

**New Survey:
Small Businesses May Respond More Positively
to Affordable Care Act Than Larger
Businesses/Corporations**



Practical Considerations About Costs/Benefit Management May Outweigh Initial Negative Reaction to Reform

A number of recent studies have suggested that most companies will continue to offer employee healthcare benefits even after the Patient Protection and Affordable Care Act (PPACA) is fully implemented and all Americans are mandated to obtain coverage.

Most of these studies have focused on medium-sized and large businesses, which have greater buying leverage in securing coverage for their employees. The potential impact of PPACA among small businesses has been left largely unexplored.

To fill this gap, Liazon sponsored independent research with small businesses (no more than 50 employees) nationwide to understand what decisions they would make about the Affordable Care Act — particularly their willingness to offer health insurance coverage to their employees versus opting for public or private exchanges.

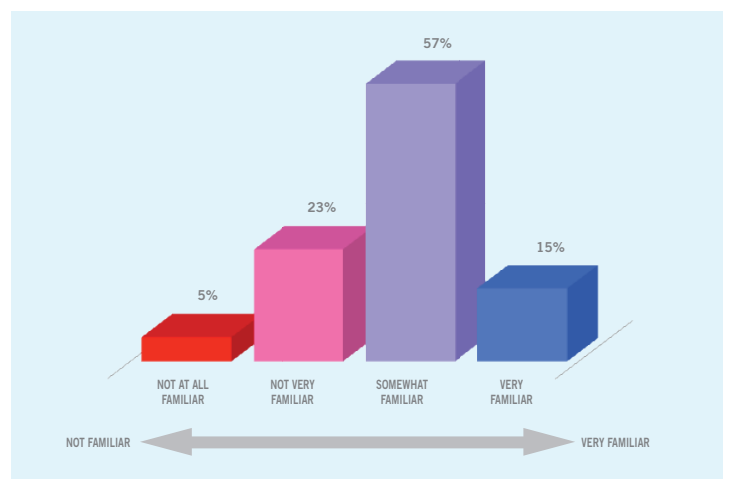
While the overarching goal of the research was to explore awareness levels and the potential impact of healthcare reform among small businesses, the research was also designed to stand as a comparison to earlier published research, which suggested the likelihood of business as a group to continue offering employee health benefits. In many of these other studies, representatives of businesses and corporations were asked what they were likely to do without being presented with direct choices and sufficient information.

The Liazon study found:

- Small businesses have a poor understanding of healthcare reform legislation even two years after it passed. Nearly 75% of small businesses say they are at least somewhat familiar with PPACA, but awareness of specific features of healthcare reform is limited. In particular, companies with 26-50 employees are more likely to be familiar with healthcare reform legislation than firms with 10-25 employees (75% vs. 68%).

Familiarity with PPACA

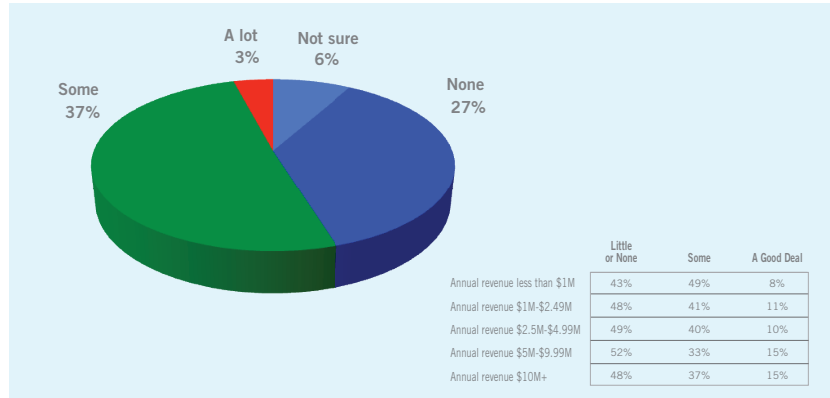
Q: How familiar are you with the Patient Protection and Affordable Care Act (sometimes referred to as "Obamacare") as it relates to health coverage offered by companies such as yours?



