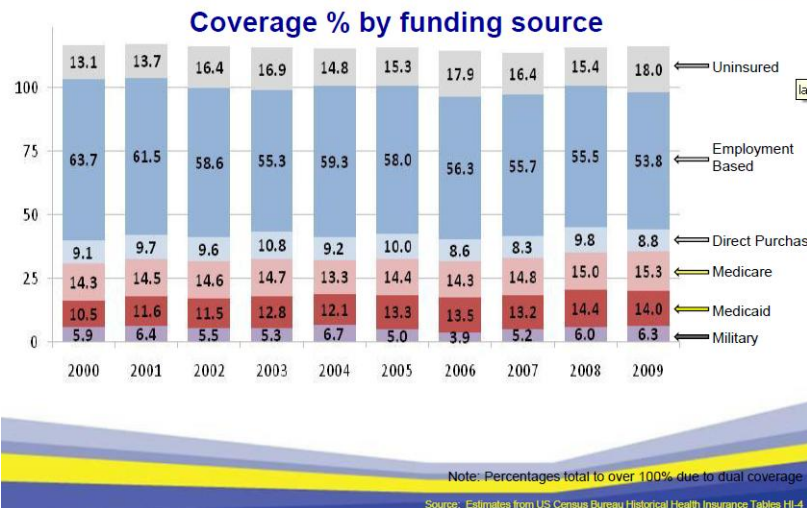


## In the Spotlight: ACA Employer Impacts

Employer sponsored health insurance coverage got its start during World War II. In an effort to combat inflation, strict controls were placed on worker compensation in 1942. Without the freedom to offer high wages to compete for the fewer available workers, employers began to expand their benefits package, including health insurance coverage. The Internal Revenue Service (IRS) made employer contributions to health insurance coverage not taxable in 1954 and there was a rapid expansion in employers who offered health insurance. Not only were more people covered by an employer sponsored policy, the benefits became richer. However, there has been a recent decline in employer based coverage as illustrated in the chart below.

### Insurance Trends NC



Employers face many issues when deciding whether or not to offer health insurance coverage. The costs of health care have risen [5 to 14 percent](#) every year since 2000. Inflation and workers earnings do not keep pace, rising only 2 to 4 percent each year. This means that health care gradually erodes employers' budgets and often employers are forced to increase the burden on workers and their families or drop coverage altogether. International competition has also increased pressures for businesses to keep their costs low. Wages and benefits, as the largest portion of most businesses' budgets, can often take a hit when companies are attempting to be competitive in global markets. For small businesses, usually with smaller overall budgets, offering health insurance coverage is often an even larger proportion of their budgets. The single biggest factor affecting small employers' decisions to buy insurance is the cost. As medical costs continue to rise, so do insurance premiums, and many smaller employers can no longer afford to offer coverage. Some employers may choose to switch to a [defined contribution](#), where employers offer a specified dollar amount toward health care coverage and employees may choose how to best spend that money. Defined contribution was introduced with employee retirement plans, like the 401K. Employees generally see these plans as favorable since they are portable, meaning that if the employee leaves a company, he or she may take the plan (or Health Savings Account) with them in an account tied directly to the employee, not the employer. The contributions from the employer, however, would no longer be associated with the plan or account.

According to a [Kaiser Family Foundation survey](#), employers are generally pessimistic about their own ability to control the costs of health coverage. More than 60 percent did, however, feel that disease management programs were very or somewhat effective ways to lower costs. Employers have a unique position in the health care industry to encourage employees to participate in wellness and disease management programs through cost breaks and incentives.

The Affordable Care Act (ACA) makes several changes to encourage employers to offer meaningful health insurance coverage but will affect employer coverage in several unintended ways, as well.

### Tax Credits for Small Businesses

Some of the earliest reforms from ACA were tax credits to help small businesses offer coverage for employees. In 2010, some [small businesses](#) were eligible for tax credits of up to 35% of the employer paid portion of the health insurance premium. The White House estimates that up to four million small businesses will be eligible for the credit. Blue Cross and Blue Shield of North Carolina provides an [online calculator](#) to help small businesses determine whether or not they may be eligible for the tax credits. After 2014, these tax credits will increase to up to 50% but they will only be available to small employers who purchase through Exchanges and only for two consecutive years.

### Early Retiree Reinsurance Program

The Early Retiree Reinsurance Program ([ERRP](#)) is a temporary program established by ACA in June of 2010 to encourage employers to continue offering coverage to retirees. ERRP absorbs 80% of the cost of coverage for early retirees for qualifying costs (as of October 1, 2011, those claims costs between \$16,000 and \$93,000). The White House estimated that North Carolina would have up to 119,000 potentially qualified early retirees. ERRP lasts until January 1, 2014 when full reform is implemented, or when the \$5 billion appropriated for the program has run out. In 2010, over \$535 million was distributed to state, local, and private employers participating in the program.

