Old soil, new seeds
HR’s growing role in delivering health reform
Health care reform is about giving more people coverage—and giving everybody more choices. If your current and prospective employees have more choices, then HR has more work to do.

More than before, health insurance can make or break you as an employer of choice. And the way your health benefits strategy intersects with new legal and economic realities can send ripples into the makeup of your workforce, the role of HR, and your company’s ability to compete.

Health care is an employer’s biggest-ticket people item apart from pay, and its most complex. But until now, that hasn’t been enough to promote it from a maintenance activity—primarily a back-office concern. If HR seizes the initiative now, it will not only meet head-on the new challenges but can also expand its sphere of influence. If you let others handle all the new financial and strategic implications instead, the organization may follow a path determined by spreadsheets instead of a broad workforce plan.

Reform is difficult and confusing. But it is an opportunity. If you’re talking to people who think this isn’t a big deal…who think it will blow over politically…who don’t think the board and CEO will demand more than the minimum necessary change…who don’t think state health insurance exchanges will emerge as viable options…you need some different people to talk to.

Decades-old assumptions about employer-based health care are crumbling as reform takes hold. Comfort isn’t the order of the day. But something new will arise—and you have a chance to help shape it to your company’s advantage.

A window is open. It won’t stay open forever. What will you make of it?
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Why do you offer health benefits, anyway?</td>
<td>2</td>
</tr>
<tr>
<td>Strategist and steward</td>
<td>3</td>
</tr>
<tr>
<td>The things you don’t know you don’t know</td>
<td>4</td>
</tr>
<tr>
<td>Betting on the headlines</td>
<td>5</td>
</tr>
<tr>
<td>“Pay or play” is just the beginning</td>
<td>6</td>
</tr>
<tr>
<td>Time to step up</td>
<td>8</td>
</tr>
<tr>
<td>Status is everything</td>
<td>9</td>
</tr>
<tr>
<td>The second wave</td>
<td>10</td>
</tr>
<tr>
<td>The control panel</td>
<td>12</td>
</tr>
<tr>
<td>That warm feeling? A spotlight</td>
<td>13</td>
</tr>
</tbody>
</table>
As an employer, you don’t pay for your employees’ pet grooming needs or to rotate their tires. They have to take care of basic human needs like food, clothing, and shelter on their own. So why do you offer health care benefits? For decades, the answer has been simply, “Because we have to.” But do you?

No one has asked that question seriously in a long time. It’s on the table now, but not because employer health care is necessarily going away. Instead, you have new options to consider—and each of them means something different for your workforce, your reputation, and your bottom line.

The rise of health insurance exchanges is the major source of these new options. Soon you will be able to pay—a $2,000-per-employee penalty to offer no coverage at all—or play. What seems like a binary choice is actually just the two simplest ends of a complex continuum of approaches.

Compliance is only part of the equation. This is a matter of strategy now. And as an HR leader in this environment, you have more latitude to question and craft your organization’s benefit strategy than your predecessors had.

Think this is your whole health care decision? Wait until page six.
No one has to tell you that today’s CHRO occupies the multiple roles shown in this wheel. What’s changing is that health care strategy is moving out of its traditional sector. Previously, delivering health benefits was primarily part of your compliance and HR service delivery roles as a steward. Now, it’s an important part of your function as a workforce strategist—and it brings you into more complex interactions with the CEO in his or her role as the organization’s “performance owner.”
You’ve lived with the Affordable Care Act of 2010 (ACA) for a while now. Your department has been all over the compliance requirements, such as extending coverage to dependents up to age 26 and removing barriers based on pre-existing conditions. If you’re like most organizations, you’ve absorbed about a 2 percent hit for these compliance costs.

Congratulations on completing the warm-up exercise.

What lies ahead is “pay or play” and the many decisions that branch off from it. If you decide to play—to offer health benefits—what kind will they be? What changes will you have to make to your workforce model to stay in compliance without watching costs explode?

And if you decide to “pay”—to rely on exchanges—your decisions aren’t at an end. For one thing, exchanges will likely come in more than one shape. The most prevalent concept is the public exchange, likely run by a state but perhaps also on a federal or regional level. But there will also be private open exchanges that use a third party to administer plan choices from more than one insurance company, as well as private captive exchanges that let participants buy from a single insurer.

