INCREASING EMPLOYEE COST-SHARING

Employers have been shifting more of the cost for health care services to employees. This trend started in the early 2000s when some employers introduced consumer driven health plans. The concept is that if employees share more in the cost, they will make different treatment decisions. For example, they may seek generic prescriptions or find a less expensive venue such as a retail clinic instead of urgent care or the emergency room for care needed over the weekend.

Since the dawn of consumerism, however, opponents have been concerned that employees may decide not to seek care at all. Ultimately, if a participant does not get necessary care, the result can be more costly care down the road because of complications from untreated conditions. Studies to date do indicate that as cost-sharing is introduced, utilization is decreased. Unfortunately, these studies do not indicate whether participants are reducing necessary or unnecessary care.

Raising employee cost for health care services has the following three results:

1. Shifts cost to participants.
2. Decreases demand for services.
3. Introduces cost considerations into employees’ health care decisions.

Employers have always struggled with decisions to shift more cost to employees. When the downturn in the economy started in 2008, employers did begin shifting cost to employees to meet tight budget targets. Each year since 2008, we have seen more and more employers adding account-based health plans paired with Health Savings Accounts (HSAs) as an option.

This year, more employers are considering account-based plans to contend with Affordable Care Act (ACA) requirements. Many employers want to add an option that offers a minimum value, affordable plan based on the Federal Poverty Level. This approach simplifies the reporting requirements and allows employers to determine affordability at the beginning of the plan year. In addition, a number of employers have always defined full-time employees as those working 40 hours a week or at least 37 hours a week. Only full time employees were eligible for the health plan. The ACA, however, defines full-time as working 30 or more

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hours a week. As a result, some employers expect more employees to be eligible in 2015. A minimum value account-based health plan is one of the most cost-effective options for covering these newly eligible employees.

In 2018, another ACA rule, known as the Cadillac tax, may prompt employers to pass more cost onto employees. Employers and insurance carriers will be assessed a 40 percent excise tax on the cost of coverage that exceeds specified limits. The cost of coverage is a very broad term that includes not just the anticipated cost of the medical plan, but also all employer-sponsored plans that provide tax-free medical benefits. The nature of the benefits included means more employers will need to make benefit adjustments to avoid the Cadillac tax.

The debate will continue on the effect of increased cost-sharing and the potential effect on utilization. Clearly, increased cost-sharing deeply affects lower paid employees. Often they do not have the money to pay for necessary medical care.

Employers need to understand the burden increased cost-sharing places on their employees. Some employees can afford the additional cost, others cannot. Can an employee use the plan efficiently to obtain needed health care without incurring unmanageable expense? Employers need to consider this question. It is critical to offer services and tools to help employees make the best decisions when they are responsible for more of the cost. Following are a few possible options.

First, employers can now offer better electronic tools. Over the last decade, many services and products have been introduced to help employees navigate the health care system. Cost estimators and tools to compare costs have improved significantly. In the early 2000s, very limited cost information was available to patients, making it exceedingly difficult to seek low cost options. Since then, much more information has become available. Many insurance carriers now offer these tools on their websites.

Second, employers can invest in patient advocacy programs. These programs help employees in several ways. They help resolve claims issues and evaluate care options. They offer clinical resources to help patients understand recommended treatment and testing options. They help identify cost-effective treatment facilities. They can also provide an independent clinical resource to discuss treatment and options.

Third, employers can cover the cost of less expensive venues. For example, many employers now cover retail clinics under their plans. Many also contract with a telemedicine vendor to cover telemedicine visits for routine care services.

Fourth, employers can pair discount cards with their medical plans. Prescription drug and lab service discount cards are most common. These cards provide employees some financial relief for services the health plan may or may not cover. The savings may be 10 to 20 percent, a significant amount for employees struggling to pay medical expenses.

Finally, employers can allow employees to purchase a wide range of voluntary products. Accident policies, critical illness coverage and hospital indemnity plans can provide benefits to help employees pay for medical services. Many low-paid employees can afford the premiums for these products while they struggle to save for potential medical costs.

Employers will continue to increase employee cost-sharing. Health care costs often increase at a rate much higher than the health plan budget allotment. The increasing number of employees electing coverage is an issue even for employers with healthy budgets. The Cadillac tax with its very inclusive definition for the cost of coverage will challenge more employers. Carving back benefits and shifting more cost to employees can help employers maintain employee headcount and benefits.

