Managing the Post-Reform HR Burden

As a human resources (HR) professional, you know that your department has never lacked for something to do. Traditional tasks such as internal communications, employee relations, and labor law compliance keep you plenty busy. What's more, many HR teams were scaled back during the recession. Although hiring has rebounded with the rest of the economy, HR staffing hasn't bounced back to the same degree. As a result, your organization may have more employees, but lack the appropriate HR resources to support them.

To make matters worse, on January 1, 2014, your life got exponentially more complicated. The Affordable Care Act (or ACA) radically transformed benefits administration and regulatory compliance with a host of new requirements and responsibilities. The ACA is a complex 900-page law—and it continues to evolve through a series of changes that are still reverberating through businesses across the country.

The Evolving ACA and the Risks of Uncertainty

As of April 2014, there had already been 40 changes to the ACA. For example, the employer mandate was delayed until January 1, 2016, but only for groups with 50-99 employees. The coverage requirement still applies to groups over 50 employees, and there were additional postponements for groups over 100 employees. Another change shifted the employee coverage requirement from 95% to 70%, but only for one year—after which it goes back up to 95%. This change affects groups with 50-99 employees and those with more than 100, but it does not apply to groups under 50.

Changes like these have created tremendous uncertainty, which is a productivity-killer. Every time Congress tweaks the ACA, there are hundreds of pages of regulations to sift through. Most HR departments are swamped with information. It's practically impossible to stay on top of it all. The continual changes to the ACA have taken benefits administration and regulatory compliance from an annual concern to a daily headache.

Post-ACA Realities: Confusion and Pressure

The core challenges of this new landscape are:

1. Evaluating whether to "play or pay"
2. Understanding the plan structure options
3. Understanding the new small group pricing methodology
4. Communicating and setting expectations with employees

Let's look at each of these challenges in more detail, to gain a more complete picture of what you're up against.

1. Evaluating Whether to Play or Pay

Under the employer mandate, companies with more than 50 employees must offer affordable, minimum essential coverage to full-time employees (or full-time equivalents).

- If you don't offer coverage to your employees and even one employee receives a subsidy to purchase health insurance from an exchange, you must pay a penalty ($2,000 x the number of FTEs minus 80, per year (2015), or minus 30, per year (2016)).

- 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 their household 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.

For many employers, paying for premiums would actually cost more than paying the penalties. However, offering health benefits may increase employee productivity and reduce absenteeism. Benefits also serve as an incentive to attract and retain quality employees. Eliminating health coverage might save money in the short-term, but could ultimately cost your organization more due to weakened employee morale, lower retention rates and recruitment challenges.

There are many factors that play into your choice whether to play or to pay. Make sure you look at all sides of the equation, with a balanced view of the financial and organizational repercussions of either decision.

2. Understanding the Plan Structure Options

When you're evaluating available plan options, it's important to consider not just cost but also the network, carrier and plan design. The first step is to decide whether you want to offer defined benefit plans or defined contribution plans.

- Defined benefit: The traditional benefits program under which the employer sponsors coverage for certain medical benefits, such as doctor visits, trips to the emergency room, surgeries, etc. The annual cost of these benefits can vary greatly from employee to employee of which employer pays a percentage of the premium.

- Defined contribution: An old but new again model in which the employer sets a dollar amount for each employee (the "defined contribution"). The employee then shops for the coverage he or she wants from a menu of options established by the employer, up to the set dollar amount. Those options can range from typical cafeteria plans to a private health care exchange, and a number of different combinations.

While employees of the baby boomer generation are used to—and expect—defined benefit plans, their younger counterparts tend to be more comfortable with more options and the flexibility of defined

contribution plans. Selecting the right plan structure for your workforce is a complex balance of budget, demographics, and employee satisfaction concerns.

3. Understanding the New Age Bands

For employers with groups of fewer than 50 employees (fewer than 100 starting in 2016), individual premium rates have traditionally been determined by where an employee falls within specific age bands, defined geographic regions, and coverage tiers. With age-banded rates, a 30-year-old employee pays a different rate than someone who's 21, 45 or 65 (and so on).

