Employers Association of New Jersey
Health Care Reform Meetings

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Cost of Health Insurance Tops Employers' Concerns

New Jersey's economy has been hard hit during the 2-year recession and even though the decline may be statistically over, the state's employers are wary about hiring. Their biggest concern, however, is the escalating costs of health care.

Since March, 2010, the Employers Association of New Jersey (EANJ) has convened ten groups of employers in five regions of the state. 458 private sector employers that employ 41,200 employees in New Jersey attended, about a third of the EANJ's membership. The meetings resulted in a real time cross section of the state's employers.

Among the top concerns expressed by employers are increased health care costs (78%); maintaining the productivity of the existing workforce (62%); the mismatch of skills of current and future workers (39%); and finding the money to make capital investments (32%).

Most employers have continued cost cutting measures throughout the year, including the delay of capital and software improvements that could, if made, increase employee productivity. Many jobs remain vacant. Increases in health care costs have eaten into whatever wage savings employers have been able to muster.

Increasing health care costs have also eaten into paychecks. Employers passed health-insurance costs onto employees at a sharply higher rate in 2010, reflecting an acceleration of a trend that has been on the rise for years. As firms struggle to cut costs, more of them are reducing benefits they offer workers or making workers pay more for them.

Many employers continue to wait until there are clear signs of increased orders before hiring. Until then they will continue to rely on present employees' willingness to work overtime to build up inventory as necessary. Each day, however, firms risk losing their competitive advantage as equipment and computer systems wears down or become obsolete without replacement.

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Some employers report that they are seeking re-engineering solutions, reviewing their organizations with an eye toward reconfiguring functions in the hopes of hitting a new vein of productivity. The stakes are high. Without coming up with ways for workers to produce more and better goods and services, the economy can grow no faster than the labor force grows, leaving wages stagnant.

But with only one in three employee's currently reporting satisfaction with wages, employers are finding it difficult to sell this re-engineering solution to employees already stretched thin.

This is a critical time for New Jersey's economy. Employers are weighing whether to hire next year or buy new equipment, or both. Projected health care increases could be as high as 25% in a run up to the reforms under the Affordable Care Act that become law next year. Without productivity gains, many businesses, particularly smaller business, are highly vulnerable.

The state has about 250,000 small employers (defined as 500 or less employees) and 8 of 10 New Jersey residents work for a small employer. About three of four New Jersey residents are covered under an employer-sponsored health care plan, although only about half by a small employer.

The recession has taken a toll on employer-sponsored health care in the state. In the first quarter of 2010, the small employer group market had about 775,000 covered lives, down 16.5% from 2000, as small employers have dropped coverage.

Other responses from the employer groups are:

- Percentage that will consider changing health care coverage within the next year: 68%
- Percentage that will consider eliminating health care coverage next year: 12%
- Percentage that will consider paying penalty in 2014 rather than offer health care coverage: 48%
- Percentage that will invest in employee wellness in 2014: 22%
- Percentage that think the Affordable Care Act will reduce health care premiums: 8%
- Percentage that think the Affordable Care Act will be amended within the next 2 years: 38%

As noted above, slightly more than one in ten employers state that they will consider discontinuing coverage next year because of costs. Almost half state that they would consider paying the penalty for employers with 50 or more employees that discontinue coverage.

As one participant, a senior manager at an optical instrument manufacturer employing 90 employees put it:

"Pension and health benefits traditionally have been annoying distractions from core business functions and increasingly have become very expensive cost centers. I don't think that I will lose much sleep about shifting my employee benefits obligations, as long as employees can get decent coverage in the exchange, at reasonable cost and I save money after paying federal penalties."

The participant above is commenting on a cost-benefit simulation that shows the cost of continuing to pay 80% of health care premiums for employees against discontinuing coverage and paying an annual penalty based on full-time headcount, minus the first 30, when at least one employee receives a subsidy to purchase their own insurance. In the simulation, the employer reaps a substantial savings for discontinuing coverage.

Moreover, standardized coverage will be available on the insurance exchange. Consumer protection requirements and coverage mandates will ensure that employees will be able to receive basic coverage equivalent to most employer-sponsored plans.

