Impact of Health Reform on Staffing Companies

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Introduction:
The intent of this document is to present an overview, ***in layman's terms***, of how the new health reform law will impact staffing companies, and what options they will have in the future. Since the health reform law passed, I have had hundreds of conversations with staffing companies across the country. One thing is constant: there is a vast knowledge gap on the realities facing staffing companies under this new law. There is also a lot of misinformation being promulgated, which can be even more dangerous than no information.

This paper summarizes some of the same advice that I give my existing clients, but in written format, so that it can reach more people and help bring some clarity to this confusing environment we are in. One of the unique things about our team is that we have experience from all sides: *the insurance company, the broker, the employer, and the employees*. We try to offer a broader perspective than previous presentations that have focused mainly on complex legal definitions. Due to the complexity of the law, it is easy to get too caught up in the details, but miss the big picture. Hopefully this information will provide you with that bigger picture, helping you make more informed decisions for your company in the years ahead.

About the author:
As a licensed insurance broker with Insurance Applications Group, I currently work with approximately 500 staffing company clients nationwide, employing about 1.5 million temporary employees. Staffing companies rely on my company to manage their employee benefit plans for their temporary workforce and to help guide them through health reform. Our clients range from the very large national staffing companies to the small mom and pop operations. We work very closely with the American Staffing Association and most of the large state and local staffing associations. Our benefit programs continue to be a reliable, financially stable solution for staffing companies in both a pre *and* post health reform environment. Our guidance has lasted the test of time.

For disclaimer purposes, let me also preface that I am licensed insurance professional, but not a lawyer. This is not legal advice. Contact an employment law attorney for legal advice.

The Patient Protection and Affordable Care Act (PPACA), otherwise known as the Health Reform Law, will have major cost implications for all employers starting January 1, 2014. Staffing companies, in particular, will be especially hard hit with new government imposed excise taxes (fines).

Large Employers

Large employers (50 or more full time equivalent employees) are the primary target and will bear the brunt of these new taxes. Part timers are counted in determining "large employer" status, but they are pro-rated. To calculate full time equivalent, multiply the total part time hours worked that month and divide by 120. Obviously, most staffing companies will fall into this category.

These new taxes apply to companies that don't offer "**minimum essential coverage**" to all of their employees and dependants. Minimum essential coverage is a government created term that basically refers to "full major medical insurance". Companies that employ large numbers of temporary or seasonal employees will be impacted the most by these new taxes. So now is the time for staffing companies to prepare.

If you do not offer minimum essential coverage to all of your employees, your company will get hit with a $2,000 excise tax per employee for all employees (minus the first 30 employees). This is paid monthly at a rate of 1/12th the tax, or $166.67 per month per employee. However, this is not a deductible expense. So, a company in the 30% tax bracket will really have a per employee cost of $2,857 ($2,857 – 30% corp. tax = $2,000 left to pay the fine)

To see a full breakdown of the cost of the health reform tax on staffing companies, please see illustration: **Cost of Health Reform on Staffing Companies Worksheet**

Small Employers

Small employers will also be hit. Although the excise taxes do not apply to small employers, there is a misunderstanding that all small employers will be given credits to purchase health insurance for their employees, so it's beneficial to be a small employer. This is not necessarily true. The assistance provided to small employers during the initial "transition period" is temporary, with credits phasing down over time. Plus, there are strict parameters to meet in order to get the full credit. "Full credit" means the government will pay up to 35% of the cost of a health plan (up to 50% in 2014) for small employers who meet certain criteria. But qualifying for this credit will be harder than many people realize. In fact, it will be impossible to reach for many.

For small employers to qualify for the full credit:

1. **Must employ no more than 25 full time employees.**

2. **Average earnings for ALL employees, including owners/executives, cannot exceed $25,000.** The government credit drops off rapidly on a sliding scale between $25,000 and $50,000, with zero credit at the $50,000 or higher level.
   That's a deal breaker for many small employers where the owner earns a lot and has lower skilled/lower paid employees.
   Example: Entire industries including Retail, Restaurant, Hotel, & Service industries will have a tough time passing this earnings test.

