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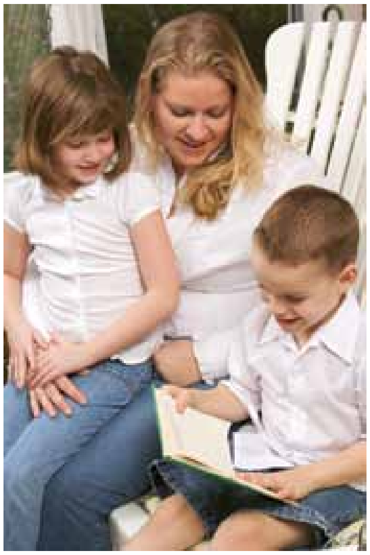
Looking at the Near-Term Financial Impact of Health Care Reform

Employers are bracing for the financial impact of the new health care reform law, according to a survey from Mercer. A quarter of the nearly 800 employers surveyed said they expect compliance with the first round of mandates included in the law to add at least another 3% to their projected 2011 plan costs; 28% expect an additional increase of 1-2%, and 13% project an additional increase of less than 1%.



Three of the "immediately" effective health care reform provisions-effective for plan years beginning after September 23, 2010 (January 1, 2011, for calendar year plans)-are discussed below. Given that these and other health care reform provisions include requirements for coverage expansion, for certain types of benefits and for restrictions on benefits limitations, concerns about cost increases are well-founded.

Three health care reform provisions that are likely to have some immediate financial impact on employers are:

- Expansion of coverage to employees' young adult children. The health care reform law requires that plans that provide coverage for dependent children now make that coverage available until a child turns age 26. (Until 2014, grandfathered plans can limit this coverage expansion to adult children not eligible for other employer-provided coverage.) In the Mercer survey, 20% of employers said this provision of health care reform was a significant or very significant concern to them. The impact of this coverage expansion will vary, of course, depending in large part on an employer's demographics-and for some employers, adding a group of young, healthy individuals could possibly help their plan cost. To moderate the impact of this piece of health care reform, employers should take steps to ensure that only truly eligible dependents are on the plan, by conducting dependent audits. As indicated by the Mercer survey, other steps employers said they are considering to blunt the impact of this mandate include requiring proof that dependents do not have coverage available through their own employers (49%); adding contribution tiers based on the number of dependents covered (20%); and imposing higher premium shares for all dependents (16%).
- Elimination of lifetime limits on benefits. The law prohibits lifetime dollar limits on "essential" health benefits-and this list is long, encompassing most of the types of benefits found in the typical health care plan (e.g., ambulatory patient services, emergency services, hospitalization, maternity/newborn care, mental health and substance abuse benefits, prescription drugs, etc.). (This provision phases in to apply to annual limits, which are banned after 2013.) In the Mercer survey, 21% of employers said this provision was a significant or very significant concern.
- Preventive care benefits. Plans must cover certain preventive care services without any cost-sharing (deductibles, copayments) required for the employee or dependent receiving the service. Many plans-in particular consumer-directed health plans-already provide full coverage for certain types of preventive care, as a strategy to enable the detection and treatment of illness or disease in the early

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Comprehensive Approach to Wellness and Prevention Yields Best Return

As health care costs continue to rise, discussions abound as to the causes. There is, of course, plenty of blame to go around-an aging population, new treatments and therapies for a variety of diseases, advances in technology. Statistics show, however, that diseases and illnesses that are preventable-at least to some degree-account for anywhere between 75% and 90% of health care costs. Statistics also show that the bulk of health care spending goes toward the treatment of illness and disease, rather than their prevention.

That so much of health care spending stems from conditions that are preventable should come as no surprise, when one considers the American lifestyle. Nearly a third of Americans now fall into the obese category, and at least another third are considered overweight. Packing on extra pounds can lead to a wide range of health conditions: diabetes, high blood pressure, cardiovascular disease, problems with bones and joints, and even some kinds of cancers. Failing to lead a physically active lifestyle worsens the potential consequences. Tobacco use continues to be a problem, with nearly a quarter of men and more than 20% of women smoking, potentially leading to lung- and heart-related diseases for themselves (along with mouth and throat cancers), and for nonsmokers through second-hand smoke.