- Close to half of all small businesses (47%) say they have devoted little or no effort to preparing for the healthcare reforms that arise from PPACA. Firms with higher revenue are more likely to have invested a good deal of effort in planning for PPACA.

Effort Invested in Preparing for PPACA

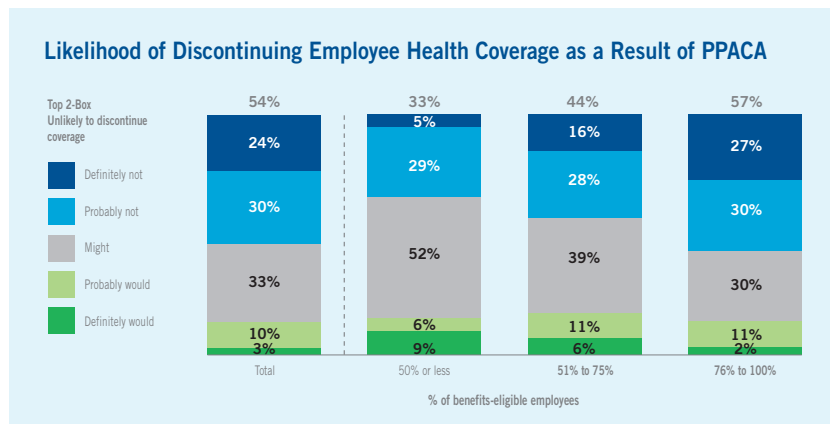
Q: How much effort has your company invested so far in preparing for and responding to healthcare reform resulting from the Patient Protection and Affordable Care Act?



- For companies that are unsure about how their businesses will respond to healthcare reform, the overwhelming majority (70%) say they just don't know enough about healthcare reform to make a decision. These companies will be looking for more specifics about their options.
- Before being "educated" about various details of healthcare reform, most small businesses said they were unlikely to discontinue company-sponsored health coverage as a result of healthcare reform. One in ten companies who are unsure about the path they will follow say they will do whatever is cheaper.

Pre-Exposure Assessment of Likely PPACA Impact

Q: Given what you know about the Patient Protection and Affordable Care Act, how likely do you think your company would be to discontinue employee health coverage?



- Close to 50% of small business decision makers believe healthcare reform will have a negative impact on their companies, on the U.S. economy, and on employee satisfaction. Others are less sure but don't like the change, despite having little knowledge about the details. Only 15% of small businesses harbor favorable views of reform, while 18% say their company's feelings about the law are neutral.

- After learning more about the details of healthcare reform — potentially lower costs, less administrative work, most premiums paid by the government, no one denied coverage — the attitudes of many small business decision makers change. Greater levels of awareness of specific PPACA features lead to an increased likelihood of a positive impression of PPACA overall. Lower levels of awareness result in a higher number of negative impressions. Together, these findings suggest that resistance to healthcare reform dissipates as small businesses learn about the details. When understood, the economics of reform are seen as more compelling.
- In fact, when given a series of health benefit scenarios under PPACA vs. company-sponsored health plans, nearly 50% of respondents now offering employer-sponsored plans are likely to opt for public or other exchanges — a much higher than expected percentage, especially in light of responses found in other surveys of larger businesses and corporations.

