

Employer Health Reform Survey Results

June 2011



L O C K T O N C O M P A N I E S , L L C

Figure 1 - Levels of Concern Regarding the Following Aspects of the Health Reform Law, Across All Industries

Levels of Concern Across All Industries	Very Concerned	Concerned	Somewhat Concerned	Little Concerned	Not Concerned
Additional administrative obligations	46.9%	33.2%	13.2%	5.2%	1.6%
Potential impact of the employer "play or pay" mandate in 2014	43.6%	27.1%	13.3%	10.4%	5.6%
Cost impact of 2010-11 benefit mandates (elimination of dollar maximums, coverage of adult children, etc.)	31.3%	31.5%	17.3%	14.9%	5.1%
Potential cost impact of automatic enrollment requirement in 2014	34.5%	25.8%	18.6%	13.6%	7.4%
The "Cadillac Tax" excise tax on high value coverage in 2018	33.8%	24.3%	18.6%	13.5%	10%
\$2,500 cap on health flexible spending account benefits in 2013	28.1%	25.5%	16%	15.7%	14.6%
Potential impact of non-discrimination rule applicable to insured medical coverage	16.9%	14.6%	13%	22.5%	33.1%

Additional administrative obligations and the impact of "Play or Pay" have employers the most concerned.

Source: Lockton's May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.

Figure 2 - Percentage of Employers by *Industry* – Very Concerned or Concerned About These Aspects of the Health Reform Law

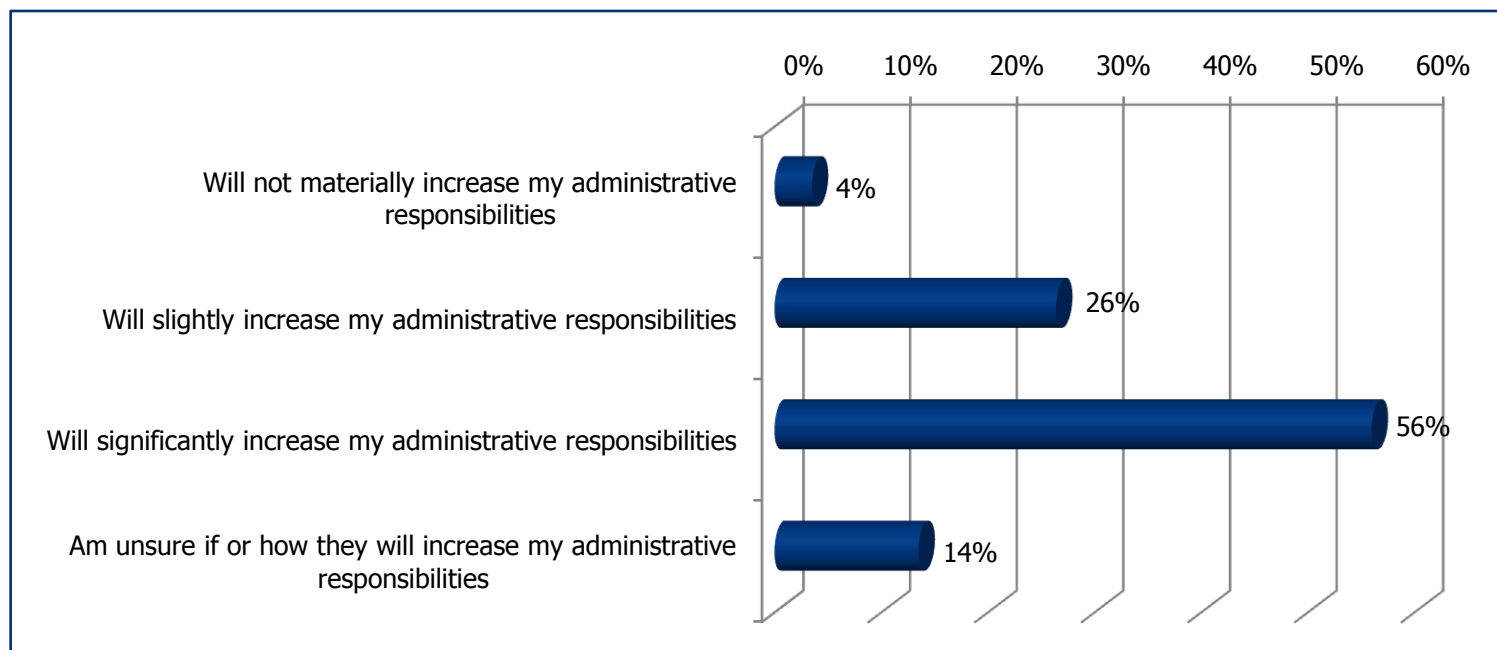
INDUSTRY	Additional Administrative Obligations	Play or Pay Mandate in 2014	Cost Impact 2010-11 Benefit Mandates	Cost Impact Auto-Enroll Requirement	Cadillac Tax on High Value Plans	Health FSA Cap in 2013	Impact of Non-Discrimination Rule
Construction	83%	85%	76%	65%	60%	56%	49%
Energy	81%	72%	58%	50%	89%	58%	19%
Government	86%	74%	51%	51%	89%	60%	26%
Hospitality & Entertainment	85%	82%	69%	79%	48%	59%	56%
Hospitals & Healthcare	82%	72%	71%	69%	57%	49%	29%
Manufacturing	84%	73%	68%	61%	62%	58%	28%
Professional	73%	60%	54%	52%	56%	56%	24%
Retail & Restaurant	84%	80%	67%	75%	57%	52%	41%
Schools & Universities	86%	62%	57%	71%	67%	71%	38%
Transportation Services	80%	76%	59%	67%	51%	37%	35%
Other	79%	71%	59%	54%	48%	44%	35%
TOTAL	80%	71%	63%	60%	58%	54%	32%

