Health Care Reform and the Hourly Challenge

For those industries most likely to be transformed by the Patient Protection and Affordable Care Act (ACA), enacting the right strategy is the only strategy. A critical issue will be balancing cost and compliance factors with productivity concerns brought on by changes in the full- and part-time or hourly status of a given workforce. This article discusses industry perspectives in light of the ACA’s 2014 implementation date, options for changing staffing models, and how the success of such changes depends on segmenting business units and locations while developing strategies for the different groups. Thus, the mix of full- and part-time employees becomes a more complicated strategy, but an achievable one.

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The full impact of November’s election on U.S. health care reform—the Patient Protection and Affordable Care Act, or ACA—is yet to be seen, but as ACA’s full implementation remains slated for 2014, there’s no question that employers face benefit cost and compliance challenges. Now more than ever, this sweeping new law of the land requires action and sensible strategy, especially for industries such as retail, hospitality and health services that depend on significant numbers of hourly and part-time employees.

From the cost perspective, the workforce implications are clear. The law mandates that employers with 50 or more employees must offer coverage to anyone working 30 or more hours a week. There are minimum plan and employer contribution requirements, and the prospect of higher health plan enrollment, due to autoenrollment, could be significant.

In addition, there will be fines for noncompliance, new administrative burdens that include reporting and payroll requirements, interaction with new insurance exchanges, and higher volumes of employee questions about health insurance. Indeed, ACA puts pressure on employers from many angles, causing them to take a hard look at their total reward benefit framework as it affects the attraction and retention of talent—and, especially, to assess their strategies regarding hourly employees.

For many companies, the looming question of providing health benefits vs. managing hourly workers with less than the 30-hours-per-week eligibility threshold becomes a key issue, and in our discussions with employers it’s evident that many of them haven’t solved it. By now, most employers know ACA’s outlines and how companies with 50 or more full-time equivalent employees will face shared-responsibility penalties for full-time employees who receive income-based federal premium assistance to purchase health insurance through an exchange.

Regardless of how an employer defines a full-time or part-time employee, the 30-hours-per-week threshold is what determines shared responsibility. But the U.S. Internal Revenue Service (IRS) has at least set out some optional approaches...
for dealing with variable hour and seasonal employees. Basically, IRS allows a “look-back” measurement period of three to 12 months to determine employees’ average hours; an administrative period of up to 90 days to arrange coverage; and a stability period of at least six months (though no shorter than the measurement period) during which employees who qualify in the 30-hours-plus range must be offered health coverage. Employers meeting those safe harbor requirements won’t be subject to ACA penalties, thus affording some certainty at least through 2014.

**Industry Perspectives**

But the larger issue for many organizations may well be to balance cost and compliance factors with productivity concerns brought on by changes in the full- and part-time or hourly status of a given workforce. Let’s begin by looking at things from an industry perspective. As shown in Figure 1, according to Mercer research (for which 1,215 employers of all sizes, industries and geographic locations in the United States were surveyed during July 2012), benefit and compliance cost increases of more than 3% were expected in a number of industries, led by 46% of retail and hospitality organizations, 40% of health service providers, 33% of manufacturing, 32% of financial services, 31% of transportation/communication/utility companies and 24% of government entities.

Of those, 66% of retail and hospitality companies, 59% of health care service firms and 40% of government en-
benefits quarterly  second quarter 2013

Figure 3: Few employers say they are likely to terminate medical plans after 2014 and have employees seek coverage in a state health insurance exchange. Interest in an exit strategy less than seen in Mercer surveys conducted in 2010 and 2011.


Employers reported that part-time workers make up at least 10% of their workforces. Not surprisingly, 46% of retail/hospitality employers do not offer coverage in a qualified health plan to employees working an average of 30 or more hours per week, followed by government at 30%, manufacturing at 24% and health services at 22%.

What, then, is the expected response to ACA’s eligibility requirement? As shown in Figure 2, more than half (51%) of employers Mercer surveyed that don’t currently offer coverage to 30-plus-hour employees say they are likely to change their workforce strategy so that fewer employees work 30-plus hours per week. Other options, such as offering a lower cost plan for newly eligible hourly employees, were favored by only 27%, while making all employees eligible for full-time employee plans was favored by 24%.

It’s important to note that very few employers say they are likely to terminate medical plans after 2014 and cause their employees to seek coverage in state health insurance exchanges (Figure 3). In fact, 93% of surveyed employers were not likely to do so—a higher percentage than in similar surveys Mercer conducted in 2010 and 2011. Obviously, companies remain committed to providing health insurance to employees for reasons that make competitive sense in terms of not only attraction and retention but also of engagement and productivity.

Optimal Staffing Model

But as 2014 approaches, employers are weighing their options for changing their staffing models, as suggested by the 51% cited above that plan to reduce their number of 30-plus-hour employees. The key to success in adopting such a strategy is to select an optimal staffing model for the organization. This calls for a labor cost and productivity analysis to evaluate the business’s health care coverage costs under different scenarios, coupled with an evaluation of the effect of different staffing scenarios (for example, full-time vs. part-time) on workforce productivity and business results.

A good case study is that of an organization that increased its part-time staffing to achieve a savings of $5 million in compensation and benefits costs, but wound up losing an estimated $30 million in productivity as a result. Mercer’s analysis concluded that there is an optimum ratio of full-time employees to productivity, as measured by profitability, and in the case of this organization, it was achieved with a full-time employee percentage of between 60% and 70%. Productivity and profitability drop-off were noted when the full-time employee population began to fall below 45%.

Of course, optimum ratios will differ.
for different types of organizations and industries, especially those noted above that rely especially on part-time or hourly employees; but even within those industries there is likely to be significant variance. Finding the right plan of action for each organization calls for expert analysis and guidance, and there is a range of likely potentials worth looking at.

The most basic is a potential result in which part-time employees are not only low-cost but show, through analysis, that they are as productive as full-timers. In that case, the organization can consider hiring more part-timers. The feasibility of this strategy calls for an analysis of labor availability in the external labor market, with a careful consideration of external and internal communication implications.

Another possible result is that, while part-time employees may be cheaper, their direct compensation cost advantage is outweighed by hidden costs caused by turnover and lower productivity (as suggested in the case study cited above). In that case, reliance on full-time employees would be the more logical approach, balancing the increased health care costs through other human capital strategies (pay to market, or even overtime work) that enhance retention and drive enhanced business results.

**Segments and Strategy**

It’s also important to note that the cost/benefit ratio of full-time employment often varies for different units and locations based on size, brand, region, socioeconomic background of customer population and so on. The key to success often lies in segmenting business units and locations while developing strategies for the different groups. Thus, the mix of full- and part-time employees becomes a more complicated strategy, but an achievable one.

Without any doubt, the complexities and compliance issues of the health care reform law make its implementation a crucial matter of getting things right, strategically, for companies that are going to be the most affected by ACA. Gathering all the relevant facts before moving to new staffing models is imperative for any organization as it contemplates the cost and challenge of the law. For those industries most likely to be transformed by health care reform, enacting the right strategy is the only strategy.

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