

## Impact of Health Reform on Staffing Companies

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### *Introduction:*

The intent of this document is to present an overview, *in layman's terms*, of how the new health reform law will impact staffing companies, and what options they will have in the future. Since the health reform law passed, I have had hundreds of conversations with staffing companies across the country. One thing is constant: there is a vast knowledge gap on the realities facing staffing companies under this new law. There is also a lot of misinformation being promulgated, which can be even more dangerous than no information.

This paper summarizes some of the same advice that I give my existing clients, but in written format, so that it can reach more people and help bring some clarity to this confusing environment we are in. One of the unique things about our team is that we have experience from all sides: *the insurance company, the broker, the employer, and the employees*. We try to offer a broader perspective than previous presentations that have focused mainly on complex legal definitions. Due to the complexity of the law, it is easy to get too caught up in the details, but miss the big picture. Hopefully this information will provide you with that bigger picture, helping you make more informed decisions for your company in the years ahead.

### *About the author:*

As a licensed insurance broker with Insurance Applications Group, I currently work with approximately 500 staffing company clients nationwide, employing about 1.5 million temporary employees. Staffing companies rely on my company to manage their employee benefit plans for their temporary workforce and to help guide them through health reform. Our clients range from the very large national staffing companies to the smaller local companies. We work very closely with the American Staffing Association and most of the large state and local staffing associations. Our benefit programs continue to be a reliable, financially stable solution for staffing companies in both a pre *and* post health reform environment. Our guidance has lasted the test of time.

For disclaimer purposes, let me also preface that I am licensed insurance professional, but not a lawyer. This is not legal advice. Contact an employment law attorney for legal advice.

The Patient Protection and Affordable Care Act (PPACA), otherwise known as the Health Reform Law, will have major cost implications for all employers starting January 1, 2014. Staffing companies, in particular, will be especially hard hit with new government imposed excise taxes (fines).

### Large Employers

Large employers (50 or more full time equivalent employees) are the primary target and will bear the brunt of these new taxes. Part timers are counted in determining “large employer” status, but they are pro-rated. To calculate full time equivalent, multiply the total part time hours worked that month and divide by 120. Obviously, most staffing companies will fall into this category.

These new taxes apply to companies that don’t offer “minimum essential coverage” to all of their employees and dependants. **Minimum essential coverage is a government created term that basically refers to “major medical insurance”.** Companies that employ large numbers of temporary or seasonal employees will be impacted the most by these new taxes. So now is the time for staffing companies to prepare.

If you do not offer minimum essential coverage to all of your employees, your company will be charged a \$2,000 excise tax per employee for all employees (minus the first 30 employees). This is paid monthly at a rate of 1/12<sup>th</sup> the tax, or \$166.67 per month per employee. However, this is not a deductible expense. So, a company in the 30% tax bracket will really have a per employee cost of \$2,857 (\$2,857 – 30% corp. tax = \$2,000 left to pay the fine).

To estimate the impact of the new health excise tax on your company, please refer to the **Health Tax Estimator for Staffing Companies**.

### Small Employers

Small employers will also be affected. Although the excise taxes do not apply to small employers, there is a misunderstanding that all small employers will be given credits to purchase health insurance for their employees, so it’s beneficial to be a small employer. This is not necessarily true. The assistance provided to small employers during the initial “transition period” is temporary, with credits phasing down over time. Plus, there are strict parameters to meet in order to get the full credit. “Full credit” means the government will pay up to 35% of the cost of a health plan (up to 50% in 2014) for small employers who meet certain criteria.

However, qualifying for this credit will be harder than many people realize. In fact, it will be impossible for many small companies to reach.

For small employers to qualify for the full credit:

1. **Fewer than 11 employees to receive the full credit, phasing out past 11 employees. Over 25 employees, there is no credit at all.**
2. **Average earnings for ALL employees, including owners/executives, cannot exceed \$25,000.** The government credit drops off rapidly on a sliding scale between \$25,000 and \$50,000, with zero credit at \$50,000 or higher.
3. **High deductible HSA health plans do not qualify.** These are very popular plans today, reducing the credits further.

The NFIB Research Foundation study found that less than 5% of small businesses employing fewer than 50 people would be eligible for the full tax credit, and a little over 20% are eligible for a partial credit. The amount of any partial credit is very difficult to determine. (<http://www.nfib.com/research-foundation/surveys/healthcare-year1>)

### **Is it Possible to Offer Major Medical to All Employees and Avoid the Tax?**

Today, some staffing companies mistakenly think they can offer “minimum essential coverage” to all of their temporary employees in 2014 to avoid the new taxes. This has been promulgated by some industry experts and consultants, but I’m not sure why, as it contradicts basic insurance underwriting rules. Some large consulting houses might just be looking for a new market to sell to (self funded plans, for example). So be very careful with what you hear. In times of market upheaval, people sometimes use that disruption to sell you something new. In my opinion, this is not pragmatic to offer major medical to everyone, and might not even be possible, due to fundamental insurance company underwriting rules described below. In this paper, I will try to explain your options in more realistic terms.

