The Affordable Care Act and Its Impact on Workers’ Compensation

While U.S. healthcare reform is helping to reduce the number of uninsured individuals and promises improvements in personal wellness, changes in workforce definitions could have a significant impact on company payrolls – requiring a reevaluation of how workers’ compensation is accounted for and delivered.

Executive Summary
A majority of people in the U.S. obtain healthcare through their employment benefits or the Medicare/Medicaid system. Yet in recent years, an alarming percentage of the country’s population joined the ranks of the uninsured – a trend that showed no signs of abating until the Affordable Care Act (ACA) became law. The ACA provides universal healthcare coverage through employer benefits, Medicare and Medicaid, as well as newly minted healthcare exchanges.

The ACA, one of the largest efforts by the U.S. government to improve the affordability and quality of the country’s healthcare system, is expected to reduce the number of the uninsured and increase healthcare coverage for the general population. (See Figure 1, page 2). The ACA also aims to lower healthcare costs as a percentage of the U.S. Growth Domestic Product (GDP). The cost to the public is estimated at $1.207 trillion over the next ten years.1

The availability and affordability of universal healthcare is expected to affect workforce dynamics, employee hiring, employers’ benefits strategies and wellness initiatives alike. While the ACA has caused disruption in the traditional health-insurance space, workers’ compensation insurers must also be aware of the law’s impact on business.

The Affordable Care Act’s Effect on Workers’ Compensation
The steady growth of the uninsured triggered a cost-shift from personal health insurance to workers’ compensation policies. People with no health insurance or with poor coverage tended to file claims for workers’ compensation. Now, as a result of the ACA, more people will have access to health insurance, and less reason to file claims for workers’ compensation.

The ACA has also made provisions for supporting wellness Initiatives aimed at improving the general health of companies’ workers, which should help reduce overall healthcare costs. The intention is to prevent chronic diseases and avoid the expenditures associated with costly treatments. As part of this incentive, employers will receive up to a 30% discount on healthcare costs and up to a 50% discretionary discount for implementing successful wellness programs. This, along with the fact that research shows a powerful correlation between unhealthy workers and higher...
workers’ compensation claims, should serve as a strong motivation for employers to keep their workforce healthy and potentially lower the costs of workers’ compensation claims.

Another provision of the ACA changed the definition of a full-time employee to increase the number of individuals who qualify for health insurance. Additionally, the rebates and allowance provisions under the act will affect payroll and thus the premium calculation by workers’ compensation insurance providers.

This white paper assesses the potential impact of the Affordable Care Act on the workers’ compensation space by comparing emerging scenarios with Massachusetts’ healthcare reform program – considered the model for the ACA. By helping employers understand the significance of the ACA, workers’ compensation insurers can mitigate its disruptive impact.

Quick Take

Addressing the Rising Costs of Healthcare in the U.S.

Rising medical costs are a huge drain on the U.S. healthcare system, as well as the nation’s economy. It is estimated that the U.S. government spends nearly 18% of its Gross Domestic Product (GDP) on healthcare (see Figure 2). Healthcare expenditure per capita in the U.S. is $8,508, which is much higher than most other developed nations.2 What’s more, 50% of that expenditure is spent by public or government sources.

Given the increasing cost and restrictive nature of U.S. healthcare coverage, the number of the nation’s uninsured is growing. In fact, it is estimated that a total of 13.4% of the U.S. population was uninsured in 2013.3

U.S. Healthcare Costs

Source: Center for Medicare and Medicaid Services
Figure 2
Framing the Affordable Care Act

When it went into effect in 2010, The Patient Protection and Affordable Care Act (ACA) – often referred to as “Obamacare” – represented a significant overhaul of the U.S. healthcare system. These changes are expected to significantly improve people’s health and wellness and reduce healthcare costs.

The ACA removes restrictions around obtaining health-insurance coverage based on preexisting conditions, and makes preventive care more accessible to the U.S. population. According to estimates from the Congressional Budget Office (CBO), cost declines will be spurred by a decrease in the uninsured population. Wellness and health improvements are expected to be driven by the ACA’s wellness programs for companies’ workforces. Better access to preventive care and expanded coverage will benefit the general population.

Once the ACA is fully implemented in 2016, the government predicts that the insured U.S. population will grow from approximately 85% to 89%. The number of uninsured people is expected to fall by 25 million. The ACA will also bring 13 million additional people under Medicaid coverage.

