



2012 Payroll Fact Sheet

An Rx for Spiraling Costs?

Business experts discuss what the Affordable Care Act may mean for your business, and ways to prepare for its impact.

The ideological whirlwinds and political rhetoric swirling around the Supreme Court's ruling on health care should not obscure the need for American business to begin dealing with the Patient Protection and Affordable Care Act.

Trouble is, not everyone is prepared to do so, even though the bill was actually signed into law by President Obama more than two years ago, following its passage by a sharply divided Congress. A surprisingly large number of companies remained on the sidelines, waiting for the high court to deliver its decision on the measure that opponents derisively branded Obamacare. In a survey of 4,000 companies by the consulting firm Mercer immediately after the Supreme Court announced its ruling on June 28, 2012, only 44% said they had taken steps to comply with the law's provisions. Forty percent said they would start moving to comply now that the court had reached a decision. But 16% said they would wait until the outcome of November's presidential and congressional elections before taking action.

The stakes are huge. Health care accounts for more than a sixth of the nation's gross national product, and costs continue to rise. On the plus side, the actual growth in health care spending has slowed in recent years. PricewaterhouseCoopers (PwC) projects that medical costs will increase by 7.5% next year, the fourth year in a row of relatively flat growth. PwC cites four main factors for the slowing trend: an increasing use of cheaper generic drugs, new delivery methods for primary care, price transparency, and the fact that market conditions are putting pressure on the costs of medical supplies and equipment.

"In spite of press to the contrary, there has been a deceleration of the growth rate in health care spending over the past 10 years," says Jimmy Henry, executive vice president of Booz Allen Hamilton. "Hospitals and insurance companies are meeting the challenges more aggressively and quickly than the average citizen understands."

But the problems remain daunting, and experts say the Supreme Court ruling should galvanize health care providers and insurers, as well as business at large, to grapple with the costs, especially as tens of millions of Americans enter the ranks of the insured.

"Any employers who have not yet conducted a 'health care reform checkup' should make that their first order of business," says Sharon Cunningham, leader of Mercer's U.S. health and benefits business.

Kelly Barnes, who heads PwC's Health Research Institute, agrees, adding that she sees a continuing need to develop innovative ways to provide higher-quality health care that's more affordable. "Health care organizations that have been sitting on the sidelines will now have to get in the game and play catch-up," she says.

Many provisions of the Affordable Care Act don't take effect until 2014, but some actions must be taken sooner, including the required reporting of the value of company-provided health coverage on the employee W-2 forms for calendar year 2012 that will be issued next year. In 2013, companies must provide employees with new summaries of their benefits and place a cap on the amount employees can contribute to flexible spending accounts.

PwC says that employers wrestling with these rising costs should consider promoting wellness programs designed to keep employees healthy and productive, developing low-cost care options such as workplace clinics and mobile technology, and creating benefit plans with incentives for employees to engage in healthy behavior. Some of the other recommendations are an aggressive program of reducing hospital costs, including cutting readmission rates by proactively scheduling follow-up appointments; educating patients and their caregivers; and initiating reminders to take prescribed medication. Such seemingly simple things should reduce the need for repeat hospitalizations.

Continued on the back

Continued from the Front

The great debate

Controversy continues over adding uninsured people to the rolls. Medicaid, which now covers more than 60 million people and is the nation's single biggest insurance program, is central to the Affordable Care Act. Medicaid is jointly administered by the federal government and the states, with each state having had the flexibility to set its own eligibility rules. Under the new law, Washington will cover 100% of the difference between the amount a state pays now and the federal standard for the first three years starting in 2013, and 90% after 2020. But a number of governors have said they will refuse to implement key portions of the health care law, contending that longer-term costs will be prohibitively expensive.

Government Accountability Office projections that the legislation will add some 17 million people to the Medicaid rolls and 15 million more to state-run insurance exchanges have not been ignored by the industry. Less than two weeks after the Supreme Court ruling, the Indianapolis-based insurance giant WellPoint Inc. made a \$4.9 billion acquisition of Amerigroup, a health insurance company based in Virginia Beach. "Billions of dollars of federal money are going to flow into the states," Amerigroup's CEO, James G. Carlson, told securities analysts following the announcement of the deal. "We think the states are going to need to take it."

While the additional people added to the insurance rolls will produce a spike in demand for health services, there will also be new pressures to constrain costs. In its advice to pharmaceutical and life-sciences companies, PwC says they should emphasize drugs and treatments that demonstrate cost-effectiveness.

Hospitals, for their part, will face increasing pressure to keep costs down, some of it coming from state insurance exchanges that will seek to force lower payments. On the other hand, hospitals stand to benefit from the expansion of government-paid insurance coverage, which will sharply reduce unpaid bills. Much has been made about whether the individual mandate in President Obama's health care law is a "penalty" or a "tax." For business that's largely a semantic argument because the mandate must be obeyed unless it's legislatively overturned sometime in the future.

Whatever the political outcome, it's likely that the ongoing shift of health insurance payments from employers to employees will accelerate. Some experts worry that as employers become less responsible for paying for employee health insurance, this shift will diminish efforts by companies to develop and encourage a host of wellness programs, such as the antismoking, better nutrition, and exercise campaigns that have sprung up in recent years. However, most such activities are now so deeply engrained in corporate cultures that it's a good bet they will remain in place.

Over the decades since employer-provided health insurance became an expected part of compensation packages, companies have used the appeal of generous benefits to attract and retain valued employees. But now, as workers take out their own insurance, they may be more willing to change jobs.

Even though the Supreme Court ruling lifted much of the uncertainty about health care costs, it is still unclear what the ultimate result of the reform will be and what impact it will have on business. Companies and ordinary citizens are still waiting to learn how regulators will draft the rules implementing the law, as well as the outcome of looming legislative threats. But businesses must deal with the realities on the ground, and there's now little reason to remain on the sidelines when it comes to new investment and adding jobs. Waiting until the results of November's elections to start preparing to implement the new rules could find procrastinators losing out to more nimble competitors.

Amid all the controversy, there is one undeniable piece of fallout from the Supreme Court's decision on the health care law: Going forward, millions of individuals and businesses will be wrestling with refunds, penalties, government subsidies and new regulations.