

News Release

Contact:

Stephanie L. Poe

+1 202 / 331 5210 / Stephanie.Poe@mercer.com

Employer health plan enrollment up 2% under PPACA's dependent eligibility rule, with another jump predicted when the 2014 provisions take effect

- Despite concerns about cost, just 2% of respondents say they are “very likely” to terminate medical plans after the insurance exchanges are operational, with another 6% “likely” to do so – essentially unchanged from a year ago.
- Excise tax remains the reform provision that concerns the most employers.

New York, August 1, 2011

In just over a year since the passage of the Patient Protection and Affordable Care Act (PPACA), employers have already felt its effects, with an average 2% increase in enrollment as they extended eligibility for dependent coverage to employees' children up to age 26 (Fig. 1). According to a survey of nearly 900 employers released today by Mercer, PPACA's rule requiring employers to automatically enroll newly hired, or newly eligible, full-time employees into a health plan will cause enrollment to grow by another 2% on average in 2014, when the provision is slated to go into effect.

“Employers have already been facing average increases in per-employee health benefit cost of about 6% annually for the past six years,” said Tracy Watts, a consultant in Mercer's Washington, DC, office. “Adding enrollment growth on top of that puts a real strain on their budgets.”

Mercer surveyed 894 employers last month about whether they expect PPACA rules will cause costs to rise in 2014, and if so, by how much. More than a fourth of respondents (28%) said that compliance with PPACA mandates slated to go into effect in 2014 – most significantly, extending coverage to all employees working on average 30 or more hours per week, auto-enrolling new full-time employees and ensuring that plans pay for at least 60% of covered services – will add at least another 3% to their projected 2014 plan costs, with 15% expecting an additional 5% or more. About the same number (27%) predict a relatively modest increase of 2% or less, and 15% said their plans were already in compliance and would see no cost increase. The remaining 29% could not estimate the impact (Fig. 2).

Despite concerns about cost, employers remain committed to offering medical coverage to their employees. Just 2% of survey respondents say they are “very likely” to terminate medical plans

Employer health plan enrollment up 2% under PPACA's dependent eligibility rule, with another jump predicted when the 2014 provisions take effect
New York, August 1, 2011

after the insurance exchanges are operational, with another 6% "likely" to do so (Fig. 3). Mercer asked the same question in a survey of more than 2,800 employers conducted a year ago, just a few months after health reform was signed into law, and employers' opinions on this question are essentially unchanged.

"Employers have spent the past year studying the new law and developing strategies to deal with the increased costs and administrative burdens," said Beth Umland, director of research for health and benefits for Mercer. "But they don't seem to have changed their minds about the value of continuing to offer their employees health coverage."

Employers' #1 concern: Excise tax on high-cost plans

A year ago, Mercer asked employers about their level of concern over six major provisions of PPACA, a question that was repeated in the current survey. The excise tax on high-cost plans, which is slated to take effect in 2018, emerged as their top concern then and remains their top concern today – even though it will not be implemented until 2018. The excise tax poses a "very significant concern" for 22% of the survey respondents and a "significant concern" for an additional 23%. About a fourth (28%) say it's only a "slight concern" and a similar number (27%) say it's "not an issue" for their organizations (Fig. 4).

"There are reasons other than richness of benefits that drive up cost, such as having an older population or being located in a high-cost metropolitan area – both factors that are not under an employer's control," said Ms. Watts. "And employers that rely on generous medical benefits to help attract and retain top employees are also going to be concerned about an excise tax."

The excise tax provides employers with a strong incentive to keep health plan cost down. Their top long-term cost management strategy is to add or strengthen programs or policies to encourage more health-conscious behavior – 54% say they are very likely to pursue this strategy while another 38% say they are likely to do to (Fig. 5).

"Because the excise tax is based on the total cost to cover an individual or a family, employers can't avoid reaching the tax threshold simply by shifting cost to employees. Improving employee health is a way to lower the total cost of health care," said Ms. Watts.

Another way to reduce plan cost is to carve out various non-medical benefits such as dental and vision and offer them to employees as voluntary benefits. Over a fourth of respondents (29%) say they are likely to take this approach.

But, as enrollment levels climb, some employers are considering ways to control their own spending on health benefits through other means. Nearly two-fifths (38%) say it's likely or very likely that they will reduce their spending on dependent coverage in relation to employee-only coverage. "Small employers already typically contribute significantly less to the cost of dependent coverage than employee coverage, but with the growth in dependent enrollment, more large employers may move in this direction as well," said Ms. Umland.

Employer health plan enrollment up 2% under PPACA's dependent eligibility rule, with another jump predicted when the 2014 provisions take effect
New York, August 1, 2011

Of the largest survey respondents – those with 5,000 or more employees – 45% are likely to reduce spending on dependent coverage, compared to 30% of those with fewer than 500 employees.