3. **High deductible HSA health plans do not qualify.** These are very popular plans today, reducing the credits further.

So Why Can't We Just Offer Full Coverage to Everyone and Avoid the Tax?

Today, some staffing companies mistakenly think they can offer "minimum essential coverage" to all of their temporary employees in 2014 to avoid the new taxes. This has been promulgated by some industry experts and consultants, but I'm not sure why, as it contradicts basic insurance underwriting rules. Some large consulting houses might just be looking for a new market to sell to (self-funded plans). So be very careful with what you hear. In times of market upheaval, people sometimes use that disruption to sell you something new. In my opinion, this is not pragmatic to offer full coverage to everyone, and might not even be possible, due to fundamental insurance company underwriting rules described below.

In the post-PPACA world, insurance companies are no longer allowed to sell health plans with any kind of annual or lifetime limit on claims. **Staffing companies considering offering unlimited health insurance to high turnover, low wage temps face one very obvious problem: *it's a bad risk and insurance companies won't underwrite it.*** They have declined this market for years, for good reason.

NOTE: Contrary to what you might hear, the new law does not require insurance companies to give you a "minimum essential coverage" group policy for your temporary workforce. Underwriting group health insurance for high turnover, low wage, temporary employees in the staffing industry is one of the riskiest markets out there. It was a bad risk ten years ago, it's a bad risk today, and it will be a bad risk ten years from now. It's even worse now that health plans cannot have any annual or lifetime caps on coverage. That means fewer protections for the plan, higher claims, and higher rates. Health insurance companies will not underwrite that bad risk population, regardless of health reform.

Even if you wanted to offer unlimited health insurance (minimum essential care plan) to your high risk temps, no group health insurance company will underwrite it. The insurance company or broker might try to sell you a self-insured approach. But then YOU take on the risk, not them. We'll discuss that later.

Below are some reasons why you typically cannot offer minimum essential coverage (unlimited major medical insurance) to your high turnover, low wage temps.

Unfortunately, these important points below are usually not discussed by others for various reasons, but they are essential for you to understand your options:

1. **75% <u>minimum</u> participation rule:**
   Health insurance companies require a minimum of 75% of your eligible employees to enroll in the plan, or they won't issue the policy. This has always been a universal rule of group health insurance. Since you have to commit to enrolling the policy first, you can't guarantee that 75% of your temps will sign up. On the contrary, you would be lucky to have 20% sign up, given the prohibitive cost of major medical insurance today. It's simply not affordable to low wage employees.

2. **50% employer contribution <u>minimum</u>:**
   Health insurance companies require a minimum employer contribution of 50% of the single rate. With a typical single rate of $450/month, that means it would cost you a minimum of $225 per employee per month. ***But in reality, you would have to pay closer to 100% of the cost of the plan in order to convince 75% of your low wage employees to enroll in the plan.***

   I've seen it time and time again: a staffing company tries to offer major medical insurance in order to win a key contract. Their broker works with some unknowing sales rep at an insurance company and somehow squeaks a proposal out. They're excited and go through open enrollment. Then, POW! They can't get 75% participation, and they can't afford to pay nearly 100% of the cost, so the plug is pulled. Everything has to be de-installed immediately. Or, in some cases, the underwriter spots it and pulls the plug before it even enrolls, when their file transitions to a "new sale evaluation" (vs. preliminary proposal) and realize what the sales rep is trying to squeak through.

   Yes, company paid insurance premium contributions are tax deductible, but that does not change the picture enough to justify offering full major medical insurance to all of your temporary associates. People who promote that approach that the "tax deductibility will help pay for it" use the minimum 50% employer contribution numbers, instead of the 90-100% "reality" numbers. Plus, they never talk about minimum participation, which is the lynch pin. Nor do they talk about claims risk, double digit rate increases, cancellation risk, enrollment and administration problems, constant missed deductions and/or shortfalls in employee premium payments, the plan becoming a "bad risk magnet" for high risk temps, or other issues that are prevalent in the staffing industry. It's kind of like when the PEO market went nuts with underpriced workers compensation insurance, sucking in all of the bad risk companies. Then they popped. Market fundamentals don't change, and health insurance companies will not let you game this system.

