



News Release

Contact:

Stephanie L. Poe

202 331 5210 / stephanie.poe@mercer.com

Majority of employers would reduce health benefits to avoid proposed excise tax, survey finds

New York, 3 December 2009

Nearly two-thirds (63 percent) of employers in a recent survey by Mercer say they would cut health benefits to avoid paying an excise tax included in the Senate's Patient Protection and Affordable Care Act, unveiled November 18. Mercer estimates that one in five employers offer health coverage that would be deemed "too generous" and thus be subject to the Act's 40 percent non-deductible tax on the excess value.

In early November, Mercer surveyed 465 employer health plan sponsors to find out how they might respond to such a tax on their health plans. Respondents included roughly equal numbers of small employers (fewer than 500 employees), mid-sized employers (500-4,999 employees) and large employers (5,000 or more employees).

In general, excess annual costs under the legislation are those above \$8,500 for employee-only coverage or \$23,000 for family coverage, starting in 2013. Higher annual cost thresholds – \$9,850 and \$26,000 – would apply to retiree plans, coverage for certain workers in high-risk jobs and coverage in certain high-cost states.

In all cases, annual costs include employer-paid, employee-paid, pre-tax and after-tax premium or premium-equivalent amounts for the health, dental and vision coverage. Annual expenses also include pre-tax (not after-tax) contributions to flexible health spending, and employer contributions to health reimbursement and health savings accounts.

As health care costs continue to trend upwards, the proposed tax is predicted to apply to about a fifth of all employers if it becomes effective in 2013¹. The percent of employers impacted by the cap would increase annually because the Act proposes that the baseline trend be inflated by the annual consumer price index (CPI) plus 1 percent, which is about half the average health care trend.

¹Mercer's 2008 National Survey of Employer-Sponsored Health Plans

Majority of employers would reduce health benefits to avoid proposed excise tax, survey finds
New York, 3 December 2009

According to Linda Havlin, a Worldwide Partner with Mercer, “For many employers, it’s a matter of when, not if, they will hit the cap. While some policy analysts expect the cap would prompt employers to make major changes to cut back on excessive health care spending, it’s important to note that not all the plans that would be subject to the tax are particularly generous. There are other factors beside plan design that drive up cost.”

Majority of employers would cut benefits to remain below the taxation threshold, while 7 percent would terminate their plan

Nearly two-thirds (63 percent) of employers who responded say they would cut covered benefits to avoid paying the excise tax. About a fourth of respondents (23 percent) say they would maintain their current plan, but pass along the cost of the tax to their employees. Just 2 percent say they would keep their plan, but absorb the new tax themselves. These employers may be constrained by bargaining agreements from shifting cost or they may simply feel that out-of-pocket costs are already as high as their employees can tolerate.

Seven percent of the responding employers say they would terminate the high-cost plan. Notably, 9 percent of small employers – which typically offer only one medical plan choice – say they would terminate their plans, potentially forcing their employees into the individual market (Figure 1).

Ms. Havlin noted, “Small employers have been exiting the health market for years and this statistic is another indicator of their frustration. Only 60 percent of employers with fewer than 50 employees offered coverage last year compared to 99 percent of large employers. In some markets that have expensive benefit mandates and taxes on insurance, such as New York City, we’re seeing an uptick in that exit rate.”

Of those employers that would reduce covered benefits, 75 percent say they would use the familiar strategy of raising deductibles and copays. Forty percent would add an alternative low-cost plan to their benefit offerings and 32 percent would replace their current plan with a low-cost option.

Many of the larger employers would attempt more sophisticated strategies. One-fourth of employers with 5,000 employees say they would seek quality and cost-efficiency improvements through high-performance networks, medical homes, and health management incentives.

“We all need to work to take the inefficiencies and inappropriate spending out of health care,” Ms. Havlin stressed. “The risk to employers is that reform has a lot of other costs that will make it even harder to stay under the cap. For example, employers will likely bear the brunt of the government’s \$156 billion fees on insurers, manufacturers, hospitals and other suppliers – and they will pass the cost on to employees.”

The largest responding employers would also be the most likely to terminate employer contributions to flexible health spending, health reimbursement and health spending accounts: 25 percent of those with 5,000 or more employees would do so, compared to 19 percent of employers of all sizes (Figure 2).

