

**Issue Brief:**

**Business and Economic Impacts of Health Care  
Reform Implementation on the California  
Business Community**

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## Overview of Findings

This initial research and outreach effort to the California business community finds that there are clear benefits and some distinct concerns regarding the impacts of healthcare reform impacts on small, medium, and large size California businesses. However, we also find that many employers, and the business organizations and chambers that represent them, remain on the sidelines in terms of the health care reform dialogue in California. While levels of awareness vary, most are neutral and waiting to see how California health care reform implementation will affect their individual businesses, industry, and region.

In terms of large employers, those of at least 200 employees, where a clear majority of California workers are employed, nearly 100% of employees already enjoy health coverage. Similarly, among companies employing 50-199 workers, over 90% offer healthcare coverage. A key benefit to this segment of the business community is the evidence that health care benefit costs for large employers are projected to increase at a slower rate under health care reform than if no reform was implemented.

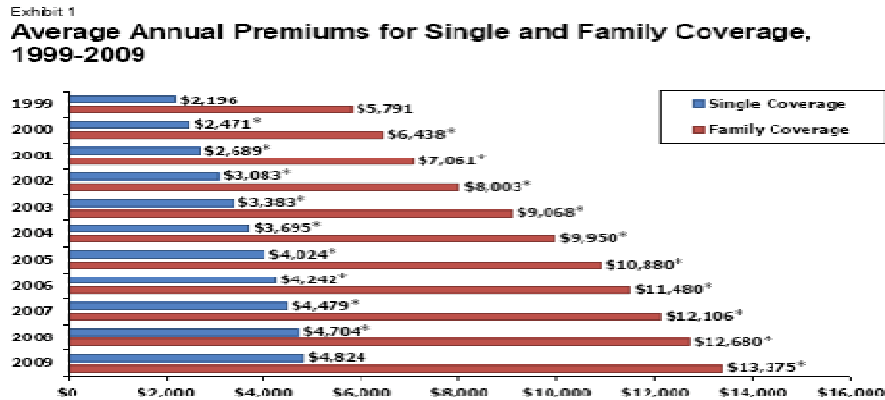
On average, small businesses in California currently offer somewhat lower levels of coverage. A solid body of research, outreach, and attention has therefore focused on the impact of health care reform on California small businesses. The California Health Benefit Exchange is a good example of health care reform implementation that will help small businesses in California shop for and buy affordable health insurance beginning in 2014.

However, there are some clear areas of concern (such as cost containment and “Cadillac plans”) that, if addressed in a balanced and meaningful research, outreach, and education effort, would bring California large employers and their organizations to the table to engage in a constructive dialogue beneficial to all stakeholders.

The rest of this briefing paper will assess the benefits and concerns to California employers, including small business, a review of the best research and materials available on the subject, as well as the results of this targeted outreach effort to the major regional business organizations throughout the state.

## Introduction

Health insurance premiums have steadily increased for California employers for over a decade at a rate greater than both inflation and corporate profitability. A study released by the Kaiser Family Foundation reported the average annual family premium for employer-sponsored health insurance rose 5.5 percent.



\* Estimate is statistically different from estimate for the previous year shown ( $p < .05$ ).  
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009.

Signed into law in March 2010 by President Barack Obama, the Patient Protection Affordable Care Act (referred to as ACA) is a comprehensive transformation of the health care system in the United States. The changes in the coverage landscape and the key reforms contained in the ACA will have significant impacts on families, businesses, and government entities throughout the nation, especially states. This report focuses on the impact on California businesses.

## Benefits to the Federal Budget

The ACA will extend health insurance coverage to about 32 million Americans who previously could not afford such coverage, mainly employees of small businesses and low-income families. Federal estimates indicate that 92 percent of people not yet eligible for Medicare could have access to coverage by 2016, compared to 81 percent today. The uninsured are costing the nation between \$76 billion and \$152 billion per year in lost productivity. The ACA will help tackle waste, fraud, and abuse and other drivers of health care costs which will provide employers significant savings in the cost of employee care. With more Americans covered under the ACA through their employers and through new eligibility programs, the new law will reduce the hidden tax of \$1,000 in every family policy used to pay for uncompensated care.

A recent publication from the Congressional Budget Office (CBO) announced that the healthcare reform would reduce the budget deficit by \$143 billion over the first decade,

as demonstrated in the table below, and would have annual reductions of .5 percent the gross domestic product, or \$75 billion annually. The CBO estimates that the cumulative deficit reduction could be approximately \$1.5 trillion over a 10-year period beginning in 2020.

<b>Federal Spending and Revenues in Health Reform, 2010 - 2019</b>	
	\$ (billions)
Medicaid and CHIP	434
Exchange Subsidies and Related Spending	464
Small Employer Tax Credit	40
<b>Gross Cost of Coverage Provisions</b>	<b>938</b>
Penalties on Uninsured Individuals and Employers	(69)
Excise Tax on High Cost Insurance Plans	(32)
Other	(48)
<b>Net Cost of Coverage Provisions</b>	<b>788</b>
Medicare Payment Reductions and Other Changes	(511)
Increases in Revenues	(420)
<b>Deficit Reduction</b>	<b>(143)</b>

Source: The Congressional Budget Office, Letter to the Honorable Nancy Pelosi providing estimates of the spending and revenue effects of the reconciliation proposal, March 20, 2010.

### Impacts of Employer Mandates

Under the ACA, employers are subject to significant penalties if they do not provide coverage to their eligible employees. Many businesses are concerned they will not be able to afford the increased costs either of health benefits or the penalty. A 2010 report by RAND Health, a non-profit research division of the RAND Corporation, specifically analyzed the impacts of HR 3590 estimated that cumulative penalty payments among employers who would do not offer insurance would be \$33 billion between 2014 and 2019. In 2019, the revenue from the employer penalty is \$6.3 billion, corresponding to a payment of \$1,070 for each of the 5.9 million workers employed by employers with more than 50 employees that decide to pay the penalty rather than offering insurance (4.9% of all employers).

### Implementation in California

Due to the changes brought on by the ACA, California will have many decisions to make regarding its current legislation, implementation, and how to mitigate funding requirements. With so many newly eligible individuals as well as the improvements to small business insurance programs, the manner in which healthcare reform is implemented under the new federal guidelines is critical to California business, especially at a time of economic downturn and high unemployment.

With the largest population and business community in the United States, California will see its responsibilities in both the public and private coverage spheres expand dramatically through the implementation on the ACA. Public programs such as Medi-Cal

and private insurance markets have long regulated and supplied health insurance for the State. Now their roles as providers will grow as more working families and small businesses become eligible for coverage. It is estimated that once fully implemented the ACA will cover 94% of Californians through the expansion and reconfiguration of Medi-Cal, creation of a health insurance exchange and the provision of subsidies, and the wide range of reform implementations to commercial markets.

Currently, over 10 million Californians are covered through Medi-Cal. Under the ACA it is estimated that total enrollment will increase by 20 percent, or by 1.8 million individuals. This includes 1.4 million residents who will be newly eligible for Medi-Cal, plus 412,000 people who are expected to seek coverage for the first time in response to the implementation of the ACA. It is estimated Medi-Cal will cover nearly a third of the state's population.

