How Your Business Can Survive the Affordable Care Act

Love it or hate it, beginning October 1 the Affordable Care Act is bringing big changes to individual health insurance in the U.S. Businesses are an essential part of access for their employees to insurance coverage and many fear the impact of the new law on their profitability and on their employees. But it is possible for your company to survive the new law.

Community Rating vs. Risk Rating

Traditionally, large employers with 50 or more employees have been able to spread the risk of large claims over their total employee population. This makes it easier for their plans to withstand a "shock" claim. Smaller companies are normally offered policies with rates based on a risk rating that includes employees submitting health information. The insurance companies are very aware an employee or dependent with a chronic condition could significantly impact the cost of insurance for everyone in the company.

Under the ACA, the once-lengthy list of risk factors considered in pricing smaller plans will be reduced to:

- A broad geographic rating
- Age
- Tobacco use
- Consideration of who is covered – single, married, family

Community rating will not be neutral. It will either help or hurt your company's bottom line. Determining, up front, the long-term impact on your company will provide a guideline on how to structure the benefit coverage for your employees at a reasonable cost. Remember that while the ACA officially takes effect midnight Jan. 1, 2014 all of the changes won't happen overnight.

Gary Hill

Who Benefits Most?

There are many people who will definitely benefit from the ACA. Individuals currently without employer coverage, COBRA participants, the unemployed, the self-employed, retirees and especially those with a chronic condition will benefit the most. The downside is there will most likely be an increase in the cost of coverage.

Which Businesses Will Benefit Most?

Smaller employers with older employees should benefit through community rating. In the past these employers have been impacted by fluctuations in the pricing of coverage, with many absorbing rate increases of more than 30 percent a year. The increases should reduce to a manageable level with the possibility of a rate reduction. Conversely, the same size company with younger healthy employees could see a jump in their premiums.

When Should We Sign Up?

Adoption of the ACA will be rolled out over the course of 2014, but your timing — when you make the change — can minimize any negative impact.

- If the new system is going to be a positive for your firm, position yourself to sign up on Jan. 1, 2014 to take immediate advantage of better rates.
- If your company is going to take a hit, try to renew your current coverage no later than Dec. 31, 2013 to delay adoption as long as possible.

Hard vs. Soft Dollar Costs

Some employers are talking about cutting staff hours back to 29 hours or less to avoid the insurance requirement, but that carries its own risk. Employers risk losing valuable employees who want more hours and will likely see higher staff turnover with an increase in training expenses. In a tight labor market, companies that cut employee hours are probably not offering the most attractive benefit/pay package to attract and retain the best employees. Conversely, in a labor market where the employer has a hiring advantage they'll have more leeway with adjusting employee hours.

For larger companies that continue to be competitive in offering benefits to their employees, the main challenge will be ensuring that they stay in compliance and avoid incurring penalties. That challenge brings a good bit of increased administration. From an expense perspective you have to manage both the hard and soft dollar costs that come with being in compliance.

Navigate the Changeover

The new insurance marketplace may call for revisions in your company's culture. Some questions to ask include:

- Can our company afford to offer coverage to spouses who have coverage through their employer?
- Am I an employer who is comfortable not offering coverage to my employees' families?
- Does our plan meet the minimum value and affordability requirements? To the extent that it doesn't, what changes do we need to make in 2014 to prepare for 2015?
- How can we better manage the company's health care expenses through plan designs?
- Can we use wellness incentives to help manage the company's health care expenses by encouraging our employees to become healthier?

Continue to educate yourself so you can answer these and other questions to find solutions to your individual situation. Employees do, and will continue to, look to their employers for guidance. Regardless of company size, employers who effectively educate and communicate with their employees will be the survivors.

Garry Hill, Principal, at Sterling Risk Advisors can be reached at , ghill@sterlingrisk advisors.com or www.sterlingriskadvisors.com