Across all industries, employers are Very Concerned or Concerned about the Administrative Obligations related to health reform.

Source: Lockton's May 2011 Employer Health Reform Survey
 © 2011 Lockton, Inc.

Figure 3 – How Employers Believe the Health Reform Law’s New Reporting and Disclosure Obligations* Will Affect Their Administrative Responsibilities

Impact of New Reporting and Disclosure Requirements on Employers’ Administrative Responsibilities



* These include notices (some notice deadlines are in the future) related to grandfathered status; special enrollment opportunities to add adult children and individuals previously denied coverage due to lifetime benefit maximums; annual limit waiver notices; W-2 reporting of health plan values; new four-page plan summaries; new claims and appeals procedures; notices about insurance exchanges; and reports to federal authorities relating to an employer’s wellness programs, enrolled employees and group health plan coverage offerings.

Source: Lockton’s May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.

Figure 4 - Percentage of Employers, by *Industry*, that Believe Health Reform Law will Significantly *Increase* Their Administrative Responsibilities

Employers that Believe Health Reform Law Will Significantly Increase Administrative Responsibilities



Across all industries, 56% of respondents believe that health reform law reporting will significantly increase their administrative responsibilities.

Source: Lockton's May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.

Figure 5 – Quantifying the Cost of Each New Health Reform-Related Notice to Each Employee