In the post-PPACA world, insurance companies are no longer allowed to sell health plans with any kind of annual or lifetime limit on claims. Staffing companies considering offering unlimited health insurance to high turnover, hourly wage associates face one very obvious problem: *it's a bad actuarial risk and insurance companies won't underwrite it.* They have declined this market for years for this reason.

**NOTE: Contrary to what you might hear, the new law does not require insurance companies to give you a major medical group policy for your temporary workforce.** Underwriting group health insurance for high turnover, low wage employees in the staffing industry is considered one of the riskiest markets out there. It's even more difficult now that health plans cannot have any annual or lifetime caps on coverage. No caps will lead to higher claims and higher

rates. Health insurance companies will not underwrite that population on a employer based group insurance policy, regardless of health reform.

Even if you wanted to offer major medical insurance (minimum essential care plan) to your staffed employees, the insurance companies won't underwrite it.

**Below are some reasons why you typically cannot offer minimum essential coverage (major medical insurance) to your high turnover, hourly wage staffed employees. Unfortunately, these important points below are usually not discussed, but they are essential for you to understand your options:**

- 1. 75% minimum participation rule:**  
Health insurance companies require a minimum of 75% of your eligible employees to enroll in the plan, or they won't issue the policy. This has always been a universal rule of group health insurance. Since you have to commit to enrolling the policy first, you can't guarantee that 75% of your staffed employees will sign up. On the contrary, you would be lucky to have 20% sign up, given the prohibitive cost of major medical insurance today. It's simply not affordable to lower wage employees.
- 2. 50% employer contribution minimum:**  
Health insurance companies require a minimum employer contribution of 50% of the single rate. With a typical single rate of \$450/month, that means it would cost you a minimum of \$225 per employee per month. *But in reality, you would have to pay closer to 100% of the cost of the plan in order to convince 75% of hourly wage employees to enroll in the plan.*
- 3. Affordability:** It has to be affordable, or your employees will not enroll. IF your company gets a group health policy quoted, it might cost twice as much as what a traditional full time workforce group policy costs. Studies show the average American has less than \$1,000 in savings. The average temp is living paycheck to paycheck, so it is very difficult to get 75% of them to enroll.
- 4. Economics of the Job:** It would extremely difficult for employers to purchase health insurance costing \$5,000/year for someone who only earns \$25,000/year. Multiply that across tens, hundreds, or thousands of employees and you can see the magnitude of this problem. No one can wave a magic wand and make that go away.
- 5. Administrative Cost:** By offering a major medical plan to a large population of new employees, you will need to hire more internal staff in Human Resources and Payroll departments to manage it. There are lots of moving parts and lots of extra work you would need to do as the plan sponsor. Mini-med plans may be equipped to do much of the "outsourced administration"

for HR departments, but major med plans will put that squarely on your company's shoulders.

Picture how time consuming it can be to administer your internal "core" health plan. Now consider missed deductions, ID card tracking, reconciling invoices, collecting missed insurance payments, sponsoring annual open enrollment meetings describing full coverage, communicating double digit rate increases at renewal, negotiating new plans and rates when increases occur, and always chasing that 75% participation level, etc. for your temporary workforce.

6. **Missed Deduction Liability:** You will be responsible for paying the insurance company for all missed employee deductions, which is a regular occurrence with this fluid employee population. This could be a daunting task, as staffed employees start and stop job assignments quite often, creating gaps in premium payments. The insurance companies will require premium payments one month in advance- meaning you'll be on the hook for any missed employee payments under a major medical plan. Even with a 30 day waiting period, many of those employees will continue to have gaps in their employment, and therefore gaps in their premium payments. Although mini-med plans are sometimes equipped to handle this, major medical plans are definitely not.
7. **Budgeting:** With double digit rate increases the norm on health insurance, whatever you budget for today for group health insurance is sure to cost much more in the future - more than general inflation. Offering full major medical insurance to your temporary workforce would be extremely difficult to budget for.

If you could afford to pay 100% of the cost of a major medical plan for your staffed employees, guarantee 75% participation, AND get an insurance company to underwrite a group policy... what happens next year if you get a 20% rate increase? How about the year after that? If things turn bad and your company is losing too much money, how do you take the plan away without severely damaging your employee and customer relations?

It's better to not put yourself in this position. It's never wise to promise more than you can handle to your employees and customers. Your intentions might be good, but the results could be disastrous. Group health insurance for stable, full time populations is difficult enough to budget for. Employers would be better off sending employees to the State Exchange to get their own coverage, and offering other attractive benefits. That way you maintain your competitiveness, maintain your ability to budget and forecast, but you don't end up jeopardizing your business.

8. **Underwriting Risk:** Put yourself in the shoes of a health insurance underwriter for a minute. An underwriter is hired and trained to evaluate risk, based on: Industry, employee demographics, turnover, prior claims, and expected future claims. That's how they set their prices. They can be fired for writing bad risk groups and losing the company lots of money.