Individual Exchange vs. Company-Sponsored Plan

Individual Healthcare Exchange (Option A)	Company-sponsored health coverage (Option B)
<ul style="list-style-type: none"> • All carriers, all plan types • Includes ACO option • \$0 deductible plan available 	<ul style="list-style-type: none"> • 2 plan options from 1 carrier
<ul style="list-style-type: none"> • Deductible as high as \$6,000 » Cost for \$2,000 deductible plan is 20% less than \$0 deductible plan » Cost for \$6,000 deductible plan is 60% less 	<ul style="list-style-type: none"> • Deductible as high as \$6,000 » Cost for \$2,000 deductible plan is 20% less than \$0 deductible plan » Cost for \$6,000 deductible plan is 60% less
<ul style="list-style-type: none"> • Your company does not offer healthcare so there are no administrative requirements for your company • Government subsidies for qualified employees • Paid for with Post-Tax dollars by employees 	<ul style="list-style-type: none"> • Your company administers the plan • No Government subsidies • Paid for with Pre-Tax dollars
44%	56%

Q: Assume your company was faced with the two employee healthcare options described above and these were your only choices. Which would you select?

	Option A	Option B
Annual revenue less than \$1M	57%	43%
Annual revenue \$1M-\$2.49M	47%	53%
Annual revenue \$2.5M-\$4.99M	40%	60%
Annual revenue \$5M-\$9.99M	46%	54%
Annual revenue \$10M+	36%	64%

- Forty three percent of small businesses are likely to discontinue company-sponsored health plans for their employees primarily because they fear the cost of private plans will spiral out of control.

Based on the survey, we can see that small business decision makers initially spoke emotionally about healthcare reform — responding to political disagreements portrayed in the media — but react rationally when they have a deeper understanding of the coverage options and their related financial impact. We believe lack of knowledge explains a great deal of the animosity toward reform.

Tax incentives are the health reform feature most likely to entice some small businesses to continue offering employee healthcare coverage. But the fear of paying higher insurance rates in traditional programs and the promise of lower costs are the features most likely to encourage small firms to discontinue offering coverage.

Two Scenarios

Here are two hypothetical cases that indicate why small businesses are more likely to go with public exchanges:

Both companies are equal in every respect, having 30 enrolled employees with \$260,513 in total spend on health insurance – 18 males and 12 females with ages ranging from 22 to 64 (average age of 37) and with salaries that range from \$28,000 to \$210,000 (average salary of \$50,467). Coverage break down: Employee only – 9; employee and spouse – 5; Employee and family – 16.

- **Company X continues to pay for health insurance**, covering 75% of the health insurance cost. Employees on average have a tax rate of 21%. In this scenario, the employee post-tax cost is \$51,451, and the employer pays \$195,385, pre-tax.
- **Company Y sends its employees to the public exchange.** Eighty percent of employees would be eligible for a subsidy from the public exchange. Total subsidy amount for individuals is \$137,830. Subsidy amounts range from \$43 - \$12,910 with an average subsidy of \$4,594. Employee post tax cost is \$122,683. Employer will provide additional compensation to offset any pre-tax benefit.

At first glance, Company X appears to have the better outcome with a total pre-tax cost of \$195,385 and employee post-tax cost of \$51,451.

Company Y comes with \$137,830 in government subsidies and appears to shift the full post-tax cost of \$122,683 to the employee. However, Company Y would offset any pre-tax benefit amount with additional compensation of \$90,167 (Savings: \$122,683 – \$51,451 of employee cost at a 79% tax rate). This results in a savings of \$105,218 (\$195,385 – \$90,167 = \$105,218).

After you consider government subsidies AND the additional compensation to offset any pre-tax benefit, Company Y will enjoy a 54% savings.

Regional Differences

Regional differences in responses are also telling about how political and cultural viewpoints color opinions. Firms in the South are more likely to react negatively toward PPACA, while those in the West and Northeast are significantly more likely to be neutral or positive about the reform.

In the South and Midwest, 57% and 52%, respectively, had strong negative impressions of healthcare reform before learning details about available options. This contrasts with lower negative impressions in the Northeast (34%) and West (31%).

When more information was presented, negative impressions in the South dropped to 48%, which suggests that more information helped break down earlier biases. Nevertheless, impressions of healthcare reform remain predominantly negative, both before and after exposure to key benefits of the healthcare reform plan. More information did not substantially change impressions in the Northeast and West.