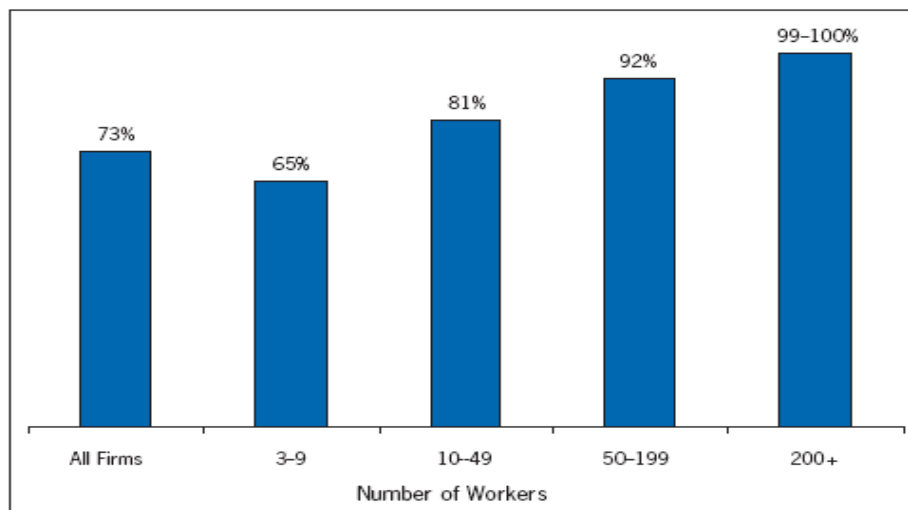
The expansion of Medi-Cal will also require California create a "benchmark" benefit package for the Medi-Cal population, which will offer a lower level of benefits but will provide "essential health benefits" offered through the new State Health Insurance Exchange. This expansion will be facilitated through increased federal funding upwards of \$44.5 billion between 2014 and 2019 to help cover those newly eligible individuals. Yet, even with enhanced federal support, Medi-Cal costs will increase due to both increased enrollment and the ramping up of state matching requirements.

Health insurance exchanges, moderated by the Health Benefit Exchange (a governmental agency or nonprofit entity established by a state, which organizes health insurance markets for individuals and small employers) will be established. California will be charged with deciding if the Exchange will be a state agency or an independent, nonprofit organization; if limits will be placed on the definition of small business to a 50-employee threshold; if any legislation and issue conforming regulations are required to operate an Exchange consistent with federal requirements; must apply for grant funding and technical assistance to help plan and establish the Exchange; and anticipate the Exchange's need for operating capital in addition to the grants to establish the navigator program.

#### California Employer Health Benefit Provision Profile

The graph below illustrates that there are clear differences between large and small California employers regarding worker healthcare coverage. Smaller businesses are much less likely to provide employees with health insurance coverage when compared to large businesses. Worker coverage by large California businesses with 200 or more employees is widespread, approaching 100 percent, while smaller California firms evidence much lower levels of coverage.

**Graph 1.**  
**Percentage of California Employers Offering Coverage by Firm Size**



Source: 2009 California HealthCare Foundation/NORC California Employer Health Benefits Survey

The matrix below illustrates that the majority of California workers, approximately 62%, work for large employers (100 or more workers). 5.3 million Californians are employed by small businesses (fewer than 100 employees), with 1.35 million of those individuals uninsured. An additional 689,000 uninsured Californians are uninsured. These two groups comprise 71 percent of the uninsured in California and represent around 45 percent of the overall workforce.

**Table 1.**  
**California Workforce (ages 18-64) and Employers by Firm Size**

	Insured Workers	Workers with Coverage through own Employer	Uninsured Workers	Total Workers	Number of Employers
Self-employed	2,122,000	585,000	689,000	2,811,000	N/A
50 or fewer	3,272,000	1,603,000	1,350,000	4,622,000	583,000
51 to 99	577,000	397,000	125,000	702,000	27,000
100 or more	9,151,000	7,103,000	879,000	10,030,000	145,000
<b>Total</b>	<b>15,122,000</b>	<b>9,689,000</b>	<b>3,043,000</b>	<b>18,165,000</b>	<b>755,000</b>

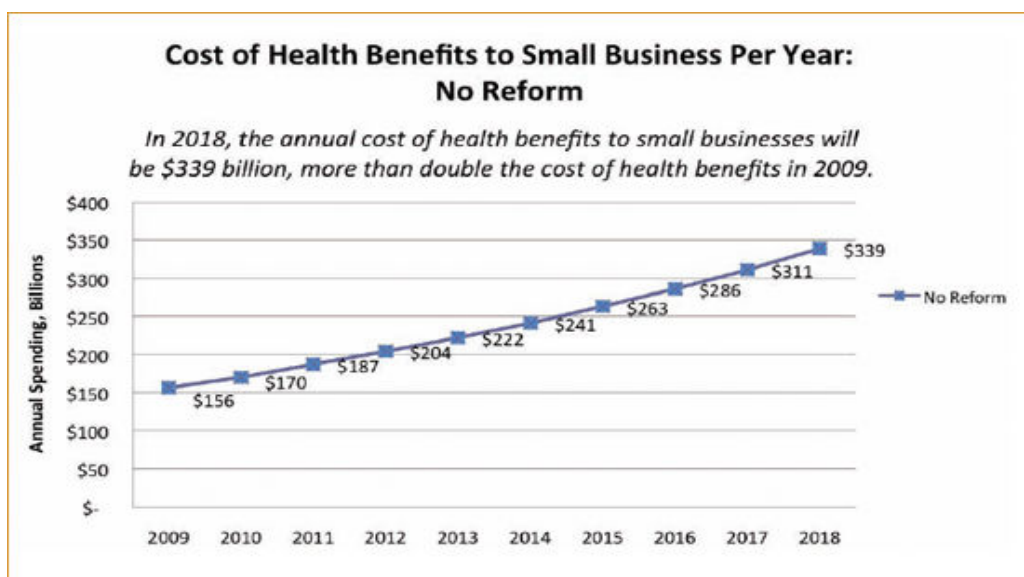
Source: Worker information from 2007 California Health Interview Survey, employer information from 2008 Medical Expenditure Panel Survey-Insurance Component. Rows may not sum to totals due to rounding.

## Benefits to California Employers

### Relieving Small Businesses and Individuals Through Exchanges

Health insurance coverage has been a difficult proposition for California small businesses to offer their employees and individuals, primarily because of high and increasing costs. Health insurance premiums have grown three times faster than wages in the past decade. Since on average pay 18 percent more than large firms for the same insurance policies, most small businesses can only offer limited plans for their employees. Our team reached out and reviewed current and future research work by Small Business California, the Small Business Majority, Pacific Community Ventures, and the UC Berkeley Center for Labor Research and Education.

The graph below shows the estimated cost of health benefits to small businesses are projected to continue to climb with no health care reform in place. In 2009, health benefits cost small businesses a total of \$156 billion and by 2018, it is estimated that small businesses will be paying approximately \$339 billion in health benefits.



Using the data provided in the graph above this would translate to small businesses spending \$2,379 trillion on health benefits between 2009 to 2018.

Health Insurance Exchanges, a marketplace for purchasing health insurance, organized either by a government agency or an independent agency, will allow small businesses and individuals access to a wide range of insurance plans. The Exchanges will include the American Health Benefit Exchange for individuals who want a qualified health plan and the Small Business Health Options Program (SHOP) for businesses with up to 100 employees. A threshold of 50 employees per business can be used prior to 2016 if

approved by the state. States also have the option of operating geographic Exchanges serving one or more counties or health insurance rating areas in the state. On September 30, 2010, Governor Arnold Schwarzenegger signed AB 1602 and SB 900, making California the first state in the nation to pass legislation creating a health exchange under the new federal health care reform. AB 1602 establishes the creation of the California Health Benefit Exchange which will help residents of California shop for affordable health insurance plans starting in 2014.

