

The **Impact** of the Patient Protection and Affordable Care Act on **Employment Strategies**

Results of the 2014 HR@Moore
Survey of Chief HR Officers

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Executive Summary

In order to assess how firms have responded to the Patient Protection and Affordable Care Act (PPACA), as part of the 2014 HR@Moore Survey of Chief HR Officers we asked CHROs how they have experienced different aspects of the health insurance and health care system and how they have changed their employment strategies. The results show that 78% of the respondents indicated that their health insurance costs have risen (by an average of 7.73%) and 37% reported that their labor costs have increased (by an average of 5.6%) as a direct consequence of the PPACA.

Companies have sought to mitigate the increased cost by pushing cost and responsibility to employees, as 73% have moved or will move employees to Consumer Directed Health Plans and 71% have raised or will raise employee contributions toward health insurance. In addition, while not nearly as prevalent, 30% of firms have or will move their pre-65 retirees to ACA exchanges, have or will cut back coverage eligibility (27%), have or will more rigorously ensure part-time workers work fewer than 30 hours per week (24%), have or will increase the proportion of part-time workers (12%), and have or will limit the number of full-time hires (10%).

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Every year since 2009 we have conducted an annual survey of Chief HR Officers (CHROs), now known as the HR@Moore Survey of Chief HR Officers. Each year the survey contains some common items regarding how CHROs spend their time, and what the CEO expects of the HR function. However, each year, based on the suggestions of a number of CHROs who comprise the survey's advisory board, we also choose some areas into which we seek to dive deeply. One such area in this year's survey sought to explore how employers are reacting to the Patient Protection and Affordable Care Act (PPACA).

PPACA was passed based on a few promises. First was that it would slow the accelerating rate of increasing health care costs. Second, consumers were promised significant savings (approximately \$2500 per family). Third, the act sought to increase the number of people who were covered by health insurance. The act required that companies who employed more than 50 persons for more than 30 hours per week provide health insurance for their employees and defined what constituted minimal coverage in terms of procedures and prescription drugs.

Those who opposed the law suggested that the law would negatively impact employers' labor costs, discouraging companies from increasing their number of full-time employees. Consequently, as the act has been implemented

over the past 2 years, we sought to determine what actions employers have taken as a direct result of the PPACA.

We sent the survey to 560 CHROs including those from the Fortune 500 companies and members of a large professional society. Of those CHROs, 213 answered the questions regarding the ACA, representing a 38% response rate. The survey included two sets of questions about the PPACA. The first sought to assess companies' employment actions and the second to assess their perceptions of the outcomes of the act.

Experienced Outcomes of ACA

We will first discuss the set of PPACA questions focused on the outcomes that companies experienced as a result of ACA. We tried to focus on costs, quality, efficiency, and innovation. The specific question was:

“As a direct result of ACA, which of the following have you experienced or do you expect to experience?”

CHROs could respond that they experienced an increase, decrease or no change in each of the criterion measures. These results are displayed in Table 1.

TABLE 1
Experienced Outcomes of PPACA

| | No Change | Increase | Decrease | Neg/Pos Ratio |
|---------------------------------|-----------|----------|----------|---------------|
| Quality of health care | 63% | 2.8% | 33.8% | 11X |
| Health Insurance Costs | 19% | 78%* | 2.3% | 30X |
| Transparency of Health Delivery | 58% | 21% | 20% | equal |
| Quality of health delivery | 65% | 3.3% | 31.6% | 10X |
| Labor Costs | 62% | 37%** | .5% | 75X |
| Efficiency of health care | 51% | 12% | 37% | 3X |
| Health care innovation | 56% | 12% | 32% | 2.5X |
| Health system innovation | 51% | 19% | 30% | 1.5X |

* (the average increase was 7.73%)

** (the average increase was 5.6%)

As Table 1 shows, CHROs reported that they had experienced no change on most outcomes regarding the delivery of health care. However, they expressed that the PPACA had an immediate impact on their health insurance costs, increasing them on average by 7.73%, where only 19% experienced no changes in costs. Additionally, a smaller, but still significant 37% of employers experienced increased labor costs, averaging a 5.6% increase.

A second way of looking at the data was to calculate a Negative/Positive Ratio, comparing only those companies who experienced a change in each outcome. This ratio was calculated as the percentage of companies who had experienced negative outcomes relative to those who had

experienced positive outcomes. Since many provisions of the PPACA are still being phased in or have only recently taken effect, it may be that many firms have not yet experienced changes in a number of outcomes. Thus, the Negative/Positive Ratio may indicate the expected trend as the act becomes more broadly implemented.