Knowledge Helps Decision Making

Small businesses that have a positive impression of healthcare reform are more likely to be aware of key features and benefits of the legislation, including the establishment of public and private exchanges through which employees can independently choose their own healthcare plans with employer support. Those with negative impressions are less likely to be aware of most features, but they believe rates will be higher.

Nevertheless, once small business owners and operators do the calculations and understand that exchanges could lower their costs and save administrative time, exchange options become more acceptable, suggesting that people's initial impressions are driven by politics and media hype, well before they calculate what might be best practically for their businesses and their communities.

Nearly a quarter of small firms say they will drop their private coverage if the government-sponsored plans proves to be a more cost-effective option or if the penalties they are subject to end up being less of an expense than their contribution towards the coverage.

Sticking with the Status Quo

While a larger percentage (43%) of small businesses are more likely to drop coverage for individual exchanges than initially expected, the majority of small businesses — even after being exposed to details about healthcare reform — still believe PPACA will be harmful for their companies and the U.S. economy. More than 50% of small businesses say that, given what they know of PPACA, they will continue to offer employee health coverage. Several reasons will drive the decision:

- Many of these companies believe that employee well-being is more important than cost, asserting that employees need and depend on the coverage the company provides.
- These companies plan to continue offering coverage because it is an important part of their compensation package, and they are committed to offering the benefit.
- Unlike large corporations, where personal relationships are limited, small businesses tend to have a deep-seated loyalty to their employees, many of whom they know personally, and want to provide for them directly.
- Some small business respondents will continue to offer plans primarily because they believe that healthcare benefits significantly help to attract and retain talent and that the benefits they offer are more extensive than competitors' plans.

Within the small business segment surveyed, companies with higher income and higher employee salaries were less likely to consider giving up employee benefit plans, in part because they are not eligible for subsidies, than businesses with lower income and lower employee salaries and wages that are eligible for subsidies.

Firms with revenue of at least \$10 million are the most likely to say they will continue offering health coverage; the likelihood of continuing coverage tends to decline with sales revenue. In all of the trade-offs, preference for Individual or other exchange options is highest for lower revenue companies.

A Tidal Wave?

While one-third of small businesses are not sure how their competitors will respond to PPACA reforms, many believe the competition will wait and see what other companies do before making any decisions.

Based on the survey findings, and given human nature, we can assume that once the early adopters choose to stop providing coverage, and decision makers begin to see that employees will be well-covered through exchanges at a potentially lower cost and without the administrative headaches, many more small businesses will opt to abandon private coverage and move to individual exchanges than previously thought

With these shifting attitudes among small businesses, carriers and brokers will be forced to adjust and find new ways to keep them satisfied.

Small-business decision makers are not in the health insurance business and shouldn't be expected to understand all the complicated changes that are forthcoming. Brokers, therefore, have an opportunity to educate and guide their clients through the maze so they can understand the available choices and the impact on their businesses. It is no longer good enough for brokers just to maintain the status quo, because there is non status quo, at least for a while.

The time has come for brokers to gather independent information from carriers and other experts, demonstrate their knowledge, communicate clearly and effectively, and lead the business community as a trusted partner in a changing world. This is the only path to retain relevance.

How the Survey was Conducted

The results of the 2012 Liazon PPACA Impact and Awareness Survey are based on 601 online interviews conducted by Phoenix Marketing International between December 10 and December 21, 2012, with 601 benefits decision-makers at companies with no more than 50 employees.

To minimize political bias, the survey was performed after the outcome of the 2012 Presidential Election had eliminated much of the uncertainty surrounding implementation of PPACA.

Participants were selected on the basis of their role in healthcare benefits decision-making for their company. The sample included a random selection of 501 firms nationwide, plus an oversample of 100 small businesses in New York State. In theory, in 95 cases out of 100, overall results based on a national sample of this size will differ by no more than 4.4 percentage points in either direction from what would have been obtained by seeking to interview all small businesses in the United States.