How are temporary associates in the staffing industry viewed by underwriters?

- Industry: *High Risk*
- Demographics: *Indefinable and constantly changing as new jobs are filled*
- Turnover: *High turnover causes high claim risk and high enrollment costs*
- Prior Claims History: *None available because no prior group health plan*
- Projected Claims Risk: *Indefinable because the employees are constantly changing*

### **More on health insurance fundamentals and bad risk magnets**

Staffing company sales departments often ask for a major medical plan so they can satisfy the needs of prospective customers. Occasionally, the staffing company complies with the request and pursues it. Their broker who wants the sale works ends up working with a rookie sales rep at the insurance company, and somehow they squeak a proposal out. But a proposal is not a contract, as you will see. The staffing company gets excited and begins open enrollment. Then, trouble happens. They can't get 75% participation, and they can't afford to pay nearly 100% of the cost to entice people to enroll, so the plan is cancelled before it begins. Everything has to be uninstalled immediately.

A staffing company trying to offer major medical to their staffed associates is similar to the situation when certain PEO's started offering underpriced workers comp rates to companies who didn't deserve those low rates. These PEO's quickly attracted companies who found they could save money on their workers comp simply by joining the PEO. Sales might have increased rapidly for the PEO, but it was really a house of cards, based on faulty underwriting. Then it all came crashing down.

Market fundamentals don't change. If companies cannot get affordable major medical insurance on their own, they might try to get it through a staffing company or PEO for lower rates. If the staffing company or PEO offers a major medical plan with underpriced rates to companies with bad risk, they become a bad risk magnet. Then the time bomb starts ticking.

It is much more cost effective to pay the excise tax instead of trying to offer major medical insurance to a target market whose underwriting risk is indefinable.

In addition, the underwriter's job just got a whole lot harder because PPACA now says that health insurers cannot have any annual caps or lifetime caps on their coverage.

Underwriters want a stable population to quantify and price risk. They want to know that the group that they are evaluating today will be will be basically the same group next year, since this is how they build their rates. Over a period of three years, employers could have twelve different people working in that same payroll slot, instead of one person who is a permanent full timer. That means there's TWELVE TIMES the possibility of having a catastrophic claim hit that plan.

Here's another way to look at it. Would YOU take on the risk of paying the medical claims for your high turnover, staffed employees? It's a bad actuarial risk, and the insurance company behind a plan like that wouldn't last very long. Someone who needed open heart surgery could simply take a one month job assignment to get their \$200,000 claim covered through the staffing company. Then they tell two friends, and so on...

**Won't the employer contribution and minimum participation rules go away with "universal" health care in 2014?**

No. Contrary to what you might hear, "universal" health care does not change the rules that insurance companies have regarding employer contribution and minimum participation for employers with 50+ employees. In Massachusetts, where "universal" health care has been implemented, the standard 75% participation and 50% employer contribution rules still apply for groups over 50. I've checked with all of the major health insurance companies and confirmed this. There is nothing in PPACA that makes these rules go away. They are fundamental to large group health plans.

*Bottom line, the cost of offering a major medical plan (minimum essential care) to your temporary employees would far exceed the cost of the new taxes.*

Unless the individual mandate is deemed unconstitutional, or a new Administration repeals or defunds it, employers are going to be paying an enormous amount of new taxes to the federal government (see Worksheet). Prepare now, because 2014 will be here before we know it.

**Won't the tax deductibility of employer sponsored health insurance help pay for it?**

Although health insurance premium contributions by the company are tax deductible, that does not justify offering full major medical insurance to all of your temporary associates. People who promote the idea that "tax deductibility will help pay for it" probably use the minimum 50% employer contribution numbers, not the 90-100% "reality" numbers. Plus, they never talk about the minimum participation rule, which is the lynch pin. Ignoring that is a fundamental flaw. Nor do they talk about claims risk, double-digit rate increases, cancellation risk, enrollment and administration problems, constant missed deductions and/or shortfalls in employee premium payments.

**Should an employer self-fund a plan for our staffed employees?**

Self-funding (a.k.a. self-insuring) is not wise either. If health insurance companies think it's a bad risk and a big money loser, why would a staffing company think they could underwrite it better? Health insurance companies do this for a living. You might get lucky and have some short-term success, but I doubt it. Turnover is just too high, and many of these people never had health insurance before, so they are sitting on untreated illnesses. When they are offered their first health plan, all of those claims happen all at once, and the staffing company has to pay them.

Just wait until those million dollar claims start coming in. You'll pay for it one way or the other, either directly, or through astronomical stop loss premiums. "Stop Loss " means that at a very high dollar amount some reinsurance company has agreed to assume the risk of a specific claim over this stated amount. This can take many forms, but all are expensive, and the levels at which the reinsurer will assume the risk are much higher than most employers would consider.

Chances are it would be very unprofitable, and the excise tax would look quite nice in comparison. Unlike health insurance, the excise tax is budgetable and predictable ahead of time. It would also cause a major public relations issue if you had to cancel your employees' major medical insurance. It would risk alienating your entire workforce. Once you give major medical insurance to employees, it's very hard to take it away.