A reform of the magnitude of the ACA impacts businesses in the following ways:

- Providing health insurance coverage for employees is mandatory.
- Employees are no longer dependent on employment for health insurance.
- Expanded coverage can potentially result in a healthier workforce.

A recent U.S. Chamber of Commerce survey suggests that 49% of businesses reported that healthcare reform is their top concern – even ahead of economic uncertainty. Businesses are responding to ACA’s mandates by making changes in the following areas:

- Workforce hiring.
- Employee benefits.
- Workforce health behaviors.

With the ACA, people will rely less on their employers for health insurance. This will likely result in more workers opting to work part-time, since they can obtain their health insurance directly through the ACA. In fact, recent figures from the Congressional Budget Office reveal a poten-
tial loss of two million full-time jobs by 2017 due to employees choosing to work part-time rather than full-time.  

Figure 3 (previous page) highlights key elements of the Affordable Care Act.

The ACA's Impact on Industries
Redefining Part-Time and Full-Time Employees
With the Affordable Care Act in place, employees working more than 30 hours a week will be categorized as full-time employees, and thus eligible for healthcare and full-time benefits.

The ACA has also redefined part-time employees as those who work between 1 to 30 hours a week (from 1 – 34 hours a week). Retailers and restaurants are among the industries that depend on part-time employees. The reduction in part-time workers’ hours will impact work schedules, as well as hiring practices and employee benefits. Employees working on average 30 hours a week will be categorized as full-time employees, and entitled to healthcare and full-time benefits.

A few large companies have attempted to sidestep this change by reducing full-time employees' hours to less than 30 hours a week. This strategy backfired — resulting in sub-standard work and negatively impacting customers due to employee churn and training issues.

As a result, many industries are working to identify the best hiring plan and compensation structure before the employer mandate for health insurance goes live in 2016.

Industries with Higher Claim Frequency
In some industries, universal coverage for employees will have a major impact on workers’ compensation. For example, the construction industry has historically experienced high lost-time claim frequency relative to payroll, but it also generates a low premium. Construction companies have more uninsured workers than most other job categories. The Center on Policy Initiatives found that 27% of construction workers were chronically uninsured for a year, and more than 40% were uninsured at least part of the year. Construction workers were also 4.6 times more likely to die on the job than the average private industry worker, and over a month, more than 20% reported health problems that affected their work and other activities, according to the study.

Therefore, universal health insurance coverage in the construction industry will be a major benefit to workers’ compensation insurers, with a general rise in the overall health of the population and less incentives for employers to use workers’ compensation insurance for non-work-related injuries.

The Impact of the Affordable Care Act on Workers’ Compensation
Figure 4 below reveals the ACA’s expected impact on workers’ compensation.

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**The ACA's Expected Impact on Workers' Compensation**

**Reduction in Cost-Shifting**
Due to universal health coverage, less likelihood of non-work-related injuries being acknowledged as work-related.

**Wellness and Preventive Care**
Improvement in workers’ health due to employee wellness programs and preventive care.

**Premium Impact**
Workers’ compensation premiums affected due to certain ACA provisions.

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Figure 4
Reduction in Cost-Shifting
Cost-shifting from health insurance to workers’ compensation occurs when a non-work-related injury is acknowledged as a work-related injury and paid through workers’ compensation. Workers’ compensation is among the insurance industry’s top-three lines of business with questionable claims. Workers’ compensation fraud was estimated at $7.2 billion in 2011. Furthermore, workers’ compensation is said to make up 25% of total insurance fraud. Before the ACA was enacted, the uninsured generally sought treatment at the nearest emergency room, since in those situations, care cannot be denied based on a patient’s lack of insurance. At the same time, emergency care is one of the most expensive forms of healthcare – creating an unintended increase in the cost of healthcare for all.

Historically, many people turned to workers’ compensation insurance to obtain at least some healthcare for a pre-existing condition that otherwise would not be covered by health insurance.

Universal Health Coverage
The ACA will make health insurance available for all individuals, decreasing the number of uninsured workers. In 2011, it was estimated that employer-provided health insurance covered only 57% of the working population. During the first year the ACA was in place, the number of uninsured people fell by 9.3 million. The number of uninsured workers is greater at small firms, due to either the absence of an employer-provided health insurance plan or relatively high health insurance premiums. The ACA will provide tax credits to small businesses that provide health insurance to their employees. All companies employing more than 50 workers are required to provide health insurance. The guaranteed issue requirements of the law would ensure coverage for people who were denied coverage earlier, and would also prohibit insurers from denying coverage based on a pre-existing condition.