These private exchanges offer the promise of “getting out of the health insurance business” without completely walking away. A company that uses a captive exchange can maintain involvement in benefits decisions and control costs. You might even end up using exchanges to create a defined contribution approach that mirrors your retirement plan. The appropriate strategies can allow you to avoid penalties even though you’re not directly offering insurance anymore.
Possible outcomes

Betting on the headlines

While you’re calculating how to operate under the new health reform rules, you’re also keeping an eye on whether they’ll remain in place. Between judicial review and electoral politics, there are forces with the potential to erase the entire ACA.

But wait. Do any of those possible outcomes actually make riding this out a practical choice?

The Supreme Court review of the ACA is multifaceted. While the press focuses on the constitutionality of the individual mandate, the court is also weighing severability, Medicaid formula changes, and whether it can even rule before the relevant taxes are collected.

And politics? If a theoretical new president signed a theoretical new Congress’s total repeal of ACA, the earliest it could happen would be early 2013. By then, exchanges will have to have built their infrastructures and secured federal certification to operate.

Organizations that plan to operate in the new exchange environment should be working on those plans right now, so they can be ready in time. Waiting for a bolt from the blue to make it all go away will leave an organization months or even years behind if the new structures end up operating as planned.

That means the political odds are irrelevant. The safe bet is to be ready.
“Pay or play” is just the beginning

Talent
- Reputation
- Competition
- Employer of choice

Pay
- Drop and pay penalty

The employer health care challenge

Play options

Pay
- Provide coverage

Play

Talent

Cost
- Pay $2,000 per employee

Talent
- Reputation
- Competition
- Employer of choice

The employer health care challenge

Compliant coverage

Safe harbor

Play options

Something else?

Funded accounts

Public/Private exchanges

For illustrative purposes only.
Crossing the not-finished line
The exchange system that ACA created gives employers an out. If they accept the $2,000-per-employee penalty, they can be free of offering health coverage. And for many, that $2,000 looks like a bargain.

If only it were that simple. Each choice, “pay” or “play,” triggers a cascade of other decisions. If you continue to provide coverage, you’ve just entered a new world where it isn’t standard anymore—which means the choices you make will affect your competitiveness as an employer, and the bottom line will drive the way you classify employees.

If you decide to opt out, you still face the cost and talent implications that go along with making “no coverage” part of your reputation, which means your real work has only begun.

Notice that the talent implications of health care will end up on your desk no matter whether you “pay” or “play.”
HR’s strategic value to the organization is to take care of the talent—on the way in, on the way out, and every moment in between. It’s already your job as a CHRO. But the stakes just got higher.

Health benefits are one of the ways you pay to attract the right talent and keep it happy. Up until now, health coverage has been all but commoditized from the employee’s point of view—a great deal of work for you and your staff, but not a major point of differentiation for most plan members.

It has always been theoretically possible just to give your people the money and send them into the individual insurance market, but giving them money doesn’t help when the marketplace is too broken for all of them to spend it as intended.

Now, employers are unmoored from the standards that made health care a commodity. With different choices, employers can offer benefits packages that differ meaningfully from one another.

That means the CHRO should fine-tune the offering on a cost-benefit basis. What are you spending to put that lure in the talent marketplace, and what are you getting for it? And how are your competitors solving the same puzzle?
Can the way you cover your employees’ health needs dictate the way you structure their employment—or even whom you hire in the first place?

Consider the new playing field. The ACA mandate for most employers to provide coverage applies only to people who work 30 hours or more per week. They’re considered full-time regardless of how you classify them, or how many hours they were scheduled to work. If you have people working that much whom you’ve classified as part-timers—to whom you offer no coverage—something has to give.

- Do you just upgrade everyone near the 30-hour threshold to full-time status and take on all the benefits and tax load that entails?
- Do you ask more of your bona fide full-timers and add new mechanisms to make sure a certain cadre of people punches out before the 29th hour ticks to a close each week?
- Will you need to hire more part-timers to maintain appropriate staffing levels?
- Are your time and attendance systems ready to accommodate these new considerations?

Different industries face these challenges to varying degrees. In industries with lots of part-timers, contingent workers, or high turnover, the workforce planning implications of health reform are especially large.

Reform doesn’t just change the per-capita cost of covering a static headcount. It can change your headcount. Suddenly this feels like more than an HR problem. It’s an operations challenge, and the COO is looking at you to help get it done.
Once exchanges are in place, what will your role be? It depends in part on what kind of exchange is operating in your state—and the philosophy your company adopts toward the use of public exchanges. They won’t all be alike. And if you remain in the health coverage business, there may be more to it than just writing a check.

