (Beginning in 2018): Most companies have not yet determined their exposure to the excise tax on "Cadillac" plans, but, if they have, they prefer to change their plans rather than pay the tax.

Beginning in 2018, a 40% excise tax will be levied upon insurers or third-party administrators of self-insured plans for high-cost insurance ("Cadillac" plans). It is expected that this excise tax will be passed on to employers.

Most companies, no matter what their size, have not assessed the cost of their benefits plans to determine whether those costs will result in their company having to pay an excise tax on their plans in 2018 or later.



Midsized and large companies that have assessed the cost of their benefits plans to determine whether they will have to pay an excise tax lean more toward changing their plans than paying the tax — if their costs subject them to the tax.



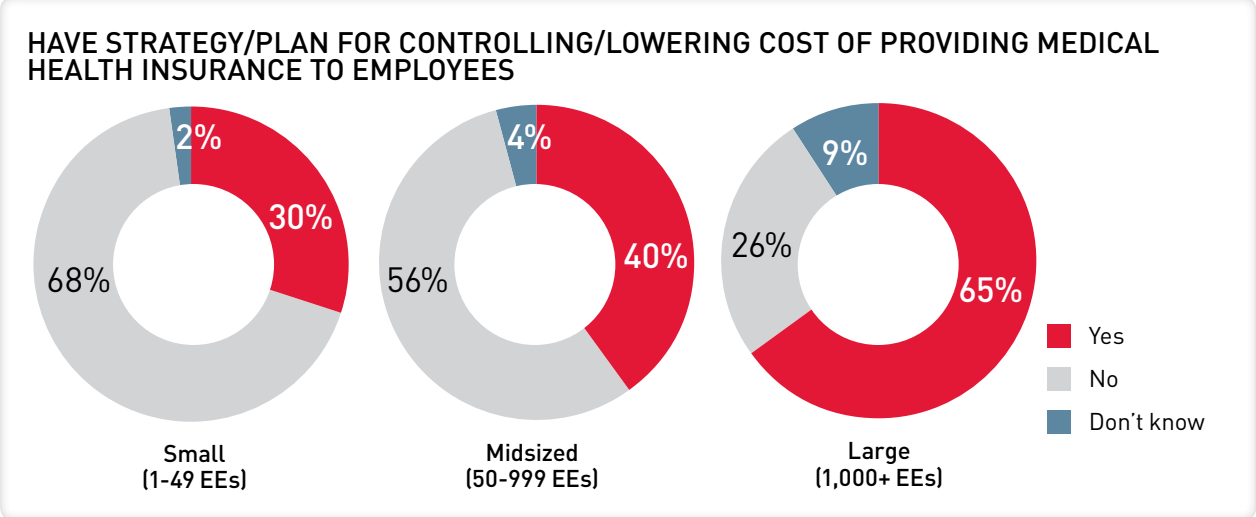
*Small Base – use data with caution

Containing Healthcare Costs

Healthcare costs are a major issue for employers, and different-sized companies are taking different measures to deal with them.

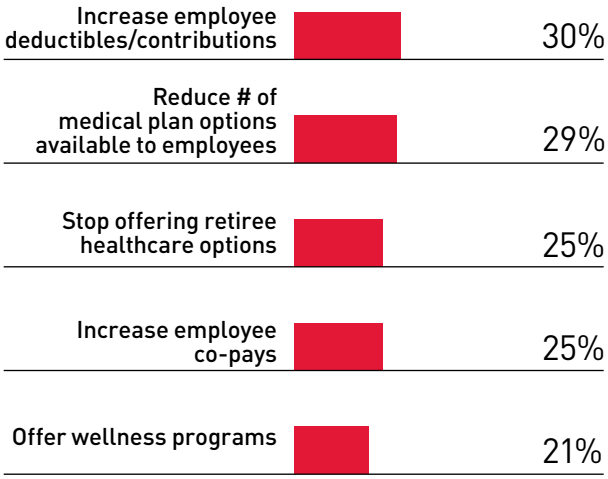
Two-thirds or more of human resources and employee benefits decision makers in small (69%), midsized (82%) and large (83%) companies think the cost of supplying employer-sponsored health insurance is a barrier to their company achieving its business goals.