Insurance companies might recommend self-funding, because it's a way for them to sell new business without the claims risk. On a high-risk group, they conveniently push the claims risk over to you in the form of "self insurance". Same thing with insurance brokers and consultants- they might be blinded by the potential commissions of a big new sale, even if it's a bad decision for the staffing company and the insurance company.

Over the years, some staffing companies I've worked with have tried to self-insure their health insurance plans for their temporary workforce. Each one of them got in over their head, and they didn't know how to extricate themselves. The CFO's were experiencing severe financial losses. Even the lower risk plans with annual caps of \$100,000 or \$200,000 per person were losing too much money. "Uncapped" plans that PPACA will require would be even riskier. Even though the plans were losing money, the sales force wanted to keep it or they would risk losing the customers they sold it to.

Health insurance was rated the #1 most effective employee retention tool- even higher than salary (*Society for Human Resource Management Employee Retention Study*). If you were forced to cancel your self-insured major medical plan, you risk creating the #1 reason for employees *to leave you* (and be potentially hostile towards you).

Be careful when people offer you self-insured arrangements for your staffed employees. Just because they can sell them doesn't mean they are safe investments. The #1 obstacle, "underwriting risk", gets shifted away from the insurance company onto your shoulders. This can work for long term, stable employee populations that are easier to forecast claims, but not with high turnover populations.

With self-insured plans, YOU own the claims risk, not the insurance company. You become the insurer. The health insurance company just processes the paper and answers calls. Instead of self-funding, it would be better to leave that to the State Exchanges.

*Our advice: Don't self-insure.*

The only exception is for staffing companies with higher wage, low turnover, young, male workforce. That is what underwriters like because, statistically, that is a good risk group. They earn enough money to afford a major med plan, so you can more easily meet the 75% participation rule. With low turnover, they will be around year after year to pay premiums into the plan. Then it will have less likelihood of hurting you with large health claims. Young healthy males don't typically incur many catastrophic claims. If this sounds like your company and you can pay enough of the cost to ensure strong participation, self-funding might be okay for you.

If you're like most staffing companies, though, who employ lot of lower wage staffed employees (making less than \$15/hour on average), it would be very dangerous to self fund a health insurance plan for them. Actuarially, it is a very high risk. You should not underwrite what the health insurance experts won't underwrite.

It is still important to provide effective employee benefit solutions, but it must be financially stable and not over-promise with unrealistic expectations that can break the bank.

**So what are our options then, if we can't offer major medical insurance to our staffed employees and we can't self-insure?**

- Be prepared to pay the new excise taxes, and build them into your proposals and customer contracts.

Yes, this will have a big impact, but not as risky as the other scenarios. It will also affect everyone all at once, so you shouldn't have a hard time explaining it to your customers. They will quickly understand what a "health care surcharge" is because many of them will be affected by this tax for their own employees. This will affect all industries.

Look what has happened in the only two test markets that "universal" health care has been imposed in recent years:

**Massachusetts:** In Massachusetts, staffing companies aren't offering minimum essential coverage to their staffed employees. They are paying the fines and building them into their customer contracts as a cost of doing business. It all happened very quickly, like it will nationwide when PPACA excise taxes begin on January 1, 2014.

**San Francisco:** A similar thing happened in San Francisco with their mandatory Health Care Security Ordinance. They require employers to offer coverage or pay a percent of employees' earnings. Staffing companies built it into their rates, passed it onto customers, and they didn't experience massive layoffs.

I think that is the most likely path for what we are facing now.

When dealing with your customers, blame the rate increase on the new legislation. Coordinate your communication efforts with your peers in the industry, through organizations like the American Staffing Association, or your local staffing associations. This will help create a smoother transition. Help educate your peers, network with other staffing companies and share ideas.

**What about the State Exchanges that are supposed to be created to offer health insurance to everyone?**

The State Exchanges will be created, just like The Connector in Massachusetts. They will provide people with a place to purchase health insurance, sometimes with government subsidies to help with the cost. HOWEVER, there is one big caveat... how much of a government subsidy will there be? If it's too expensive, will your employees be able to afford it?

The writers of the health reform law did not structure the incentives and penalties properly to make sure that everyone signs up for a plan through the Exchange. Basic human psychology tells us that people won't pay for something unless it's affordable and makes sense.

In 2014, all employers are required to alert all employees that they can go to the State Exchange to get health insurance. You will have to tell all of your staffed employees about these Exchanges, so many of them will go investigate it. But then it comes down to cost. If it costs more than \$25/week, we've found that many hourly wage employees won't be able to afford it.

### **Won't the government force people to buy a health plan in 2014?**

No, people will not be forced to buy a health plan in 2014. People who don't sign up for coverage are subject to a \$95 fine on their annual tax return, which is filed *the following year*. Plus, many will get tax refunds.

