AFFORDABLE CARE ACT

The Opportunities and the Opportunity Costs of the ACA

BY FOUNDATION SOFTWARE

FOUNDATION software

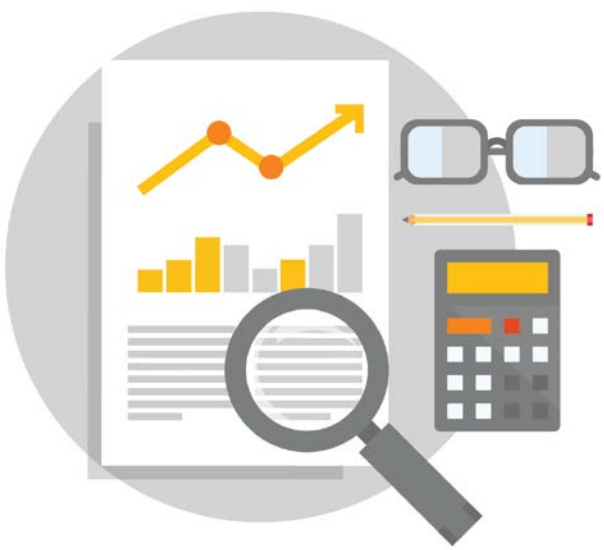
AFFORDABLE CARE ACT

The Opportunities and the Opportunity Costs of the ACA

After several years of debate and anticipation, the Patient Protection and Affordable Care Act (ACA) is in full swing, and contractors need to know where they stand with respect to its requirements — and its opportunities. Companies that haven't already counted the costs that the new requirements may create may be counting those costs later if they get a bill from the IRS. Additionally, the variable hours and seasonal workforces that often characterize the construction industry may have contractors regularly doing math to assess their obligations and control their expenses under the healthcare law. Yet with so much focus on the costs of mandated coverage, it's easy to lose sight of some of the opportunity costs that can be saved, as well as opportunities gained, for employers that take a positive and creative approach to their ACA compliance.

Cutting Opportunity Costs: Gaining with the ACA

While much in the ACA is relatively set in stone, employers do have control in how they approach the law. With few exceptions, "applicable large employers" (ALEs) are responsible for providing affordable minimum-value coverage to full-time employees and their dependents, but the IRS provides two methods to measure who is classified as "full-time." The monthly method is as straightforward as projecting each month who will have full-time hours. In contrast, the lookback method lets contractors define a measurement period of some length; the employee's average monthly hours will determine how he or she is



FOUNDATION software

classified for the next period going forward. The lookback method is one of the places in the ACA provisions that actually gives employers a lot of choice, and that could make the difference for a number of employees on the bubble between part-time and full-time. Therefore, contractors should consider other kinds of costs beside the cost of coverage before they make these decisions.

A common challenge across the construction industry today is the shortage of skilled labor. One major cause is that the industry still has not rehired the positions that it lost in the wake of the Great Recession. The construction markets are recovering, but many business are unable to fill their payrolls despite the increased demand for labor, likely because during the recession workers either changed careers or retired early. Thus, another cause — and a cause of concern — is that, as Niel Dawson suggests, “The workforce shortage in the skilled trades is only going to worsen as our current workers age and move into retirement.” In the market, scarcity means competition, and that means that construction companies are now competing for access to a qualified workforce.

Contractors may be able to gain a competitive edge, however, with attractive health plans. This is part of being an “employer of choice,” a preferred employer that can recruit and retain quality in-demand hires: “Preferred employers are often described as having . . . strong employee value demonstrated through compensation/benefit programs.” These benefits, after all, aren’t merely forms of compensation but ways that the value of employees are communicated to them; intentional or not, benefits express in part what an employer does or doesn’t value. Especially as health care coverage comes to be taken for granted as a requirement, members of the workforce will look for potential employers that demonstrate a financial priority on their employees rather than those that measure out the minimum as the least expensive option.

Employers may also have the opportunity to see a return on investment with better employee health. If merit shops as a rule begin with a quality workforce, a healthy shop translates to continued quality of labor. Numerous studies suggest a measurable difference in health and resiliency between insured and uninsured individuals. Insured adults seem not only to take advantage of preventative health care and have better control of chronic conditions but also take less time to return to health when they do get sick. Thus, good use of an investment that may be mandated regardless may be able to help keep payrolls full, consistent and productive.

Calculating Opportunities: Saving with the ACA

With a positive approach to the ACA, companies can save on the opportunity cost of losing quality, high-demand labor, but they can also save on the bottom line. First, employers should note the direct costs of non-compliance. At the time of this publication, neglecting to offer required coverage can cost thousands of dollars per full-time employee. Even if required coverage was offered in most cases, each full-time employee who claims a tax credit through the ACA can cost the company an additional several thousand dollars. So while offering coverage will certainly bear a cost to employers, so too will opting out of offering coverage, and it's a high-stakes numbers game to play.

In addition to saving by avoiding penalties, employers can stand to save significantly against the costs of absenteeism as well. This is largely because of preventive care available to well-insured workers, but it's more than just the other side of the healthier-workforce coin. Sick time bears numerous costs for employers per hour, and those costs add up. In addition to wages paid to absent employees, there are also the wages of the employees who provide shift coverage, not to mention possible overtime, and administrative costs in processing sick time. Add to that the indirect costs that can include reduced productivity and diminished quality from diminished health, overtime fatigue and understaffing. Even a modest reduction in absenteeism can contribute to offsetting some portion of the added expenses of insurance premiums.

Additionally, contractors who work on prevailing-wage jobs can use their ACA compliance to kill two birds with one stone when it comes to fringes. Companies often find it simpler to allocate cash fringes rather than set up and manage benefits programs to meet the same requirements. However, these additional cash wages also amount to additional payroll burden and ultimately cost contractors more than the same amount in non-cash benefits would. That's where the ACA comes in. Using coverage with qualified health plans, companies can meet fringe requirements and control burden expenses by contributing to premiums that keep them ACA-compliant anyway. That's because subsidizing these premiums may help ensure that plans meet the ACA's affordability criterion. As in each of the above cases, contractors should be sure to consult with a tax or ACA professional as appropriate.

Conclusion

Contractors will undoubtedly want to control the costs that the ACA brings to their businesses. At the same time, opportunity costs don't often make their way onto spreadsheets, and employers will want to consider what they stand to gain by recruiting and retaining an in-demand, healthy workforce. Employers will also want to consider how coverage costs can return as savings through eliminating penalties, minimizing health-related absenteeism and reducing payroll burden on prevailing wage jobs. These are just some of the opportunity costs and opportunities to be found in the new landscape of the ACA, and they will be a reward for companies who approach their ACA obligations with creativity and positivity needed to make the best of these new requirements.

**A version of this white paper first appeared in* Insights *magazine.*