

GAO Explains Discrepancies in Predictions That Employers Will Drop Coverage

Welcome to *legislate*, the recess edition. During the five-week summer recess, *legislate* will focus on policy issues that have not made it to the legislative process, reports that could influence legislation, and possible legislative trends in Congress. When Congress returns in September, the weekly roundup of events on Capitol Hill that affect employee benefits and human resources will resume.

Summing It Up

Over the last two years, a variety of studies attempted to analyze the impact the Patient Protection and Affordable Care Act (ACA) will have on an individual's receipt of health insurance coverage and how employers will respond to the mandates and other requirements. Study results vary widely, from predictions of an exodus of private employers from the health care market to maintenance of the status quo. Congress recently asked the Government Accountability Office (GAO) to look at a variety of studies and explain the discrepancies in the results. The GAO is the audit, evaluation, and investigation arm of Congress.

In response to the request, the GAO examined 1) the estimates of the effect of the ACA on the extent of employer-sponsored coverage, 2) the factors that can contribute to the variation in these estimates, and 3) how estimates of coverage vary by the types of employers and employees that could be affected, as well as other changes employers might consider to health benefits they offer. Analyzing results from employer survey and statistical modeling studies (which use past data to predict future reactions) the GAO produced a report entitled "[Patient Protection and Affordable Care Act Estimates of the Effect on the Prevalence of Employer-Sponsored Health Coverage.](#)"

The GAO found that the studies involving statistical modeling were generally more consistent (and, in the short term, likely to result in a more accurate representation) than those involving employer surveys through questionnaires. The GAO also found that variations in results depended on the assumptions the researchers used, how the questions were asked, and the audience surveyed. Although the GAO did not reach a specific conclusion or provide a final recommendation, by explaining what can contribute to the varied results, its report makes clear that no one modeling or survey tool can completely predict what all employers will do in response to the ACA. Thus, although modeling and surveys can be helpful to employers making policy or business planning decisions, employers should carefully consider the source research and its relevance to their specific plan, business model, and employee demographics, among other things.

Background

The ACA contains a number of provisions that could affect an employer's decision on whether to continue to offer group health plan coverage. As the GAO report notes, these provisions include:

- Penalties for employers that do not offer any coverage or that offer coverage that is either unaffordable or does not meet a 60% actuarial value threshold (beginning in 2014)
- Tax credits for small employers that offer coverage (beginning in 2010)
- A 40% excise tax on employer-sponsored health coverage that exceeds certain thresholds (beginning in 2018)
- The individual mandate, which would require most Americans either to have minimum essential coverage or to pay a penalty (beginning in 2014)
- The establishment of health insurance Exchanges, in which individuals can obtain health care coverage and, if eligible, receive a premium and cost-sharing subsidy from the federal government (enrollment beginning in the fall of 2013)
- Health insurance market reforms that limit issuers in the individual or small market from denying coverage on the basis of a preexisting condition or medical history and that limit the extent to which premiums may vary (generally effective for plan or policy years after September 23, 2010 and January 1, 2014)
- The possible expansion of Medicaid to include individuals at effectively 138% of the poverty level (beginning in 2014).

Details of the GAO Report

The GAO report first focuses on the results of five modeling studies, noting that discrepancies in these results were not as great as the results for employer surveys (with a range of a decrease of 2.5% to an increase of 2.7% in the number of individuals with employer-sponsored coverage). Two of these modeling studies also found that individuals losing employer-sponsored coverage would transition to other coverage. The report explains that the small variations in results might be because the studies used similar modeling techniques, the same data sets, and similar assumptions, such as the assumption that wages will increase if coverage is dropped and that decisions to offer coverage are based on the entire employee population, not just on some groups.