It's much easier and more cost effective to just pay the tax.

3. **Affordability:** It has to be affordable, or your employees won't sign up. If you are lucky enough to get a policy quoted, it might cost twice as much as what a traditional full time workforce group policy costs. If it costs too much, people won't sign up. Studies show the average American has less than $1,000 in savings, including all of us. The average temp is living paycheck to paycheck, so it is very difficult to get 75% of them to enroll in anything, unless it's practically free.

4. **Economics of the Job:** There is no way that employers can all of a sudden afford to purchase health insurance costing $5,000/year for someone who only earns $25,000/year. Multiply that across tens, hundreds, or thousands of employees and you can see the magnitude of this problem. No one can waive a magic wand and make that go away. If so, we'd all be living in paradise.

5. **Administrative Cost:** By offering a major medical plan to a large population of new employees, you will need to hire more internal staff in Human Resources and Payroll departments to manage it. There are lots of moving parts and lots of extra work you would need to do as the plan sponsor. Minimed plans may be equipped to do much of the "outsourced administration" for HR departments, but major med plans will put that squarely on your company's shoulders. Picture how hard it is to administer your internal "core" health plan, and multiply that by 100 for your temporary workforce with missed deductions, ID card tracking, reconciling invoices, collecting missed insurance payments, sponsoring annual open enrollment meetings describing full coverage, communicating double digit rate increases at renewal, negotiating new plans and rates when increases occur, and always chasing that 75% participation level, etc.

6. **Missed Deduction Liability:** You will be responsible for paying the insurance company for all of the missed employee deductions, which is a regular occurrence with this fluid employee population. This could be a daunting task, as temps start and stop job assignments quite often, creating gaps in premium payments. The insurance companies will require premium

payments one month in advance- meaning you'll be on the hook for any missed employee payments under a major medical plan, if you can't get it out of the employee. Even with a 30 day waiting period, many of those employees will continue to have gaps in their employment, and therefore gaps in their premium payments. Although minimed plans are sometimes equipped to handle this, major medical plans are definitely not. You would be on the hook for that.

7. **Budgeting:** With double digit rate increases the norm, whatever you budget for today for group health insurance is sure to cost much more in the future - far more than general inflation. Offering full major medical insurance to your temporary workforce would be extremely difficult to budget for.

   Even if you could somehow pay 100% of the cost, guarantee 75% participation, AND get an insurance company to underwrite a group policy with no limits for your temps… what happens next year when you get a 20% rate increase? And the following year? How do you then take the plan away if it starts losing your company money, without severely damaging your employee and customer relations?

   It's better to not put yourself in this position. It's never wise to promise more than you can handle to your employees and customers. Your intentions might be good, but the results could be disastrous. Group health insurance for stable, full time populations is hard enough to budget for. This target market is far from stable. You'd be better off sending employees to the State Exchange to get their own coverage, and offering other attractive benefits that won't come back to burn you. That way you maintain your competitiveness, maintain your ability to budget and forecast, but you don't end up jeopardizing your business.

This is all common sense to insurance people, but unfortunately many staffing companies are being given bad advice. I'm afraid some people might have ulterior motives or simply don't understand the basics of group health underwriting. They are trying to convince the market that everything will be fine in 2014, employers will be able to offer full health insurance to everyone, and they won't have to pay for it, or maintain minimum participation in the plan. This is just flat out wrong.

Put yourself in the shoes of a health insurance underwriter for a minute….

An underwriter is hired and trained to evaluate risk, based on industry, employee demographics, turnover, prior claims, and expected future claims. That's how they set their prices. They can be fired for writing bad groups and losing the company lots of money.

How are temps in the staffing industry viewed by underwriters?

