An HR perspective
Focusing on the future of healthcare benefits

May 2013

At a glance
As implementation of the Affordable Care Act (ACA) proceeds toward the bellwether year of 2014, employers are confronting broader strategic considerations relating to health coverage for their employees.

With new requirements and almost certain cost increases for most employers, businesses are rethinking their role in providing health coverage, and other stakeholders are keenly interested in their moves.

PwC recently convened several roundtables of employers in New York, Chicago, and Atlanta to discuss health coverage at this pivotal moment. Highlights of the conversations and results of a related survey are presented on the next pages.
An HR perspective—
Focusing on the future of healthcare benefits
At the crossroads: Employers discuss health coverage as 2014 approaches

Key areas of concern
Employers are highly concerned about the cost implications of ACA to their organizations—with scrutiny from many corners focused on the value proposition of employee health coverage. Given upward cost pressures from new benefit mandates, fees, and expanded eligibility and fewer levers available to manage those costs, HR, benefits, and finance departments are reassessing their benefit offerings. At the same time, most employers are aware that their benefits may trigger excise taxes in 2018, compelling further cost management or alternative strategies. As a result, some employers are questioning their ability to sustain current benefit levels or to provide healthcare benefits at all. Compliance and reporting obligations remain on employers’ radar as well.

Roundtable discussion
Lively discussions focused on several topics stemming from the areas of highest concern to employers.

Evaluating how to play and when to pay
Almost all employers participating in the roundtables are considering continuing to “play” by providing some level of health coverage, at least to most of the workforce. Some employers have looked at different ways to play, for example, by providing different benefits or contribution levels for different employee groups. However, absent some needed guidance about nondiscrimination rules, it is difficult for them to move forward, and options for replacing employer-sponsored coverage and paying penalties are still too immature for most employers to seriously consider for their active employee population.

What is your biggest concern/issue with ACA?

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>41%</td>
<td>Increase in company cost</td>
</tr>
<tr>
<td>25%</td>
<td>40% excise tax on high-cost coverage</td>
</tr>
<tr>
<td>14%</td>
<td>Ability to provide current benefits or ability to provide healthcare benefits at all</td>
</tr>
<tr>
<td>14%</td>
<td>Compliance and reporting requirements</td>
</tr>
<tr>
<td>4%</td>
<td>Ability to avoid penalties</td>
</tr>
<tr>
<td>2%</td>
<td>Providing benefits to employees that are currently not eligible</td>
</tr>
</tbody>
</table>
Most roundtable participants had not yet considered potentially leveraging public exchanges and paying a penalty to enable employees more affordable options, but were intrigued with the idea. This approach made more sense for companies with more part-time or seasonal and/or low-wage workers. Employers with more stable and higher paid workforces were less interested in this approach, consistent with the dominant view that health benefits remain an important human capital attraction and retention tool.

Some employers are looking into providing a plan that does not meet the minimum value requirement (60% actuarial value) but meets the minimum essential coverage requirement to avoid a penalty.

Employers remain skeptical that all public exchanges will be fully operational by January 1, 2014. This uncertainty may be a factor in employers’ reluctance to consider public exchanges as options for some or all of their workforce. (While small employers, generally under 50 employees, are supposed to be able to access health coverage for their workers on the public exchanges, our roundtable participants generally had larger workforces, so these Small Business Health Options [SHOP] exchanges were not a focus).

**Bringing healthcare consumerism into the mainstream**

Increased employer costs are the number-one concern arising out of ACA, according to our survey of roundtable participants. However, employers are not yet ready to fully embrace a retail model of healthcare focused on the individual consumer. In general, roundtable participants still are open to moving toward a more consumer-centric model of healthcare, making employees more accountable for the cost of their coverage through high-deductible health plans and other levers. However, employers that currently offer more generous, employer-subsidized benefits are more reluctant to move in this direction, as would be expected. In this arena, industry and geography seem to matter.

Among most employers offering a high-deductible health plan alongside other health plan designs, there is little or no participation in the high-deductible plan, regardless of whether the employer contributes to an account. However, several employers reported that employee interest in these arrangements is growing. Where high-deductible health plans have replaced all other offerings, employee engagement has increased. However, tools for engaging employees and advancing consumerism still are not viewed favorably by roundtable participants.

**Creating accountability for wellness and health management**

While wellness and health management programs have become mainstream, employers remain concerned
about how effective these programs are at improving health and lowering costs. Next-generation wellness, using incentives to encourage employees to reach health-related targets, lags behind—primarily because of concerns about whether these incentives really work and the challenges of determining a return on investment (ROI). The wellness programs offered by roundtable participants range from on-site clinics to regular on-site nurse visits, to health assessments, to disease management and other types of coaching. One unique and appealing approach combined a campaign for physical wellness with a successful initiative around employee financial wellness.

**Kicking the tires on private exchanges**

Many employers had heard about private exchanges where insured (or possibly self-insured) group health coverage could be offered to employees, along with other insurance products, and where employer involvement would be minimal, perhaps even limited to providing a defined contribution toward the purchase of benefits. However, 35% of participants would not consider moving employees to a private exchange within the next 24 months, and another 50% were undecided.