Quick Take
Massachusetts’ Healthcare Reform Law
The effect of the reduction in cost-shifting can be drawn from Massachusetts’ experience (see Figure 5 below). In 2008, the state enacted a healthcare reform law that is very similar to the ACA. It mandates that all citizens of Massachusetts be insured. It also requires employers to provide health insurance to their employees in a manner similar to the ACA. After the passage of healthcare reform, the number of Massachusetts’ uninsured dropped significantly – from 10.9% to 6.3%. Prior to the passage of the Massachusetts Health Care Reform Act, more than 20 times as many emergency department (ED) visits were billed to workers’ compensation, as were inpatient visits – resulting in an annual average of 85,000 ED visits versus 3,500 in-patient visits. Following the passing of the reform, the number of ED visits dropped by 7.2%.

Non-Elderly Uninsured Population %

<table>
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<th>Year</th>
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<th>U.S.</th>
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<tr>
<td>2006</td>
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<tr>
<td>2007</td>
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<tr>
<td>2008</td>
<td>16.7%</td>
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<tr>
<td>2009</td>
<td>18.2%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>18.4%</td>
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Figure 5
The availability of universal health coverage will lessen the motivation to file non-work claims in workers’ compensation; in fact, most eligible claims will be filed as health insurance claims. Hence, the ACA could reduce or potentially stop the cost-shifting to workers’ compensation for the following reasons:

- Workers generally prefer health insurance over workers’ compensation due to the latter’s rigid controls. They dislike having to interact with claims adjusters and workers’ payment systems, and being forced to select physicians from employers’ medical networks.

- For physicians, providing treatment under workers’ compensation means having to provide more justification for treatment, prepare formal reports and deal with even more paperwork. In some cases, they may be required to testify to receive reimbursement from the workers’ compensation insurer.

Reduction in Workers’ Compensation Claims and Costs

The ACA is also expected to reduce the number and cost of workers’ compensation claims. A 2012 RAND report on the ACA found considerable impact on these claims, beginning with health-care reform in Massachusetts. Between 2005 and 2009, workers’ comp claims in Massachusetts declined 16.7%; workers’ compensation hospital costs fell between 5% and 10%.10

Medicare reimbursement rates play a large role in workers’ compensation medical costs because:

- Medicare represents a significant share of the U.S. healthcare system (covering 49 million people, or one-sixth of the U.S. population), with the ability to significantly impact the cost of medical services.

- Many states adopt Medicare reimbursement rates for workers’ compensation medical fee schedules.

The ACA seeks to control healthcare costs by controlling Medicare reimbursement rates. With the implementation of the ACA, Medicare reimbursement rates are expected to either hold steady or drop further. This means that the cost of workers’ compensation claims may profit from the reduction in those rates.

Employee Wellness Programs and Preventive Care

The ACA aims to control healthcare costs from the supply side, and manage the impact of preventable diseases. One reason for rising healthcare costs is related to the expensive treatment for these conditions. According to the Centers for Disease Control and Prevention (CDC), chronic diseases such as asthma, cancer, diabetes and heart disease account for 75 cents of every dollar spent on health care in the U.S.11 The Affordable Care Act seeks to rectify this situation by preventing diseases through the promotion of healthy habits.

Workplace health programs encourage healthy habits and improve awareness of healthy practices. Evidence suggests a strong link between these programs and healthier behavior. Research shows that for employers, the medical costs fall about $3.27 for every dollar spent on wellness programs; absentee day costs fall by about $2.73. (See Figure 6 below).16

Benefits of Introducing an Employee Wellness Program

![Figure 6](cognizant_20-20_insights.png)
The 1996 Health Insurance Portability and Accountability Act (HIPAA) allowed employers to claim a discount of 20% on health insurance premiums for employees practicing healthy habits. With the ACA, the reward increases to 30%. There is an optional increase in the reward to 50% in cases of programs designed to prevent or reduce tobacco use.

In the U.S., 74% of employers who offer health benefits also offer employee wellness programs. Roughly 92% of larger employers (those employing 200 or more) provide wellness programs along with health benefits. For example, in 2014, Cognizant piloted its own voluntary wellness program, iCommit2Fit, for 127 of our employees. From January to June, participants increased their weekly step counts from an average baseline of 36,500 across all groups to 75,000 – an improvement of 105% and more than twice the American daily step average. This moved 27% of our participants to new BMI categories. Employee wellness programs are set to gain even more support with the Affordable Care Act.

