ACA's new math

Using technology to address the biggest challenges of health reform

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With new guidance on the ACA being delivered on a regular basis, it is important to remain open to new types of analysis that incorporate different types of projections.

In the quest for Affordable Care Act compliance, certain components of the health law require additional action that often cannot be achieved without some technical solution.

These components are emerging as some of the most critical and challenging aspects of the legislation for employers. They include projecting future health plan costs, tracking and managing variable hours, planning for enrollment with the new 95% shared responsibility rule, and being prepared to manage auto-enrollment for new hires going into 2014. Employers are using technology solutions to project their future health plan costs in a post-ACA environment.

Employer health plan contributions continue to weigh heavily on a company's bottom line. A 2012 Kaiser/HRET survey estimated the average employer portion to be $4,600 for a single plan participant and $11,400 for a family. Projecting health plan costs post-ACA has become a trickier business because of new and more complicated pieces impacting plan cost — requiring a "new math" to determining the impact. In the future there will be new taxes, penalties, legislative guidelines and other components that factor into this equation.

Yet, an employers' health plan offering plays a critical role in the recruiting and retention of a workforce. Consequently, a vast majority of larger companies are expected to continue plan sponsorship into the future.

Ninety-four percent of employers in an Aon Hewitt study involving 800 companies will offer health benefits over the next three to five years. This makes it increasingly important to plan for cost impact.

This new math will be driven off of components such employee income, hours worked, current plan selection, contribution levels and eligibility rules. Less certain, but important, will be the impact of Medicaid expansion, cost of coverage in the public exchange, the premium tax credits and, ultimately, whether employees that qualify will even enroll in the exchange.

Employers that can model out plan sponsorship scenarios that take these factors into consideration will be better positioned to anticipate these costs. Several ACA modelers exist to help employers make these projections. Most of these calculators focus on the impact to employer illustrating pay-or-play options and are centered heavily on unaffordability penalties. Other tools also look at the impact to the employee taking into consideration how a change in employer plan sponsorship can change their health plan cost, and how their income determines eligibility and cost of coverage in future health exchanges.

What the solutions look like

You will find a variety of applications in the market, from basic Excel calculators to Web-based applications delivered through monthly subscriptions. Benefit advisers are usually asked to provide basic employer census information and client plan information. Upon uploading the information, these tools generate a report that will model out various employer funding scenarios. These options usually take into consideration employer demographic information as well as ACA rules. While these reports are not an exact science, they do help employers better predict how different their contribution models will play out in the near future, as well as the impact of dropping coverage.

Beyond the traditional pay-or-play calculations, some tools project the economic impact of the Cadillac tax. Although this excise tax is a few years out (2018), it is expected to affect a large number of plans. Towers Watson projects that nearly 60% of employers will be hit with this excise tax.

To plan for this tax, employers need to factor in funds that flow through spending account plans, and whether dental and vision plans are bundled with their current health plan. It is of particular concern to manage this process with larger employers, where coverages can be dispersed across multiple plans, carriers and employee classes. Nevertheless, projecting future tax impact of a plan will help in determining future direction of plan design and cost containment measures to avoid penalties.

The human capital component

Another emerging area will be tools that incorporate the human capital component. This becomes important if employers are exploring the "pay" scenarios which eliminate the sponsorship of health plans. Choosing the "pay" route is not as straightforward as looking at the cost savings and tax impact of eliminating a plan.

Employers should consider their employee acquisition costs and measure the overall plan satisfaction in order to gain the necessary perspective. Acquisition costs include recruiting, onboarding and training employees. Factoring in the employee acquisition costs in the same analysis as the cost of plan sponsorship provides a bigger picture in evaluating health plan cost for many employers.

It is important to remain flexible and open to new types of analysis that incorporate expanded and different types of projections. At the same time, it also critical not to wait until the entire Affordable Care Act comes into clear view before you model out plan costs. By then it may be too late. **EBA**

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