### SHOP Exchange

In addition to individuals, in 2014, small businesses will be able to shop for health insurance coverage through the Small Business Health Options Program, or “SHOP.” As mentioned above, the SHOP Exchanges are the only place that employers will be able to access the tax credits beginning in 2014. Small businesses are defined as having no more than 100 full-time equivalent employees, although states do have the option to limit the SHOP Exchange to businesses with no more than 50 employees. ACA and the current regulations provide states with the option to include an “Employer Choice” approach in addition to the required “Employee Choice” approach. “Employer Choice” is very similar to the way most groups purchase today while “Employee Choice” will allow employees to shop for any plan of their choice within the level (Platinum, Gold, Silver, or Bronze) that the employer chooses. If states opt for the “Employee Choice” model, many feel that this will lead to adverse selection and begin to erode the group market. Beginning in 2017, states also have option to open Exchanges to groups 100+.

### Pay or Play

One of the more controversial provisions in ACA is the employer mandate. Beginning in 2014, to encourage employers to continue offering affordable minimum [essential](#) health insurance coverage, large employers (with 50 or more full-time equivalent employees) will either have to offer employees coverage that meets certain requirements or be charged a penalty. ACA defines “affordable” as consuming no more than 9.5% of an employees’ income. If employers do not offer coverage and at least one full-time equivalent employee receives a

tax credit, the penalty is \$2,000 per employee. If the employer offers coverage but at least one employee receives a tax credit and the coverage does not meet the definition of affordable, the penalty is the lesser of \$2,000 times the total number of employees or \$3,000 times the number of employees receiving a credit. While these penalties may seem high to some, most employers pay more than this to provide coverage to their employees each year.

## Administrative Issues

Employers will have several administrative changes as a result of ACA, phasing in from 2010 through 2014:

Date Effective	Administrative Change
2010	To maintain grandfathered status (if a plan or policy chooses), the insurers or group health plans must include a statement in any materials provided to enrollees describing the policy or plan benefits that are believed to be grandfathered.
No later than March 23, 2012	Self-insured plan sponsors and insurers must provide participants with a uniform summary of benefits and coverage explanation that includes standardized information. This must be provided at initial and annual enrollment. <sup>i</sup>
January 2013 (for tax year 2012)	Employers issuing 250 or more W-2's must report the value of benefits on each employee's W-2 form.
March 2013	Employers must provide information to employees about the <a href="#">Exchange</a>
2014	Employers that do not offer health insurance coverage must file a return stating that they do not offer coverage, the number of full-time equivalent employees, and any other information that is specified by HHS.
2014	Employers providing minimum essential coverage must report to the IRS annually information about coverage offering.
2014	Employers providing minimum essential coverage must provide written statements with information to each covered individual listing the information above and contact information of the employer's insured.

## Future Outlook

Despite the effort by the federal government to preserve the employer-based health insurance system, there are concerns that remain. Because ACA does not have many provisions that control health care costs coupled with some of the new requirements described above, some studies have predicted doomsday-type [mass dumping](#) of employer sponsored coverage. However, other studies have suggested that the ACA may actually help employers [maintain coverage](#) who otherwise would not have. Employers could choose to continue offering coverage to lower risk, healthier employees while paying either a defined contribution or the penalty to higher risk, sicker employees. This could create a disproportionately sick population on the Exchange and cause premiums to rise significantly.

Another concern for some insurers is that some of the larger employers may turn to self-funded plans since there are fewer restrictions. This could result in fewer people in the insurance pool, which would likely raise costs for everyone else. Questions remain about the future of employer based coverage.

## BCBSNC Views

Blue Cross and Blue Shield of North Carolina (BCBSNC) supports efforts to maintain the current, employer-based health insurance system. We recognize the strong contributions that employers make and this system aids stability in the marketplace while creating greater access to coverage for many. Employers are the primary customers of BCBSNC, making up about 86 percent of our total membership. As medical costs continue to rise, we are concerned that smaller employers will not be able to afford to enter the market and some larger employers may consider dropping coverage. The administrative requirements facing employers (and BCBSNC as we try to support our employer customers) are especially burdensome and will add costs to the system. We believe that more cost controls should be put in place to stem the root of the problem, decreasing the chance of employer dumping and making insurance more affordable for everyone.

### For More Information

Center for American Progress on Employer Impacts: [http://www.americanprogress.org/issues/2010/05/health\\_employers.html](http://www.americanprogress.org/issues/2010/05/health_employers.html)  
HealthReform.gov on Employer Sponsored Insurance: <http://www.healthreform.gov/reports/insurance/index.html>

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<sup>i</sup> This is subject to change. HHS released the proposed rule 5 months after the deadline and many expect implementation to be delayed as a result.