- Industry: *Poor Risk*
- Demographics: *Indefinable and constantly changing*
- Turnover: *Very High- extreme claim risk and higher enrollment costs*
- Prior Claims History: *None Available- no prior group health plan in place*
- Projected Claims Risk: *Indefinable- the employees are constantly changing*

Now, their job just got a whole lot harder because PPACA now says that health insurers cannot have any annual caps or lifetime caps on their coverage. This means there is an unlimited jackpot of dollars that can be paid out for a single employee.

Underwriters want a stable population of risk that they can quantify. They want to know that the group he is evaluation today will be roughly the same group there next year, since this is how they build their rates.

With traditional full time employees, the underwriter knows that same population will be around for a while. It's just the opposite with temps. They could have twelve different people working in that same payroll slot over the course of three years, instead of one person who is a permanent full timer. That means there's TWELVE TIMES the possibility of having a catastrophic claim hit that plan, like a premature baby for $1,000,000, or heart transplant, Aids, cancer, etc. These are real dollars the health insurance company has to pay out, not monopoly money.

Would you take on the risk of paying for your temps' health insurance claims?

I didn't think so.

Even in Massachusetts, where universal health care has been implemented, these standard participation and employer contribution rules still apply. I've checked with all of the major health insurance companies and confirmed this. These rules have not gone away, as some have suggested.

Bottom line, the cost of offering minimum essential care to your temporary employees would far exceed the cost of the new taxes. (see illustration: **Cost of Providing Major Med to Temps**)

If you can find a health insurance company willing to underwrite unlimited medical insurance for high turnover, low wage employees, please let me know. Because things just don't work that way. It's like offering a million-dollar life insurance policy to someone who's already dying. It's just bad risk, pure and simple, and the insurance company doing that wouldn't last very long.

Just think about it. Anybody who needed open heart surgery would simply take a temp job for a couple of months to get hundreds of thousands of free health care dollars just waiting for them through the staffing company. Then they tell two friends, and so on…

Surely no underwriter worth his or her salt would take on that risk. But that's just common sense. It's always been that way, and nothing in this new health law changes that. Unless the individual mandate is deemed unconstitutional, or we get a new President / Administration that can repeal or defund it, it's going to come down to all of us paying an enormous amount of new taxes to the federal government. Prepare now, because 2014 will be here before we know it.
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Can we self-fund a plan for our temps?

Self-funding (a.k.a. self-insuring) is definitely not wise. If health insurance companies think it's a bad risk and a giant money loser, why would you think you can underwrite it better than them? What do you know that a group health underwriter doesn't know? They do this for a living. You might get lucky and have some short-term success, but I doubt it. Turnover is just too high, and many of these people never had health insurance before, so they are sitting on untreated illnesses and diseases, just ready for someone to pay for them. Just wait until those million dollar claims start coming in for premature babies, cancer treatments, heart transplants, etc. You'll pay for it one way or the other, either directly, or through astronomical stop loss premiums. "Stop Loss " means that at a very high dollar amount some reinsurance company has agreed to assume the risk of a specific claim over this stated amount. This can take many forms, but all are expensive, and the levels at which the reinsurer will assume the risk are much higher than most employers would consider.

Chances are it would quickly become a huge money drain on your company, and you'll be yearning for the "fixed, budgetable costs of the excise tax". Also, good luck cancelling your employees' major medical insurance once it starts bleeding red ink and threatens your company's existence. You will alienate your entire workforce. Once you give major medical insurance to employees, it's very hard to take it away.

History is not good in this arena. Insurance companies will too often recommend self-funding, because it's a way for them to sell new business without the claims risk. On a bad risk group, they conveniently push the claims risk over to you in the form of "self insurance".

Same thing with insurance brokers and consultants- they might be blinded by the potential commissions of a big new sale, even if it's a bad decision for the staffing company.

White Paper: Health Reform March, 2012

Over the years, some staffing companies we've worked with have tried to self-insure their health insurance plans for their low wage temporary employees. Each one of them got in over their head, and they didn't know how to extricate themselves. The CFO's were going crazy over the financial losses. Even the smaller risk health plans with annual caps of $100,000 or $200,000 per person were losing way too much money. Forget about the "uncapped" plans that PPACA would require today! The plans were bleeding red ink, but the sales force demanded not to cancel coverage or they would risk losing all of the customers they sold it to. We've seen this situation over and over, and we always recommend against it. The risks are just too high.