Employee wellness programs can help control healthcare costs by:

- Improving the health and well-being of the working population.
- Reducing healthcare costs through premium discounts.

Given these factors, employers are likely to aggressively pursue such programs.

The industry could see a reduction in workers’ compensation claims due to a healthier workforce that avails itself of universal health coverage and wellness programs. Healthy workers are less prone to injury; if injured, they recover faster.

In 2011, The Wellness Council of America reported that indirect expenses associated with an unhealthy workforce are often two to three times that of direct medical costs. And according to the CDC, one out of every two adults had at least one chronic illness, such as arthritis, cancer, diabetes or heart disease. Employees with five or more health risks, such as obesity, high blood pressure or tobacco use, incur an extra $3,321 annually in medical costs above the average American. These health risks also indirectly cost businesses through absenteeism, productivity losses, decreased morale, employee turnover and presenteeism. Presenteeism refers to a worker being on the job but not able to fully function because of illness or other medical conditions. It is estimated that the indirect costs due to presenteeism are even higher than absenteeism. There is no doubt that access to preventive care will lead to better health for the general population. The ACA supports preventive care – with no out-of-pocket costs to people insured on most health plans.
As illustrated in Figure 7 (previous page) and 8 above, the alternative to preventive care is not a pretty picture:

- The most obese have twice as many claims and 13 times more lost workdays than workers who maintain a healthy weight.
- Indemnity costs are 11 times higher and medical costs are seven times higher for the most obese workers than for their colleagues who are not overweight.
- For employees who smoke, businesses pay an average of $2,189 in workers’ compensation costs compared with $176 for nonsmokers.

### Quick Take

**Dissecting Wellness Programs**

**Participatory wellness programs**: Available without regard to an individual’s health status.

For example:
- Programs that reimburse for the cost of membership in a fitness center.
- No-cost health-education seminars.
- Reward employees who complete a health-risk assessment without requiring them to take further action.

**Health-contingent wellness programs**: Require individuals to meet a specific standard related to their health to obtain a reward.

For example:
- Programs that reward those who do not use or who decrease their use of tobacco.
- Programs that reward those who achieve a specified cholesterol level or body weight.
**Premium Impact**

Workers’ compensation premiums are directly dependent on employee payroll, industry class rate and claim experience (mod factor). Any changes in payroll will affect workers’ compensation premiums. The ACA can impact payroll by:

- Changing the definition of part-time and full-time employees.
- Providing a cash allowance to buy insurance on a public or private exchange.
- Offering premium rebates due to medical loss ratio (MLR).

As previously noted, one of the key changes due to the ACA is the reclassification of full-time workers, which will affect payroll. Any employee who works more than 30 hours a week will be considered a full-time employee and eligible for benefits commensurate with that position. According to The Bureau of Labor Statistics, 30% of part-time employees work between 30 and 34 hours a week. This could potentially cause an increase in the overall payroll used to calculate the workers’ compensation premium.

**Cash Allowance to Buy Insurance on A Public or Private Exchange**

As a result of the ACA, health insurance exchanges are expected to gain traction, and become a favored approach in the health insurance market by providing greater access to affordable individual health-insurance plans. (See Figure 9 below). Employers have the option to swap employee health benefits for cash allowances, which employees can use to buy health insurance from private exchanges set up by the employer. These exchanges are very similar to existing public exchanges. According to Aon Hewitt, roughly 44% of employers believe a private exchange model will be the preferred way to offer employees healthcare benefits; current penetration is 4%. Big organizations such as Sears, PetCo and Walgreens have already started utilizing private healthcare exchanges.

For employers, healthcare costs are predictable; if the premium for any employee exceeds the cash allowance, the employee has to pay out of pocket. If the cash allowance covers the premium cost, the remaining allowance can be used for deductible payments. The cash allowances for buying health care exchanges are tax-exempt for employees, as long as the allowance is used to buy ERISA/HIPAA-approved health plans from a private healthcare exchange.

Employers must fully understand the potential increase in workers’ compensation premiums if they opt to provide health-care allowances rather than employer-sponsored health plans.