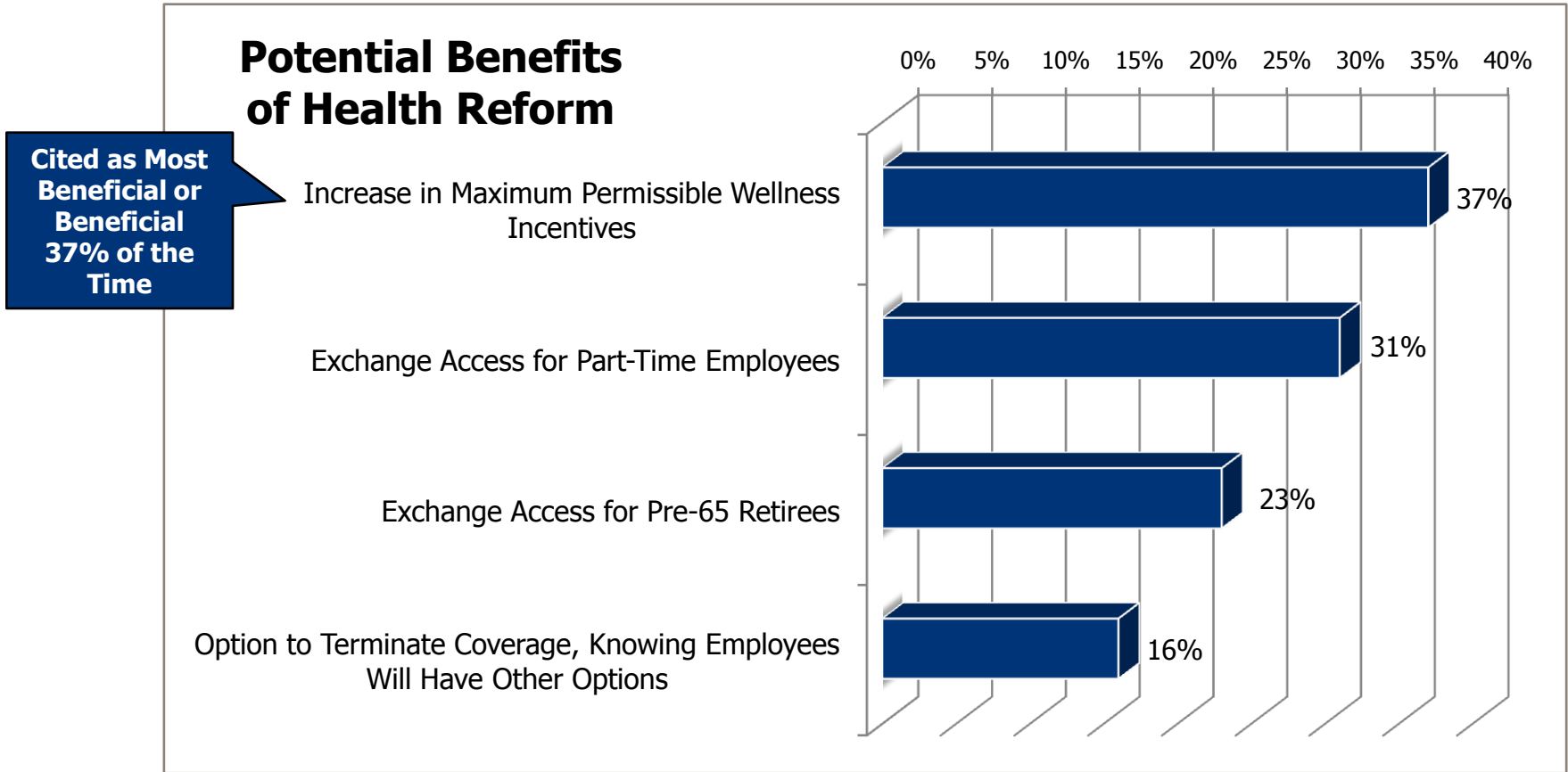
Employers reported, on average, that it will cost \$1 – \$3 per employee, per new notice issued if the notice cannot (under federal rules) be distributed electronically.



Total # of Employees	100	500	1,000	5,000
Cost per employee, per notice	\$3	\$3	\$3	\$3
Employer's cost per notice	\$300	\$1,500	\$3,000	\$15,000

