



**The National Business Group on Health
Statement for the Record
House Ways and Means Committee
Hearing on the impact the “Patient Protection and Affordable Care Act” and
“Health Care and Education Reconciliation Act of 2010” will have on the U.S.
economy and employers’ ability to hire new workers and retain existing employees**

Chairman Camp, Ranking Member Levin and members of the Committee, thank you for the opportunity to submit testimony for the record on the large employers’ perspective on the impact that the Patient Protection and Affordable Care Act (Affordable Care Act) will have on the U.S. economy and employers’ ability to hire new workers and retain existing employees.

The National Business Group on Health (Business Group) is a member organization representing 314 mostly large employers—including 65 of the Fortune 100—that provide coverage to more than 55 million U.S. workers, retirees and their families. The Business Group is the nation’s only non-profit organization devoted exclusively to finding innovative and forward-thinking solutions to large employers’ most important health care and related benefits issues.

Employers are Currently Implementing the Employer Provisions of the Affordable Care Act

Employers are currently implementing provisions of the Affordable Care Act that take effect now and planning for future provisions as much as they can given the uncertainty. They have already implemented a number of the early provisions required under the health care law, including accounting for retiree drug subsidy (RDS) taxes; deciding whether or not plans should maintain their grandfathered status; eliminating lifetime limits; applying for the early retiree reinsurance program; adding adult dependent coverage; implementing health account changes for over-the-counter drugs; and providing break times and accommodations for nursing mothers. The federal government has also begun to implement a number of the health care payment and delivery reforms. The health care law’s big changes—the employer mandate, the employee vouchers, the exchanges, tax credits, and the “Cadillac” tax—don’t come on line for several years. Nevertheless, employers are reviewing the comprehensiveness and affordability of their benefits, but also assuring that benefits are not too rich so they do not trigger the 40% excise tax on amounts above specified thresholds in 2018.

More immediately, employers are preparing for a number of upcoming requirements, including reporting the aggregate value of health benefits on all employees’ W-2 forms,

the automatic enrollment of new full-time employees in health plans, and the new plan summary and benefits requirements.

Employers Health Care Costs Continue to Increase

U.S. employers continue to face the challenge of the rising cost of health care for their employees.

- National average health care spending for a family of four in 2010 was \$18,074—up 7.8% from 2009¹.
- Overall employers' health care costs grew an estimated 6.9% in 2010. Large employers, those with 500 or more employees, experienced a sharper cost increase than smaller employers, growing at 8.5%. Self-insured employers experienced higher growth in costs because of increased utilization and actual costs that exceeded predicted costs. Employers attributed roughly 2% of this increase due the recent changes mandated by the Accountable Care Act in 2010 and 2011.²
- Employers expect high cost increases again in 2011. With no changes to their plans and benefits, employers expected costs to increase 10%. They plan to hold their actual cost increases to 6.4% by making changes to plan design or changing plan vendors.³

Employers Made a Variety of Changes in Plans and Benefits to Reduce Costs in 2010

Employers continued to shift away from more traditional plan offerings to consumer-directed health plans (CHDPs)—increasingly fully replacing traditional plans with CDHPs. Employers also reduced retiree medical plan offerings. More employers also provided financial incentives to employees to take better care of their health. Most common among these were incentives for taking health risk assessments (offered by 69% of large employers), enrolling in disease management programs (73%), and participating in lifestyle modification programs (50%).⁴

Responding to the uncertainty of the impact of the Affordable Care Act, employers stated a recent Towers Watson survey that if the health care law increases plan costs:

- 88% would pass on the increase to employees;
- 74% would reduce health benefits and programs;
- 33% would absorb cost into their business;

¹ 2010 Milliman Medical Index. Available at:

<http://publications.milliman.com/periodicals/mmi/pdfs/milliman-medical-index-2010.pdf>

² Mercer. Health benefit cost growth accelerates to 6.9% in 2010. November 17, 2010. Available at:

<http://www.mercer.com/print.htm?indContentType=100&idContent=1400235&indBodyType=D&reference=>

³ Ibid.