But the knife cuts both ways. Health insurance was rated the #1 most effective employee retention tool- even higher than salary *(Society for Human Resource Management Employee Retention Study)*. If you were forced to cancel your major medical plan for your employees, you risk creating the #1 reason for employees *to leave you* (and be potentially hostile towards you). You've never seen angry employees like when you cancel their major medical coverage.

That's why we always recommend providing benefit programs that are financially stable with proven track record, so they don't blow up on you later. You can still get powerful employee benefit plans that help with recruiting and retention. A claims study on Essential StaffCARE on 11,000 enrolled temporary employees found that less than 1% had claims over the annual limit. This offers a way to provide usable benefits to the majority of employees, but not break the bank trying to cover the catastrophic claims of the 1%.

As long as you're completely honest with employees up front, and tell them what they're buying, things work out great. Problems occur with plans that try to over-sell their temp benefit programs, claiming they're something they're not, or hiding plan limitations in fine print or surgical schedules. You definitely don't want to promise unlimited major medical insurance to a bad risk population. That is just asking for trouble. Better to leave that to the State Exchanges.

We are already hearing reports that the cost of ObamaCare will most likely be DOUBLE what they originally projected. Guess what? RomneyCare in Massachusetts also almost doubled in the first 18 months vs. initial cost projections. Political cost projections almost always start far too low.

Be careful when health insurance companies, brokers or consultants offer you self-funded arrangements for your temp workforce. Just because they can sell them to you doesn't mean they aren't extremely risky. They've removed the #1 obstacle, "underwriting risk". With self-insured plans, YOU own the claims risk, not the insurance company. You now become the insurer. The health insurance company just processes the paper and answers calls. No risk to them, but lots of risk for you.

Our advice: Don't self-insure.

The only exception is for staffing companies who specialize in I.T. (or similar low risk industry) with lots of young, healthy males making over $30 per hour. In this case, they can afford it, and it will have less likelihood of bankrupting you with large health claims. So, if this sounds like you, you're large enough, and you can pay enough of the cost to ensure strong participation, self-funding might be okay.

If you're like most staffing companies who employ lot of low wage temps (making less than $15/hour on average), it would be suicidal to self fund a health insurance plan for those low wage, high turnover employees. Don't try to do what the health insurance experts won't do. The risks are far too high.

It is still important to provide effective employee benefit solutions, but it must be financially stable and not over-promise with unrealistic expectations that can break the bank.

So what are our options then, if we can't offer major medical insurance to our temps and we can't self-insure?

- ➔ **Be prepared to pay the new excise taxes, and build them into your proposals and customer contracts.**

Yes, this will have a big impact, but not as bad or risky as the other scenarios. It will also hit everyone all at once, so the story line makes sense. You shouldn't have a hard time explaining it to your customers. They will quickly understand what a "health care surcharge" is because most of them will be paying it too.

Look what has happened in the only two "test markets" that universal health care has been imposed recently:

Massachusetts: In Massachusetts where there's universal health care, staffing companies aren't offering minimum essential coverage to their temps. They are taking the fines and building them into their customer contracts as a cost of doing business. It all happened at once, like it will nationwide when PPACA excise taxes begin on January 1, 2014.

San Francisco: Same thing happened in San Francisco with their mandatory Health Care Security Ordinance. They require employers to offer coverage or pay a percent of employees' earnings. Staffing companies baked it into their rates, passed it onto customers, and they didn't experience massive layoffs.

I think that is the most likely path for the national health reform we are facing now.

When dealing with your customers, blame the rate increase on the politicians, and coordinate your communication efforts with your peers in the industry, through organizations like the American Staffing Association, or your local state staffing associations. Coordinate efforts will be important to ensuring a smooth transition. It's a great place to network with other staffing company owners and share ideas.

What about the State Exchanges that are supposed to be created to offer health insurance to people?