The Governor and the legislature will appoint a five-member board to govern the new California Health Benefit Exchange and they will develop procedures and criteria to encourage residents of California to enroll in the Exchange and select proper health plans. Implementation of this Exchange will make available to individuals and small businesses the same advantages large employer groups have such as a more stable risk pool, greater purchasing power, and more competition among insurers regarding price, quality and service of health coverage.

Due to the implementation of an Exchange, California is set to receive \$1 million from the federal government to fund the preliminary planning efforts to develop the Exchange, with additional grants expected in Spring 2011. After 2014, the Exchange will become self-supporting from fees paid by those participating in the Exchange.

The need for separate Exchanges is evident by the different resources needed by large volumes of individuals and that of small employers. A large volume of individuals will have a wide range of varying needs and therefore a wide range of plans must be available, while small employers will be focused on plans that meet the overall needs of their employees as well as obtaining tax credits to subsidize these costs. These tax credits represent much needed relief small businesses will need to cover their employees. The Small Business Tax Credits, a 35% tax credit of premiums, will apply to those small employers paying 50 percent of their employee's health insurance. Full credit will be given to companies with 10 or fewer employees with average annual wages of up to \$25,000. The Small Business Tax Credit will increase to 50% of premiums effective January 1, 2014 in the employer plan is purchased on the new state Exchange. A credit may be given to tax-exempt organizations but would only be 25 percent through 2013 and 35 percent starting in 2014.

The graph below demonstrates the number of small businesses who will be eligible for a premium tax credit compared with other states. California, with a total of 571,200 small businesses, will have 456,500 small businesses eligible or 79.9 percent of the total.

**Small Businesses That Are Eligible for Premium Tax Credits in 2010, by State**

State	Number of Small Businesses*	Small Businesses Eligible for a Premium Credit	
		Number	Percent
Alabama	57,800	50,800	87.7%
Alaska	12,800	10,400	81.0%
Arizona	84,700	72,800	85.7%
Arkansas	42,300	39,900	94.2%
California	371,200	436,500	79.9%
Colorado	99,700	82,400	82.6%
Connecticut	57,500	44,000	76.5%
Delaware	13,700	11,300	82.7%
District of Columbia	11,800	6,300	57.8%
Florida	307,100	246,000	80.1%
Georgia	43,200	120,300	84.0%
Hawaii	20,100	16,300	81.3%
Idaho	33,200	29,300	89.5%
Illinois	203,600	159,900	78.5%

### Benefits to Large Employers

The 2010 RAND analysis of HR 3590 estimated that large employers would see a decrease of approximately 2 percent in health insurance premiums. With health care reform, in 2019 the average individual premium would be \$7,837 per employee, compared with \$8,011 under the status quo. The reduction in premiums comes from a change in the composition of the people purchasing insurance in the employer market. RAND found that premiums in the employer market could be further reduced by increased competition created by the Exchanges.

In *“Health Care Reform: Perspectives From Large Employers”*, *Health Affairs*, June 2010, the National Business Group on Health Analysis (NBGHA) found that health care reform legislation will have mostly positive effects on large employers, as millions more Americans gain access to affordable insurance and health care. However, the law will impose new administrative burdens and financing costs on employers, while raising concerns about provisions that could allow their lower-wage employees to obtain coverage through insurance exchanges. NBGHA concluded that, given private sector’s need to restrain the overall growth rate of health spending, large employers should collaborate with the public sector in implementing health care reform.

### Aiding Low Income California Families

Planning to extend coverage to over 32 million Americans, the ACA will rely on the nation’s existing public health insurance programs including Medicaid and the Children’s Health Insurance Plan (CHIP). These two organizations will help serve foundation for aiding low-income families and individuals with the ACA establishing a new national minimum Medicaid income eligibility level for people less than 65 years of age.

For California, Medi-Cal will be expanded to cover an additional 20 percent of their total enrollment, or an additional 1.8 million individuals. Currently, Medi-Cal serves 7 million Californians, under the ACA, approximately 1.4 million people will be newly eligible for Medi-Cal coverage and an additional 412,000 individuals who are already eligible and who are expected to seek out coverage in response to the implementation of the ACA. Medi-Cal provides coverage for children less than 5 years of age in families who income does not exceed 133 percent of the Federal Poverty Level (FPL), children 6 to 18 with family income not exceeding 100 percent FPL, and parents with income up to 106 percent FPL.

The expansion of Medi-Cal through the ACA will be in two areas. As stated above, there will be a new national Medicaid eligibility threshold for all individuals under 65 years of age providing coverage to those whose income does not exceed 133 percent of FPL. The second expansion in Medi-Cal will cover current and former foster children up to the age of 26. These two expansions will make 850,000 childless adults with income up to 133 percent and 280,000 parents with income between 106 percent and 133 percent newly eligible for Medi-Cal coverage. Also, under the new reform, 162,000 children will be transferred from Healthy Families coverage to Medi-Cal. The second provision will bring relief to roughly 196,000 individuals in California who could now have quality affordable coverage through their parents. Some employers and the vast majority of insurers have agreed to cover adult children immediately.

Under the expansion of Medi-Cal, California will have to create a “benchmark benefits package” which must at least match the coverage provided by the “essential health benefits” offered by private insurance plans through the new State Health Insurance Exchange. This benchmark benefits package will be comprised of general health services such as:

- Ambulatory care
- Emergency services
- Hospitalization
- Maternity and newborn care
- Mental health and substance abuse services
- Prescription drugs
- Rehabilitative services and devices
- Laboratory services

- Preventive and wellness services, including chronic disease management
- Pediatric services (including oral/vision care)

In order to help the state pay for the expansion of Medi-Cal, the federal government will cover 100 percent of costs for newly eligible individuals starting in 2014. By 2020, this will decrease to 90 percent. With the expansion of Medi-Cal, California is estimated to receive \$44.5 billion or more in federal support between 2014 and 2019. While substantial, it is estimated that in 2018, Medi-Cal spending will increase \$2 billion to \$3 billion each year thereafter.

### New Patient Protection Programs

The ACA will also be crucial in providing extra protection for consumers, thereby preventing insurance companies from limiting the amount of care an individual will receive and removing insurance company barriers between individuals and their care providers. These extended policies include protections against insurance companies using annual limits on coverage, rescinding coverage based on errors on applications, setting lifetime limits on coverage, and imposing pre-existing condition exclusions on children under their parents plan.

These new protections, known as the Patient's Bill of Rights, apply to health coverage starting on or after September 23, 2010 and will bring immediate relief to many Americans while calming the nerves of those who are nearing medical catastrophes.

Exclusions for children under the age of 19 years of age with pre-existing conditions will be banned. This protection will prohibit insurance companies from denying coverage to children based on pre-existing conditions including both benefit limitations and outright coverage denials. This type of protection will apply to all types of insurance policies except for individual policies that are "grandfathered" and will extend to all Americans, regardless of age, in 2014.

Insurance companies will be unable to retroactively cancel individual's policies because of unintentional errors made on paperwork by that person's employer. The new protections offered by the ACA will ban insurance companies from rescinding coverage on individuals and groups of people; insurance companies will be required to provide at least 30 days advanced notice that an individual's coverage will be rescinded, allowing time for that person to appeal. The only reason an insurance company will be able to rescind coverage offered will be in cases of fraud or an intentional misrepresentation of material facts.