As company size increases so does the likelihood of having a strategy or plan in place for controlling or lowering the cost of providing health insurance to employees (Companies with a strategy/plan: Small – 30%, Midsized – 40%, Large – 65%).



STEPS TAKEN/CURRENTLY DOING/ DEFINITELY WILL DO

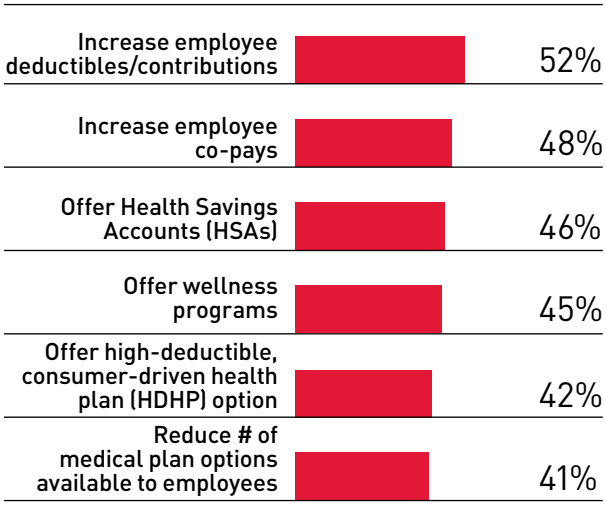
Small (1-49 EEs)



Large employers are more likely than small or midsized employers to use preventive measures, such as wellness programs, as a means of controlling healthcare costs. Smaller companies are most likely to increase employee deductibles/contributions.

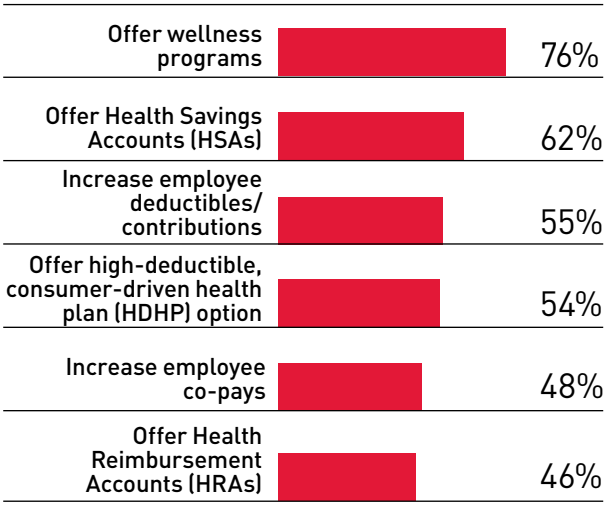
STEPS TAKEN/CURRENTLY DOING/ DEFINITELY WILL DO

Midsized (50-999 EEs)



STEPS TAKEN/CURRENTLY DOING/ DEFINITELY WILL DO

Large (1,000+ EEs)



Research Methodology

The ADP Research Institute conducted this online survey in May 2012. It includes input from 827 HR/Benefits decision makers in U.S. enterprises:

- 312 participants from small organizations (those with 1-49 employees) – 212 which offer medical insurance to employees and 100 who do not (data on the latter is not included in the findings in this summary)
- 256 participants from midsized organizations (those with 50-999 employees)
- 259 from large organizations (those with 1,000 or more employees).

The resulting data for small, midsized, and large companies achieved statistical reliability at the 95% confidence level.

Respondents had to be key decision makers (evaluators, recommenders, final decision makers) for critical employee benefits policy changes or major benefits system/service purchases within their enterprises.

Eight-four percent of respondents in the small business group who offered medical insurance were owners, partners, principals, presidents, or CEOs. Forty-four percent of respondents in midsized enterprises and 29% of those in large ones were the actual heads of human resources or employee benefits for their organizations.

About the ADP Research Institute

The ADP Research Institute, a specialized group within ADP, provides insights to leaders in both the private and public sectors concerning issues in human capital management, employment trends, and workforce strategy.

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