So, human psychology kicks in. They will price out a plan at the Exchange. Typical health plan prices are about \$450/month today for single coverage. Assuming the government gives them a 50% health plan subsidy, that's still \$225 per month that they don't have. Most people today are living paycheck to paycheck, and this will be unaffordable.

So, the choice for your temporary employees in 2014 becomes: Pay \$225 PER MONTH NOW for a plan at the Exchange. Or, do nothing and pay the \$95 fine NEXT YEAR. Or, they could possibly qualify for Medicaid.

This could change if the government makes these plans "free" or "very low cost" through the Exchanges. Yes, there will be lots of people buying insurance through the Exchanges in 2014, but I think there will also be lots of people who don't, due to the very small penalty.

Remember, health insurance companies are not allowed to have pre-existing condition exclusions starting in 2014. So, a person can decide not to buy coverage through the Exchange, keep their money, wait until they get really sick, and then sign up through the Exchange later... and they cannot be denied coverage.

If too many people sign up for coverage through the Exchange only after they become sick, this leads to a situation called "adverse selection", which could spike costs higher. Adverse selection is when too many sick people enroll and not enough healthy ones. This leads to rate increases and increased adverse selection because they plans become less and less affordable. It can spiral out of control because the only people willing to purchase a very expensive health plan are those with big health claims.

The current “carrot and stick” approach the government created to convince everyone to purchase health insurance is broken. This means you will most likely have lots of temporary employees working for you in 2014 who don’t have full health insurance.

**Another problem: It is estimated the lowest price health plan in the State Exchanges will have a \$6,350 deductible single and \$12,700 family**

- Projected Deductibles Under Health Care Reform in 2014:
  - Bronze Plan: \$6,350 Single, \$12,700 Family
  - Silver Plan: \$4,200 Single, \$8,400 Family

*Source: Kaiser Family Foundation, April 2011*

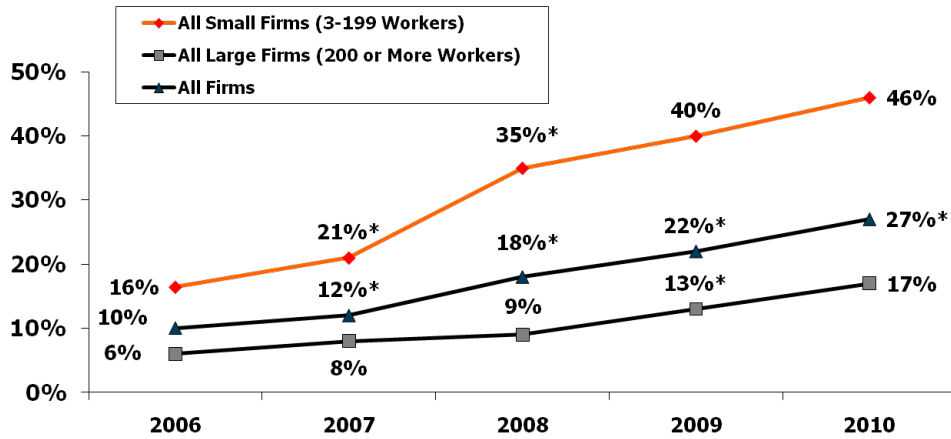
Our studies on health claims by staffed employees show that 95% have claims under \$5,000. They incur lot of claims, but they are for doctor visits, X-Rays, Lab, emergency room visits, and minor hospitalizations. That means their high deductible “major med” plan won’t cover the vast majority of these claims.

That is why “supplemental” plans will continue to be popular in a post-health reform environment. Here are some reasons:

1. Some employees may choose not to purchase a plan through the Exchange and remain uninsured.
2. Those who do purchase a plan through the Exchange may choose a high deductible plan to keep the cost affordable. Supplemental insurance can help fill the deductible gap.
3. Uninsured employees and those with high deductible plans still need a way to get early access to professional medical care, or health conditions can escalate into worse, potentially life threatening conditions.
4. Employers will still need to offer attractive benefits to attract and retain good employees, including “non-medical” benefits such as dental, life, disability, and vision benefits.

The first chart on the next page shows how deductibles are rising fast. The second chart shows how up to 28% of woman have not seen a doctor for over a year due to cost. If someone doesn’t have a health plan, or has a high deductible, the cost can scare them off from seeing a doctor. This affects mortality rates. Breast cancer and heart disease are the top two causes of death for women, accounting for more than half of all fatalities.\* Both of these can be detected with early screenings. Getting these people to the doctor early can literally mean the difference between life and death. Limited benefit plans are an important service that employers can offer their staffed employees, paving the way for early screenings and treatment.