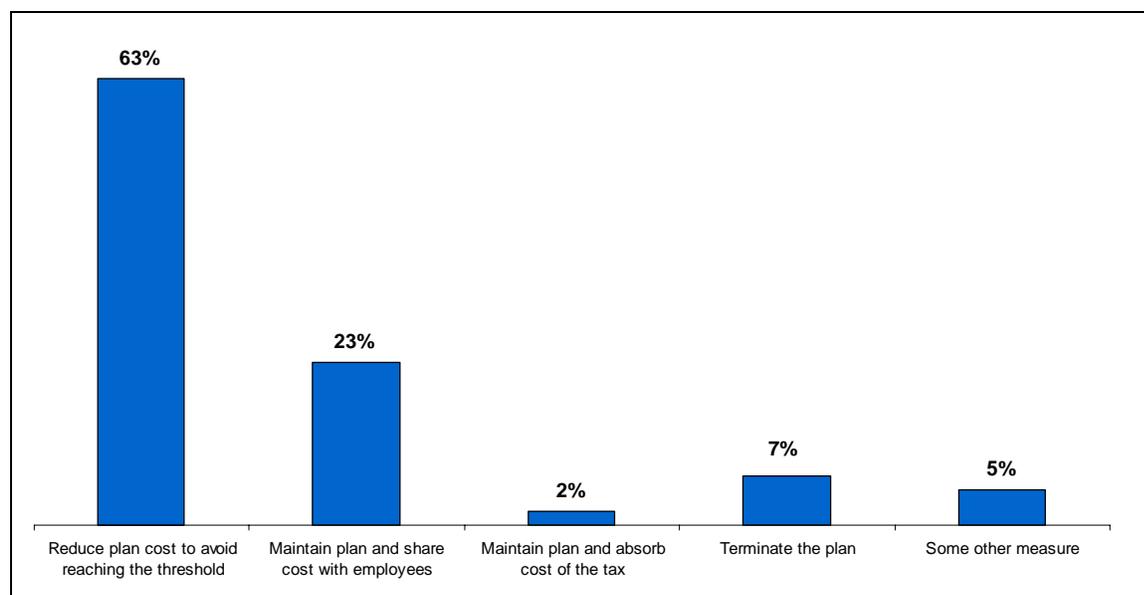
One argument that some have made in favor of the excise tax is that employers cutting benefits would return the savings to employees in the form of higher wages. However, less than a fifth of respondents (16 percent) say they would convert their cost savings into higher pay.

Large employers more likely to favor the individual mandate

Both the House-passed bill and the reform plan headed to the Senate floor would require all individuals to obtain coverage if they can afford it, either through their employer or in the individual market. A majority of responding employers (52 percent) is in favor of the individual mandate: 37 percent are opposed and 11 percent have no opinion. The largest responding employers (those with 5,000 or more employees) are the most in favor: 65 percent favor the individual mandate, while only 45 percent of the small responding employers support this mandate (Figure 3).

Respondents overwhelmingly agree that if individuals are required to have coverage, Congress should allow employers and insurance companies to offer low-cost, catastrophic plans (86 percent), which would not be permitted under the current House and Senate proposals. On this point, Ms. Havlin notes that “Expensive plans aren’t appealing for many self-employed or low-wage earners. These people are more likely to take the risk of being uninsured, particularly if they are young. The individual market is an opportunity for us to offer a variety of plans that meet different needs, including some plans that provide breakthrough ideas in quality, compliance and outcomes.”

Figure 1 – Most common response to the excise tax is to cut benefits, but nearly a fourth of respondents say they will pass the tax to employees



Majority of employers would reduce health benefits to avoid proposed excise tax, survey finds
 New York, 3 December 2009

Figure 2 – Three quarters of responding employers that say they would cut covered benefits to avoid the excise tax would accomplish this by increasing deductibles and copayments