As Table 1 illustrates, while 62% of the companies did not experience labor cost changes, firms that experienced increases in labor costs outnumbered those that experienced decreases in labor costs by a 75:1 ratio. Similarly, 30 times more firms saw increased health insurance costs compared to those experiencing decreased costs. Quality of health care and quality of health system delivery saw many more firms experiencing decreases in quality, with 11:1 and 10:1 ratios.

Employment Strategies as a Result of ACA

These results indicate that the PPACA has had a significant impact in terms of increasing health insurance costs with 78% of companies reporting increases, but fewer firms (37%) saw increases in their total labor costs. This indicates that employers have engaged in strategies to mitigate increased insurance costs. A number of the employment actions we assessed were ones that firms might engage in as part of routine cost control activities. In order to distinguish these routine decisions from those directly attributable to the PPACA, we asked specifically:

“As a direct response to the Affordable Care Act (ACA), which of the following actions have you either already taken or do you plan to take over the next 12 months?”

The CHROs responded regarding 11 specific employment actions in terms of (a) Have already done so, (b) Plan to do so, (c) Have no plans to do so, or (d) Don’t know. The results are displayed in Table 2.

TABLE 2
Employment Actions as a Direct Result of PPACA*

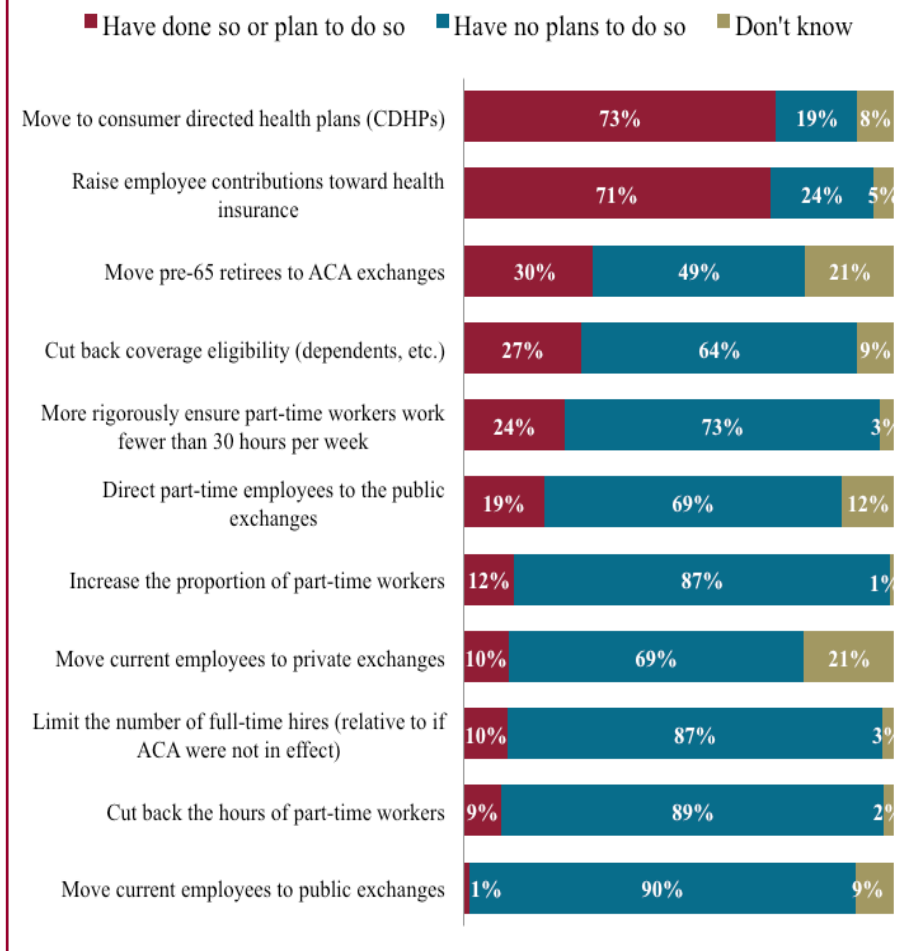
| | Have Done So | Have Plan to Do So | Don't Have Plans to Do So | Don't Know |
|---|--------------|--------------------|---------------------------|------------|
| Move employees to Consumer Directed Health Plans | 56% | 17% | 19% | 8% |
| Raise employee contributions toward health insurance | 52% | 19% | 24% | 5% |
| Move pre-65 retirees to ACA exchanges | 12% | 18% | 49% | 21% |
| Cut back coverage eligibility (dependents, etc.) | 11% | 16% | 64% | 9% |
| More rigorously ensure part-time workers work fewer than 30 hours per week | 13% | 10% | 73% | 3% |
| Increase the proportion of part-time workers | 9% | 3% | 87% | 1% |
| Limit the number of full-time hires (relative to if ACA were not in effect) | 7% | 3% | 89% | 2% |
| Move current employees to private exchanges | 1% | 10% | 69% | 21% |
| Cut back the hours of part-time workers. | 6% | 3% | 89% | 2% |
| Move current employees to public exchanges. | .5% | 1% | 90% | 9% |

