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Survive and thrive with health care reform

For brokers in the small group market, there is opportunity in complexity - if you make the right strategic choices.

By Dan Sheridan
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Will health care reform be the tipping point for employee benefit brokers? Without question, enactment of the Patient Protection and Affordable Care Act poses significant challenges for those specializing in the small group market. Though the impacts are not yet clear, health care reform will add complexity to small business' benefit plans through new consumer choices, concepts, accounting and tax rules.

The complexities faced by small businesses will change the way employee benefit brokers do business and will bring new threats from large payroll companies, competing brokers and others. Over the next few years we will find out which brokers have the efficiency and expertise - as well as the right partners - to lead their agencies and their clients through these unprecedented levels of complexity.

Added complexity

The 2,500-page health care reform bill is not easy to understand, but substantial changes that are on the way require preparation by anyone involved in employee benefits. Most importantly, for the first time, health benefits will have significant tax ramifications for small businesses, significantly increasing administration and compliance burdens.

For example, companies can get tax credits to help buy insurance if they have 25 or fewer employees and a workforce with an average wage of up to $50,000. Tax credits of up to 35% of the cost of premiums will be available this year and will reach 50% in 2014. Firms with more than 50 employees that do not offer coverage will have to pay a fee of up to $2,000 per full-time employee if any of their workers get government-subsidized insurance coverage. Additionally, companies providing a Medicare Part D subsidy to retirees must account for the future loss of the deductibility of this subsidy on liability and income statements.

In 2010, individuals' and employers' group health plans may be grandfathered, and within six months all group health plans will be required to comply with the tax code provision that prohibits discrimination in favor of highly compensated individuals. Look for a new subsidized high risk pool, required communication about private health coverage options, the elimination of limited annual plan limits and other changes happening this year.

In 2011, there will be a federal review of health insurance premium rates, and as we move into 2012 and beyond, Medicare and IRS involvement with new accounting and tax rules will make managing compliance and tax administration key.

For example, by 2012:

- Employers must report on employees' W-2s the aggregate cost of employer-sponsored health benefits.
- There will be a new federal tax on fully insured and self-funded group plans equal to $2 per enrollee.
- Employers must disclose the aggregate value of all health coverage for employees who have coverage under multiple plans.

By 2013, there will be an additional 0.9% Medicare Hospital Insurance tax on wages above $200,000 for individuals and above $250,000 for joint filers, as well as a $2,500 cap on medical FSA contributions, indexed annually for inflation.

The tax impacts in 2014 will include annual taxes on private health insurers based on net premiums, which will significantly increase the amount of fees once they become effective. In 2014 we will have a health care exchange, changing how we think about access to health care insurance.

The changing broker role

Each year, there will be new concepts for brokers and their clients to understand. The rules will continue to evolve and change, presenting ongoing challenges for businesses, and increasing the time they must spend on compliance and communications.

Amid these changes and the needs of small businesses, the role of the benefits broker can be preserved. But it will change. Instead of a focus on providing rates and quotes, and providing access to insurance carriers, surviving brokers will be filling the role of an "employee benefit counselor."

That's because with health care reform, rating and quoting will become transparent, and accessing carriers will be easier. In fact, health care reform is focused less on reducing health care costs and more on expanding access through mandates, penalties, subsidies and tax changes.

Brokers will need to expand the traditional role they have relied on and gain more knowledge about small business benefits and HR. They must become employee benefit consultants and have the capability to provide the expertise and guidance their clients need.

Some brokers will have to develop the systems and operational support needed to keep up with the ongoing plan management tasks required by health care reform. But for those who do not have the resources to understand and communicate the legislation's voluminous changes effectively, their clients may be forced to look elsewhere for help - to other brokers, to PEOs, to large payroll companies, or to other experts. This opens the door to potential competitors formerly unseen in this market.

Facing new threats

Many brokers already recognize that large payroll companies are an immediate threat to their business. These payroll giants, which have a foot in the small business customer's door, have begun contacting small business customers offering to do more than payroll - they offer take over all of their benefits and HR operations, and eliminate the role of the broker.

If a small business can get its payroll, benefits and other functions handled in one place, and eliminate the payroll and tax compliance headaches brought on by health care reform, then why use a broker?

In addition, new requirements limiting carriers' medical loss ratios are expected to have a significant impact on broker commissions, which will mean that brokers must operate even more efficiently. Brokers should expect to see their competitors form alliances with carriers that are rolling out new, proprietary products and value-added services for their small business clients and prospects.

Broker solutions

Given the changes that health care reform will impose on businesses and the threats posed to brokers, here are some steps to consider.

First, if they have not done this already, there is an immediate need for brokers to communicate to their customers about what this landmark legislation means - and does not mean - for their business. Brokers need to be part of this conversation with their clients.

Second, brokers need to undertake a strategic review of their own positioning to deal with the changes to their business. This strategic review should include a look at market segments and solutions along those defined markets. And it should evaluate capabilities, including technology, operations, and human capital - in other words, all the resources a broker needs to survive and thrive in the world after health care reform.

Third, brokers should consider new alliances. While these alliances may involve selling the business to a large firm that has the operational capacity to cope and adapt to the changes taking place, a better option may be to partner with a PEO that can provide small businesses with a complete employee management solution - health benefits, workers' compensation, payroll, HR administration and more - while retaining the role of the broker.

In fact, PEOs can be a broker's single-source solution to understanding health care reform and competing against payroll giants and other brokers. Together with the PEO, brokers can provide their customers with the "total package" - a combination of high-level leadership, HR support and sound tax advice, as well as thoughtful processes, leading-edge technology and economies of scale. This type of partnership can help brokers provide the value-added services their customers need.

http://eba.benefitnews.com/news/survive-and-thrive-with-health-care-reform-2683658-1.html

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Dan Sheridan is president of the Extensis Group, LLC, a leading professional employer organization. and a provider of outsourced human resources for small and medium sized businesses. Visit www.extensisgroup.com, or call 888-473-6398.