The state exchanges will be created, just like in Massachusetts. They will provide people with a place to purchase health insurance, sometimes with government subsidies to help with the cost. HOWEVER, there is one big caveat… how much of a government subsidy will there be? Because if it's not practically free, temps won't buy it.

The writers of the health reform law did not structure the incentives and disincentives properly to make sure that everyone signs up for a plan through the exchange. Basic human psychology tells us that people won't pay for something unless it's affordable and makes sense. Well, consider this:

In 2014, all employers are required to alert all employees that they can go to the state exchange to get health insurance. You will have to tell all of your temps about these exchanges, so many of them will go check it out. But then it comes down to cost. If it costs more than $25/week, we've found that lower-wage temps won't buy it.

But the government will penalize people who don't buy a health plan in 2014, right?

Not really. People who don't sign up in 2014 are subject to a measly $95 fine on their annual tax return, which is filed *the following year*. Plus, many get tax refunds, so this won't even come out of their pocket.

So, human psychology kicks in. They will price out a plan at the exchange. Typical health plan prices are about $450/month today for single coverage. Assuming the government gives them a 50% health plan subsidy, that's still $225 per month that they don't have. Most people today are living paycheck to paycheck. As stated earlier, the average American has less than $1,000 in savings, including all of us. The average temp has little to no savings, and often has debt.

So, the choice for your temporary employees in 2014 becomes: Pay $225 PER MONTH NOW for a plan at the Exchange. Or, do nothing and pay the measly $95 fine NEXT YEAR (or just have your refund check docked a bit).

Which do you think they'll choose?

This could change if the government makes these plans "free" or "nearly free" through the Exchanges. But that would become cost prohibitive. Yes, there will be lots of people buying insurance through the Exchanges in 2014, but I think there will also be lots of people who don't, due to the very small penalty.

If this is not bad enough, remember that health insurance companies are not allowed to have pre-existing condition exclusions starting in 2014. **So, a temp can decide not to buy coverage through the exchange, keep their money, wait until they get really sick, and then sign up through the Exchange later… and they can't be denied coverage!**

This leads to a situation called "adverse selection", where too many sick people sign up in proportion to healthy people, leading to rate increases, and further adverse selection because they plans become less and less affordable. The only people willing to spend half of their paycheck on health insurance are those with giant health claims.

The current "stick and carrot" approach the government created to convince everyone to purchase health insurance is broken. This means you'll still have lots of temporary employees working for you in 2014 who don't have full health insurance.

Another problem: It is estimated the lowest price health plan in the state exchanges will have a $7,000 deductible single and $12,000 family.

What low wage temp has $7,000 to spend??? Again, most temps are living paycheck to paycheck. Our studies on health claims by temps show that 95% have claims under $5,000. They incur lot of claims, averaging about 2 per person, but they are for doctor visits, X-Rays, Lab, emergency room visits, and minor hospitalizations. That means their $7,000 deductible "major med" plan will be essentially useless to the vast majority of these employees.

That is why we believe "supplemental" plans will continue to be very popular in a post-health reform environment. Main reasons include:

1. There will still be lots of uninsured temporary employees who do not purchase a plan through the exchange
2. Most of these employees will still need access to professional treatment for basic health care claims (not catastrophic claims)
3. The ones who do purchase a plan through the Exchange will choose the least expensive plan, which means they will have enormous deductibles.
4. These large deductibles mean that they will need some supplemental insurance to help fill the gap with "usable" benefits.

5. Companies will still need to offer attractive benefits like group dental, life, disability, and vision insurance benefits in order to compete effectively.

Fines for not buying health insurance do edge up in future years, but so will the cost of a health plan. The cost of the health plans offered through the Massachusetts State Exchange (The Connector) nearly doubled in the first two years vs. their initial projections, and they only had about 6% of their population uninsured that they needed to cover. The rest of the country has an average 16.3% uninsured, more than twice as much. Some states have up to 25% of their population uninsured. So Massachusetts had it easy, and yet their costs nearly doubled in the first two years. How do you think the rest of the country will fare? When pre-existing condition limitations are banned for all health plans in 2014, I believe insurance costs will spike very fast.