Lifetime limits on coverage will be abolished, allowing individuals the access to care they require when it is most needed. This affects over 100 million Americans who could

potentially be refused coverage because they have reached their limits much sooner than they originally perceived. This will affect all health plans and insurance policies issued or renewed on or after September 23, 2010.

Much like banning lifetime limits on coverage, the Patient's Bill of Rights will also restrict annual dollar limit on coverage, an issue which affects 8 percent of large employer's insurance plans, 14 percent of small employer plans, and 19 percent of individual market plans. While these annual dollar limits will not be completely phased out until 2014, the ACA has provisions for the years leading up to 2014 which raise the annual dollar limits. Insurance plans issued or renewed on or after September 23, 2010 will have limits no lower than \$750,000; by September 23, 2011 this limit will be raised to \$1.25 million; followed by an annual limit no lower than \$2 million by September 23, 2012. These protections will apply to all employer plans, both small and large, as well as to all new individual market plans.

Individuals will also have more control when choosing their doctors. Being able to choose and keep the same doctor has proven to be much more beneficial to individuals because they are more likely to receive preventive care, more likely to be satisfied with the health care system, and ultimately results in lower costs. This provision prohibits insurers and employer plans from requiring referrals and will give individuals and families more choices for choosing their primary care givers.

These new protections on individual, employer, and family insurance policies will provide immediate relief for around 16.2 million Americans who could potentially face medical woes due to current insurance policy shortfalls. These new protection will also contribute to cost savings through reducing hidden taxes on insured Americans, improve Americans' health, protect Americans' savings, and enhance workers' productivity.

#### Other Highlighted Benefits of the ACA

Implementation of the ACA will also provide relief to those who have fallen in the coverage gap of the Medicare Drug Benefit, early retirees, and other seeking aid with their current health benefit plan.

The gap in the Medicare Drug Benefit, aptly named the 'Donut Hole,' has been plaguing those who require prescription drugs, forcing them to pay very high prices for medicines they rely on. Last year alone, around 382,000 Medicare beneficiaries in California hit the Donut Hole and were given no extra aid to help mitigate the cost of their drugs. The ACA will implement a program where all the Medicare beneficiaries who found themselves in the Donut Hole this year will receive a one-time \$250 rebate check. Starting mid-June, these rebate checks will be mailed every month as more and more individuals find themselves falling into the coverage gap. Beginning in 2011, the same

Medicare beneficiaries will receive a 50 percent discount on brand-name drugs and biologics once they hit the donut hole.

Another group of Californians currently struggling under the current health care system are early retirees. An estimated 430,000 individuals in California retired before they were eligible for Medicare but were still able to keep their health coverage plans they had acquired through their employers. Yet, with the rising costs of providing health benefits to employees, employers providing health insurance to their retirees has decreased dramatically spurring panic for those who left the workforce early expecting to be covered by Medicare. The ACA will implement an early retiree reinsurance program, beginning June 1, 2010 and totaling \$5 billion, to help stabilize early retiree coverage and ensure that businesses continue to provide health coverage to their early retirees. This benefit will be eligible to all companies, unions, and state and local governments.

The Federal government, through the ACA, will also free up \$761 million federal dollars for California starting July 1, 2010, to provide coverage for uninsured individuals with pre-existing medical conditions. This high-risk, pool program will act as a bridge to 2014 when individuals will be able to purchase affordable health coverage options in the established Exchanges and insurance companies will no longer be able to deny health coverage to individuals with pre-existing conditions. This program will provide much needed relief to those individuals and families who cannot currently afford health coverage.

Funding will also be increased for Community Health Centers to help them increase the number of patient visits over the next five years. The increase in funding will begin October 1, 2010 and promises to double the number of patients these community health centers serve. There are an estimated 1,049 community health centers currently in California which provide much needed aid and care to low-income individuals and communities. The funding provided by the ACA for these centers is not only expected to increase the number of patient visits, but also to support the development of new centers in California.

## Areas of Concern

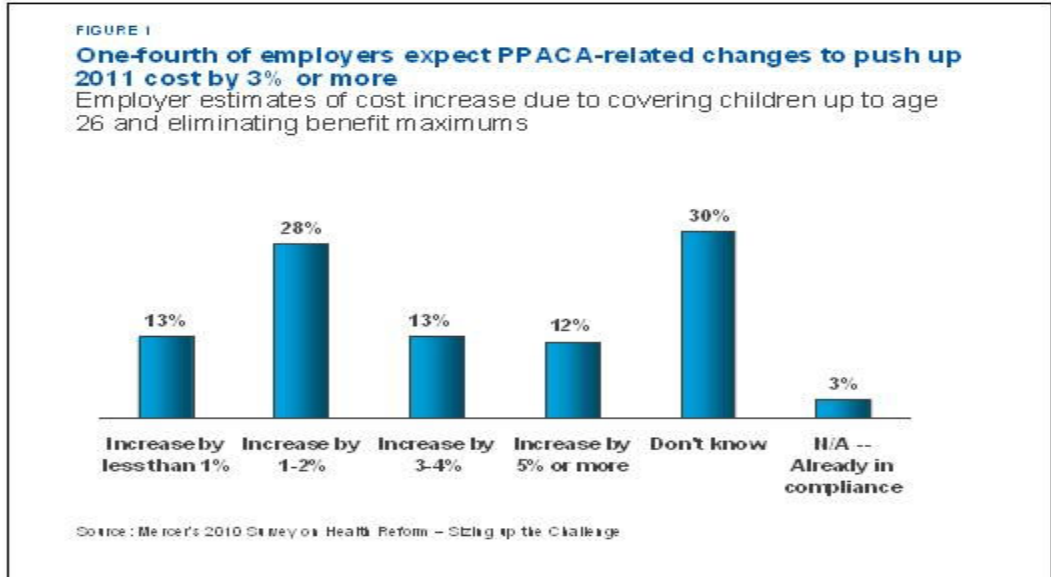
While the ACA offers many benefits and improvements to the current health care system, there are a number of organizations opposing the reform such as the California Chamber of Commerce. Many opponents of the ACA have deemed the bill a “government takeover of the nation’s health care system” and fear this new government-run, public option would put the nation into more debt, run the private insurance sector out, and lead to significant amounts of job losses after the worst recession the nation has seen since World War II.