On October 21, 2010, Philip Bredesen, the governor of Tennessee published an op-ed in the *Wall Street Journal* entitled "ObamaCare's Incentive to Drop Insurance" which was discussed by several of the groups. In the piece, the governor concluded that "the economics of dropping coverage is about to become very attractive to many employers" by conducting a simulation substantial similar to the one referenced above. Letters that followed reflected opinions in the offered in the groups.

As noted above, slightly more than half (52%) of employers implicitly stated that they would *not* consider discontinuing coverage in 2014. This comports with a 2010 Towers Watson report that notes that 57% of employers are confident that they will be offering health care benefits five years for now. However, it is clear that employers assume that competitive pressures will result in both voluntary and involuntary terminations of older workers with replacement by younger, cheaper and relatively healthier employees who are expected not to be big consumers of health care in the short term. Should there not be a return to a "normal" replacement rate, as another participant noted, "it's hard to see how the status quo is sustainable."

In any event, in 2014 both current and new employees will be subject to the personal mandate. Thus, to the extent that most employers are more or less equal in their ability to hire new talent, the playing field becomes more equal regarding health care. In other words, employer sponsored health care may not be as an important inducement in recruiting and hiring when all new hires are legally obliged to carry their own insurance. This is particularly true with entry level jobs and certainly the case in a "buyers market."

Many participants explained that their current health care programs are "legacy costs." Many began providing health care insurance to remain union free, when insurance was inexpensive and when proprietary knowledge to perform firm-specific jobs required a generous benefits package to recruit and retain employees. Over the last decade, technology has de-skilled some jobs and has diluted the importance of proprietary knowledge for others. Labor unions are no longer a threat for most firms and as noted above, health care costs have skyrocketed.

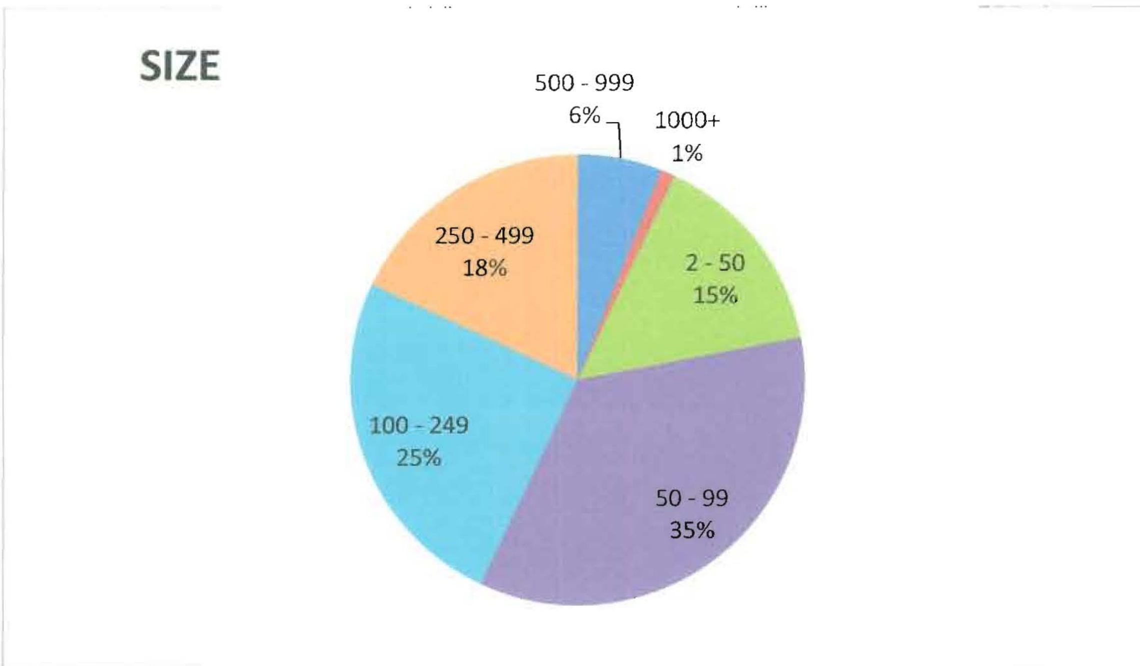
Policy makers have often opined that employers will continue to offer coverage to compete for talent. However, the transformation of jobs and work over the last two decades, together with immigration and wage patterns, has created a more fungible job market. Thus, some participants reported that they anticipated recruiting and retention costs to be less expensive, which would include less generous benefits packages or, in the case of health care, none at all.