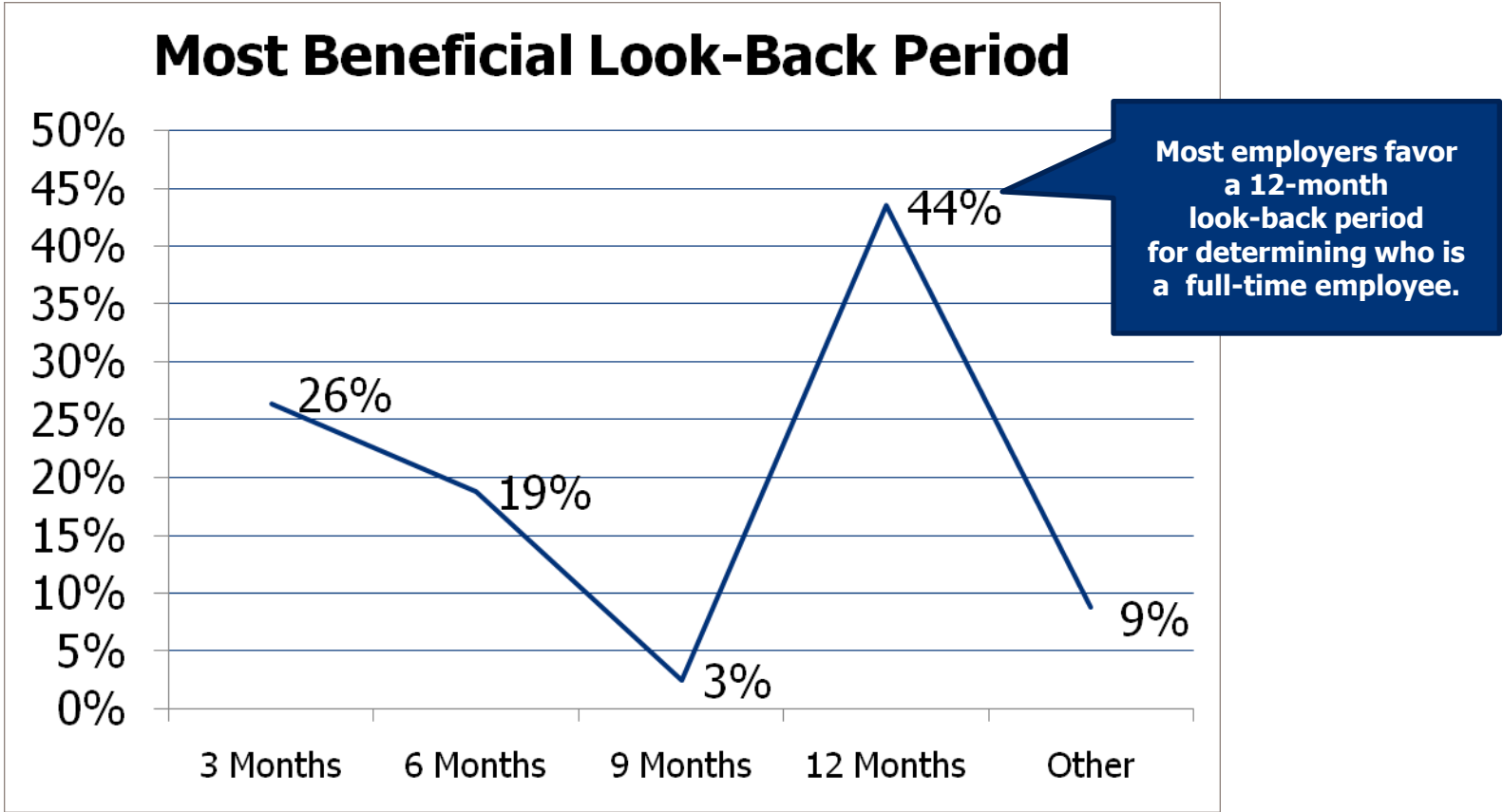
Source: Lockton's May 2011 Employer Health Reform Survey
 © 2011 Lockton, Inc.

Figure 6 – Percentage of Employers Ranking Potential Benefits of the Health Reform Law As Most Beneficial or Beneficial



Source: Lockton's May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.

Figure 7 – Look-Back Period That Would be Most Beneficial in Determining Full-Time Employees



Source: Lockton's May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.

Figure 8 – Employers Will Consider the Following Actions When the Employer “Play or Pay” Mandate Takes Effect in 2014

Employers Selected All Options They Will Consider for 2014

Response Percent	Potential Employer Action in 2014
53.5%	Use the “look-back” period described in the previous question to attempt to manage to an eligible class of employees substantially similar to today’s class
46.1%	Reduce the actuarial value of the group health plan (higher deductibles, higher coinsurance percentages, higher copayments, etc.)
44.8%	Reduce employer contributions for dependent coverage
44.7%	Reduce employer contributions for employee coverage
27.2%	If necessary, offer health coverage to more employees on account of the law’s requirement to either offer coverage to employees working 30 or more hours per week, or risk penalties
18.8%	Terminate our group health plan and pay penalties to the insurance exchanges
17.5%	Reconfigure our workforce to substitute more part-time workers (fewer than 30 hours per week) for full-time workers, to remove these employees from the “play or pay” calculation

Source: Lockton’s May 2011 Employer Health Reform Survey
 © 2011 Lockton, Inc.

