The Affordable Care Act: Why You Can't Afford to Ignore It

Understand the factors that led to the health care bill and how it affects your construction business

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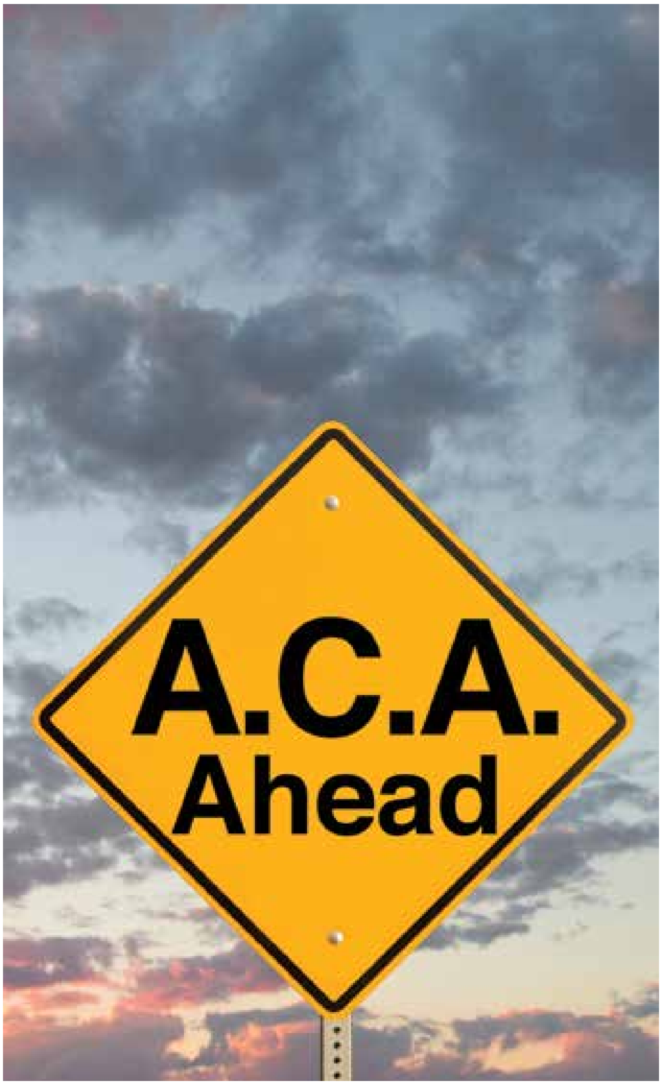

Let's say some material that's part of every construction job you do—concrete or lumber, for example—increases in cost twice as fast as other materials. A couple of decades ago it was 5 percent of the budget for a typical job, then the same quantity ate up 10 percent of the cost, and now it is close to 20 percent.

Chances are, you would look for ways to get those costs under control. You might try to negotiate better prices from your suppliers, look at using other materials or even explore innovative approaches you would not have otherwise considered.

That's exactly what has been happening to health care in the U.S. Costs for health services, and the insurance that paid for them, rose far faster than inflation during the three decades that followed 1980. As a nation, we spent roughly $1,000 per person on health care in 1980; close to $3,000 in 1990; almost $5,000 in 2000, and about $8,500 in 2010. In 1980, health care was just over 8 percent of the economy. By 2010, it was nearly 18 percent. Meanwhile, millions of Americans were uninsured, making it difficult for them to see a doctor.

In 2010, Congress passed the Affordable Care Act (ACA). Complex, costly and politically divisive, the ACA was controversial from the start. The law continues to be hotly debated, although key provisions—coverage for those once considered uninsurable, equal premiums for men and women, tax credits to small businesses and coverage of dependents—are increasingly popular. Additionally, there are signs that the ACA is helping to at least slow the increase in health care costs.

Regardless of your views about the ACA, it is a reality you must deal with as a business owner. It affects your employee benefits cost, it can impact you and your workers' health and it requires your human resources and payroll departments to prepare new reports to be filed with the IRS.

