Since the Patient Protection and Affordable Care Act (PPACA) was enacted in March 2010, HR departments have been scrambling to make necessary changes to their health care benefit programs. The most significant changes must be made by 2014. The effects on health plan administration will be dramatic, as employers begin to deal with new players in the health insurance arena: state insurance Exchanges.

How will these changes affect your HR function — and how should HR prepare?

Mandates, Exchanges and Penalties

To understand the potential impact on employers and the HR function, it’s important to grasp the three major changes set to occur in 2014: the individual health insurance mandate, state-run health insurance Exchanges and the employer “play or pay” requirement. For HR to successfully navigate through these changes, it will be vital for employers to fully comprehend how reform is likely to affect the HR function.

Individual Health Insurance Mandate

Beginning January 1, 2014, most individuals will be required to maintain what the law calls “minimum essential health coverage.” Those who don’t comply will incur an income tax liability — a nominal penalty compared with the cost of health insurance. To facilitate compliance, the government is improving access to individual health insurance by banning coverage limits for preexisting conditions, monitoring pricing, providing subsidies for low-income people and calling for states to establish central marketplaces for individual insurance: the state Exchanges.

At first glance, improving an individual’s access to coverage through a state Exchange seems to have little impact on employers that provide group health coverage in that state. But the PPACA requires employers to provide information to all of their employees about programs available through state Exchange programs. Employers must issue these Exchange notices no later than March 1, 2013, and the Exchanges must be operational by January 1, 2014.
Before issuing the notices, employers should ensure that:

- The benefit center of expertise (COE) and benefit design team understand the notice requirements and partner with the appropriate communication and change management (C&CM) resources.
- C&CM resources are available to draft multiple notices for state and federal Exchanges, if necessary.
- The HR technology (HRT) team or benefits outsourcing vendor is engaged to determine whether notices can be distributed via the organization’s HR/benefit portal.
- The HR shared services (HRSS) team is trained and ready to field numerous questions from employees about the notices and the Exchanges.

If you don’t have an HR or benefit portal, an HRSS team or a benefits outsourcing partner, consider evaluating these service delivery model options soon. And consider the possibility of your employees securing coverage through a state Exchange program, which could be more affordable than your group health plan and provide comparable benefits.

With so much change on the horizon, employers are asking how staffing will be affected when employees are no longer tied to a job for their health insurance. The answer is unclear. If affordable health insurance is available outside of the employer environment, the era of “job lock” will come to an end. Will more employees want to work part time? Will older employees waiting for Medicare coverage decide to retire early? If employers design new work arrangements for contract workers, could this save companies money?

If health benefits become available outside of the employment deal, employers may need to develop new, creative ways to attract and retain workers. Talent management and workforce planning teams should begin exploring the future of the deal and consider investing in workforce analytics technology.

**State Exchanges**

The PPACA requires either state or federal health insurance Exchanges to be operational in each state by 2014 as the primary marketplace for individual and small-group health insurance. In addition to managing individual insurance plan offerings, the Exchanges will evaluate applicants’ eligibility for state and federal health programs. They will coordinate eligibility for

“Although the Exchanges are responsible for verifying information provided by applicants, errors will occur, and employers could be penalized for providing inaccurate benefit design and cost information.”
Play or Pay

If an employer has more than 50 employees and provides group health coverage, it must offer the plan to all full-time employees and their dependents. This is the “play” option. The group health plan must provide “minimum essential coverage,” and the coverage must be “affordable” for employees. Also, in 2014 the definition of a full-time employee will become anyone working 30 or more hours per week or 130 hours per month.

Opting to play will significantly affect HR. HRT teams will need to review their time-tracking tools to ensure that the number of hours each employee works per month can be tracked and fed into the benefits administration system. Many employers will need to prevent some employees from being scheduled for 30 or more hours per week, which would shift them to the covered category and thereby increase health care costs for the employer. C&CM and training teams should plan to communicate with workers and managers about this issue and train managers to monitor all hours worked. The HRT team may also explore automated ways to block employees from being scheduled for more than 130 hours per month.

Employers that decide not to play will be assessed a penalty for not providing group health coverage to employees. The penalty will be $2,000 per full-time employee per year, and it won’t be tax-deductible for the employer. Aside from this hard cost, choosing the pay option could also negatively affect employee morale, compensation and attraction/retention.

Penalties

If you opt to play, it’s important to understand that there are several penalties associated with the play option. If even one employee obtains health insurance through an Exchange and qualifies for a federal subsidy,* you’ll pay a penalty. If your group health plan is deemed unaffordable and/or not considered to be essential coverage, the organization will be assessed 1/12 of the $2,000 penalty times the number of full-time employees (minus the first 30 employees).

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*To qualify for a federal subsidy, an employee must have a household income below 400% of the Federal Poverty Level (FPL). In 2012, 400% of the FPL is $44,680 for an individual, $60,520 for a couple and $92,200 for a family of four.

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### Action items for the HR function

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Even if the group plan provides essential benefits, there might be a second penalty for the employer if the cost to the employee is more than 9.5% of household income. This penalty will occur when a full-time employee opts to buy coverage through an Exchange and is eligible for a federal subsidy. The employer will be assessed 1/12 of the $3,000 penalty per month for each employee who forgoes the employer’s group plan for an Exchange plan (maximum of $2,000 per full-time employee). Employers can best avoid penalties by ensuring that employees don’t contribute more than 9.5% of their annual pay toward the cost of individual coverage under a group health plan with essential benefits.

The benefit COE should be reviewing employee data now and considering the spectrum of options. This may require additional manpower and/or technology, as well as the engagement of a health care actuary. To be ready for 2014 open enrollment, budget for the work now and begin no later than 2013. Additionally, your talent management team may consider engaging employees in the design process via focus groups and/or surveys.

The Bottom Line

There’s no question that the employer group health plan arena faces dramatic change. Some research indicates that 60% of large employers plan to retain health benefits for their active employees, while other studies indicate that many employers plan to drop health benefits if the majority of employers in their industry do so.

“One thing is clear: The rising cost of health care in the U.S. will continue to drive change. With the increasing cost of medical benefits and the added burden of compliance, employers must be innovative. This is especially true for global companies that compete with organizations supported by government-assisted health care in other countries.

A smart strategy that positions your benefit programs for the future will be crucial. It will be a major undertaking for employers — and now is the time to begin.