Figure 9 – Explanations From Employers Not Planning to Terminate Group Health Plans In or Shortly After 2014

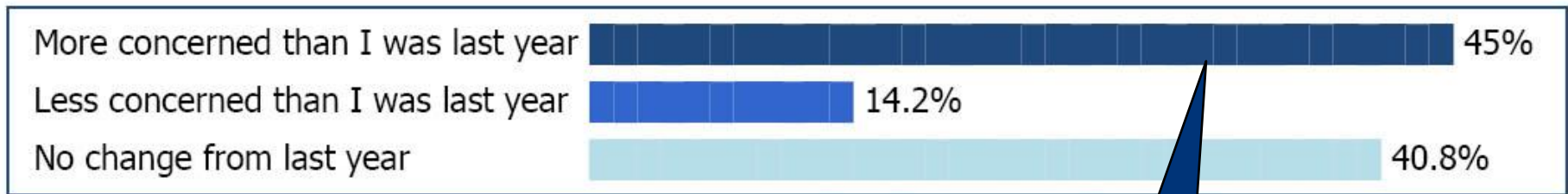
Employers Selected All Options That Applied

Response Percent	Explanations from Employers Not Planning to Terminate Group Health Plans In or Shortly After 2014
86%	We believe we will likely continue to offer group coverage in order to attract and retain the talent we believe we need
30%	We believe we will likely continue to offer group coverage because our employees would fare poorly in the insurance exchanges, in terms of what they would have to pay, and on an after-tax basis, to replace the coverage we supply
26%	We will likely continue to offer group coverage because we do not want to pay a penalty to the insurance exchanges
7%	Other

Source: Lockton's May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.

Figure 10 – Level of Concern About the Impact of the Health Reform Law on Employer’s Health Insurance Benefit Offering for Its Employees

Level of Concern about Health Reform



Employer concerns have increased since the health reform law passed in 2010.

Source: Lockton’s May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.



May 2011
Employer Health Reform Survey Questions



May 2011 Employer Health Reform Survey Questions

1. As an employer, how concerned are you about the impact of the health reform law on your health insurance benefit offerings for your employees? (please select one).

- More concerned than I was last year
- Less concerned than I was last year
- No change from last year

2. As an employer, how would you rate your level of concern regarding the following aspects of the health reform law? Please rate each item, from 1 = very concerned, to 5 = not concerned.

- Cost impact of 2010-11 benefit mandates (elimination of dollar maximums, coverage of adult children, etc.)
- Potential impact of the employer “play or pay” mandate in 2014 (potential impact of penalties, cost of expanding coverage to avoid penalties, potential need to move some full-time employees to part-time to avoid penalties, etc.)
- Potential impact of non-discrimination rule applicable to insured medical coverage (potentially requiring you to offer the same level of coverage, same waiting periods, same employer subsidies, etc. to many rank-and-file employees as are supplied to higher paid employees)
- Potential cost impact of automatic enrollment requirement in 2014
- Additional administrative obligations (notices to employees, additional plan summaries, variety of reports to federal authorities, including W-2 reporting of health plan values)
- \$2,500 cap on health flexible spending account benefits in 2013
- The “Cadillac Tax” excise tax on high value coverage in 2018

Source: Lockton’s May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.

May 2011 Employer Health Reform Survey Questions (cont'd)

- 3. Is there another aspect of health reform about which you are concerned? If so, please describe your concern.**
- 4. As an employer, what are the potential benefits of the health reform law to you? Please rate each item, from 1 = most beneficial to 5 = not beneficial.**
 - The increase in the maximum permissible health condition-related wellness incentives/penalties, from 20 percent of the total cost of an employee's coverage, to 30 percent in 2014
 - The insurance exchanges in 2014 provide a way for our part-time or otherwise non-benefits-eligible employees to purchase subsidized medical coverage
 - The insurance exchanges in 2014 provide a way for us to eliminate pre-65 retiree medical coverage, knowing the retirees will be able to purchase subsidized coverage in an exchange
 - The insurance exchanges in 2014 provide a way for us to eliminate group health insurance coverage for active employees, knowing they can purchase subsidized medical coverage in an exchange

Source: Lockton's May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.

May 2011 Employer Health Reform Survey Questions (cont'd)

5. The health reform law will require a variety of new reporting and disclosure responsibilities of employers.* How do you believe these obligations will affect your administrative responsibilities?