DID YOU KNOW?

Employers’ Biggest Affordable Care Act (ACA) Challenge
- 57% of employers cite administration issues
- 21% of employers cite cost issues
- 11% of employers cite plan design issues
- 10% of employers cite communication issues
- 1% of employers cite other

Even with Challenges, Employers Committed to Offering Health Care Benefits in Next Five Years
- 33% definitely will offer health benefits
- 52% very likely will offer health benefits
- 11% somewhat likely to offer health benefits
- 3% somewhat unlikely to offer health benefits
- 1% very unlikely to offer health benefits

Source: 2015 Employer-Sponsored Health Care: ACA’s Impact, International Foundation of Employee Benefit Plans

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At the same time, employers also need to recognize the burden increased cost-sharing places on employees. Employees with lower incomes find it especially difficult to pay increased out-of-pocket costs. Employers should offer information and services to help employees learn how to use the health plan effectively. Tools and voluntary coverage may help mitigate rising employee cost.

**MERGERS AND ACQUISITIONS – BENEFIT ISSUES**

As the economy picks up, merger and acquisition activity also tends to pick up. Although mergers and acquisitions critically affect HR departments, they are often one of the last departments to be notified. It is unfortunate, because these transactions affect many benefit plans and employer policies. If HR is involved earlier in the process, it can avert many complications.

The type of sale being considered is important. An asset sale involves selling specific assets of the organization rather than selling the entire organization. An asset sale might include property, trademarks and business assets. The seller can continue to exist after an asset sale.

A stock sale involves the purchase of the entire entity – all assets and liabilities are sold to the buyer. With a stock sale, the selling entity ceases to exist.

Each type of sale has specific implications under the health plan so a clear understanding of the sales agreement is crucial. For example, did the buyer commit to continuing the seller’s specific benefit plan or does the agreement make no mention of

**YOUR QUESTIONS**

**Q:** Does the Affordable Care Act affect our medical plan’s rehire provisions? Should we be reviewing our rehire provisions?

**A:** Yes and yes. Health care reform discusses rehire provisions in two separate places. One is the waiting period rules; the other is the shared responsibility requirements, the “play or pay” rules. Rehire provisions are treated differently in each of these areas.

The waiting period regulations do not provide many specifics. They merely state that rehire provisions cannot be structured to lengthen new hire waiting periods. An example of this would be laying employees off 60 days into the new hire waiting period, then rehiring them after 30 days and requiring a whole new waiting period.

The shared responsibility regulations are more specific. The rehire provisions or break-in-service rules apply to both lookback measurement and monthly measurement methods.

A break in service is a period of time where no hours of service are credited. The final regulations allow employers to treat a rehired employee as a new hire if the break in service is 13 or more weeks. The 13 week break-in-service rules do not apply to educational institutions. Education institutions can treat rehired employees as a new hire only after a 26-week break in service.

The regulations also include a parity rule. An employee can be treated as a new hire if a break in service lasts at least four consecutive weeks and is longer than the immediately preceding period of employment. For example, if an employee worked for six weeks and then had a break in service of eight weeks, that employee could be treated as a new hire upon return to work.

If a break in service is not long enough to warrant treating the returning employee as a new hire, the employee is considered a continuing employee. If the employee is eligible for coverage (either because of the monthly measurement period or a stability period), the employer needs to reinstate coverage as soon as practical. “As soon as practical” is defined as no later than the first of the month following the return to work. If an employee was in a look-back measurement period, the employee will return to the measurement period and the employer can record zero hours of service while the employee was on the break of service, unless the law requires the time to count. For example, the employer must credit hours of service while an employee is on an FMLA leave.
employee benefit plans? Understanding the commitments made at the point of purchase is necessary in order to meet those commitments.

Employees are often stressed when their company is acquired or merged with another. They are understandably concerned about their jobs and are uncertain whether their positions will be maintained in the new organization. If they do not feel their jobs will be secure post-merger, they may decide to look at other employment options.

Employers need to keep employees informed during the transition process. HR communications immediately after a sale will boost employee confidence in the organization and ease concerns about the transition.