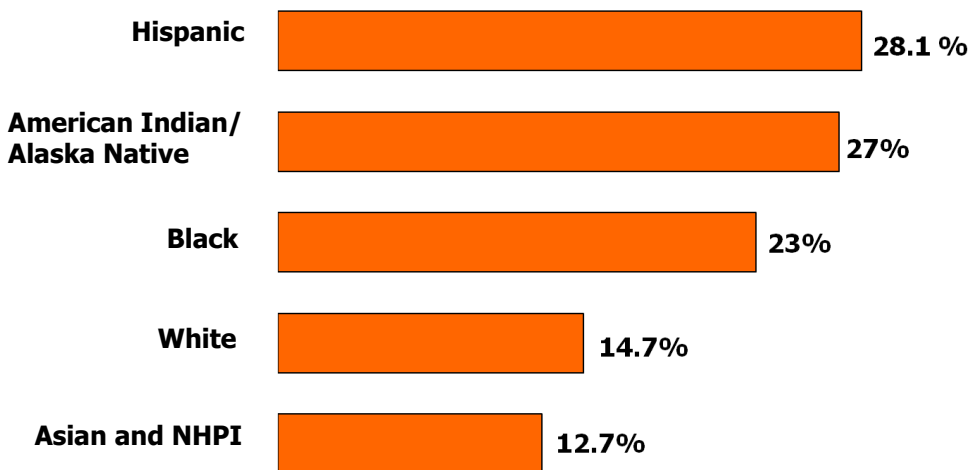
### Percentage of Covered Workers Enrolled in a Plan with an Annual Deductible of \$1,000 or More for Single Coverage, By Firm Size, 2006-2010



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006-2010.

### Percent of Nonelderly Women Reporting No Doctor Visit in Past Year Due to Cost, by Race/Ethnicity

\* NOTE: Breast cancer and heart disease are the top two causes of death for women, accounting for more than 1/2 of all fatalities



Data: BRFSS, 2006-2008.

Source: The Kaiser Family Foundation, *Putting Women's Health Care Disparities on the Map*, available at: [www.kff.org/womensdisparities/](http://www.kff.org/womensdisparities/).



**Offering limited benefit health insurance helps uninsured employees access early medical treatment**

It is important for employers to offer a financially stable benefits program with proven track record. A limited benefit plan can allow you to offer attractive employee benefits that help with recruiting and retention and also help your uninsured. For example, a claims study on Essential StaffCARE (a limited benefit plan) on 11,000 enrolled temporary employees found that less than 1% had claims over the annual limit. This provides a way to give usable benefits to the majority of employees, but not break the bank trying to insure the catastrophic claims of a select few employees.

Beware of plan tricks, though. Problems occur with limited benefit plans that try to over-sell their benefits or use high-pressure sales tactics. Some plans hide limitations in the fine print. Many plans use hidden surgical schedules that are not reflective of the benefits shown on the employee enrollment materials. For example, the employee handout might show a surgery benefit “up to \$5,000”. But the hidden surgical schedule has a list of 500 different surgeries with their associated benefit, and most only pay a few hundred dollars. You would have to hit the “jackpot surgery” to get the full \$5,000.

**Political cost projections for entitlement programs are always too low**

The cost projections on Medicare, Medicaid, and Social Security were all far too low. PPACA cost projections are already starting to spike. The Congressional Budget Office recently announced that the projected cost of PPACA has nearly doubled, from \$900 billion to \$1.76 trillion\*, and we haven't even started yet. The initial projections for PPACA only counted costs for six years, but weighed them against 10 years of savings. Accounting tricks like this are often used, and politicians often kick the can down the road. It makes it easier to sell their agenda.

PPACA cost projections also assume they will get a half trillion dollars in savings from Medicare. That could cause a big backlash from the public. If that happens, the politicians might continue to pile that debt onto future generations. Higher costs in future years, fines for not buying health insurance do increase to \$695, but so will the cost of health insurance.

The cost of the health plans offered through the Massachusetts State Exchange (The Connector) rose substantially in the first two years vs. their initial projections, and they only had about 6% uninsured population. The rest of the country has an average 16.3% uninsured, more than twice as high. Ten states have over 20% uninsured population. Texas has 26.9% uninsured. When pre-existing condition limitations are banned for health plans in 2014, and with much higher numbers of uninsured to cover, health insurance costs could spike very fast.

will lead to higher “excise taxes”. Most people expect this \$2,000 tax per employee to increase substantially in future years.

### **Medicaid Expansion**

Under PPACA, eligibility for Medicaid is being expanded to include people up to 133% of poverty level. This is estimated to add an additional 15 million people to Medicaid. Potentially, many employees could qualify for this. However, there are serious concerns as to how the States will pay for this. The State Medicaid programs all have severe budget issues. Only 60% of doctors accept Medicaid patients, and many are not accepting new Medicaid patients because the government reimbursements are too low.<sup>2</sup> Some doctors claim they lose money seeing some Medicaid patients.

In Massachusetts, their state plan through the Connector that is similar to Medicaid, is having some major issues with access to care. In a survey by the Massachusetts Medical Society, *more than half* of doctors’ practices were full and not accepting new patients. There are also long waits of up to 6 weeks to see a doctor. On a national scale, this problem could be much worse due to the higher rate of uninsured in states other than Massachusetts.