In the past, typical group health plans used seven age bands across nine different regions and four tiers. Rates also depended on who was to be covered—the employee only, the employee plus a spouse, the employee plus children, or the employee plus a family.

Under the ACA, there are now 45 different age bands and 19 regions. Each individual to be covered is charged a different rate, whether that person is the employee, a spouse or a child. In addition, the law specifies that for employees who are at least 21 years of age, the spread between the lowest and highest age band rates cannot exceed a three-to-one ratio. For instance, the rate for the oldest employee cannot be more than three times the rate for the youngest person on the plan.

The age band changes are likely to force employers to modify their contribution methodology. In the past, employers covered a percentage of the premium and the employee made up the difference. The new age band rates make this practice much more complex for many to continue. Most companies can't sustain the administrative burden of different contribution rates for every employee.

4. Communicating and Setting Expectations with Your Employees

Finally, the Affordable Care Act places a significant communication and education burden on HR. You are now required to explain the law—and all health insurance options—to employees. Employees must be educated about your organization's obligations under the law, the plans being offered, and the portion to be paid by each employee. Employees must also be informed that they are legally obligated to obtain coverage if they do not accept the company's insurance plan.

This communication effort can be treacherous. Many employees assumed that the ACA would make their health insurance more affordable, cover all of their dependents, and allow them to keep their doctors. Unfortunately, this is not always the case. Your employees are likely to be disillusioned and frustrated once they hear the post-ACA realities. Time after time, it falls to HR to break the bad news and do damage control.

In organizations with a number of low-wage-earning employees, communication is even tougher. These employees might qualify for a subsidy through a state or federal exchange. But if your organization

offers a plan that's deemed affordable for employee only coverage, the subsidy is not available. If that employee needs dependent coverage, the subsidy is only available if you (the employer) are not offering dependent coverage.

Mitigating the HR Burden: Bring in the Experts

As we've shown, the ACA has added unprecedented complexity and burden to HR teams nationwide. Your organization might need a full-time person working 10 hours a day just to keep up with all the regulatory changes and ramifications—and most HR departments don't have a person to spare. Navigating the new post-ACA benefits landscape is too costly, time-consuming and risky without outside help.

Savvy HR managers are turning to external benefits experts—trusted partners who know the regulatory requirements inside and out and can handle compliance issues, enrollment and administration, plan design, and employee communications. By offloading the benefits administration and compliance burden, you remove the lion's share of uncertainty and pressure. You also free up your HR team to focus on what they do best.

Here's what to look for in a potential partner:

- Deep understanding of the ACA and each amendment, along with the ability to translate the options, requirements and changes into actionable information.
- The expertise to guide you to structure a benefits package that is both affordable and competitive. This includes the ability to perform a competitive market analysis to ensure that your benefits package is at least on par with other organizations competing for the same employees.
- Dedication to ensuring your plan is compliant, and the skills to prove it.
- Experience in employee communication around the ACA and the sensitivity to work with different populations—bringing the right message to the right audience at the right time.
- A true partnership.

The days of "let's wait until we get close to renewal time and then figure things out" are over. Health care reform is here to stay, and perhaps the biggest mistake you can make is to bury your head in the sand. It's vital to start the process early, so you have plenty of time to evaluate your options, analyze the market, design a benefits plan, and communicate with employees. With a trusted partner on your side, you can get ahead of the curve and make informed decisions.

You'll know you've succeeded in the post-ACA world when:

- You're able to shift your approach from reactive to proactive.
- Your plan design serves both your employees and your organization well.
- The benefits selection and enrollment process goes smoothly and without surprises.
- Your HR department has returned to its mission-critical tasks and core competencies.

Johnson & Dugan acts as that trusted partner for employers, handling the compliance and administration burdens to free HR departments to pursue 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.

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