One of the more immediate concerns employees have in a merger and acquisition is benefits. Are the benefits now offered similar to the employer’s plan or are they significantly different? Will the new organization maintain the old benefit plan? If not, HR needs to clarify the answers to the following:

- How does the new plan compare to the former benefit plan? Highlight the differences to manage employee expectations.
- Are the new plan networks the same or do they differ significantly? If there are significant differences, highlight those differences. For example if a major hospital system is not a part of the new network, let employees know up front. Also, explain how to find in-network providers.
- What are the costs for the benefit plans?
- What are the effective dates for benefit coverage? Will employees need to enroll in the new benefit plan? If they do, explain the process and timing.

### TREND TIDBITS

- **Growth in per employee health plan cost at 3.9% after employer plan changes**
- **PPO plan cost increased at 4.3%**
- **HMO plan cost increased at 5.2%**
- **Account-based health plans with health saving accounts increased at 3.3%**
- **Account-based health plans with health reimbursement arrangements increased at 2.9%**

Source: 2014 National Survey of Employer-Sponsored Health Plans, Mercer

- When will ID cards be available? What should employees do if they need care before receiving an ID card?

Employee communication during a merger or acquisition is critical. Employees of the acquired organization will be uncertain about their new employer. If the goal is to retain these new employees, explain immediately how the acquisition will affect them.

Behind the scenes, HR needs to understand how the acquisition affects a number of issues. Specifically, the following questions need to be considered:

- How should benefit budgets be adjusted as a result of the acquisitions? Will fully insured plan rates change with the influx of new members? Should projected costs for the self-funded plan be adjusted based on the acquired group?
- How should flexible spending accounts be handled? Again, the type of sale matters in terms of options. In a stock sale, the buying organization can simply take over the seller’s FSA plan. The buyer should understand any potential liability. In an asset sale, the buyer has two options. Either the buyer can continue the seller’s plan until the end of the plan year or the buyer can transfer the seller’s accounts mid-year into the buyer’s plan. The latter will require a full transfer of contributions and claim activity for the year to date. The Section 125 rules on FSAs in merger and acquisition situations are complex. Be sure to seek legal advice on managing this transition.
- How are other laws impacted? How should ERISA plans be modified to accommodate the acquisition?

Mergers and acquisitions can be exciting for organizations as they expand in their marketplace. They can also be extremely stressful for employees and human resources. The ideal process would include HR in the due diligence process. Being involved early will allow HR to identify potential benefits-related issues. It will also allow HR to plan how to handle the acquisition and explain it to employees. MMA
TECHNICAL CORNER

The Affordable Care Act (ACA) has a new employer reporting requirement. This requirement applies to Applicable Large Employers (ALEs). To be considered an ALE, an employer must have 50 or more full-time equivalent employees. ALE status is determined at the IRS control group level, even though employers must file their information reporting based on EIN. These reporting requirements will challenge most employers because they require month-to-month reporting of employee status, coverage offering and if a plan is self-funded, details on who is covered each month.

All ALEs will need to report for the 2015 calendar year. Codes will reflect coverage offered, whether the coverage is considered affordable and whether the plan covers the employee. The IRS will use these reports to determine penalties under the employer “pay or play” rules and to audit individual eligibility for tax credits if the individual purchases coverage in the Marketplace. Self-funded employers need to report details on who is covered because that information will be used to report health plan coverage to satisfy the individual mandate.

Since this is a new reporting requirement, new vendors and vendors associated with employer data management are entering the market to help employers with reporting. Most benefit administrators and HRIS vendors are offering services to complete these reports. New standalone vendors are also entering the market to help employers complete the forms and submit them electronically to the IRS. Employers issuing 250 or more of these reports must submit them electronically.

The reports are provided by completing Form 1095 C for each full-time employee during the year. The employer needs to complete a Form 1094 C to accompany all the 1095 Cs when filing with the IRS.

The electronic filing process will be handled through EFile, but the IRS is now using a brand new system. It may be difficult for an employer to handle the submission process independently. Vendors can provide a number of different support options. Some combine data files and determine the appropriate codes for each month. Others will take input from payroll and help track hours worked to determine full-time status. Still others will simply allow employers to provide data files and complete the forms based in information in the files. These vendors will then submit them electronically to IRS for the employer.

Since this is a new market, vendors are concerned about their capacity in this first reporting year. As a result, many will not take on new business past a certain date. Others will increase prices after that date because they will not be able to have required leave time. It is critical to engage a vendor soon for these reporting requirements. If you wait too long, you may not be able to find a vendor to submit the forms for you.

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