HOW WILL THE ACA AFFECT EMPLOYERS OF DIFFERENT SIZES?

Lisa Clemans-Cope, The Urban Institute

ACA impacts on employers can vary on various characteristics

- Employer size;
- Whether currently offer insurance;
- Current state insurance regulations;
- Wages of workers;
- Health status of workers.

General bottom lines by firm size

- Small employers (< 50 workers)
  - No new requirements;
  - New insurance options through SHOP exchanges;

  → Largely unaffected or experience savings.
- Medium employers (50-100 workers)
  - May face new requirements;
  - Access to new SHOP insurance options.
- Large employers (101+ workers)
  - May face new requirements;
  - No access to SHOP options, at least until 2017;
  - Coverage unlikely to change;

  → Costs could increase due to higher take-up.

Small employers (< 50 full time employees)

- Have most to gain under the ACA;
- No financial requirements to contribute toward workers' health care costs;
- Tax credits for some to maintain or begin offering coverage starting in 2010;
  - Available to eligible employers now; as of 2014 employer can only get them for 2 consecutive years;
  - Credit varies with employer size and average wage;
    - 25 or fewer workers;
    - Max of 35% of employer contribution now, 50% starting in 2014.

Small employers choosing to offer, starting in next benefit year

- Must limit waiting periods to <= 90 days;
- No lifetime or annual benefit limits;
- Coverage offered to workers' adult children up to age 26 (but no employer contribution requirement);
- No pre-existing condition exclusions for children.
- These provisions could increase premiums somewhat for plans that are not in compliance, but effects are expected to be small, and could be offset with modest changes in cost-sharing.

Small employers choosing to offer, starting in 2014

- Non-grandfathered plans must meet:
  - Essential benefit requirements;
  - Rating rules defined in law (3:1 age bands, 1.5:1 tobacco rating);
  - Limit deductibles to $2,000 for single coverage and $4,000 for families (unless offset by other 'er contributions);
  - Annual cost sharing limited to current law Health Savings Account (HSA) limits ($5,959/$11,900 in 2010).
- Must provide free choice vouchers to eligible workers.

Small employers and grandfathered plans

- Those offering coverage on date of enactment can continue to provide these “grandfathered” plans, exempt from most of the regulatory reforms and essential benefits definitions.
- Once grandfathered policy is terminated, newly purchased coverage is subject to all reform requirements.

New insurance options for small employers

- Small group markets will continue, with employers buying coverage in the same manner they do today;
- Starting in 2014, small employers will have option to buy coverage through the new SHOP exchanges. Intended to:
  - Lower administrative costs;
  - Provide a more organized insurance market that promotes competition, consumer protections & oversight, provides consumer information to promote cost-effective choices.

Small employers and broader sharing of risk

- Regulations in small group (+ nongroup) markets will make coverage more inclusive, accessible, regardless of health status;
- Coverage will be more affordable for those with higher health care needs (except in grandfathered plans);
- Healthier groups purchasing in new markets may face higher premiums compared to pre-reform, but
  - Lower admin costs will offset this at least somewhat;
  - Benefit of having future coverage guaranteed;
  - Grandfathering will protect those with current advantages somewhat;
  - No requirement to offer, so disadvantaged employers don't have to participate.

Nongroup reforms may help small firm workers without a current offer

- Because many small firms do not offer health insurance coverage today, individual market reforms will help many of their workers;
  - Guaranteed issue, subsidies for purchase of coverage for modest income, federal regulatory minimums.
- Availability of accessible and affordable coverage outside the workplace should improve small employers' ability to compete for labor with large employers.

Medium Employers (50-100 workers), financial obligations as of 2014

- Employers of 50 or more will be assessed financial penalties if their workers obtain subsidized coverage through the exchanges. These subsidies are largely only available to those without employer-based coverage.
- Penalty = $3,000/'ee getting subsidy or $2,000 per FTE, whichever is less, if no offer.
- Penalties for offering employers only if worker contribution > 9.5% of income, and gets subsidy.
- Must provide free choice vouchers if worker is eligible.

Medium size employers, new insurance options as of 2014

- Same option as smaller employers to purchase coverage through the exchanges;
- Can still buy coverage outside if preferred;
- Essential benefit minimums, rating reforms, cost-sharing limits also apply to this market;
- Grandfathering also applies to these employers;
- Before 2016, states can limit the exchange to small groups <= 50 workers.

Large employers (> 100 workers), Financial obligations as of 2014

- Almost all currently offer HI: 98% in 2009;
- Thus reforms generally expected to have the least impact on this group.
- Expected to continue to provide coverage that they currently do.
- But same penalties as outlined for mediums;
- 200+ FTE employers that offer will be required to do automatic enrollment of all FTEs and previously enrolled;
  - This will tend to increase ESI and employer contributions;
  - But could decrease contributions to limit change in total employer spending.

Large employers, new insurance options as of 2017

- Beginning in 2017, states have discretion to open SHOP exchanges to larger employers.
- Large employers not subject to many of the insurance regulatory reforms included in the new law, but are subject to:
  - Prohibitions on: pre-existing condition exclusions, rescissions, lifetime and annual benefit limits.
- Offering large employers must provide free choice vouchers to eligible workers.

ACA Summary

- ACA can affect employers differently by size, current offer status, worker health status, and worker wages;
- Small employers will face no new requirements, but will have new insurance options with the potential to save money for those offering coverage;
- Medium employers will have new coverage options, but may face new financial penalties if their modest income workers obtain federal subsidies through the exchange;
- Vast majority of large employers currently offer and are expected to not be significantly affected by reform. But may face higher participation in their plans and penalties for workers obtaining subsidized exchange coverage.

Issues Moving Forward

- Efficient well-functioning employer exchanges will require
  - Effective risk adjustment, oversight, data collection, administrative simplicity
  - Success will boost enrollment and benefit employers/workers

- Allow larger employers into the exchange in 2017?
  - Potential adverse selection; difficult to risk adjust to self-insured plans outside of the exchange, not subject to market regulations

- Regulation of "self-insurance" in the small employer market
  - To avoid rating rules, employers could self-insure thru stop-loss reinsurance that resembles a standard policy; adverse selection