

Health Care Reform and the Small Employer

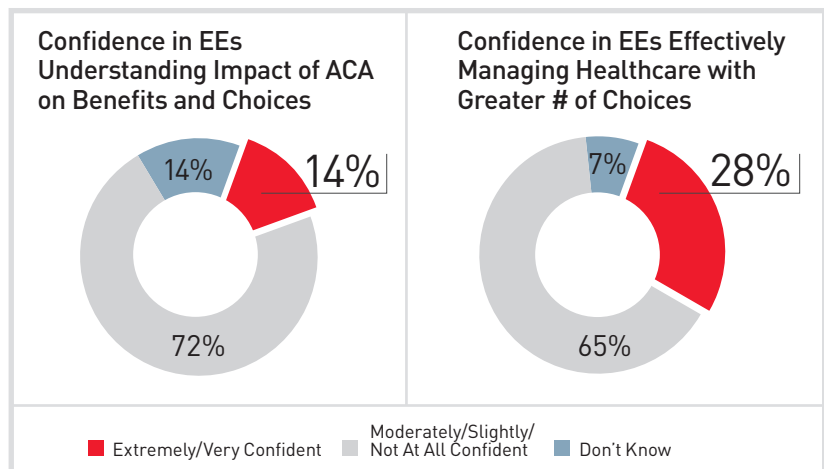


In June 2012, the U.S. Supreme Court upheld the constitutionality of the individual mandate provision of the Affordable Care Act (ACA). Now that Health Care Reform is a reality, the ADP Research InstituteSM, a specialized group within ADP[®], wants to gain insight into employers' attitudes, preparedness and concerns regarding ACA requirements and compliance, as well as the future of U.S. healthcare benefits.

In early 2013, the ADP Research Institute surveyed human resource and employee benefits decision makers in a national sample of small U.S. companies (1-49 employees). Findings show that there is a lack of confidence among both employers and employees in their understanding of responsibilities required by the ACA and the impact on choices. In addition, while some employers have begun assessing risks of noncompliance, a sizeable amount have not. And, uncertainty abounds around public and private Health Insurance Marketplaces (aka "Exchanges").

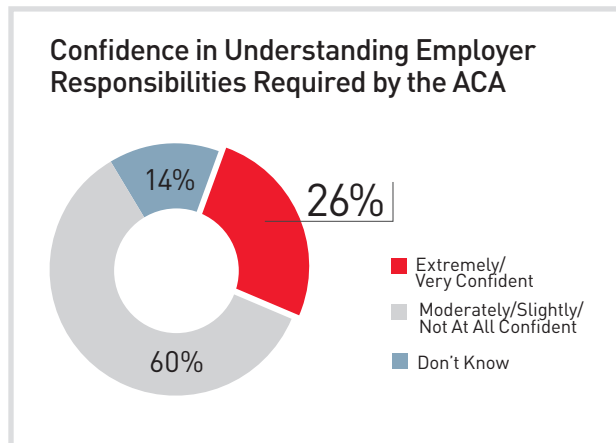
Anxiety about the Affordable Care Act is high among small employers.

Only **14 percent** of small organizations in the ADP Research Institute survey feel "very confident" or "extremely confident" that their employees understand the impact that the Affordable Care Act (ACA) will have on their benefits and benefits choices. Moreover, only **28 percent** reported the same levels of confidence that their employees will be able to effectively manage their healthcare, when presented with a greater number of choices.



Source: ADP Research Institute, *Employee Benefits Study*, January 2013.

Only **26 percent** of employer respondents said they feel “very confident” or “extremely confident” that they themselves understand their responsibilities regarding compliance with the ACA.



Source: ADP Research Institute, *Employee Benefits Study*, January 2013.

A U.S. Chamber of Commerce survey released in April 2013 shows that 77 percent of small-business executives believe that the ACA will make health coverage for their employees more expensive.

(Source: *Bloomberg BNA's Daily Labor Report*)

A 2012 U.S. government roundup of 27 published studies on the impact of the ACA on employers found that small employers are more likely than large employers to say that they are ready to drop health coverage for employees in response to the ACA's requirements.

(Source: *Bloomberg BNA's Daily Labor Report*)

According to an International Foundation of Employee Benefit Plans survey released in April 2013, smaller employers are more likely than larger employers to predict a big cost impact by the ACA—but they are less likely to have measured what that impact will be.

(Source: *Bloomberg BNA's Daily Labor Report*)

Small employers have already begun to assess their risk of penalties under the ACA.

When the ACA's Shared Responsibility requirements (also known as “play or pay”) take effect in 2014, penalties for noncompliance will apply only to certain organizations. Some small employers are looking ahead and crunching the numbers now to help avoid these penalties later—while others have yet to act.

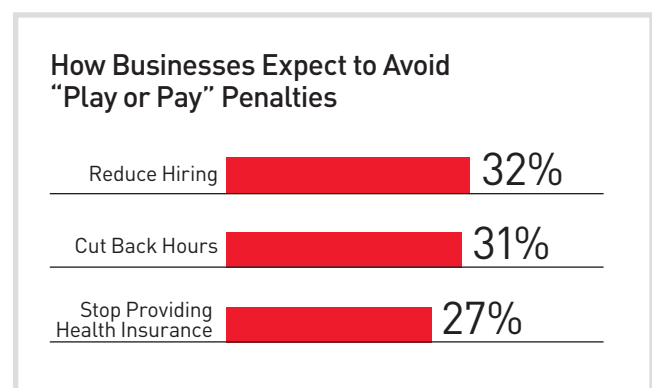
For example, 40 percent of respondents in the ADP Research Institute survey have run—or are running—headcount estimates to determine whether their organization will be subject to penalties.