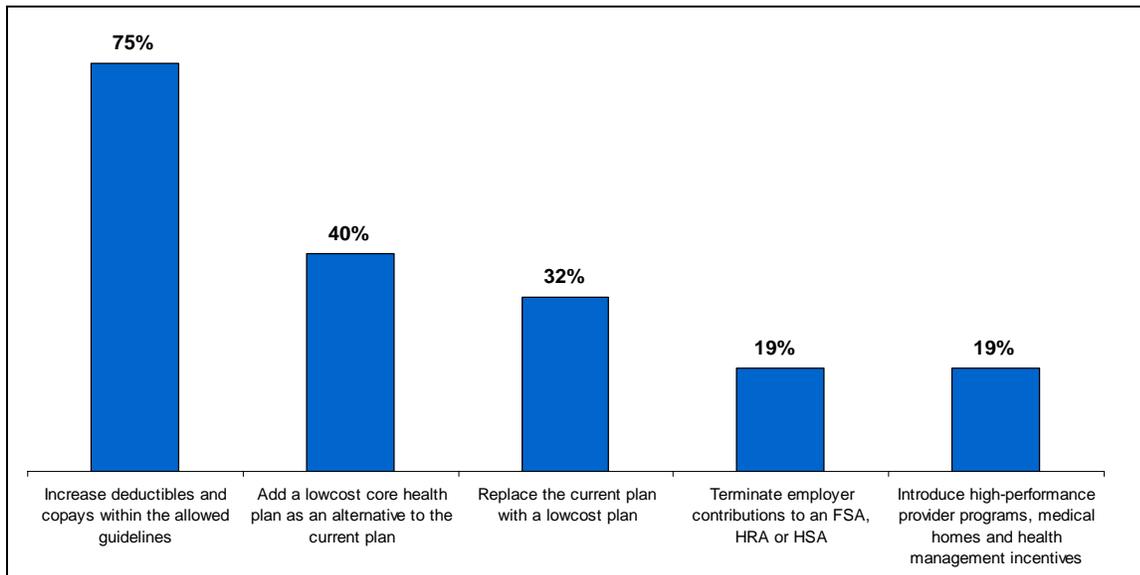
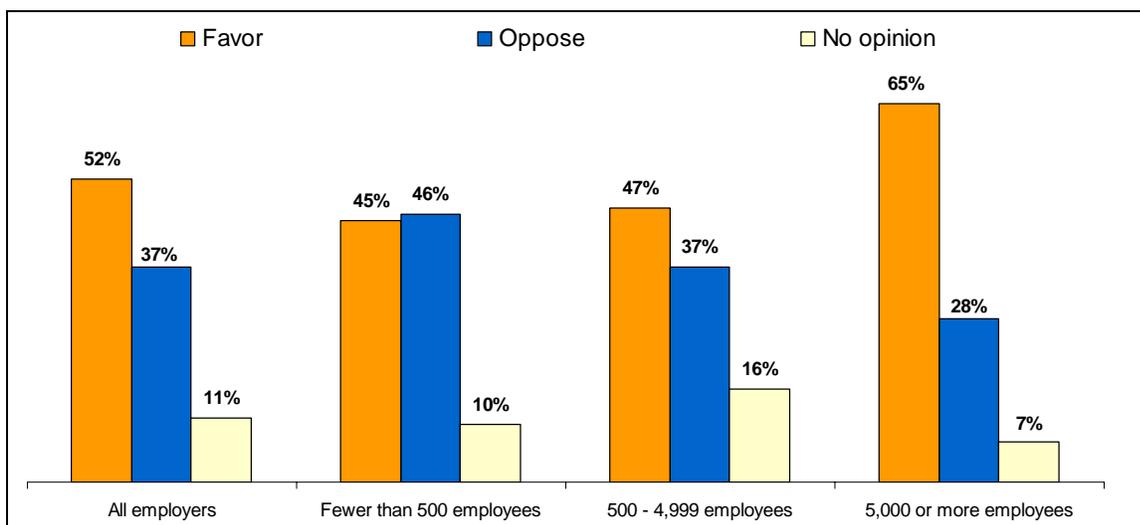


Figure 3 – Large employers more likely to favor the individual mandate



Majority of employers would reduce health benefits to avoid proposed excise tax, survey finds
New York, 3 December 2009

About the survey

In early November, Mercer surveyed 465 employer health plan sponsors to find out how they might respond to such a tax on their health plans. Respondents included roughly equal numbers of small employers (fewer than 500 employees), mid-sized employers (500-4,999) employers and large employers (5,000 or more employees).

About Mercer

Mercer is a leading global provider of consulting, outsourcing and investment services. Mercer works with clients to solve their most complex benefit and human capital issues, designing and helping manage health, retirement and other benefits. It is a leader in benefit outsourcing. Mercer's investment services include investment consulting and multi-manager investment management. Mercer's 18,000 employees are based in more than 40 countries. The company is a wholly owned subsidiary of Marsh & McLennan Companies, Inc., which lists its stock (ticker symbol: MMC) on the New York, Chicago and London stock exchanges. For more information, visit www.mercer.com.

#