One of the best sources of quantitative information on areas of broad concern for large businesses was a survey of 791 large employers in May 2010 by Mercer, a leading global provider of HR and benefit consulting services to large employers worldwide. Mercer found that large employers have many concerns about health care reform, primarily regarding higher costs resulting from compliance over and above the 6% average increase for the last 5 years. A major concern is that health care reform will push annual cost increases for employers into double digits:

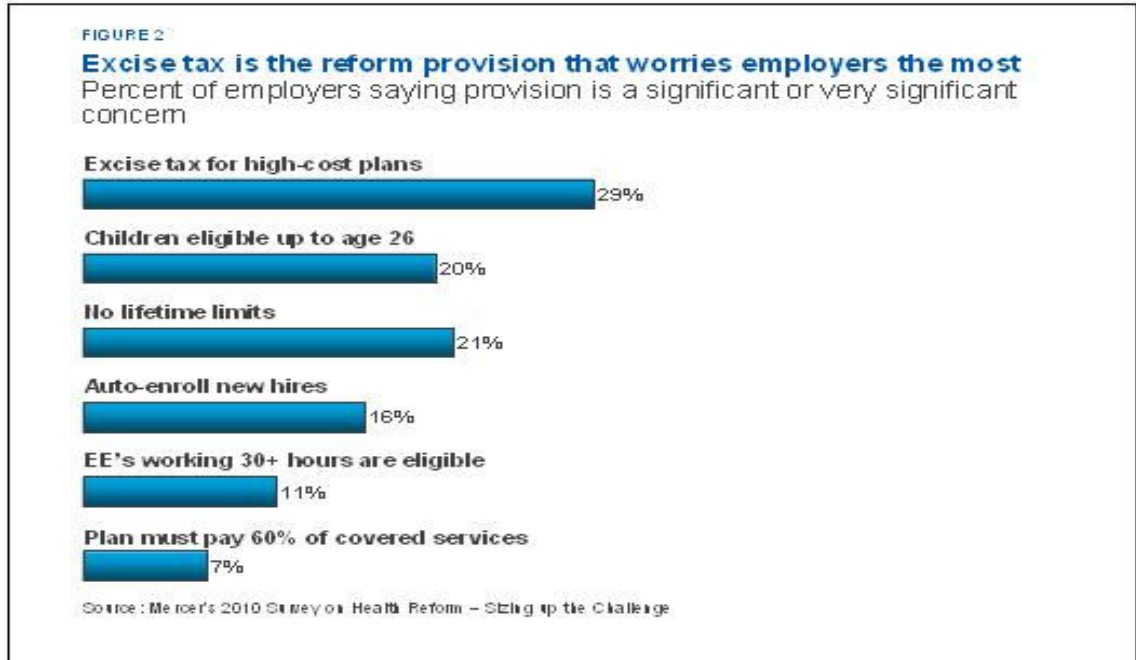
- Early estimates of employer cost impacts range from moderate to severe, with 30% of employers surveyed still unsure of the overall impacts
- The excise tax on high-cost “Cadillac plans” topped the list of concerns
- Retailer employers are specifically concerned about cost of expanding coverage to more part-timers
- Employers are considering several options for offsetting cost of covering adult children

### Primary Concern is Uncertainty Regarding Impact on Costs and Bottom Line

Twenty-five percent of companies said that compliance with the first round of ACA mandates will add at least another 3% to their projected 2011 plan costs, with 12 percent projecting an additional 5% or more. Approximately 41 percent project a relatively modest increase of 2% or less, while 3% said their plans were already in compliance and would see no cost increase. The remaining 30% could not estimate the extent of the cost impact.



Other than projected cost impacts, the survey asked employers about their level of concern over six major provisions of PPACA. The excise tax on high-cost plans, which takes effect in 2018, emerged as their top concern despite the fact that it will be the last provision to be implemented. While other provisions hit from 2011 through 2014, the excise tax poses a significant or very significant concern for 29% of the survey respondents while an additional 29% say it is “a concern”. Only 42% say it is either not an issue or only a very slight concern.

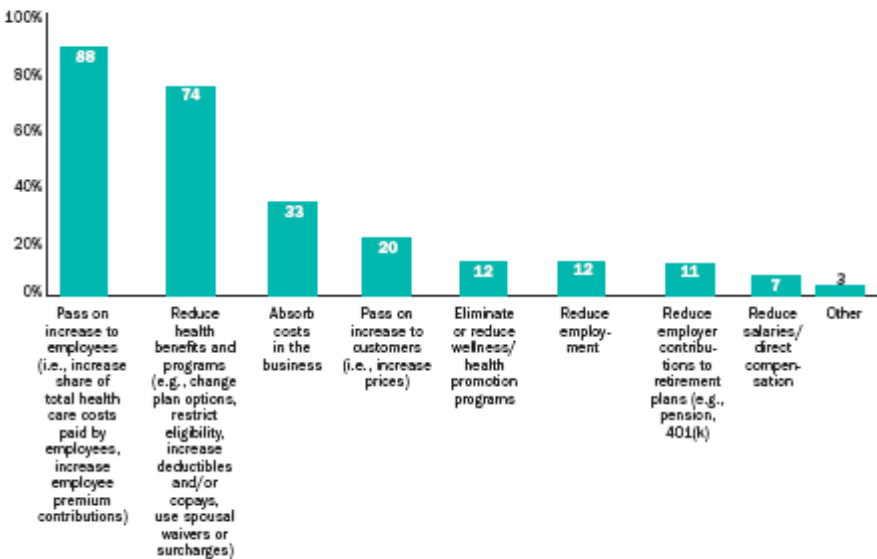


### Higher Costs, Declining Coverage

A recent survey study released by the National Business Group on Health of 72 large employers (included companies such as Wal-Mart and General Electric) on their 2011 insurance plan offerings showed they anticipate higher costs with less coverage. The study found that 63 percent of these employers will be requiring employees to pay a higher percentage of premiums in 2011, 46 percent of the large employers are planning to raise out-of-pocket maximum contributions for employees, and also plan to raise in-network deductibles and out-of-network deductibles in order to control the rising costs of healthcare associated with the ACA. These large employers also project an 8.9 percent increase in overall costs for 2011, almost 2 points higher than the 7 percent increase expected for this year.

A recent study released by Tower Watson of more than 650 mid-to senior-level benefit professionals on the impacts of the health care reform included a section surveying how companies planned to mitigate the increased costs of healthcare plans for employees. Eighty-eight percent plan to pass the increase in costs to their employees, while 74 percent plan to reduce health benefits and programs.

**Figure 4. Likely Actions If Reform Increases Organization's Health Care Benefit Costs**  
(multiple responses allowed)



Large employers also expect coverage to decrease with 69 percent of the employers reviewing their retiree drug offerings in response to the ACA's provision to tax federal subsidies provided to these large employers who cover their retiree's prescription benefits. Many large employers are also considering capping employer contributions to retiree coverage while increasing employee contributions to contain higher retiree health care costs. Eighty-six percent reviewing their participation in the Medicare Advantage plan and possibly dropping this coverage plan.

## “Cadillac Plans” Excise Tax

“Cadillac Plans” refer to unusually expensive employer-sponsored health insurance plans and according to the Mercer study is the single largest concern for employers. The ACA will impose an excise tax on plans with annual costs exceeding \$10,200 for individuals or \$27,500 for a family.

Tracy Watts, a consultant with Mercer’s Washington D.C. office noted:

“Employers who rely on generous medical benefits to help attract and retain top employees are concerned about the excise tax. And let’s not forget that there are reasons other than richness of benefits that drive up costs, such as having an older population or being located in a high-cost metropolitan area—both factors that are not under an employer’s control.”

A recent study by Health Affairs in 2009 found that these high cost plans do not provide lavish benefits for their holders, finding that only 3.7 percent of the variation in the cost of family coverage in employer-sponsored health plans is attributable to the differences in the actual value of benefits.