In a series of articles over the next few months, *Construction Business Owner* will provide you with the information you need to know about what the ACA means for your company. Let's take a look at health insurance and why your company provides it as an employee benefit. Companies don't pay for insurance on workers' homes or cars. Why is health care coverage different?

American companies have offered health benefits for well over a century. In the 1870s, railroads and mining companies maintained clinics staffed by company doctors for their workers. In 1910, the Montgomery Ward chain of department stores provided group insurance to its employees. However, only a handful of companies followed their example, until World War II.

During the war, with millions of men in military service, employers had to compete for scarce workers. They could not offer higher pay, because wages were frozen by wartime regulations. Free health insurance was a legal and attractive benefit they could use to recruit and retain the workers they needed. Congress obliged by exempting compensation in the form of employee benefits from income tax and Social Security payroll tax, while allowing companies to deduct the cost of those employee benefits as a business expense.

Today, employee benefits remain a powerful tool to attract and keep good employees on our payrolls. What has changed are two important elements: cost and complexity. In 1980, the cost of providing health insurance to an employee, even including coverage for his or her family, was almost negligible. Even 15 years ago, the cost was manageable. However, in recent years, the premium for a health insurance plan with generous benefits soared to the point that it can almost equal an entry-level worker's gross pay.

Companies have tried to control costs by offering lower benefits along with higher premiums, deductibles and copays. One result was that many young, healthy employees chose to forgo health insurance, gambling that they would not get sick or injured. This defeated the goal of using health insurance as an attractive, tax-free incentive for recruiting employees. It meant that some employees skipped preventive medical care, resulting in a less healthy, less productive workforce. It also resulted in financial ruin for some workers; about 1.7 million Americans went bankrupt in 2013 because of medical bills they were unable to pay.

For many uninsured Americans, the only option was to ignore medical issues until they became life-threatening and then seek help at hospital emergency rooms, which by law cannot turn patients away, even if they are unable to pay. To cover those unreimbursed costs, hospitals had to charge more to their insured patients, thus accelerating the cycle of rising premiums.

The ACA was enacted and signed into law on March 23, 2010 to address these and an array of other issues facing America's health care delivery system. One of the act's key goals is reducing the number of uninsured Americans. Strategies to achieve that goal include:

- Keeping young people on their parents' policies until age 26
- Creating federal and state marketplaces or online exchanges to make it easy to compare and buy insurance
- Compelling individuals to buy insurance via the "individual mandate"—penalties collected by the IRS from those who fail to purchase coverage
- Subsidies, in the form of tax credits, help lower-income buyers cover a portion of the premiums
- Employer mandates similarly compel companies to offer health insurance to their workers

The law also requires insurers to offer at least a minimum set of standard benefits, deductibles and copays in their policies, with the generosity of those benefits indicated by metal nicknames: Bronze, Silver, Gold and Platinum plans.

Your insurance broker can help you evaluate the various plan levels you may want to offer to your employees and their costs. As the owner of your company, you also have to make sure your health insurance program complies with the often complex requirements of the ACA.

Compliance with the ACA involves tracking the hours worked each month by your employees, including part-time and seasonal workers. You are also obligated to provide your workers with disclosures about the coverages available to them, coverage information reported about them to the IRS, and to maintain records of when and how you gave them that information. You can even be penalized if an employee opts out of your company's coverage and buys an individual policy on an exchange, hoping to benefit from a tax credit.

On the other hand, for some low-wage workers, even your company's least expensive plan may not be affordable. If that employee meets guidelines established by the IRS, he or she may quite legally opt out of your plan, with the potential to gain free or low-cost coverage under Medicaid or some other government program, while your company is protected by a "safe harbor" provision of the law.

To learn more about the ACA, access a glossary of terms and read all of the articles in this series, visit constructionbusinessowner.com/aca. CBO

This article is the first of a five-part series in which Robert Sheen provides essential information about the Affordable Care Act and what it means for your company's business operations.

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