Political cost projections for entitlement programs always end up being too low. It's how they "sell" their agenda.

In addition to the MA example above, Medicare, Medicaid, Social Security, and most others, PPACA is also based on wishful thinking. PPACA cost projections only counted costs for six years, but weighed them against the savings over ten years. This is a back-loaded cost that will come to fruition.

It also assumes they will get a half trillion dollars in savings from Medicare. How exactly will that happen without a big backlash from the public? When the backlash happens, the politicians continue to pile that debt into the future in order to save face today. Accounting tricks like this are used to sell people on the program, and politicians continually kick the can down the road.

The Congressional Budget Office recently reported that ObamaCare could now cost twice as much as originally projected, and we haven't even started yet. That will lead to much larger employer "excise taxes". Almost everyone expects this $2,000 tax per employee to go up substantially in future years as the government starts to bleed red ink on this record-breaking entitlement program.

Medicaid Expansion:

Under PPACA, eligibility for Medicaid is being expanded to include people up to 133% of poverty level. This is estimated to add an additional 15 million people to Medicaid. Some of your employees will be able to qualify for this, which might help a little. However, there are serious concerns as to how the States will pay for this. The State Medicaid programs are all bleeding red ink. Only 60% of doctors accept Medicaid patients, and many of their panels are full, so they are not accepting new Medicaid patients. There is a lot that needs to still be figured out on this front as well.

It's Time to Take Action

Finally, you should also reach out to your political representatives to show them how this will impact your business and demand change. This, too, should be coordinated at a higher level to give business owners the tools and talking points to convey their concerns to government. If the cost of labor increases all at once in January 2014,, then the price of products and services offered by those employees will also rise, causing inflation.

Higher taxes on our job creators is the last thing we need for stressed economy, and over-bloated government with astronomical levels of debt and unfunded liabilities ($61.6 trillion). Each American household would have to pay $527,000 just to meet these government obligations. If we continue to let our government create new obligations and new taxes, without cleaning up previous ones, it will stifle the American spirit, hurt business growth, and kill jobs. In 2010, the government spent $1.5 trillion more than it collected in revenues. 2011 piled another 1.6 trillion on.

Businesses can't operate for long with massive deficits, so why should our government? The last thing U.S. businesses need is higher taxes.

Choosing the Right Advisor

All insurance brokers and advisors are not created equal. It might seem obvious, but a "temporary" workforce is vastly different from your full time internal workforce. Therefore, your benefits advisor needs a different skill set to manage these benefits as opposed to your core "internal" benefits. The rules are different and the pitfalls are many.

Unfortunately, many staffing companies let the wrong person advise them on their temp benefits programs, simply because they think it's easier to deal with one person for all of their insurance. Warning: this can be the seed of destruction for your temp benefits. Would you hire a plumber to do your electrical work? It's the same thing with insurance. There are countless specialty fields of insurance, and everyone can't be an expert at all specialties. There is only so much time in the day.

Brokers typically fall into one of these areas: major medical, workers comp, or supplemental benefits. Few benefit advisors understand how to structure a long-term, financially stable, successful health plan for temps. Even fewer understand how to do it well in the high turnover environment of the staffing industry, where job assignments start and stop on a *weekly* basis, instead of monthly.

Choose your advisors wisely. Evaluate their track record. Ask for references in that specific field of benefits.

The simple truth is, most brokers do not have the experience to manage these temp benefit plans effectively. It's a relatively new market, and it is extremely complicated to master. The market is filled with insurance companies that have failed miserably, and the brokers who sold them not far behind.

Temp benefit plans often struggle with administration issues and poor enrollment. Many companies tried to offer benefits to their temporary employees in the past, but it created more problems than it was worth, and hardly anyone enrolled. Some of my clients had "given up" on temp benefits before they met me. Then my company and I were able to show them how to do it right, and keep it stable.

Offering attractive health benefits to your temporary workforce is critical to staying competitive and attracting the best talent. If you were burned in the past, don't give up. Just talk to the right advisor.