## Coverage of Adult Children

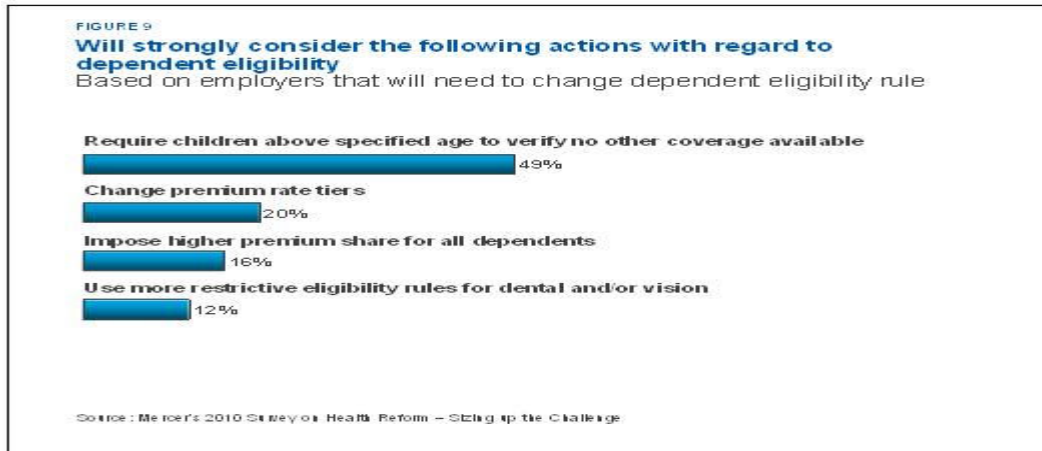
The second biggest concern reported by Mercer was the coverage of adult children (until the age of 26) of employees. The vast majorities of employers have not built this into their business, HR, or costs models and therefore consider provision an unplanned expense:

- Only 6 percent of survey respondents currently provide this coverage.
- 25 percent of employers will begin this coverage before their next renewal (January 2011).
- 17 percent of respondents with 5,000 employees or more plans to implement the provision early.

In response to this provision, employers state they may decide to take action to verify dependent eligibility so as to avoid covering those who may be able to get insurance elsewhere:

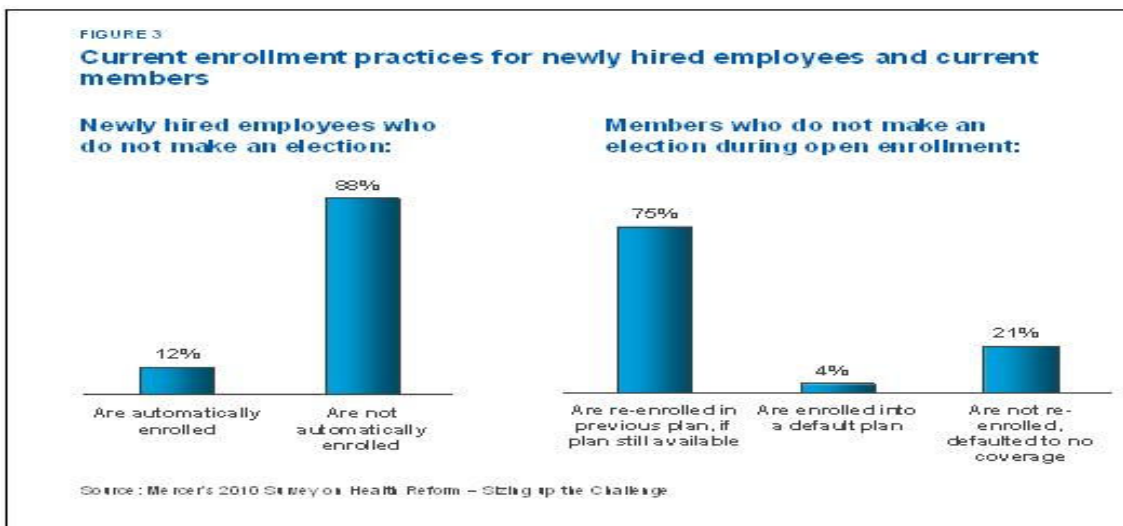
- 50 percent of the respondents surveyed may require proof that dependents do not have accessibility to other coverage plans through their own employers.
- 20 percent would change their premium rate tiers which would shift the cost of covering these additional dependent onto the employees.

- 16 percent say they may simply require high contributions for all dependent coverage.

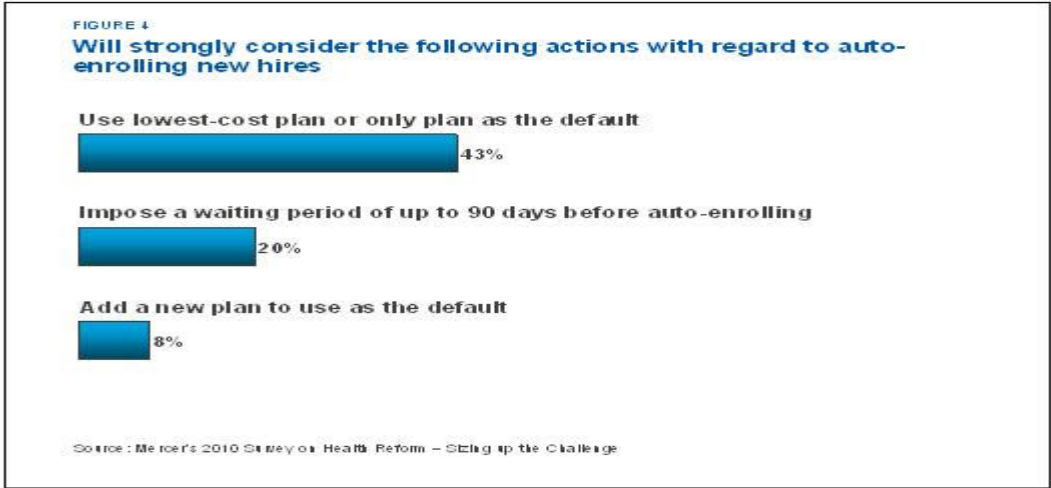


### Auto-Enrollment of New Hires

The Mercer study asked about the provision that employers will need to auto-enroll new hires into health care plans, which 16 percent of respondents highlighted as a significant concern.



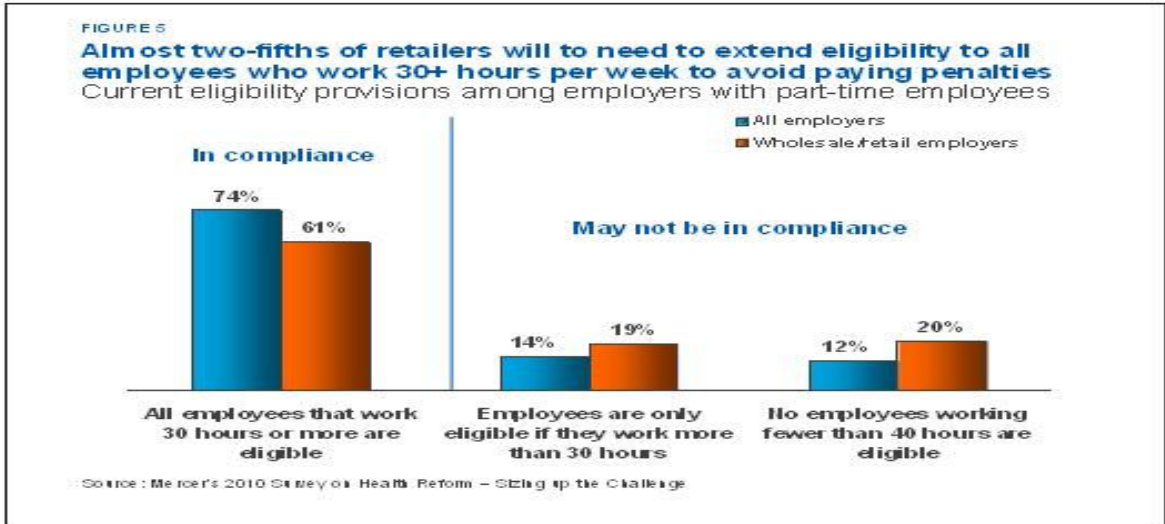
Only 12 percent of employers currently auto-enroll their employees. Most – 88% – currently do not automatically enroll new hires in a plan. In response to this provision, 43 respondents of the survey will strongly consider implementing the lowest-cost plans as a default for auto-enrollment plans. Twenty percent of the respondents noted they will be imposing the maximum allowable waiting period (90 days) before enrolling new hires in attempt to slow cost increases.