⁴ Ibid.

- 20% would pass on the increase to consumers;
- 12% would eliminate or reduce wellness/health promotion programs;
- **12% would reduce employment;**
- 11% would reduce employer contributions to retirement plans; and
- 7% would reduce salaries/direct compensations.⁵

Smaller employers are more likely than larger employers to reduce employment positions or shift employees to part-time positions if the Affordable Care Act increases their costs because they have fewer options and less leeway among the options listed.

In our own National Business Group on Health survey of members, 53% of respondents continued making planned changes to reduce health care costs and provide effective, affordable coverage to their employees despite the loss of grandfathered plan status.⁶

In the Towers Watson survey, 88% of employers expected to continue to offer health care coverage when the free rider assessment takes effect in 2014 while only 3% are planning to pay the new penalty.⁷ 43% (18% very likely, 25% somewhat likely) of plans believe they will be subject to the “Cadillac” tax in 2018, which could force them to make additional changes to their plans and further delay hiring of additional employees.⁸

Clearer “Rules of the Road” for Employer Provisions in the Affordable Care Act Will Reassure Employers Who Want to Resume Hiring

Uncertainty or the lack of clarification regarding “the rules of the road” and the true total costs to implement the law has led many employers to hold off on hiring new employees and to reduce the amount of full-time positions. One of the key sources of confusion is the fact that many of the provisions were designed for the individual and small group health insurance market, but the law applies them to large employer and self-funded health plans as well. For example, the law’s rescissions provision created confusion and conflicted with employer requirements under COBRA. In some cases where COBRA requires retroactive termination of plan participants who are no longer eligible for employer coverage, employers were confused about whether or not they could adhere to COBRA rules without running afoul of the Affordable Care Act’s new prohibition on rescissions of coverage. Fortunately, the Department of Labor (DoL) later issued clarifications that plans should follow COBRA rules and the DoL would not consider plans’ retroactive termination of coverage as rescissions. We are encouraged and pleased that in recent months, the Administration and the Departments have reached out to employer plans and sought to address some of the unintended consequences and clarify rules. For example, we have provided recommendations on the upcoming requirements

⁵ Towers Watson, Health Care Reform: Looming fears mask unprecedented employer opportunities to mitigate costs, risks and reset total rewards, 2010.

⁶ National Business Group on Health, Large Employers’ 2011 Health Plan Design Changes, August 2010.

⁷ Towers Watson, Health Care Reform: Looming fears mask unprecedented employer opportunities to mitigate costs, risks and reset total rewards, 2010.

⁸ Ibid.

to auto-enroll new hires into health plans and to report the value of health benefits on employees' W-2 forms.

Employers are Concerned the Affordable Care Act Does Not Address Their Chief Concerns

Going into the health care reform debate and for many years earlier, employers emphasized the need for us as a nation to radically change the way we pay for and deliver care. Without fundamentally changing these, expansion of access will be illusory as we cannot long sustain the increases in overall costs for care that is often ineffective and provided inefficiently. A survey by Towers Watson of 650 mid- to senior-level benefit professionals provides an early snapshot of how employers think the Affordable Care Act will achieve the goals that are most important to them.

Specifically:

- Only 14% of respondents think health care reform will help contain health care costs;
- Only 25% think health care reform will encourage healthier lifestyles; and
- Only 20% believe health care reform will improve the quality of care.⁹

The Federal Government Should Aggressively Adopt Fundamental Changes in the Way We Pay for and Deliver Health Care

In addition to clarifying regulations going forward, employers believe that it is vitally important for the long-term health of the economy that the federal government aggressively adopt changes in the way it pays for and delivers health care in Medicare, Medicaid, and other government programs in ways that do not merely shift costs to the private sector, but rather take costs out of the system. Reforms should reward improvements in primary and preventive care, the effectiveness and quality of care, efficiency of care delivery, and appropriate utilization. Congress and the Department of Health and Human Services (HHS) need to build off of the positive developments in the Affordable Care Act to achieve these goals, including:

- Creating effective Accountable Care Organizations (ACOs) that significantly improve quality and efficiency and employ payment reforms based on performance, not volume, without creating undue market power;
- Enabling providers, patients and plans to effectively incorporate the findings of the Patient Centered Outcomes Research Institute in their decisions to assure that care reflects the latest medical evidence,
- Determining an “essential health benefits” package for the exchange, individual, and small group markets that not only provides comprehensive coverage, but also promotes evidence-based, effective care and the triple financial goals of assuring

⁹ Towers Watson, Health Care Reform: Looming fears mask unprecedented employer opportunities to mitigate costs, risks and reset total rewards, 2010.