U.S. employers are beginning to catch on to this reality, and shifting strategies in their efforts to bring health care spending under control. According to research from Hewitt Associates, 80% of large companies surveyed said they planned to focus on improving employee health and productivity over the next three to five years. As a means to improving employee health, many are using both carrots and sticks: 63% offered a cash incentive for completing a health risk questionnaire and 37% offered cash incentives for participation in health improvement and wellness programs, while 18% employed penalties, including higher benefit premiums or deductibles, for unhealthy behaviors such as smoking or failing to participate in a disease management program (and 29% said they would use them in the next three to five years).

One of the most effective ways to encourage employees to engage in preventive health care measures is to make it as affordable as possible. An increasing number of health plans cover preventive care at 100%, or close to it. (Health care reform mandates coverage of certain preventive care services without cost-sharing for employees, except for grandfathered plans.) Full coverage motivates employees to stay on top of their health, through annual physical exams, screenings for hypertension, cholesterol levels and blood sugar levels, mammograms/prostate exams, health risk assessments, and the like. Such measures, of course, can detect potential health issues at an early stage, when they are more treatable, head off more serious developments and avoid costly interventions down the road. They also present the opportunity to direct employees with chronic conditions to disease management programs.

What is the payback for employers who devote more resources to implementing strategies that engage employees in prevention, wellness and overall health education? The return on investment for health promotion and disease management programs ranges from $1.49 to $4.91 (with a median of $3.14) in benefits for every dollar spent, according to information published by NutriScience Corporation. A report from U.S. Corporate Wellness states that health promotion programs have demonstrated a successful history of both improving health and providing a significant return on investment for the employers implementing them, with ROIs ranging from 3:1 to 5:1, or higher.

No one approach to wellness and prevention is likely to bring about these kinds of returns on investment. Rather, a comprehensive strategy-one that encompasses generous coverage for preventive care, opportunities to engage in wellness activities, carrots and/or sticks for participating in such activities, and plenty of health education-helps create a workplace culture of wellness…along with healthier, more productive, employees.

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stages, and as a means to alert employees to lifestyle issues that may be harming their health. Whether this provision "costs" all employers is yet to be seen; some research shows that preventive services, especially when part of a comprehensive health promotion and wellness strategy, generate a return on the investment that an employer makes in the program.

Noncompliance with these or other provisions in the health care reform law also has a cost for employers, in the form of excise taxes and penalties. Therefore, it's essential to review the pending mandates, not only to ensure compliance, but also to determine how to fold them into an effective and comprehensive health care cost management strategy.

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Focused, Simple, and Straightforward - Effectively Informing Employees of Changes in Their Benefits

Whenever changes occur to the rates and/or structure of employee benefits programs, employers are given the difficult task of making sure everyone is on the same page. No matter if the changes are big or small, experts suggest being straightforward in communicating the news, keeping your messages focused and simple.

Introduce these changes at a mandatory meeting, or meetings, for all employees to attend. Provide the employees with all of the necessary information accurately and completely, leaving time for a questions and answers session at the end. In addition, as the employees leave the meeting, provide them with a handout that outlines and reiterates the information discussed during the meeting.

Inviting experts to the meeting, like your 401(k) provider rep or your company's health insurance broker, will give your employees the opportunity to speak with individuals who know the most about how these changes will affect their benefits. Also, this will prevent you from having to answer some of the more difficult questions.

To ensure the lines of communication remain open throughout this process, appoint a contact person who will be in charge of handling questions and concerns after the informational sessions conclude. A representative from the company's insurance provider is generally the person best suited for this job. Selecting an outside person to respond to employee questions will make workers feel more comfortable discussing their personal and health issues, as opposed to meeting with a fellow employee. Directing questions to an outside source will also adhere to HIPAA privacy regulations and keep you from receiving Protected Health Information, or PHI, and other private information from your employees.