**Premium Rebates Due to Medical Loss Ratio (MLR)**

The medical loss ratio provision prompted by the ACA is aimed at regulating health insurers to provide value to consumers. According to the ACA, insurers should spend a portion of premium dollars on medical care or quality improvements. The medical loss ratio is set at 85% for large group insurers and 80% for small group insurers. If the actual loss ratio is below the target, insurers must pay premium rebates to the employers. Health insurers paid $332 million in rebates in 2013, with over 6.8 million employees/individuals receiving rebates.

The universal health coverage and wellness initiatives set in place by the ACA are expected to reduce medical care expenses of health insurers, which could lead to lower premiums and more premium rebates. When employers pay the

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NCCI Recommendations for Handling Health Insurance Coverage

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<th>If...</th>
<th>Then...</th>
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<td>Payments/contributions are made by an employer to the employee as part of the employee’s gross wages, for the employee to obtain/purchase their own health insurance coverage ...</td>
<td>Those payments/contributions are included in payroll for the purpose of determining the employer’s workers’ compensation premium.</td>
</tr>
<tr>
<td>Payments/contributions are made by an employer to a group health insurance plan or employee benefit plan on behalf of the employee ...</td>
<td>Those payments/contributions are excluded from payroll for the purpose of determining the employer’s workers’ compensation premium.</td>
</tr>
</tbody>
</table>

Source: [https://www.ncci.com/nccimain/IndustryInformation/UnderwritingInformation/Pages/PatientProtection-AffordableCareAct-WC-Prem.aspx](https://www.ncci.com/nccimain/IndustryInformation/UnderwritingInformation/Pages/PatientProtection-AffordableCareAct-WC-Prem.aspx)

Figure 9
employee premium rebate received from a health insurer, the rebate amount is considered part of the payroll. As a result, workers’ compensation premiums will rise. Please refer to the NCCI (National Council on Compensation Insurance) explanation of MLR rebates, Figure 10 above.

Looking Ahead: What Insurers Can Do

While the ACA is expected to have a significant influence on the workers’ compensation system, the extent of its impact will only become clear when all of the act’s provisions are implemented next year. To mitigate the impact, we suggest the following measures:

• Educate employers on The Affordable Care Act.
• Learn to handle healthcare premium rebates.
• Improve loss-control efforts.
• Continuously monitor the ACA’s impact.

Educate Employers on The Affordable Care Act

Insurers can act as advisors to employers by helping them understand the ACA’s key provisions, and how to effectively balance healthcare costs, workers’ compensation premiums and the implementation of wellness plans. This starts with:

• Providing education on the pros and cons of paying penalties or health insurance under the ACA.
• Revealing the impact on workers’ compensation premiums based on rebates.
• Disclosing the impact on payroll taxes based on increased payroll rebates.

Learn to Handle Healthcare Premium Rebates

The ACA provides larger discount and premium rebates on healthcare premiums tied to employee wellness programs. Employers can offer them as refunds to employees or use them to offset future premiums. The premium refunds can be accounted for as payroll, which could lead to an increase in workers’ compensation premiums, since they are dependent on the payroll. Insurers may have to make changes or invoke controls to handle these refunds.

Improve Loss-Control Efforts

Controlling workers’ compensation claims is largely dependent on reducing the duration of workers’ leave time before they report back to work. The longer a worker is away from their job, the greater the claim cost due to:

• Higher medical expenses.
• Indemnity payments.
• Attorney and other legal fees.

The availability of universal health coverage under the ACA will increase the demand for physicians and specialists. This could have a direct impact on the time it takes to resolve a workers’ compensation claim. Insurers can counter this problem by developing an outcome-based network/acknowledge care organization for resolving workers’ compensation claims faster by making providers more accountable for the cost and quality of care. The outcome-based network shifts the focus from discounting services to successfully resolving...
claims, and removes the incentive for over-treating. Loss-control efforts could also include:

- A nurse referral/triage program to control claim costs.
- Injured worker self-service.
- Medical bill review program.

**Continuously Monitor the Impact of the Affordable Care Act**

The predictions surrounding the ACA’s impact on workers’ compensation have yet to be fully realized, but potentially could result in new products.

With this in mind, insurers should set up controls and checks on workers’ compensation policies and claims data to continuously monitor for cost-shifting, reductions in questionable claims, payroll changes through premiums, and premium refunds due to wellness programs. These insights will provide the information insurers need to design viable products and features for workers’ compensation.

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**Footnotes**


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