- Will not materially increase administrative responsibilities
- Will slightly increase administrative responsibilities
- Will significantly increase administrative responsibilities
- Am unsure if or how they will increase my administrative responsibilities

* These include notices (some notice deadlines are in the future) related to grandfathered status; special enrollment opportunities to add adult children and individuals previously denied coverage due to lifetime benefit maximums; annual limit waiver notices; W-2 reporting of health plan values; new four-page plan summaries; new claims and appeals procedures; notices about insurance exchanges; and reports to federal authorities relating to an employer's wellness programs, enrolled employees and group health plan coverage offerings.

6. Please try to quantify the cost to you as an employer each time you issue a new notice to employees who are enrolled in your health plan, if the notice cannot (under current federal rules) be distributed electronically.

- Total approximate cost to meet the notice obligation, for all covered employees
- Approximate number of covered employees

Source: Lockton's May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.

May 2011 Employer Health Reform Survey Questions (cont'd)

- 7. In 2014, the employer “play or pay” mandate will take effect, requiring larger employers (those with at least 50 employees, generally) to offer health insurance to full-time employees and their dependents or risk penalties. The PPACA defines a “full-time employee” as one working at least 30 hours per week, but does not specify the period of time over which an employer may average employee hours, to determine full-time status.**

The IRS is considering allowing employers to determine full-time status by averaging an employee’s hours over a “look-back” period of three to 12 months. The employer would select the length of this period. This accommodation could prove useful for employers with a large seasonal workforce, or a high turnover rate among hourly employees who do not now receive an offer of robust coverage because many of these employees would not be employed by the employer at the end of the look-back period, and therefore would not be included among the full-time employees to whom the employer must offer coverage. The approach may also be helpful to employers whose part-time or on-call employees' work hours only periodically exceed 30 hours per week.

What length of look-back period would be most beneficial to you as an employer in determining which of your employees should be considered full-time?

- A three-month look-back period would be appropriate for us
- A six-month look-back period would be appropriate for us
- A nine-month look-back period would be appropriate for us
- A 12-month look-back period would be appropriate for us

**Source: Lockton’s May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.**

Other (please specify other look-back period)

May 2011 Employer Health Reform Survey Questions (cont'd)

- 8. Please briefly explain the reason for your answer above (e.g., “large number of seasonal, full-time workers to whom we cannot afford to offer coverage, and are usually employed fewer than six-months during the year”).**
- 9. In 2014, when the employer “play or pay” mandate takes effect, which of the following will you consider doing, with respect to your health plan and/or employees? (please check all that apply):**
 - Use the “look-back” period described in the previous question to attempt to manage to an eligible class of employees substantially similar to today’s class
 - If necessary, offer health coverage to more employees on account of the law’s requirement to either offer coverage to employees working 30 or more hours per week, or risk penalties
 - Reduce the actuarial value of the group health plan (higher deductibles, higher coinsurance percentages, higher copayments, etc.)
 - Reduce employer contributions for employee coverage
 - Reduce employer contributions for dependent coverage
 - Reconfigure our workforce to substitute more part-time workers (fewer than 30 hours per week) for full-time workers, to remove these employees from the “play or pay” calculation
 - Terminate our group health plan and pay penalties to the insurance exchanges

Source: Lockton’s May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.

May 2011 Employer Health Reform Survey Questions (cont'd)

- 10. If you do not expect to consider terminating your group health plan in or shortly after 2014, which of the following best explains your conclusion (please choose all that apply):**
- We believe we will likely continue to offer group coverage in order to attract and retain the talent we believe we need
 - We believe we will likely continue to offer group coverage because our employees would fare poorly in the insurance exchanges, in terms of what they would have to pay, and on an after-tax basis, to replace the coverage we supply
 - We will likely continue to offer group coverage because we do not want to pay a penalty to the insurance exchanges
 - Other (please specify)
- 11. If you could tell Congress one thing about health reform and its impact on your group health plans and your business, what would you say?**
- 12. What can Lockton do to help you better understand and address the implications and consequences of the health reform law on your business?**

Source: Lockton's May 2011 Employer Health Reform Survey
© 2011 Lockton, Inc.

Our Mission

To be the worldwide value and service leader in insurance brokerage, employee benefits, and risk management

Our Goal

To be the best place to do business and to work



www.lockton.com