More than one-quarter of small employers said they have employed or are employing the following strategies:

- Estimating the number of employees for whom the organization's current coverage may be deemed “unaffordable”
- Estimating the number of employees eligible for Medicaid, or who are ineligible for Medicaid and have W-2 earnings that do not exceed 400% of the federal poverty level
- Determining whether the organization has at least one current health plan that has a 60 percent actuarial value

Of note, though, is that half of small employers have not estimated the potential penalty amount their organization might have to pay under the mandate.

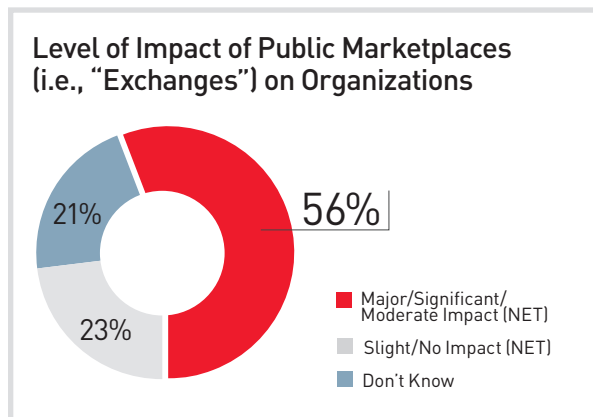
More than three-quarters of small-business executives in a U.S. Chamber of Commerce survey released in April 2013 said they expect “play or pay” penalties to negatively impact their businesses. To avoid these penalties, **32 percent** said they expect to reduce hiring, **31 percent** said they will cut back hours, and **27 percent** said they expect to stop providing health insurance. (Source: *Bloomberg BNA*)



Source: ADP Research Institute, *Employee Benefits Study*, January 2013.

Most small employers are bracing for the onset of Health Insurance Marketplaces (aka “Exchanges”) in 2014.

According to the ADP Research Institute survey, **56 percent** of employers said that their organization will feel at least a moderate impact from the establishment of federal and state Health Insurance Marketplaces in 2014, as required under the ACA. Fully one-third (33 percent) described the impact as “major” or “significant.”



Source: ADP Research Institute, *Employee Benefits Study*, January 2013.

Public Health Insurance Marketplaces provide individuals and organizations with a way to purchase health insurance directly. Employers that offer affordable coverage to full-time employees through a Small Business Health Options Program (SHOP) Marketplace may avoid penalties for failing to provide health coverage.

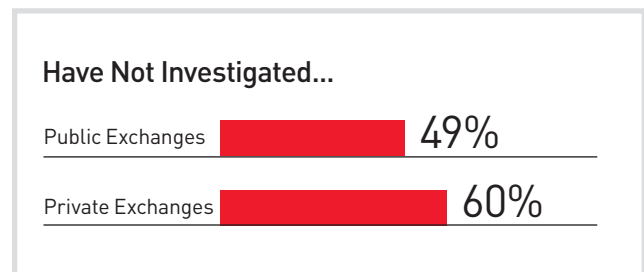
Marketplaces (that is, “Exchanges”), which are “private,” are typically run by insurance companies or consulting/broker groups, while “public” ones are run by the government. Unlike public, government-run Marketplaces, private ones do not provide access to governmental subsidies for the purchase of coverage by low-income employees.

Whether you are a small employer that has already begun to assess the potential financial impact that the ACA may have on your business, or, alternatively, a small employer that has not yet begun to assess the potential risk, ADP can help. ADP is committed to assisting businesses burdened by increased compliance requirements resulting from rapidly evolving legislation. Our goal is to minimize your administrative burden across the entire spectrum of payroll, tax, HR and benefits, so that you can focus on running your business.

Instead, in a private Marketplace, employers typically provide eligible workers with an employer contribution, which is used to offset the cost of the coverage chosen.

One-quarter of employers (25 percent) said they plan to allow employees to buy coverage through private Health Insurance Marketplaces. Most of these employers said they will maintain their own health plan, but a small group—7 percent of all respondents—said they plan to move all of their health insurance coverage to private Marketplaces (i.e., “Exchanges”).

However, there is still quite a bit of uncertainty about whether to move employees to public and private Marketplaces, offer them as an option, or not offer them at all. Nearly half of small employers indicate they have not investigated public Marketplaces and six out of ten have not investigated private ones.



Source: ADP Research Institute, *Employee Benefits Study*, January 2013.

Sixty-nine percent of employers said they will definitely continue to provide employer-sponsored healthcare even after Health Insurance Marketplaces become effective in 2014, according to an International Foundation of Employee Benefit Plans survey released in April 2013.

(Source: *Bloomberg BNA's Pension and Benefits Reporter*)



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Takeaways

1. Employers are not feeling very confident in their ability to understand their responsibilities under the Affordable Care Act—and they are showing even less confidence in their employees' ability to do the same.
2. Despite their lack of confidence—or maybe because of it—employers aren't waiting until the bulk of the ACA's requirements take effect in 2014 to start assessing their risks and potential penalties under the law.
3. Employers have also begun looking beyond penalties to the ACA's impact on their bottom line—particularly, the establishment of Health Insurance Marketplaces (aka "Exchanges") that give employees an alternative to employer-provided coverage.

Research Methodology

The ADP Research Institute conducted this online survey in January 2013. It includes input from 303 HR/benefits decision makers in small organizations (those with 1-49 employees). Of the 303 enterprises surveyed, 203 offer medical insurance to their employees and 100 do not (data on the latter is not included in the findings in this short summary). The resulting data achieved statistical reliability at the 95 percent 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.

Eighty-five percent of respondents in the small business group who offered medical insurance were owners, partners, principals, presidents or CEOs.

About the ADP Research InstituteSM

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. Learn more at www.adp.com/research.