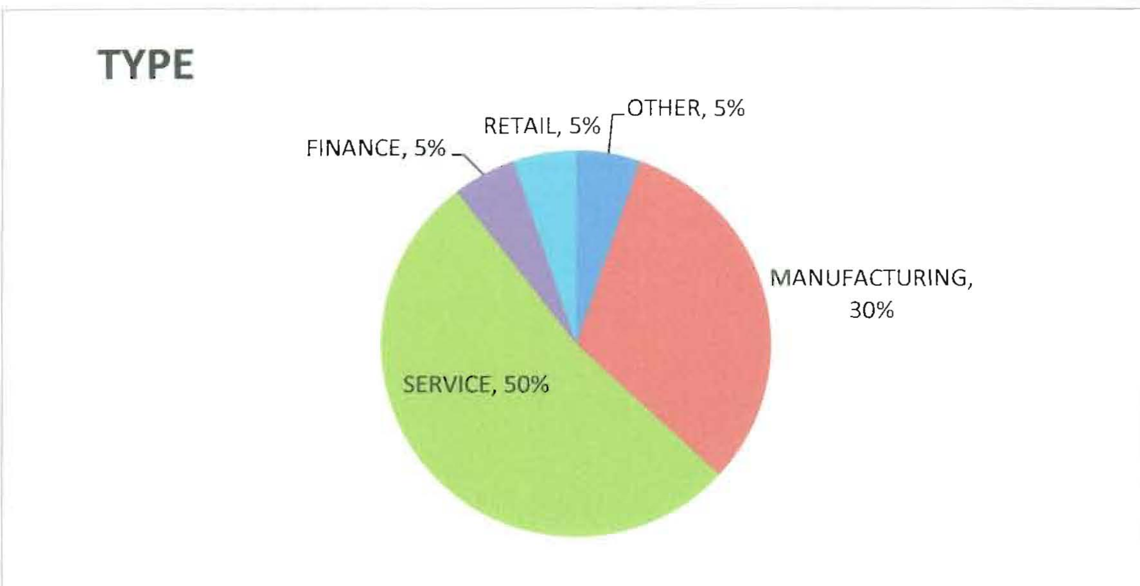
There was some discussion about the concept of the insurance exchange but participants from small employers noted their dissatisfaction with how New Jersey's small employer pool was unable to mitigate health care inflation. Most perceived a lack of bargaining power and many complained about the inability to obtain an experience rating from Horizon Blue Cross.

Under the Affordable Care Act, there will be no penalty for employers with fewer than 50 employees that do not provide insurance. For employers with 50 employees or more, a penalty will be assesses only if at least one employee receives subsidized insurance. The worst case scenario is for the employer that offers insurance to some employees and not others (which is permissible under state and federal law) and the employees who do not get insurance receive a subsidy to purchase it own their own. In that case, the employer will pay the premium <u>and</u> the penalty. At that point, to avoid paying the penalty, the employer could extend coverage to all employees. But that decision may be more costly than the penalty. Or the employer can discontinue coverage, pay the penalty, and more likely than not save money. In the end, it may be the rare employer that maintains coverage and pays the penalty at the same time.

10 meetings held March – May, September – October

5 regions
458 private sector employers
41,200 employees
Percentage offering Health Care Insurance: 100%
Approximate Number of Covered Lives: 115,416
80% (insured plan)





Primary Concerns

Health Care Costs (78%)

Productivity (62%)

Quality of Workforce (39%)

Capital Investments (32%)

Health Care Costs: Double-digit premium increases

Productivity: Getting more with less is becoming a diminishing return

Quality of Workforce: Mismatch in skills

Capital Investments: Minimal over last 24-months, some equipment near obsolete

Other

Number of employers in New Jersey with 50 or fewer employees: 249,448 (95%)

Number of employers in New Jersey with 50 or more employees: 11,213 (5%)

Percentage of small employers that provide insurance: 54%

Percentage of small employers that meet Affordable Care Act requirements: 40%

Number of covered employees in Small Employer Benefits Plan (1Q10): 414,735

Number of covered lives in Small Employer HBP (1Q10): 776,602

About EANJ

The Employers Association of New Jersey (EANJ) is the only nonprofit association in the state of New Jersey dedicated exclusively to helping employers make sound and responsible employment decisions through education, informed discussion and training. EANJ does not engage in lobbying.