THE AFFORDABLE CARE ACT AND YOUR BUSINESS

by Mike Trudeau and Scott Young

The Patient Protection and Affordable Care Act (PPACA), or the Affordable Care Act as it is more commonly known, has been the law since 2010. With all the changes and controversy surrounding the law, it has been a wild ride – particularly the last few months.

The inaugural six month Open Enrollment Period didn't go nearly as well as hoped. The government site didn't work at least half the time, major changes to the rules were announced nearly every week, politicians argued about who was to blame for what, and the press had a field day making sure that every problem and argument got plenty of air time, which further confused and upset the public.

Fortunately, since the end of Open Enrollment in April, the government has stopped making changes to the law and the press has found other things to talk about. Life is back to normal and it seems we can finally forget about the Affordable Care Act – at least for a while – and move on to more important things.

But before we move on, we have to ask a question: Now that the dust has settled, are employers satisfied with the way the government dealt with the Affordable Care Act?

For most employers, the answer is "no."

Many small and mid-sized employers that offer a group health plan still have no idea what to do or where they stand. The truth is that most employers did not actually deal with the Affordable Care Act but put it off because that was the easiest thing to do. If they didn't already have a group renewal date late in the year, they took advantage of an offer from the insurance company to move their plan renewal to December. In either case, they were able to push any need for action out several months to avoid the immediate impact of the dramatic price increases that come with Affordable Care Act compliant health plans.

On average, those increases are massive because on January 1, 2014, the major provisions of the Affordable Care Act went into effect, triggering sweeping mandates. Among other things, those mandates included greatly expanded benefits, new rating rules and a host of new taxes that combined to drive up the cost of insurance – which was already spiraling out of control.

So the problem for those employers that dodged a bullet during Open Enrollment is how they are going to come up with a way to handle those skyrocketing costs when renewal time rolls around again.

What options do they have?

When that decision time comes, most advisors are going to recommend a combination of benefit reduction and increased employee cost sharing.

Yet you can only reduce benefits so far and increase employee cost sharing so much. Employee participation rates in group health plans are already at all-time lows because employers have been reducing benefits and increasing employee cost sharing for years. There's not much room left there.

Many small and mid-sized employers are turning to another option: A Defined Contribution Plan.

Instead of offering a group health plan, those employers define a specific amount they will contribute to each employee so they can purchase their own health insurance or other benefits. That amount can be anything the employer determines he can afford.

By dropping their group health plan and replacing it with a Defined Contribution Plan, employers are able to significantly reduce healthcare costs for the company and, thanks to the Affordable Care Act, reduce the cost to their employees while maintaining and even increasing the level of benefits.

It sounds too good to be true, but not only is it true, there are incentives built into the Affordable Care Act encouraging employers to consider replacing their group health plan with a Defined Contribution Plan.

Benefits of a Defined Contribution Plan

Subsidies – The strongest argument for replacing a group health plan with a Defined Contribution Plan is that the government is willing to take the employer's traditional position of subsidizing employee health insurance. Over half of the people in the country qualify for substantial subsidies, but those subsidies are not available if a group health plan is in place. Many employers are seeing the wisdom of dropping their group health plan and building a stronger employee benefit program around the government subsidies using a Defined Contribution Plan.

Cost – From an employer's perspective, this is probably the number one reason to switch. With all of the market reforms required by the Affordable Care Act, many employers will see their premiums increase substantially, making group health coverage cost-prohibitive for some companies. An employer can take control of those healthcare costs with a Defined Contribution Plan. Even if the company has to start paying the Employer Shared Responsibility Payment in 2015, it will generally be much less expensive than providing a group health plan.

Hassle – In addition to the cost of offering a group health plan, there's also the hassle-factor to consider. Employers who provide health insurance to their employees have a number of compliance requirements and fiduciary responsibilities. This can take a lot of time, and dropping the ball on any of these requirements can result in big fines. Employers that offer a Defined Contribution Plan in place of a group health plan have minimal reporting requirements and no additional fines for non-compliance.

Individual Plan Changes – Until this year, individual coverage was medically underwritten in 45 states, which excluded consumers with pre-existing conditions. Also, individual policies didn't include all the benefits covered by group health plans, maternity coverage being the most notable exclusion in most states. Starting this year, not only will these individual plans cover the same benefits as group plans, they will also be guaranteed issue with no pre-existing condition exclusions, limitations or surcharges. Employees will no longer be dependent on their employer to get quality health insurance.

Plan Choice – Under a Defined Contribution Plan, employees have access to every plan sold on the open market. They are no longer limited to the one or two options offered by their employer. They are free to pick the plan that best fits their needs.

Plan Portability – Individual health plans are portable. Under a Defined Contribution Plan, an employee's health insurance coverage is no longer tied to continued employment with a company. As long as the employee pays his premiums, his health plan will stay in force. Among other things that means an employee will not lose his health insurance if he loses his job as a result of a long sickness or injury. That will prevent exposure to the leading cause of personal bankruptcies.

The Employer Contribution – When a company makes the decision to drop its group health coverage and let its employees access the government subsidies through a Defined Contribution Plan, it suddenly has a lot of extra money to play with. Some of that money can be used to help employees pay their portion of their health insurance premium through a bonus program, or the employer can use some of those funds to provide other benefits, like employer-sponsored dental coverage, group life insurance, group disability insurance, HSA contributions, accident insurance, or medical bridge plan.

Additionally, when an employer drops their group health plan, that doesn't mean their employees must navigate the world of health insurance alone. It is important that employers work with licensed brokers to ensure their employees have access to all the health insurance and ancillary benefit options available to them.

A Defined Contribution Plan that takes advantage of the Affordable Care Act provides employers with a way to take control of their healthcare costs while they maintain or even improve the level of employee benefits.

It may not be the right solution for every company, but a Defined Contribution Plan is a very strong option that every company should consider.

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