



benefitNEWS

The Affordable Care Act and Employer Confidence

According to a new report from the ADP Institute, while healthcare spending trends have evened out somewhat in the last several years, each year per capita healthcare spending has gone up faster than the rate of inflation, as measured by the Consumer Price Index (CPI). As a result, the report confirms that employers continue to explore plan design alternatives that may slow this rate of increase.

According to ADP's national survey results, on the plan design front, employers are shifting more costs to employees. In fact, more than half of midsized companies and nearly two-thirds of large companies indicated that they have already changed, or are planning on changing employer contributions – with 44% of midsized employers and 39% of large employers decreasing their company-paid contributions, which seems to indicate that they will be increasing the share of costs that they charge employees in the form of deductibles and co-pays. Key highlights include:

- A significant number of organizations are extending coverage beyond the mandated Affordable Care Act (ACA) full-time employee population. This is particularly true of large employers, with three out of five indicating that they are extending coverage to those employees who do not qualify as ACA full-time. Half of midsized employers plan on doing the same (**Figure 1**). This decision to extend coverage seems to be driven by core business reasons. About three-quarters of both midsized and large employers say they are doing this in order to attract the talent that they need.
- On the other hand, the study also found that the majority of employers are not planning to change employee hours in order to address ACA requirements that they offer coverage to all employees averaging at least 30 hours of service per week during the employer-defined measurement period. Only about one-quarter of midsized employers and two out of five large employers studied have done or are planning to limit some employee hours.
- The ACA excise tax on the cost of high-cost health plans above a certain threshold that begins in 2018 is an area that many employers have not yet given serious consideration. Only about a third of both midsized and large employers felt they had the ability to manage this facet of the ACA. The bottom line is that many employers who don't change their benefits offerings may have to pay the tax. The question is not 'if,' it is 'when.'
- For self-insured plans that do exceed the specified limits, the employer will pay a 40% nondeductible excise tax on every dollar above the limit. For fully insured plans, the insurance carrier will pay this tax, but it will be passed on to the plan sponsor in the form of premium increases.
- Another area in which employers are still struggling is how to address the affordability requirements under the ACA. At present, a significant proportion of employers in the study

that have or are planning to extend benefits report that they are not sure which affordability safe harbor they will use for their employees. When choosing among the three safe harbors available to comply with the affordability requirements, very few organizations plan on relying on the federal poverty level approach (9% of midsized employers and 13% of large employers, according to the study). Overall, employers seem split between using the Rate of Pay approach or the Form W-2, Box 1 wages approach.

The study showed that among those employers choosing to use the Form W-2 safe harbor, one-fifth of midsized employers and 3 out of 10 large employers are planning to automate this calculation by setting a contribution rate as they have done in the past, but then, on a pay cycle basis, calculating and capping contributions for each individual so as not to exceed 9.5% of this value (Figure 2).

The study includes input from 806 human resources/benefits decision makers.

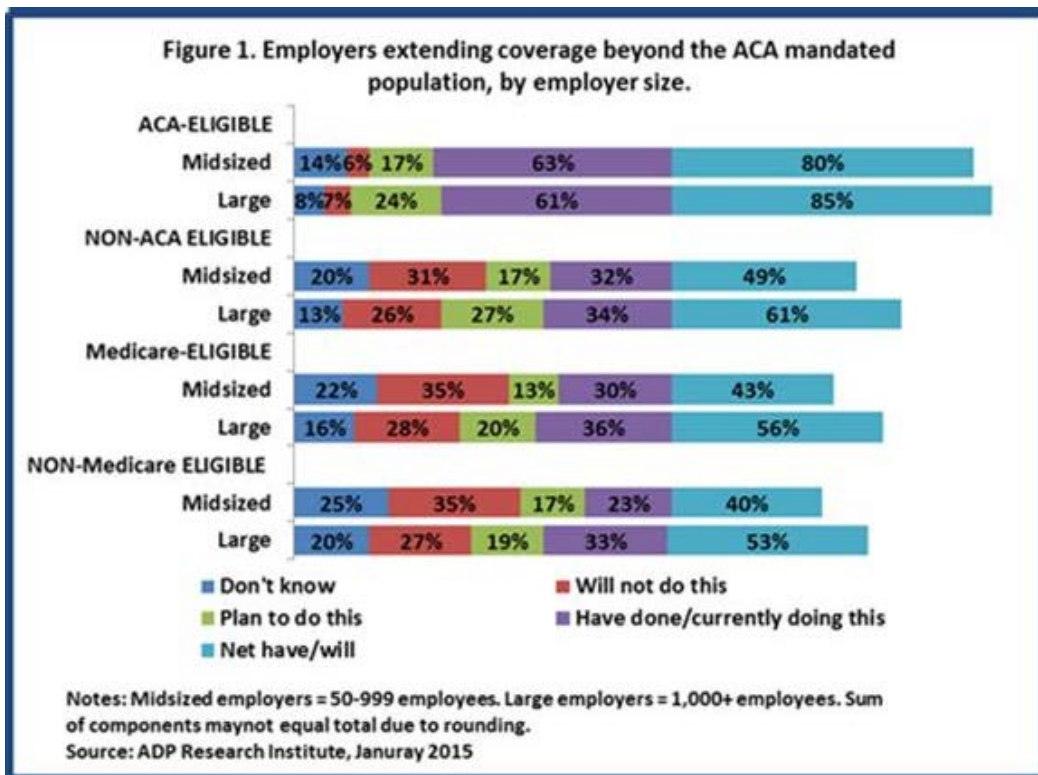
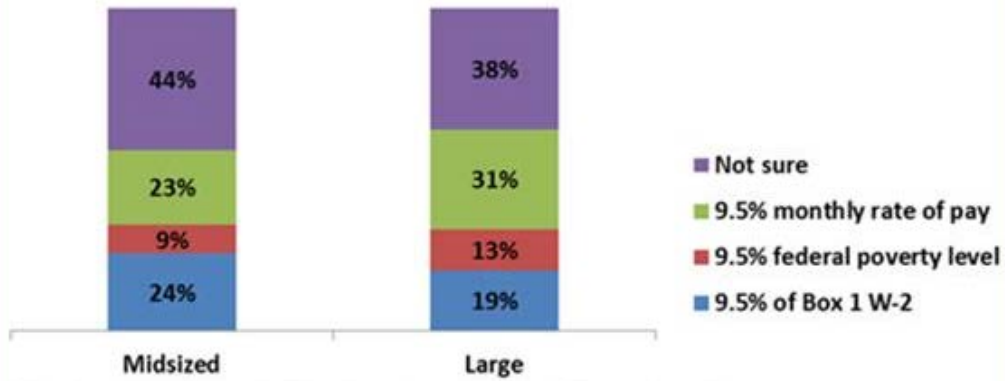


Figure 2. Affordability safe harbor selection, by employer size.



Notes: Mid-sized employers = 50-999 employees. Large employers = 1,000+ employees. Sum of components may not equal total due to rounding.
Source: ADP Research Institute, January 2015



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