And some employers are considering moving to some type of “defined contribution” approach to paying for health coverage. More than a fourth of respondents (26%) say they are considering keeping the employer contribution the same for all plans offered, so that employees pay more for more expensive plans (Fig. 6). Fewer (8%) are considering raising the employer contribution by a set amount each year, regardless of the actual increase in cost, with employees absorbing the rest of the increase, or simply providing employees with a fixed dollar subsidy to purchase coverage on their own (9%).

Auto-enrollment will have the biggest impact on the largest employers

Of the employer-related reform provisions slated to go into effect in 2014, auto-enrolling new full-time employees seems to be causing the most headaches. Auto-enrollment is seen as a “very significant” or “significant” concern by about a fifth of all respondents (21%), but by 28% of those with at least 5,000 employees.

Employers are already considering how to manage the cost of the auto-enrollment requirement. Among survey respondents that currently offer only one medical plan, while most will simply use their current plan as the default plan for auto-enrolling new full-time employees, 10% say they will add a new, lower-cost plan to use as the default plan and 3% will change to a new, lower-cost plan for all employees. Among those respondents that currently offer a choice of medical plans, 65% will use their current lowest-cost plan as the default plan; 29% will use their standard plan (the plan with the highest enrollment) and 7% will add a new plan as the default for auto-enrollment. The largest employers – those with 5,000 or more employees – are the most likely to add a new plan (11%).

“Adding health plan enrollees has such a significant impact on cost that it’s easy to see why employers accustomed to about a 15% opt-out rate are concerned about auto-enrollment,” said Ms. Watts. “But it’s difficult to predict how employees will react once they weigh the amount of money that will come out of each paycheck if they enroll against the tax penalty for not obtaining coverage.”

Retailers particularly concerned about cost of covering more part-time workers

The rule that employers must offer “affordable” coverage to all employees working an average of 30 hours or more a week in a month (or else be subject to penalties) is a very significant or significant concern for just 17% of all respondents, but for 37% of those in the wholesale/retail industry, which relies heavily on part-time labor.

Among the 28% of respondents that have part-time employees but currently do not offer coverage to all employees working 30 or more hours per week (Fig. 7), one-half say that they are most likely to change their workforce strategy so that fewer employees work 30 hours or more a week. One-fourth are most likely to make all employees eligible for the current full-time employee plan, while 17% will offer only a lower-cost plan to part-timers. Only 7% say they would seriously consider making no or minimal changes to increase the number of eligible

Employer health plan enrollment up 2% under PPACA's dependent eligibility rule, with another jump predicted when the 2014 provisions take effect
New York, August 1, 2011

employees and instead pay the required penalty. No respondents thought they were likely to terminate employee health plan coverage as a result of this new rule (Fig. 8).

About the survey

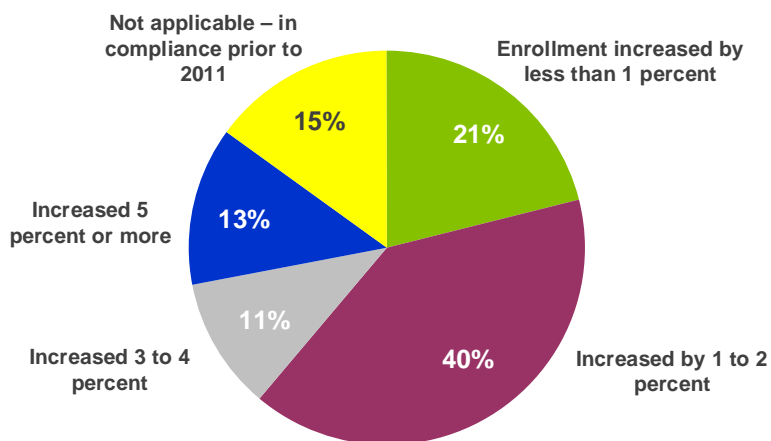
The survey was conducted in June 2011. Invitations to complete the online questionnaire were sent to the organizations that participated in Mercer's National Survey of Employer-Sponsored Health Plans, which used a national probability sample of private and public employers; 894 employers completed the survey.

About Mercer

Mercer is a global leader in human resource consulting, outsourcing and investment services. Mercer works with clients to solve their most complex benefit and human capital issues by designing, implementing and administering health, retirement and other benefit programs. Mercer's investment services include investment consulting, implemented consulting and multi-manager investment management. Mercer's 20,000 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 and Chicago stock exchanges. For more information, visit www.mercer.com.