### Potential exchange models: more than one flavor

<table>
<thead>
<tr>
<th>Exchange capabilities</th>
<th>Open</th>
<th>Competitive</th>
<th>Prescriptive</th>
<th>Regulated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>“Retail-oriented exchange”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitive marketplace focused on creating a retail shopping experience.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Offers a broad range of products</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Provides information and enrollment assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>“Market curator”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manages competition on a prescriptive platform. The state determines who can be on the exchange and what products can be offered.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Creates a robust end-to-end consumer experience</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Provides a suite of consumer and member management services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>“Information aggregator”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A market-oriented approach in which the state facilitates the transaction.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Minimum compliance with ACA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Provides structure to allow health plan design and price comparisons</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>“Guided exchange”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduces consumer confusion by offering only certain carriers and products.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Prescriptive mandates and regulatory oversight</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Minimal functions “owned” by the exchange</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Health insurance exchanges will fall into one of four categories, though there may be many hybrid models. They will vary in two respects: from more competitive to more regulated, and from more open to more prescriptive. Competitive exchanges will be open to any willing provider, while for regulated ones, states will limit available vendors or products. Open exchanges will allow more variety in plan design and price, but prescriptive ones will adhere to state-established standards.
No matter what type of exchange your employees have access to, there will still be ways for you to participate in the delivery of health services. And they may have as much to do with a more transparent health care supply chain and purchasing strategy as they do with benefits design.

Will your company forego working with a pharmacy benefits manager and instead contract directly with a drugstore chain? A major retailer that handles prescriptions? Or even a pharmaceutical maker?

Might your company and its employees benefit from a direct contract between the company and an imaging provider to ease access and cost for all the scans that accompany modern treatment?

What about health care providers themselves? As part of reform’s mandate to share responsibility for health outcomes, doctors, hospitals, labs, and others are combining into Accountable Care Organizations (ACOs). What if an employer contracted directly with an ACO for full service without an insurance company in the middle?
All the new decisions CHROs have to make in the new health environment will result in new rules. Rules don’t work without controls. That means new structures, new relationships with other members of the C-Suite, and a lot more work to do.

One factor that distinguishes your many new options from one another is their risk profiles. You’ll need controls in place to understand and monitor risk—including contingency plans for failure, such as when you learn in retrospect that a person worked enough hours to get coverage. There are operational and actuarial elements to that challenge.

You’ll also need to collect and compile information for required annual reports. The government will want to know whom you employ, under what terms, whether benefits were offered, and what the benefit terms are. The exchanges will need information of their own to determine individuals’ application eligibility based on income.

Policies to follow. Goals to meet. Compliance data to generate. Your to-do list is growing, and time is growing shorter.
There was a time. You took care of the payroll and the tax forms, got everyone through open enrollment, and counted your job well done if things hummed along without a hiccup.

Now the HR function is the epicenter of a major disruption that can go either way for your organization. Mishandling the question of health benefits can carry a big price tag in dollars, reputation, competitiveness, or some combination of the three.

It’s better to think of this as an opportunity. The last several people who preceded you in your job had none of the flexibility the present situation gives you. And handled appropriately, the opportunity to craft a new approach to health care can position your company as an employer of choice and make it more competitive in its market.

This is a time to get noticed. The CEO and the board are certainly going to pay close attention to the way HR manages this change, including how well it breaks out of its traditional silo to collaborate with other departments on matters of grand strategy.

From the ashes of a system we all grew up with, something will arise. That’s not in doubt. Will it be a system that serves the long-term interests of your company? That’s where you come in. Time to shine.
Additional information
For more information on the implications of health reform on employers, please contact:

Rick Wald
Director
Deloitte Consulting LLP
+1 612 397 4601
rwald@deloitte.com

Andrew Liakopoulos
Principal
Deloitte Consulting LLP
+1 312 486 2777
aliakopoulos@deloitte.com

Steve Kraus
Principal
Deloitte Consulting LLP
+1 312 486 3041
stkraus@deloitte.com

James Sowar
Partner
Deloitte Tax LLP
+1 513 784 7242
jsowar@deloitte.com

Robert Davis
Director
Deloitte Consulting LLP
+1 202 879 3094
robedavis@deloitte.com

www.deloitte.com/us/employerhealthreform

About Deloitte
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

This publication contains general information only and is based on the experiences and research of Deloitte practitioners. Deloitte is not, by means of this publication, rendering business, financial, investment, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this publication.

Copyright © 2012 Deloitte Development LLC. All rights reserved.
Member of Deloitte Touche Tohmatsu Limited