Choosing the Right Insurance Company Partner

Insurance companies are not all created equal either. Insurance companies' systems (billing, administration, claims, eligibility, etc.) are run on a *monthly* basis. This doesn't match your "weekly" paid temps. It takes a lot of time, money and customization to create a benefit program that can be administered on a weekly basis, in order to match your temps' weekly payroll.

You do not want to be stuck owing an insurance company for missed insurance deductions. It is important that your benefit plan is built to match your temporary employees' payroll cycles. The insurance company's internal systems need to be customized to fit your payroll cycle, not their typical "monthly" billing and coverage cycle. This is no small task. This can take years of programming and development time.

Then you need a group health insurance underwriter who knows how to underwrite these plans. The problem is, there are very few underwriters with experience on how to price a limited benefit health plan for high turnover temps. All of the rules and pricing assumptions they were trained on go out the window. Minimed plans are underwritten completely different from major med plans.

I can count on one hand the number of companies that can handle this. The playing field has been shrinking fast in recent years with the exit of some major players from this market, including Aetna/SRC, who was one of the top carriers. New insurance plans come and go every year in the staffing industry. New insurance companies often enter this market thinking they can make a buck in a high growth market. Then they soon find out how complicated it is, and they pull out after a couple years.

Stability and a proven track record are essential in this industry.

However, this is my company's core competency. We custom build benefit programs for high turnover temps in the staffing industry. Everything has been modified for staffing companies based on decades of experience and continual feedback from our clients. That is why we are so successful in this niche field of insurance. We don't try to be all things to everyone. We focus like a laser on temp benefits, and we do it right.

Summary:

Offering minimum essential coverage to temporary employees in the staffing industry is not realistic because:

- Health insurance companies won't underwrite the policy
- 75% minimum participation is not obtainable
- 50% employer contribution costs too much, and in reality will have to be closer to 100% employer contribution to meet the 75% participation rule.
- Far too risky to self-insure your own policy
- Better to pay the taxes and budget for them, either by passing the cost onto customers, reducing employees' pay, or a combination of both.
- State exchange health plans will still be too costly and have large deductibles, creating gaps in coverage.
- Employers will still need to offer competitive benefits in 2014 to attract and retain good employees, and to compete for new business.
- Staffing companies need to join together through industry associations like the American Staffing Association to coordinate their transition strategy in unison.
- Contact your politicians to explain how this will negatively impact your business and your customers' businesses. Demand change.
- Choose a benefits advisor who specializes in benefit plans for temporary employees. These plans are fundamentally different from plans offered to your full time "internal" staff. Don't cut corners.
- Choose an insurance company with a long term proven track record in your industry. Avoid the new plans with little to no track record, as many of these come and go each year. Ask for references. Ask how many other staffing company customers they have and for real life examples of their enrollment rate. Without strong enrollment, why bother? That defeats the purpose of an employee benefit plan.

White Paper: Health Reform March, 2012

Through the eyes of a staffing company owner…

I recently spoke with the owner of a staffing company who had a pretty chilling perspective on this. He said January 1, 2014 will go down in history as the biggest single layoff in American history. His point was that his customers won't accept a rate increase on everyone. That they are hurting too, so they will pick and choose which employees to keep and which to let go. This will happen all at once across all American businesses all on the same day: January 1st, 2014. Let's hope this doesn't come true.

He was a very bright guy and we spoke for some time on the subject, but I don't necessarily agree with him on a nationwide scale. He might be right about his customers, and his prediction is definitely something to consider. If all staffing company customers are presented with a rate increase of $1.50/hour on January 1, 2014, what will happen?

Hopefully business owners will realize that they are already running lean and they need these employees to operate effectively. I think they'll do exactly what the staffing companies will do: Pass the cost onto their customers through price increases on their end. We'll all be in this boat together, so most people will understand why the increase is coming. Hopefully, they'll understand the situation that we are all in, and they'll turn that anger into votes at the voting booth instead.

New taxes always find their way downstream to consumers. It becomes a cost of doing business. Unfortunately, too many taxes can stifle growth and lead to inflation.

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