The Boston Medical Center sued the state of Massachusetts for the first time because the state lowered its Medicaid reimbursement levels under the new universal health care law to unreasonably low levels. This forced the hospital to cover too much of the cost of care for the poor, causing a \$38 million deficit in 2009 and estimated \$100 million deficit the following year.<sup>3</sup>

As you can see, there is a lot that still needs to be figured out on the Medicaid front.

### **It’s time to take action**

Reach out to your political representatives to show them how this will impact your business and the companies you work with. They need to know. This should be coordinated at a higher level to give business owners the tools and talking points to convey their concerns to government.

That is why I created the *Health Tax Worksheet*. It’s just a starting point, but it helps staffing company owners do a rough estimation of how much extra taxes they will have to pay starting in 2014. Hopefully, some industry experts will expand on this idea and further refine worksheets and illustrations for business owners to use as tools with their representatives. People need to understand the magnitude of these new taxes coming in the near future. If the cost of labor increases all at once in January 2014, then the price of products and services offered by those employees will also rise. This could easily spur mass layoffs and inflation.

Increasing taxes on our job creators is the last thing we need for stressed economy. Our government is already saddled with astronomical levels of debt and unfunded liabilities (\$61.6 trillion). Each American household would have to pay \$527,000 just to meet these government obligations.<sup>4</sup> If we continue to let our government create new obligations and new taxes, without cleaning up previous ones, it will stifle the American spirit, hurt business growth, and kill jobs. In 2010, the government spent \$1.5 trillion more than it collected in revenues. 2011 piled on another 1.6 trillion. Businesses can't operate for long with massive deficits, so why should our government? The last thing U.S. businesses need with this fragile economy is higher taxes.

### **Choosing the Right Advisor**

All insurance brokers and advisors are not created equal. It might seem obvious, but a “temporary” workforce is vastly different from your full time internal workforce. Therefore, your benefits advisor needs a different skill set to manage these benefits as opposed to your core “internal” benefits. The rules are different and the pitfalls are many.

Unfortunately, many staffing companies let the wrong person advise them on their temp benefits programs, simply because they think it's easier to deal with one person for all of their insurance. This could have adverse consequences for your temp benefits. Would you hire a plumber to do your electrical work? It's the same thing with insurance. There are countless specialty fields of insurance, and everyone can't be an expert at all specialties.

Brokers generally fall into one of these areas: major medical, workers comp, or supplemental benefits. With their time spent on these other areas, few brokers have the time to invest in researching mini-med plans, including what makes a plan succeed or fail. They rarely know what the average enrollment is in one plan vs. another. High employee enrollment is a leading indicator of a successful employee benefit plan, so that should be a benchmark for success. They don't know how to structure a successful health plan in a market where the traditional health plan rules don't apply. Even fewer understand how to do it well in the staffing industry, with very high turnover and job assignments that start and stop on a *weekly* basis.

Sometimes brokers choose the “easy” sell. If it appears easy, looks good on paper and has good commissions, they sell it. They rarely check the plan's past performance with other staffing companies. If they did, they would realize that most plans have extremely low enrollment and administration problems. About 2% enrollment is the norm we have seen with most of the plans used by hundreds of our staffing clients. If only 2% of employees enroll in the plan, why even bother offering it? It's a waste of time and energy.

By comparison, Essential StaffCARE averages 28% enrollment in the medical plan, among all new hires, spanning all of our staffing clients nationwide. We reviewed the entire block of business in 4<sup>th</sup> quarter 2011 and verified this. This is an unprecedented enrollment rate. It might seem obvious, but the value of an employee benefit plan is directly linked to the number of employees use it and gain value from it. High participation also creates stable rates. Essential StaffCARE has only had one rate increase since it started in 2004.

*Choose your advisors wisely. Evaluate their track record. Ask for references in that specific field of benefits.*

In reality, most brokers and insurance companies do not have the experience to manage these plans effectively for high turnover, low wage workforces. It's a relatively new market, and it is extremely complicated to master. The landscape is littered with insurance companies that have failed in the staffing industry, including the brokers who sold them, not far behind.

Benefit plans for staffed employees often struggle with administration issues and poor enrollment. Many companies tried to offer benefits to their temporary employees in the past, but it created more problems than it was worth, and hardly anyone enrolled. Some of my clients had "given up" on temp benefits before they met me. Then my company and I were able to show them how to do it right, and keep it stable.

Offering attractive health benefits to your temporary workforce is critical to staying competitive and attracting the best talent. If you were burned in the past, don't give up. Just talk to the right advisor.

### **Choosing the Right Insurance Company Partner**

Insurance companies are not all created equal either. Insurance companies' systems (billing, administration, claims, eligibility, etc.) are run on a *monthly* basis. This doesn't match your *weekly* paid employees. It takes a lot of time, money and customization to create a benefit program that can be administered on a weekly basis, in order to match your staffed employees' weekly payroll. Few companies can do this.

As an employer, you do not want to go through the trouble of rolling out a benefit plan, just to have it ruined with administrative issues associated with turnover. You also don't want to get stuck owing the insurance company money for missed employee insurance deductions. It is important that your benefit plan is built to match your temporary employees' payroll cycles. Invoices should be reconciled to your weekly payroll cycle, not their monthly billing system. The insurance company's internal systems need to be customized for this. This is no small task. It can take years of programming and development time.