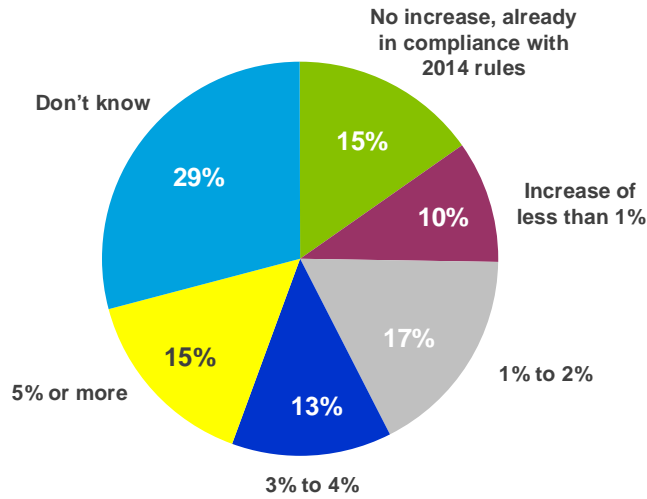
###

FIGURE 1
Most employers say enrollment grew in 2011 due to extending dependent coverage to employees' children up to age 26



Employer health plan enrollment up 2% under PPACA's dependent eligibility rule, with another jump predicted when the 2014 provisions take effect
New York, August 1, 2011

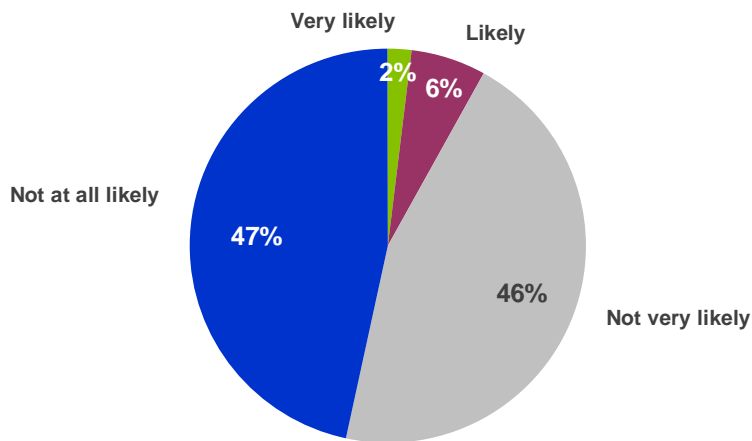
FIGURE 2
Anticipated cost increase in 2014 due to PPACA requirements



HealthCare Reform: One Year Later

Mercer

FIGURE 3
Likelihood of terminating medical plans and having employees seek coverage in an exchange or the individual market

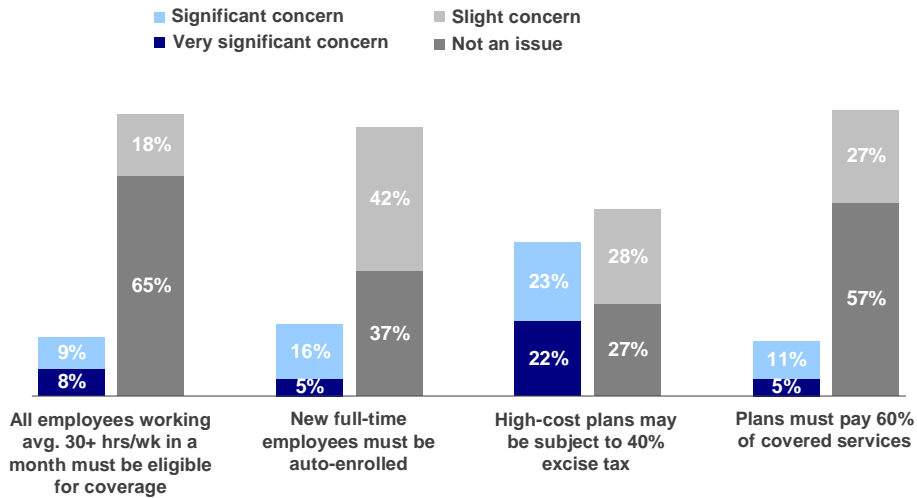


HealthCare Reform: One Year Later

Mercer

Employer health plan enrollment up 2% under PPACA's dependent eligibility rule, with another jump predicted when the 2014 provisions take effect
 New York, August 1, 2011

FIGURE 4
Level of concern regarding PPACA provisions, considering the potential impact on cost, administrative burden, or employee relations



HealthCare Reform: One Year Later

Mercer

FIGURE 5
Likelihood of pursuing cost-management approach as a long-term response to health care reform initiatives

	Not likely	Likely	Strategy already in place
Move to salary-based employee contributions	78%	12%	10%
Outsource benefits administration	79%	6%	15%
Eliminate coverage for early retirees (among those currently providing coverage)	74%	22%	4%
Add voluntary benefits to transition some non-medical, employer-paid benefits to voluntary	71%	29%	--
Reduce spending on dependent coverage in relation to employee-only coverage	63%	37%	--
Add or strengthen programs or policies to encourage more health-conscious behavior	8%	92%	--