* Due to rounding, not all percentages equal 100

Figure 1 summarizes the results regarding the popularity of the different employment actions. The results suggest that employers have shifted some of the costs and the risks of health insurance to employees. CDHPs, originating in the late 1990s, require employees to be smarter consumers of their health care dollars and were gaining in popularity prior to the PPACA. Studies conducted by the Kaiser Family Foundation and the Atlanta Business Chronicle in 2007 and 2008 found 10% and 13% of firms offered CDHPs to their employees. Our data suggest that the PPACA has accelerated this trend with 73% of companies now offering CDHPs. In addition, employees are required to make larger contributions toward their health insurance and many companies are limiting the number of dependents they will cover.

Retirees who do not yet qualify for Medicare are being moved from their current plans to PPACA exchanges in 30% of companies. Fewer companies (10%) have chosen to move the rest of their employees to private exchanges. Many companies have not yet formalized a decision to move any of their full-time employees to either private (21%) or public (9%) exchanges, implying these firms are still evaluating the merits of this action. Finally, while not a large percentage (10-12%) overall, a number of companies (primarily in the food service, retail, and manufacturing industries) have limited full-time hires, increased part-time hires, and limited the hours of part-time employees.

Figure 1
Employment Actions as a Result of the ACA?



Summary and Conclusions

The 2014 HR@Moore Survey of Chief HR Officers reveals that employers have faced increasing costs as a result of PPACA, and that they are engaging in employment strategies aimed at offsetting these cost increases.

In terms of the impact of the act, employers have experienced an immediate increase in health insurance costs, with a 7.73% increase directly attributable to the PPACA. Actions aimed at mitigating the increased health insurance costs have resulted in only 37% of companies experiencing a net increase in labor costs. On the other hand, firms have not yet experienced a significant broad scale impact on their health care delivery system.

However, the impact so far experienced tends to be significantly negative as opposed to positive. This might suggest that over time the overall impact of the PPACA in the U.S. would trend in a negative direction as provisions mandated by the PPACA become more ubiquitous throughout the health care system.

The increased costs have driven firms to change their employment practices in order to offset, as much as possible, increasing costs. About 87% of CHROs reported taking or planning to take at least one action to reduce costs, and almost 25% reported taking or planning to take at least three actions (see Table 3). First, employers have moved employees into CDHPs where employees receive set amounts of money for regular (as opposed to catastrophic) health care, and then must manage their personal consumption of health care within those amounts. This shifts both the responsibility and, to some extent, the risk to employees.

Second, employers have shifted much of their increased health insurance costs to employees through requiring greater individual contributions toward insurance premiums. In addition, other cost mitigating strategies such as moving pre-65 (i.e., those not yet eligible for Medicare) employees to exchanges and limiting dependent coverage have been implemented by a number of employers.

Finally, in efforts to avoid the increased costs associated with the PPACA, firms have also changed the approach to their employment levels. Because the act considers workers working more than 30 hours as full-time, and thus requires employers to provide them health insurance, many predicted employers would increase their reliance on part-time workers at the expense of full-time employees. These results suggest that the act has impacted how employers manage part-time employment. First, a number of employers more rigorously enforce rules regarding how many hours part-time workers can work. As one employer noted “When we put the limit at 30 hours, we frequently had

people that worked 32-34 hours, and if enough of them did so, it would put us at legal risk for fines. Therefore we now limit workers to 27 hours to ensure that we minimize the number that might exceed 30 hours.” In addition, a number of employers have increased the percentage of part-time workers and limited their full-time hires as a direct result of PPACA. In total, 29.7% of surveyed firms reported taking or planning to take some action to encourage part-time employment or limit the use of full-time employees. This may explain why in the June 2014 jobs report, while overall employment increased by 298,000, the report also noted that part-time employment increased by 840,000, indicating a potential decline in full-time employment of up to 542,000.

In summary, the health care system can be evaluated in terms of quality, access, and cost. Proponents of the PPACA suggested that the act would have a positive impact on all aspects of the health care system. While it certainly increased access and the impact on quality has yet to be determined, these results suggest that it has increased costs, and that those cost increases are being borne by the individuals that already had health insurance through their employers.

**TABLE 3
Number of Actions Companies
Have Taken to Mitigate Rising
Health Care Costs**

| | Percent of Companies |
|--------------------|-----------------------------|
| 0 Actions | 12.6% |
| At least 1 action | 87.4% |
| At least 2 actions | 70.7% |
| At least 3 actions | 24.3% |
| At least 4 actions | 12.2% |
| At least 5 actions | 6.3% |



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