Most employers continue to question the value of private exchanges: none of the roundtable participants had decided to join a private exchange, and none had taken steps in that direction. While several roundtable participants noted that private exchanges were available and could hold promise for retirees ineligible for Medicare, none currently offering pre-Medicare coverage to retirees had taken steps to change their current programs. Size matters: some private exchanges have set minimum thresholds as high as 5,000 employees.

---

**Would you consider joining a private exchange within the next 24 months?**

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maybe after careful evaluation/Undecided</td>
<td>47%</td>
</tr>
<tr>
<td>No, want to wait and see if they deliver value</td>
<td>29%</td>
</tr>
<tr>
<td>No, want to be able to have control over benefit and vendor decisions</td>
<td>6%</td>
</tr>
<tr>
<td>Yes, because of reduced cost</td>
<td>6%</td>
</tr>
<tr>
<td>Yes, because of transition to defined contribution style plan</td>
<td>6%</td>
</tr>
<tr>
<td>Yes, because of employee choice</td>
<td>3%</td>
</tr>
<tr>
<td>Yes, because of reduced administration</td>
<td>3%</td>
</tr>
</tbody>
</table>
**Dialing up delivery**

With new healthcare delivery models emerging, such as accountable care organizations, medical homes, and telemedicine, employers face challenges in navigating and evaluating offerings for their employees, creating meaningful communications, and analyzing results. Many employers lack even basic information about and understanding of these new delivery models.

**Reassessing Compliance**

Compliance and reporting requirements are the biggest concern of about 15% of roundtable participants. With dozens of new benefit mandates and potentially costly penalties, it’s not surprising that these two areas are the top compliance concern among roundtable participants. Increased compliance responsibilities and risks rank next, and not knowing what is required ranks third.

The roundtables also heard a Washington update, which touched on recent regulatory guidance and implementation considerations.

Overall, participants had a broad awareness of the issues involved, but there was some confusion about the existence of some of the requirements and how they work and many questions about the details. For example, new rules will limit out-of-pocket maximums in most plans starting in 2014, but many employers were unaware that copayments must count toward those maximums, or that it will be difficult to administer the requirement to have copayments (generally imposed when a patient receives a medical service) apply to the out-of-pocket maximum.

**Anticipating changes**

Based on current understanding and estimates, a quarter of roundtable participants were most concerned about the excise tax on high-cost coverage slated to take effect in 2018. Many employers have also shifted focus from implementation of ACA to rethinking their strategy around healthcare for employees. But priorities of our roundtable participants were split, partially dependent upon whether they had already adopted a consumer-oriented strategy (e.g., high-deductible health plans) and/or wellness programs. Nearly half (41%) of participants considered bringing consumerism “mainstream” and improving engagement in wellness and health management programs to be the two highest priorities or changes in their health benefit strategy going forward.

---

**What do you see as the two highest priorities/changes in your strategy going forward?**

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bringing consumerism mainstream</td>
<td>22%</td>
</tr>
<tr>
<td>Improving engagement in wellness and health management programs</td>
<td>19%</td>
</tr>
<tr>
<td>Changing eligibility and contributions to optimize shared responsibility penalties</td>
<td>17%</td>
</tr>
<tr>
<td>Workforce management</td>
<td>14%</td>
</tr>
<tr>
<td>Reducing benefit levels or adding lower-cost options</td>
<td>13%</td>
</tr>
<tr>
<td>Moving from a defined benefit approach towards defined contribution approach</td>
<td>8%</td>
</tr>
<tr>
<td>Increasing delivery-based strategies (telehealth, on-site clinics, ACOs/PCMHs)</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>
About PwC’s Human Resource Services

As a leading provider of HR consulting services, PwC’s Human Resource Services’ global network of 6,000 HR practitioners in over 150 countries brings together a broad range of professionals working in the human resource arena—retirement, health & welfare, total compensation, HR strategy and operations, regulatory compliance, workforce planning, talent management, and global mobility—affording our clients a tremendous breadth and depth of expertise, both locally and globally, to effectively address the issues they face.

PwC is differentiated from its competitors by its ability to combine top-tier HR consulting expertise with the tax, accounting, and financial analytics expertise that have become critical aspects of HR programs.

PwC’s Human Resource Services practice can assist you in improving your performance across all aspects of the HR and human capital spectrum through technical excellence, thought leadership, and innovation around five core critical HR issues: reward effectiveness and efficiency; risk management, regulatory and compliance; HR and workforce effectiveness; transaction effectiveness; and global mobility.

To have a deeper discussion about the future of healthcare benefits, please contact:

Scott Olsen  
US Leader, Human Resource Services  
(646) 471-0651  
scott.n.olsen@us.pwc.com

Ron Barlow  
(312) 298-3056  
ronald.g.barlow@us.pwc.com

Barbara Gniewek  
(646) 471-8301  
barbara.p.gniewek@us.pwc.com

Amy Bergner  
(202) 312-7598  
amy.b.bergner@us.pwc.com

Mike Thompson  
(646) 471-0720  
michael.thompson@us.pwc.com

Theresa Gee  
(312) 298-4700  
theresa.m.gee@us.pwc.com

Don Weber  
(678) 419-1417  
donald.p.weber@us.pwc.com