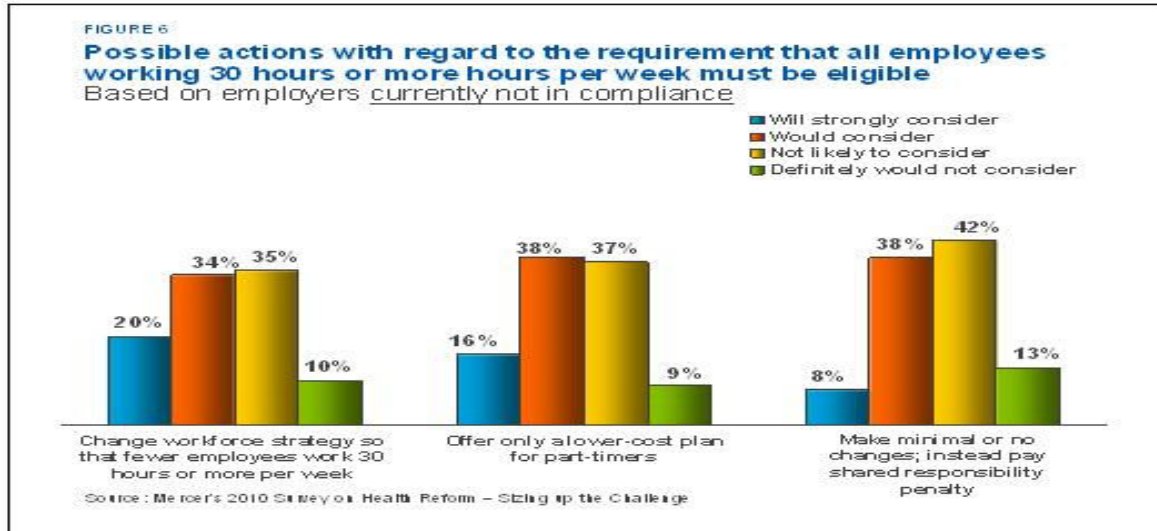


Part-time Worker Coverage

Retail employers, which rely heavily on part-time labor, are particularly concerned about having to provide affordable insurance coverage to all employees working an average of 30 hours or more a week in a month or face penalties.

- 24 percent of retail industry respondents highlighted this as a major concern because of their dependence on part-time workers
- 26 percent of respondents are not currently in compliance with this provision
- 54 percent of companies will consider changing their workforce so that fewer employees work the required 30 hours or more a week





### Effect on California and Federal Budget

As stated earlier, the CBO projected that health care reform will save \$143 billion over 10 years. Extending coverage to over 32 million uninsured Americans will reduce the tendency of hospitals to shift the cost of treating the uninsured onto the insured, yet this extended coverage may not come without spending more money. This cost is largely covered by new fees, taxes, and cuts in Medicare payments to private health insurers and hospitals. With the ACA, it is estimated the nation will spend \$4.6 trillion in 2019 on healthcare, an average annual growth rate of 6.3 percent over the next 10 years. While much of the savings are back-end loaded, many of the costs are front-loaded at a time of a record federal budget deficit and a California budget crisis

Recent state administration estimates have indicated that the federal reform could result in the State facing long-term annual net costs of several billion dollars. These significant costs concern state leaders such as California Secretary of Health and Human Services Kim Belshé:

“Our state health policy experts are in the process of analyzing the final version of the legislation to refine our fiscal estimates and better understand the significant work that will be required to implement reforms this year and in the year ahead...we look forward to continuing to work with Congress and the Obama Administration to ensure that states like California have the fiscal, technical and administrative resources required to effectively implement federal health reform and the expansion of these new federal benefits.”

Insurance companies have already begun to raise their rates, such as Blue Shield who plans to hike insurance rates of 150,000 customers on October 1, 2010. An additional

180,000 Blue Shield customers will see their rates rise by an average of 18.3 percent over the next year. Approximately 800,000 Anthem Blue Cross policyholders will see their premiums rise by about 14 percent. While supporters of the ACA believe reform savings will eventually bring down these high costs, the upfront and start-up costs come at a particularly difficult time in terms of the economy and government budgetary situation.

### The Indirectly-Related 1099 Form

Bookkeeping and paperwork have always burdened small businesses. A provision of the ACA, one which has little to do with healthcare, requires businesses to report transactions on services or goods in excess of \$600 annually. This provision is an attempt at closing the estimated \$300 billion tax gap on unreported incomes which will be used to help pay for the costs of the healthcare reform. The concern regarding the 1099 form is that it could double accounting costs for small firms, adding the struggle of keeping afloat during the economic downturn.

### LA Health Action

LA Health Action surveyed the opinions of more than 20 Los Angeles County health care leaders on the ACA. Some of the uncertainties they shared included:

- Serious weakness in the state budget.
- State leadership changes to be determined by the November 2010 election.
- Ongoing negotiation of the pending 1115 Medi-Cal waiver and the pending statewide hospital provider fee, with billions at stake for the California health care system.

These leaders identified several key areas of focus for the safety net financing paradigm based on uncompensated care and cost-shifting needed in response to the ACA, including:

- Defining the Roles of Provider Groups: Coordination versus Competition
  - The basic question most leaders had was “Who should be doing what?” There needs to be an effort to better define the relationship between public and private health care providers.
  - The leaders surveyed suggested improving coordination so services may be better provided.

- They also suggested managing the increased competition resulting from the ACA, both public and private sectors will need to brace themselves for the increased competition due to the increase of options provided by both public and private healthcare providers.
- Promoting ACA Outreach and Education
  - Educating individuals, families, businesses, and all other agencies affected by the new healthcare reform is a crucial objective for many organizations. The lack of understanding of the ACA is astounding as it is one of the largest federal overhauls in the nation. The leaders surveyed identified four demographics which they believe need extended education and understanding as these will be the most directly affected by the bill:
    - Local Businesses (Southern California)
    - Health Care Workforce
    - The Public and Accessing the System
    - The Uninsured

## **Results of R.E.A.L. Coalition Survey on the ACA**

The R.E.A.L. Coalition, Regional Economic Association Leaders of California, is comprised of the 17 most influential business associations throughout the state of California. R.E.A.L. Coalition members were recently surveyed by the Orange County Business Council in September 2010 regarding different aspects of the ACA including their organization's and employer member's level of awareness, benefits or concerns, current position, and any other additional thoughts they may have had regarding their experience so far with health care reform and more specifically regarding impacts to the business community of the California implementation of the ACA. The R.E.A.L. Coalition members varied in their levels of support, opposition and neutrality based on their membership. While some organizations are similar to OCBC with memberships serving primarily large business, other serve the wide range of small, medium and large businesses.