The GAO report notes that certain factors can affect the survey results (namely, two studies finding coverage would decline, one finding it would stay steady, and two showing it would increase). These factors include the following:

- **Modeling of employer and employee responses.** Some modeled the reaction to the ACA on employer and employee reactions to premium increases, whereas others modeled the reaction on employers and employees making optimal choices by weighing the financial cost of keeping or abandoning health care coverage.
- **Time frame of estimates.** Some models used an immediate-reaction analysis, while others used a near-term analysis and still others looked at reactions over a 10-year period.

- **Compliance with the individual mandate.** Some of the models assumed that individuals would be driven to comply because of the penalty and an innate desire to comply; others looked at how enforcement (or non-enforcement) could affect the desire to comply.

The employer survey results varied much more than did the results produced by the modeling studies. For example, the GAO reported that of the 19 surveys, 16 contained estimates of employers dropping coverage for all employee groups. Of these 16, 11 indicated that 10% or fewer employers were likely to drop coverage in the near term, but estimates ranged from 2% to 20%. The GAO report states that long-term survey predictions were fewer and more uncertain, which meant that there was little data available to employers to make long-term predictions on what the market may do with respect to employers offering group health plan coverage.

The GAO report indicates that the variance in the employer survey results could be attributable to:

- **Sampling techniques and number of respondents.** The report indicates that some of the studies drew respondents from a nationwide population so they could obtain a generalizable population representative of non-surveyed employers with similar characteristics. However, surveys from trade associations had a more limited population because only members were surveyed. Also, the number of employers surveyed ranged significantly, from 104 to about 2,840.
- **Employer respondent type.** As noted above, some of the surveys looked at a variety of employers, including employers of different sizes and industries, whereas others were limited because the survey was only sent to members of a particular trade group.
- **Framing of survey questions.** Survey results varied widely, depending on how questions were framed. The GAO noted that this was the case here. The biggest difference was in how the survey framed the question regarding whether an employer was going to drop coverage.
- **Referencing of ACA provisions.** The results of a survey could be significantly influenced by the respondent's knowledge. The GAO noted that the surveys varied in regard to their assumption of the respondent's ACA knowledge. For example, 11 of the 19 surveys presumed a certain awareness of the key ACA provisions and so did not reference or explain these provisions when they asked whether these provisions would influence the decision to drop coverage. Other surveys posed the question in the context of the relevant ACA provision.

In addition to explaining why there were differences in the survey results, the GAO noted other changes to plan design that employers stated they would make because of the ACA. For example, and not surprisingly, four of the five surveys that looked at coverage by employer size found that a larger percentage of small employers were considering dropping coverage. Many surveys also found that the ACA could prompt plan design changes. The GAO reported that nine of the surveys that examined benefit design changes found that from 16% to 73% of employers are considering increasing employees' share of cost through increases in premiums, deductibles, or copays. Nine of the surveys examined an employer's intention to offer account-based plans, such as high-deductible health plans, consumer-directed health plans, or health savings accounts. From 17% to 73% of employers either said they intended to offer such plans or viewed them as attractive alternatives to traditional coverage.

Conclusion

Studies reporting the effect of the ACA on employer health plans have been numerous and results have varied widely. Policy-makers, as well as the employer community, have had difficulty making heads or tails of all this research. The recent GAO report helps explain the discrepancies. The report can help both policy-makers and employers determine which research is most relevant to them. Most important, the report shows that when it comes to measuring the effect the ACA has on an employer's decision to either maintain or drop group health plan coverage for employees, one size does not fit all.

Did you know?

A "Christmas tree bill" is the unofficial name of a bill that has various provisions attached to it that have little if anything to do with the original bill. Christmas tree bills often are created when the legislative process is stalled, but there is a "must move" bill, such as a tax extension or appropriation. Members can then try to "decorate" the bill with unrelated provisions. Given the must-move budget bills and the current Congressional stalemate, Christmas may come earlier to Washington than to the rest of the country this year.

Next week: What does it mean for a bill to go to conference?

This legislate is intended to provide general information. It does not offer legal advice or purport to treat all the issues surrounding any one topic