

LTC Providers May Get Stung By Health Reform

Analysis Warns Of Increased Labor Costs For LTC Companies

July 15, 2010 - The cost of providing health insurance to full-time employees—or paying penalties for not offering coverage to eligible workers—could lead to sharp increases in labor costs for long term care providers, the American Health Care Association (AHCA) warned in a June 14 analysis of the health care reform law.

“The Potential Impacts of Health Coverage Expansion Legislation on Long Term Care Providers: Preliminary Analysis and Issue Questions” describes the individual mandate and employer obligations under the Patient Protection and Affordable Care Act (PPACA), which became law on March 23, 2010.

While the PPACA does not mandate that employers offer health insurance to all full-time workers, by 2014 those with more than 50 workers must either provide insurance that meets PPACA affordability and coverage standards, or

they may be required to pay penalties for employees who qualify for federal subsidies and coverage through a so-called health benefits exchange.

The actual cost and implications of the new law for long term care providers will be driven by a wide range of variables, some of which won't be known until the regulations implementing PPACA are issued, AHCA said.

Critical factors include whether a facility offers health insurance to full-time employees, whether that coverage meets PPACA standards, and whether any employees qualify for subsidized insurance (*see box, next page*).

Employers may face increased costs through the payment of fines or provision of a more generous benefit plan that meets PPACA requirements.

“The impacts are likely to be significant for many LTC providers who are often small/mid-sized firms that hire

many lower-wage workers, including personal care attendants, nurses' aides, custodial staff, and clerical staff,” AHCA said.

Nursing facilities that rely heavily on Medicare and Medicaid payment lack the flexibility to offset rising costs with rate hikes.

Instead, they may have to resort to staff lay-offs, delayed physical plant improvements, or the hiring of more part-time employees to avoid the requirements, which apply only to full-time workers, AHCA said.

Providers' ability to absorb rising labor costs is further constrained by low margins, which range between 2 percent and 2.5 percent, the brief states. “In a worst-case scenario, a provider facing increased health care costs that is reliant on fixed or declining government reimbursement levels might have to shut down operations.”

—Lynn Wagner

Steep Penalties, Insurance Costs At Stake For Providers

Under the PPACA, employer-sponsored health insurance must be offered to all non-seasonal, full-time employees after an initial 90-day period. They must also pay out at least 60 percent of the benefits, and the cost to employees cannot exceed 9.5 percent of their income.

A full-time employee who must pay more than 9.5 percent of income for a workplace plan may opt out and qualify for a tax credit that can be used to purchase insurance through a health benefits exchange.

In this case, the employer would pay a \$3,000 penalty for every employee that qualified for a tax credit, or \$2,000 for all full-time employees, whichever is less. No penalties are due on the first 30 employees.

Example 1: An employer offers cov-

erage to all 230 full-time workers and dependents, but coverage is unaffordable for 40 of those employees. Those 40 workers are eligible for tax credits, and the employer must pay a penalty. The penalty options are:

- \$3,000 for every employee above 30 that qualifies for a tax credit. $\$3,000 \times (40-30) 10 \text{ employees} = \$10,000$; or
- \$2,000 for the entire workforce, less 30. $\$2,000 (230-30) 200 \text{ employees} = \$400,000$.

Example 2: The same employer does not offer coverage to full-time employees, defined as working 30 hours a week over the course of a month. If even one of those workers qualifies for a tax credit, the penalty is \$2,000 for every employee, less the 30 who are penalty-free, or \$400,000 ($\$2,000 \times 200$ employees).

Example 3: A worker earns about \$14,000 a year. Assuming an average benefit cost of \$5,000, the employer would have to contribute \$3,670 per year to the cost of providing insurance to keep the employee's share within the required 9.5 percent affordability range. This would amount to about a 26 percent increase in labor costs.

While it may be less costly for an employer to pay the penalty than provide coverage, the health insurance costs are tax deductible; fines are not.

Source: AHCA Webinar, Implementing Health Care Reform in the Workplace, April 27, 2010, by Nancy Taylor; "The Potential Impacts of Health Coverage Expansion Legislation on Long Term Care Providers: Preliminary Analysis and Issue Questions"