It is important to have a group health insurance underwriter who knows how to underwrite these plans. The problem is, there are very few underwriters with experience on how to price a limited benefit health plan for high turnover hourly workforce. All of the standard rules they were trained on don't apply. The underwriting rules for mini-med plans are completely different than major med.

I can count on one hand the number of companies that can handle this. The playing field has been shrinking fast in recent years with the exit of some major players from this market, including one of the top carriers. New insurance plans come and go every year in the staffing industry. Sometimes they believe they can make some money in this new market, but when they find out how complicated it is, they end up pulling back out after a couple of years.

### **Beware of call center enrollments and telemarketers**

Insurance companies and brokers love to use call centers and telemarketers staffed with licensed insurance agents on the other end of a phone selling insurance to your employees. Some might claim they are not going to "sell" over the phone, but that can be a gray area and lead to trouble. Conversations over a phone can easily be misinterpreted. News reports recently had a television program warning about this.

Essential StaffCARE refuses to use call center or telemarketer enrollments. It might sound like an easy way to enroll your staffed employees, but our case studies show that it results in low enrollment and access issues when people try to call after hours or on weekends. It can also lead to verbal miscommunications.

Essential StaffCARE uses a proven enrollment and communication method that has been refined for staffing companies to keep it easy on internal staff. Enrollments are processed through a written, verifiable, format either in paper or online. Employees enroll in a professional, consistent manner through the company, just like other employer sponsored benefits. This avoids the difficult situation when an employee says they heard one thing, but the call center rep says something different, and now their claim is denied and you're in the middle. That kind of situation can lead to trouble and should be avoided from the start.

### **Stability and a proven track record**

Financial stability and a proven track record are essential in this industry. My company's core competency is health benefit plans for high turnover, hourly workforces. We custom build benefit programs for the staffing industry and track the before and after results on every company. Everything has been modified for staffing companies based on decades of experience and continual feedback from our clients. That is why we are so successful in this niche field of insurance. We don't

try to be all things to everyone. We focus like a laser on temp benefits and administer the plan professionally. Our results speak volumes.

### **Through the eyes of a staffing company owner**

Recently, I spoke with the owner of a staffing company who had a pretty chilling perspective on this health reform situation. He said January 1, 2014 will go down as the biggest single layoff in American history. His point was that his customers will not accept a rate increase on everyone. They are hurting too much, so they will pick and choose which employees to keep and which to let go. This will happen all at once across all American businesses on the same day: January 1<sup>st</sup>, 2014. Let's hope this doesn't come true.

He was a very bright guy and we spoke for some time on the subject, but I don't necessarily agree with him on a nationwide scale. He might be right, and his prediction is definitely something to consider. If all staffing company customers are presented with a rate increase of \$1.50/hour on January 1, 2014, what will happen?

I am optimistic that business owners will realize they are already running lean, and they need those employees to operate effectively. I do think some layoffs will occur. But I am hoping that most businesses will do exactly what the staffing companies have to do: Pass the cost onto their customers through price increases on their products and services. We will all be in this boat together, so most people should understand why the price increase is coming. We are all affected by it.

New taxes almost always find their way downstream to consumers. It becomes a cost of doing business.

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**Summary:**

Offering major medical to temporary employees in the staffing industry is not realistic because:

- Health insurance companies won't underwrite the policy
- 75% minimum participation is not obtainable
- 50% employer contribution costs too much, and in reality will have to be closer to 100% employer contribution to meet the 75% participation rule.
- Far too risky to self-insure your own policy
- Better to pay the taxes and budget for them, either by passing the cost onto customers, reducing employees' pay, or a combination of both.
- State Exchange health plans could still be too costly and have large deductibles, creating gaps in coverage.
- Employers will still need to offer competitive benefits in 2014 to attract and retain good employees, and to compete for new business.
- Staffing companies need to join together through industry associations like the American Staffing Association to coordinate their transition strategy in unison.
- Contact your representatives to explain how this will negatively impact your business and your customers' businesses.
- Choose a benefits advisor who specializes in benefit plans for temporary employees. These plans are fundamentally different from plans offered to your full time "internal" staff. Don't cut corners.
- Choose an insurance company with a long term proven track record in your industry. Avoid new plans with little to no track record, as many of these come and go each year. Ask for references. Ask how many other staffing company customers they have and for real life examples of their enrollment rate. Without strong enrollment, why bother? That defeats the purpose of an employee benefit plan.

Footnotes:

1 Obamacare's Gross Costs Double to \$1.76 Trillion, CBO Projects; Newsmax, March 14, 2012

2 Romneycare: More ER Crowding, Longer Doctor Wait Times; Forbes May 5, 2011

3 Massachusetts in Suit Over Cost of Universal Care, by Abby Goodnough, July 15, 2009

4 US Funding for Future Promises Lags by Trillions; USA Today June 13, 2011