Health care reform is coming — and will bring significant short- and long-term challenges for employers

Reform has significant implications for employers, individuals, insurers, health care providers and others

For employers in particular:
- **Short-term** challenges include understanding the legislation and estimating its impact on the organization and others involved with the health care system
- **Long-term** challenges include managing compensation and benefit strategy in a new environment
**Shared/similar provisions in the two current bills: Potential for final legislation — and triggers for employer action**

<table>
<thead>
<tr>
<th>Provision</th>
<th>Senate H.R. 3590</th>
<th>House H.R. 3962</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual mandate</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Individual and small group market reform</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Low- and middle-income premium subsidies</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Health insurance exchanges</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Standard benefit packages</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Employer pay or play mandate</td>
<td>✓ (&quot;free rider&quot;)</td>
<td>✓ (8% of employer's average wages)</td>
</tr>
<tr>
<td>Cap health FSAs at $2,500 per year</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Public option</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Tax employers on ‘high-cost’ plans</td>
<td>✓ (40%)</td>
<td>No</td>
</tr>
<tr>
<td>New taxes on high income individuals</td>
<td>✓ (Medicare payroll tax)</td>
<td>✓ (Income tax surcharge)</td>
</tr>
</tbody>
</table>
Employers face costs, risks and opportunities

**Costs and Risks**

- Increased enrollment in employer-sponsored plans
- Penalties for employees who fail to enroll in employer coverage
- Consequences of pay-or-play decisions
- Tax cap/excise tax on “high cost” plans
- Increased charges by insurers/medical suppliers to recoup assessments
- Cost shifting due to reduced Medicare payments to providers
- Reduced government subsidy for Medicare Advantage plans
- P&L impact of change in RDS tax treatment
- “Vested” retiree health benefits
- New reporting requirements (tax cap, W2)

**Opportunities**

- Possible benefit reduction/redesign for active or inactive employees and/or dependents to offset cost increases or change strategy
- Reduction in cost shifting due to uncompensated care
- Effect of Medicare payment reforms addressing quality of care and comparative effectiveness research
- Potential reinsurance program for employer-sponsored pre-65 coverage
- Reduced need for employer role in retiree medical (e.g., improved pre-65 access in private market, Part D benefit enhancements)
Sizing up the impact (example)
Excise tax on high cost plans: Efficient plans would have an edge

Family Rates for Combined Coverages (e.g., Medical, Dental, Vision, FSA)

Well managed plans have an advantage over time

*Tax cap assumes future index of 4%
Medical trend 8%, dental 5%, HRA/FSA/HSA 3%
Source: Towers Perrin 2010 Health Care Cost Survey
How will employers respond?  
Towers Perrin pulse survey results

**Strategy**
- Nearly all respondents expect to reexamine their health benefit strategies for active employees
- Half expect to reevaluate their health care strategies for retirees; options for dealing with retiree medical may expand under reform
- Companies are struggling to balance cost and talent management needs
- Respondents will act to avoid cost increases due to reform
- Despite sensitivity to costs, respondents express strong views on the importance of workforce health to business success

**Cost**
- The proposed employer pay-or-play mandate draws mixed reactions
  - 41% see the business impact as neutral
  - 47% see a negative impact on business
- Some companies would consider dropping their company-sponsored health care plans if cost-efficient alternatives were available

**Pay or Play?**
- Employers are generally positive about reform provisions that would encourage research on effectiveness of alternative treatments
- Respondents are positive about potential insurance reforms
- Respondents believe that reform as currently proposed will not influence the consumer behaviors that drive costs

Employers expect to reexamine their health benefit strategies, educate leaders and employees

Employer Actions in Response to Passage of Health Care Reform Legislation
(Percent Responding Very Likely/Likely)

- Reexamine health benefit strategy for active employees: 89%
- Educate senior management on the reforms and their implications: 88%
- Model financial impact of health care reform on your company: 83%
- Educate employees on the reforms and their implications: 82%
- Provide decision support tools to help employees evaluate their options: 50%
- Reexamine health benefit strategy for retirees: 47%

Employers will take a variety of actions to avoid cost impact

Employer Actions If Health Care Reform Increases Employer Costs (Percent Responding Very Likely/Likely)

- Reduce benefits: 87%
- Increase prices for customers: 38%
- Reduce employment: 30%
- Reduce salaries/direct compensation: 27%
- Accept reduced profits: 11%
- Other: 6%

Employer commitment to workforce health is likely to remain strong

Context for Reform: The Going-In Proposition for Health Benefits

- Workforce health is important to our business success: 96% Agree, 1% Neither agree nor disagree, 3% Disagree
- Health benefits are an important component of our reward portfolio: 96% Agree, 2% Neither agree nor disagree, 2% Disagree
- Our health benefits give us important opportunities to influence workforce health: 87% Agree, 9% Neither agree nor disagree, 4% Disagree

Would your company sponsor wellness and health promotion programs if you no longer offered medical benefits?
- 61% Likely
- 28% Not sure
- 11% Unlikely