When meeting with employees, do your best to keep the atmosphere friendly and non-confrontational while you pass on the information. Set a casual tone and make those in attendance feel comfortable enough to ask questions and seek clarifications. In the event of rising costs or benefit cutbacks, be open and honest about what has prompted these changes. By showing that you care, your dedication to providing the best benefits possible will be evident.

Along with offering handouts to explain the changes in the benefits program, be sure to have pamphlets, worksheets, and other booklets to help further explain all of the ins and outs of the employee benefits program. Have at least one handout, worksheet, etc. for each employee at the meeting. Having to share paperwork will only add to employee anxiety and confusion during this time of change.

Remember the "golden rule" when speaking with your employees. Treat them with the same honesty, openness, and dedication you would want to receive in such a meeting. Let them know that you will take the time to ensure every employee understands the upcoming changes. Despite your positive attitude and preparations, expect some employees to become frustrated and upset over the news. Keeping a level head and presenting a straightforward message is the best way to maintain control of the situation.

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SHRM included a new choice in this year's survey that received a lot of attention from both sides of the table. For the first time in the survey's history, participants could select "organization's financial stability" as a key contributor to job satisfaction, receiving enough selections to rank fourth on both surveys.

As for employee benefits, a secondary survey revealed that health care coverage was the most important benefit, followed closely by paid time off. Despite the amount of significance employees' place on benefits, only 38% of employees polled felt "very satisfied" with their current medical benefits. Conversely, the majority of employees were very satisfied by the amount of paid time off being received.

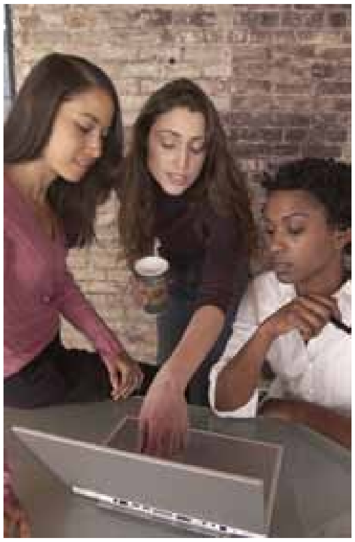
Some employers are concerned about how health care reform could affect the benefits they offer, which could also affect job satisfaction. On the brighter side, this year's employee survey showed that "the work itself" was selected enough to tie for fourth, pointing out that satisfaction does not only come in the form of paychecks and paid vacations.

Employees Value Benefits and Job Security the Most

According to a recent report from the Society for Human Resource Management (SHRM), employees consider benefits and job security as the two most important factors that contribute to their overall job satisfaction. This marks the fourth time in as many years that these two factors topped the SHRM's annual Employee Job Satisfaction survey.

The survey also polled HR professionals on their thoughts about job satisfaction, and found similar results. HR professionals agreed with the employee population on the value of job security, positioning it as their second most important factor. An astonishing 72 % of the HR population polled, selected the employee-supervisor relationship as the most important factor effecting job satisfaction, ranking number one in the survey for the seventh time in the last eight years. In comparison, only 48 % of employees polled selected "relationship with supervisor" as an important factor, ranking it seventh on the list.

The 2010 survey was made up of 25 elements spread across four categories, and included factors regarding wages, benefits, work environment, and advancement opportunities, among others. To ensure the validity of the survey's results, the SHRM polled a wide sample of over 600 employees and 589 HR professionals, all from the United States.



This year's survey had other interesting results. Employee compensation fell to its lowest rank ever this year, coming in at fifth on the employees' poll. Last year, compensation fell out of the top five rankings for HR professionals, and this year it was listed as the ninth biggest contributor to job satisfaction.

Besides job security, employees and HR professionals appear to agree that having opportunities to utilize skills/abilities while at work contributes to overall satisfaction. It is the third consecutive year this factor has ranked in the top five in both surveys, with employees placing more emphasis on this choice in 2010 than in previous years.

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