HealthCare Reform: One Year Later

Mercer

Employer health plan enrollment up 2% under PPACA's dependent eligibility rule, with another jump predicted when the 2014 provisions take effect
 New York, August 1, 2011

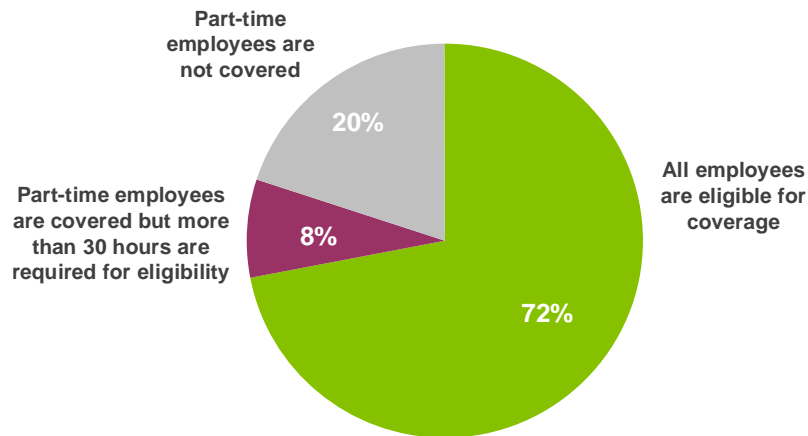
FIGURE 6

Considering a “defined contribution” approach as a way of managing health coverage cost

Defined contribution approaches	
Keeping the employer contribution the same for all plans offered, so the employees pay more for more expensive coverage	26%
Raising the employer contribution by a set amount each year regardless of the actual increase in plan cost; increases above that amount are paid by employees	8%
Providing employees with a fixed dollar subsidy to purchase coverage on their own	9%
Some other defined contribution approach	11%
Not currently considering moving to a defined contribution approach	62%

FIGURE 7

More than a fourth of survey respondents currently do not cover all employees that work an average of 30 or more hours per week

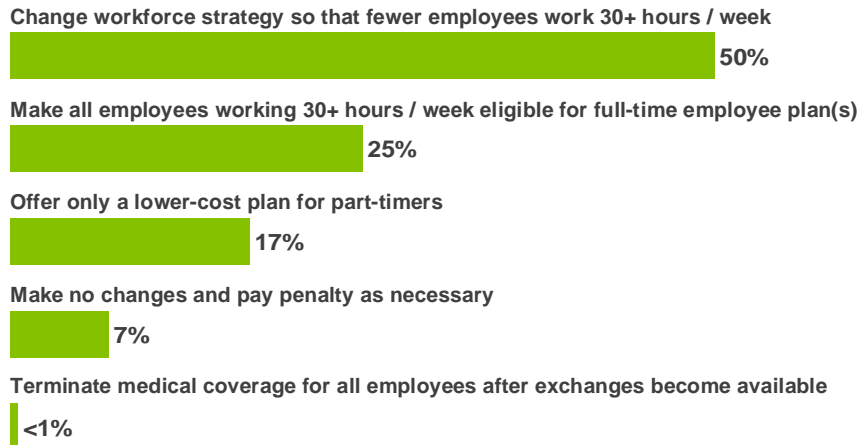


Employer health plan enrollment up 2% under PPACA's dependent eligibility rule, with another jump predicted when the 2014 provisions take effect
New York, August 1, 2011

FIGURE 8

Most likely actions with regard to providing coverage to all employees working 30 or more hours per week

Based on employers that do not currently offer coverage to all employees working 30 or more hours per week



HealthCare Reform: One Year Later

Mercer

Definitions

- **Extending dependent eligibility:** For plans covering children, older children must be covered to age 26.
- **“Shared responsibility” provision:** Employers must provide coverage to employees working on average 30 or more hours per week in a month or else face penalties.
- **Auto enrollment:** Employers must automatically enroll newly hired employees into a health plan as well as automatically re-enroll employees currently in the health plan each year.
- **Plan value:** A medical plan must pay for at least 60% of a member's covered health care expenses or the employer may face penalties.

HealthCare Reform: One Year Later

Mercer

Employer health plan enrollment up 2% under PPACA's dependent eligibility rule, with another jump predicted when the 2014 provisions take effect
New York, August 1, 2011

Definitions, continued

- **Affordable coverage:** An employee's premium contribution must not exceed 9.5% of household income, or the employer may face penalties.
- **Excise tax:** Health benefit coverage that costs more than \$10,200 for an individual employee or \$27,500 for dependent coverage will be subject to a 40% excise tax.