The following institutions were surveyed:

- Bay Area Council
- Contra Costa Council
- Los Angeles Chamber of Commerce
- Los Angeles Economic Development Corporation
- Long Beach Chamber
- Sacramento Metro Chamber
- San Diego Chamber of Commerce
- San Diego Regional Economic Development Corporation
- San Gabriel Regional Chamber
- Silicon Valley Leadership Group

### **LEVEL OF AWARENESS:**

With the exception of the San Gabriel Regional Chamber, the R.E.A.L. Coalition members were aware of the Health Care Reform bill that moved through Congress over the last 18 months. Some organizations were extremely aware of the bill, but even those organizations took no position for the most part, instead wanting to see how it played out in California. Many organizations were given opinions by their members but didn't want to take one side over the other. However, even those organizations that

were aware stated that further education, research, and outreach was necessary regarding how reform will be implemented in California and impact on their member businesses.

### **CURRENT POSITION:**

Most of the R.E.A.L. Coalition members we surveyed were neutral or expressed that, as of yet, had no position on the new law. The positioning has not changed significantly from the federal bill to the prospect for state law and implementation. Now that the law has passed at the federal level, many of the R.E.A.L. Coalition members are currently in the process of studying the ACA and how it will affect their members, small, medium and large.

Many parts of the health care reform law the coalition organizations liked were the tax credits for small businesses, and particularly the health and wellness provisions. The organizations like living in a state that takes it seriously and they want to provide more education for employers and employees on prevention.

As stated earlier, only one organization is on record as formally supporting and only one as formally opposing. The San Francisco Chamber was the only organization we talked to on record that supported the bill, but conceded that Senators' Feinstein and Boxer influenced their decision. The Long Beach Chamber was fairly non-responsive to questions and benefits and concerns except to say that their organization and members have been adamantly opposed to health care reform from the start.

Many are on the sidelines until their members are more educated and concerns are addressed. The good news is that the vast majority of the organizations we talked with have just a few specific concerns and are eager for research, analysis, outreach, and education on the implementation as a whole and their specific concerns.

For example, 88% of San Diego Chamber members are businesses with 100 employees or less. They are taking a group of 90 members to Washington D.C. this month to meet with officials from the Department of HHS and CMS to discuss how the new law will be implemented and affect their business. The San Diego Chamber was pleased with the exclusion or exemption of ACA for employers that 50 staffers or less. That will alleviate some of the burden.

While generally in support, the Silicon Valley Leadership Group is also concerned about the cost of the reform as well as needed cost controls. They also expressed a concern about the level of awareness and understanding of the bill by their members and employers in the area. They will be working towards better educating their members through future events.

The Sacramento Metro Chamber said that their concern was primarily about how health care reform implementation will affect their small business members, a sentiment echoed by other organizations we talked to as well.

The Bay Area Council is advocating for an overall goal of reducing costs to employers while increasing the quality of healthcare to employees. After polling their members on the public option of healthcare they found that half their members support it while half oppose it. The Bay Area Council has taken a neutral position with their membership, not only because they represent small, medium and large business, but also because of the industry profile of their membership. The Bay Area Council represents primarily very large employers such as Blue Shield of California and Kaiser Permanente, both of which have major influence in Northern California.

Contra Costa Council formed a Health Care Task Force which was a helpful forum in dissemination information and gathering input before the federal law passed. Now that California implementation is in process, they are planning to hold another forum at a later date. The Contra Costa Council has noted its concern about the costs associated with the reform as well as the lack of cost controls.

The San Diego Regional Economic Development Corporation could not officially take a position because they are a 501-C3 and it is not part of their scope of work; however, they would be very interested in the any research done and how ACA will affect California's economy and their member businesses once the implementation begins in 2014.

Similarly, the LAEDC, a 501-C3, likely will not take a position on the law itself, but expressed its interest in assisting OCBC in assessing the impact of the implementation of the ACA on the economy.

Many other organizations in general agreed that their large employer members are currently taking a "wait and see" attitude, given that these companies already offer health insurance coverage to their employees under existing benefit plans already in place. The uncertainties and complexities associated with implementation of healthcare reform in California make it difficult for business organizations to strongly support or oppose, and therefore, many organizations and their member companies choose to remain neutral or take no position awaiting further information on the benefits and challenges that will come with implementation. With such a large overhaul impacting so many different sectors of the economy and companies in different ways, it is difficult for many organizations and companies to accurately estimate how exactly the reform will benefit or harm their individual business, much less California.

#### **R.E.A.L CONCERNS ABOUT THE LAW**

The majority of R.E.A.L organizations have some concerns about the law. In general, these concerns were centered around lack of good information about how and when implementation would take place and the impact that would have on cost and coverage levels. Coalition members were concerned that because of the changes they would have to either make employees pay into the cost of benefits already provided, withdraw

some benefits such as prescription drugs, vision or dental, take away insurance all together, or some combination of these concerns.

Echoing some of the national research previously cited, the Cadillac tax was troublesome. Why the favoritism? Businesses are struggling with rising health care costs and now that ACA has passed businesses have already seen an increase in premiums in preparation for the ACA to take effect (despite it being in four years.)

Similarly, R.E.A.L. coalition members are concerned about the impact on an already strained state budget. There is also no guarantee on federal matching funds and given California's current budget crises, the state-federal match may not happen. There is also an enormous concern about reimbursement on Medi-care and for doctors. This has always been a problem, but the new law hasn't fixed the problem. Organizations expected that clean-up legislation will have to be created to expedite the reimbursement rates and get doctors paid in a timely matter.

In fact, because of the detail and complexity of the federal reform legislation and state implementation, the process of clean-up bills at both levels is going to be essential to smooth, positive implementation. Our recommendation is that this would be an excellent way to engage these organizations and their members in a constructive dialogue as the vast majority of organizations intend on taking an active role in the lead up to the ACA being enacted in 2014. For example, while the Sacramento Metro Chamber expressed its concern for the impacts of the ACA on businesses, they will be working diligently to clean up the provisions contained in the bill as to provide some clarity. One organization mentioned that the process will be painstakingly difficult – "You could alter one word in a bill that could change the impact on business from \$100 to \$1,000."

Two organizations are supporting specific clean-up legislation. The original HR 3590 included a provision that would require businesses starting in 2012 to begin filling out 1099 tax forms whenever they pay a vendor more than \$600 a year. The National Small Business Association estimates that the average company will have to file 95 of the forms under the measure, up from fewer than 20 today. The requirement will be most burdensome to small businesses without large accounting departments. This will save small businesses from a mountain of extra paperwork that would be required under the new health care law.

#### **CONCLUSION:**

R.E.A.L. Coalition members OCBC contacted were all very anxious to understand ACA and how best to implement it for California. These organizations for the most part recognize that the law isn't going away and they are eager to offer up more information as they receive it and engage in dialogue with their members.

When presented with the Health Care reform legislation, most of the organizations were ready to start researching the law and get information out to their members, good news or bad. Although there has been so much conflicting information on health care reform that California businesses are still in the process of deciphering how it will affect their business, the state's economy, the state budget, and Californians in general, it has not deterred regional business organizations from educating their members and they continue to offer forums and informational events to keep their members and investors up to speed. "No to double-talk, yes to straight-forward reform."

In conclusion, REAL Coalition members want to see further coordinated research, outreach, and education on the impact of health care reform on the California business community, especially large employers. Health care reform implementation in California and offering business a real voice in proposed clean-up legislation offers real opportunities to engage the California business community.