
HEALTHCARE REFORM:
HOW IT IMPACTS YOU AS THE CFO

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Healthcare Reform: How It Impacts You as the CFO
A discussion on the effects of the United States proposed healthcare bill and the impact it could have on your company.

Executive Summary

- How we got here and where we are headed in 2010.
- Pros and cons of the proposed healthcare reform plans. What the Chief Financial Officer needs to be thinking about.
- Tools and techniques to communicate the new healthcare plans, internally and externally; as the CFO.

How We Got Here

There are a number of reasons why there is a call to action from the United States (US) federal government to reevaluate and reform the current healthcare system. The US population is getting older and the population is less healthy. Roughly 15% of the US population is uninsured or under insured. At the end of 2009, National healthcare spending is projected to reach about 2.5 trillion dollars. This is 17.5% of the Gross Domestic Product (GDP). It is estimated that in 2010 this expenditure will reach 20% of the GDP. From 2008-2018 it is projected that healthcare spending will increase by 6.2% per year and the GDP will increase only by 4.1% per year. (<http://www.bea.gov>)

How We Got Here: Healthcare Insurance

There has been a 131% increase over the last decade on employer-sponsored healthcare insurance premiums. A premium is the amount the employer-sponsor pays to a healthcare plan each month to provide healthcare coverage to their employees. Employees also have seen an increase over the past decade of their share of healthcare coverage; jumping from \$1,543 to \$3,515. (<http://www.cfo.com//article.cfm/14116672>)

The increase in employer-sponsored healthcare insurance premiums rose at four times the rate of inflation and wage increases during the past decade. This increase has made it more difficult for businesses to continue to provide healthcare coverage to their employees and for employees to afford their share of the healthcare coverage.

Currently, 77% of CFOs cite the cost of employee benefits as their primary concern. (<http://www.cfo.com//article.cfm/14448377>)

Projections without Healthcare Reform

Small businesses (less than 100 employees) will pay nearly \$2.4 trillion dollars over the next ten years in healthcare costs for their employees. Small business will lose 178,000 jobs by the year 2018 due to healthcare costs. Small business will also lose \$834 billion dollars in wages due to high healthcare costs over the next ten years. Small businesses will lose \$52.1 billion in profits to high healthcare costs. At least 1.6 million small businesses workers will suffer “job lock” (meaning they are not able to leave their job) due to the need for healthcare coverage. (<http://www.cfo.com/article.cfm/13720088>)

The Proposed Healthcare Plans

The United States federal government has been debating three proposed healthcare plans. Two of these plans have been passed: Senate Finance Committee- America's Healthy Futures Act and the House Tri-Committee- America's Affordable Health Choices Act of 2000. The third proposed plan awaiting passage is President Barack Obama's- Principles for Health Reform. A fourth plan may also be unveiled for debate, the Senate HELP Committee- Affordable Health Choices Act. While each of these plans have similar themes, their various nuances, such as a cap on the value of plans or Medicare based payments could, if passed, have major impacts on employers.

The Senate Finance Committee: America's Healthy Futures Act

This plan calls for penalties for employers that have more than 50 employees and do not offer healthcare coverage for each employee who receives a tax credit for health insurance through an exchange. An exchange is intended to create a competitive market by regulating the offering and pricing of insurance. This plan also requires employers with 200 or more employees to automatically enroll employees into healthcare insurance plans offered by the employer. Employees may opt out of coverage if they have healthcare coverage from another source. (<http://www.kff.org/healthreform/sidebyside.cfm>)

House Tri-Committee: America's Affordable Health Choices Act

This plan requires employers to offer healthcare coverage to their employees and contribute at least 72.5% of the premium cost for single coverage and 65% of the premium cost for family coverage of the lowest plan that meets the essential benefits package requirements or pay 8% of payroll into the Health Insurance Exchange Trust Fund. There is a provision for hardship exemptions for employers that would be negatively affected by job losses as a result of this requirement. Small employers will also have to eliminate or reduce the pay or play assessment (financing subsidies for those without access to affordable healthcare) with an annual payroll of less than \$400,000. For example if the employers annual payroll is less than \$250, 000 they are exempt from the pay or play assessment, but if the employers annual payroll is between \$250, 000 to \$300, 000 then the employer is required to pay 2% of the payroll towards the assessment. (<http://www.kff.org/healthreform/sidebyside.cfm>)

Senate HELP Committee: Affordable Health Choices Act

This plan requires employers to offer healthcare coverage to their employees and contribute at least 60% of the premium cost or pay a penalty. There is a penalty of \$750 for each uninsured full-time employee and \$375 for each uninsured part-time employee who is not offered coverage. For employers subject to an assessment (financing subsidies), the first 25 employees are exempted. Exempt employers with 25 or fewer employees from the have to provide coverage. (<http://www.kff.org/healthreform/sidebyside.cfm>)

Winners and Losers

If any one of the proposed plans takes affect then the winners or those who would benefit the most would be: the uninsured and underinsured, senior citizens, hospitals, large employers who would experience none to little change, and small employers who would receive tax credits and exemptions.

The losers (those who would benefit the least) would be insurance companies who would have to comply with new regulations and face competition with the public option. Doctors will see an increase in demand due to the nearly 15 million uninsured Americans who will be coming back into the healthcare system. Pharmaceutical companies will also see an increase in demand for prescription drugs that would most likely cause a price increase.

What is Next

The House passed its healthcare bill by 220-215 vote (early November 2009). Between mid November and December 2009, leaders may unveil a healthcare bill on the floor. The Senate bill must have at least 60 votes to proceed with debate; then at least another 60 votes will be needed again to bring the final Senate bill to vote. If the Senate passes a bill, the House-Senate Conference Committee will work out the differences. At the end of 2009 it is expected that President Barack Obama will sign one of the healthcare bills. Senate Democrats have hinted that this is unlikely and it will be 2010 before any bill is signed.

Feedback from the Roundtable Discussions

The audience at the November 18 CFO Alliance Roundtable were presented with the following questions:

*What are the biggest challenges that your firm would face with a change to healthcare insurance?
What would your firms do to protect itself?*

Table One

Cost containment
Administration cost
Smaller companies definition of full-time employment
Future staffing (outsourcing certain job functions i.e. Human Resources)

Table Two

Wellness benefits
Okay with the 60-75% coverage payment
Unknown affect in innovation for healthcare technology/drug development
Medical cost increase 8-14% in companies

Table Three

Family level coverage additional cost
Administration side/compliance
Consistency across the states
Small business- pricing who will pay, passing it onto the customer
High income individuals tax implications

Table Four

8% penalty
Average salary
Public option- insurance companies sell additional options

Table Five

Can small business afford this?
Recruiting and retention of employees' impact
Implementation 5 to 10 year impact
Water down benefits



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