- people affordable coverage, protecting them from catastrophic financial losses when faced with serious illness and helping them to avoid unnecessary costs; and
- Establishing efficient state health insurance exchanges that adopt national standards and uniform processes wherever state-by-state variation would add costs and complexity without adding significant incremental value in order to offer affordable health choices to employers and employees.

Employer Recommendations as the Government Embarks on a Significant Expansion of Access to Coverage in Medicaid and Subsidized Exchange Plans

Aggressive cost management, consumerist strategies and attention to health improvement have had the most successful impact on employers' bottom line. Health care, unlike most other industries, is too often driven by perverse financial incentives in which consumers and physicians decide what health care might be needed or wanted and totally separate party — the employer, insurer or government agency — pays for that care after the fact. The health care reform debate has distracted us from remembering that costs rise because Americans are using more and more services at ever rising prices.

Unfortunately in the U.S., health care consumers believe that:

- More health care is better than less care;
- The more expensive, the better it must be;
- There are no trade-offs in health care;
 - Consumers only pay 20% and don't care that other payers have to pay 80%;
 - Nor do they understand that all benefits are foregone wages or other benefits; and
 - Tax costs are "hidden".

There is also substantial evidence over many years that somewhere around 20-30%, of care, conservatively, is either not clinically appropriate, not effective, and may even be downright harmful for over \$1.2 trillion in identified waste, including behavioral (obesity/overweight, smoking non-adherence, alcohol abuse), clinical (defensive medicine, preventable hospital admissions, poorly managed diabetes, medical errors, unnecessary emergency room visits, treatment variations, hospital acquired infections, over-prescribed anti-biotics) and operational (claims processing, ineffective use of IT, staffing turnover, paper prescriptions).¹⁰ As a nation, we have to have a constant process of evidence generation, and feedback to care management and benefit design to be sure that all patients are protected from wasteful and some downright harmful practices. A properly structured learning health care system will enable such continuous assessment of actual effects on patients.

The federal government and employers have to use all of the tools and resources available to us to help consumers understand, "It's all about what's in it for them." To

¹⁰ PricewaterhouseCoopers, 2010

improve quality and control costs, we must work to ensure that Medicare and the Affordable Care Act's Medicaid expansion and exchange plans change the health care delivery system by ensuring:

- A culture of quality and patient safety throughout health care system;
- Payment systems that reward outcomes not just utilization;
- Payment systems that support primary care and care coordination;
- Transparency of health care costs and quality information;
- Comparative effectiveness research of health care interventions (including information garnered from the new Patient Centered Outcomes Research Institute);
- Evidence-based medicine whenever possible, and patients who make informed decisions with help of their doctors;
- A secure, nationwide electronic health information network;
- Portable, personal health records for all;
- Systems that support evidence-based preventive care;
- Capital spending only where truly needed;
- Personal responsibility for health and engagement in care decisions; and
- Comprehensive reform of the health care legal system.

Conclusion

Thank you again for this opportunity to share the National Business Group on Health's views for the record on the employers' perspective on the impact the Affordable Care Act will have on the U.S. economy and employers' ability to hire new workers and retain existing employees.

Employers look forward to continuing to working with Congress to clarify the Affordable Care Act's provisions to reduce the administrative burdens on American employers and aid them as they look expand their businesses and potentially hire new employees. Our economic future and prosperity depends upon Congress' focusing on real health care payment and delivery reforms that take costs out of the system for all people and all payers and significantly improvement the quality and effectiveness of care.