Management at Work

The Benefits of the ACA (aka Obamacare)

"When the government orders people to do something that's costly, it gives them an incentive to push those costs onto someone else."

—*LOS ANGELES TIMES* EDITOR JON HEALEY

In October 2014, Walmart Stores, the nation's largest private employer, announced that, beginning on January 1, 2015, it would no longer offer health-insurance coverage to employees working less than an average of 30 hours per week. The decision affected approximately 30,000 of the firm's 600,000 part-time workers. "Like every company," blogged Sally Wellborn, senior VP of global benefits, "Walmart continues to face rising healthcare costs. This year, the expenses were significant and led us to make some tough decisions."

Asked how much the company would save, Wellborn replied that accountants hadn't yet figured it out, but she reported that Walmart expected to spend $500 million on U.S. healthcare in 2015, up from earlier projections of $330 million. Walmart is hardly alone in cutting part-time employees from health coverage. As of 2013, 62 percent of large retailers had instituted the same policy. Target and Home Depot, for example, had already announced that they would eliminate or sharply curtail coverage in 2015.

According to *Forbes* columnist Rick Ungar, the debate about corporate responsibility for health coverage—indeed, about the entire system of employer-provided coverage in this country—took on both expected and unexpected dimensions with the passage in 2010 of the Patient Protection and Affordable Care Act (ACA—aka Obamacare). Ungar's position in this debate is highly critical of employers like Walmart, whose actions ultimately "stick taxpayers with employee healthcare costs. ... Apparently, Walmart's idea of 'shared responsibility,'" charges Ungar, "is to allow the American taxpayer to pick up the tab for their low-paid workers when these folks avail themselves of Medicaid coverage; meanwhile, Walmart hangs on to all the money they save by blowing off their responsibility to provide healthcare to these workers."

In order to understand not only Ungar's view but opposing views as well, let's focus on two provisions of the ACA:

- As of January 2014, most Americans had to carry health insurance or face a tax penalty.
- Companies with at least 50 employees must offer health coverage to those who work at least 30 hours per week; otherwise, they must pay penalties.

Obviously, this second provision, which went into effect on January 1, 2015, was the immediate catalyst behind Walmart's decision to eliminate healthcare for employees working fewer than 30 hours per week. The first provision, however, is an equally important factor in that decision. According to Walmart, it had underestimated healthcare costs by more than 50 percent because far more employees enrolled for healthcare benefits than it had expected; the company attributed increased enrollments to the ACA requirement that employees carry health insurance or pay a penalty.

So where does that leave the 30,000 employees who lost their employer-provided health insurance on January 1, 2015? Nancy Reynolds, a cashier at a Florida Walmart, contends that "taking away access to healthcare ... is just another example of Walmart manipulating the system to keep workers like me in a state of financial crisis. ... I depend on Walmart's healthcare. I'm not sure what I'm going to do." Some analysts, however, think that people like Reynolds are failing to see a certain silver lining behind their predicament. In fact, it's a position shared by the Obama administration, which wasn't surprised by Walmart's decision. More and more large companies, said White House spokesman Josh Earnest, are cutting healthcare benefits, but workers now have "a legitimate alternative where they can acquire high-quality, affordable healthcare, and that is through the marketplaces that were constructed by the Affordable Care Act."

How does this option work? The ACA established a *Health Insurance Marketplace* consisting of *health insurance exchanges* on which individuals and small businesses can purchase healthcare policies from government-regulated and standardized plans. In addition, many purchasers are eligible for federal subsidies. Amounts vary from state to state because they're based on the cost of the second-lowest *silver plan* in each state—that is, a plan under which the insurer pays 70 percent of covered expenses and the policyholder 30 percent. Let's say, for example, that you're a 40-year-old individual in California who makes $17,235 a year. If you qualify for an ACA subsidy, you'd pay no more than 4 percent of your income ($57 per month). Your subsidy would come to $236 per month, which would save you a considerable portion of the $294 monthly payment charged by the state's second-lowest-cost silver plan. In addition, you'd have no deductible, and you'd pay only $3 for primary care visits. Subsidy amounts vary with income, with anyone earning up to 400 percent of the poverty line being eligible.

"The subsidies are pretty large for the people who get them," says Gary Claxton, VP of the Kaiser Family Foundation, which estimates that 48 percent of Americans in the market for health coverage would qualify. "It may involve some hassle for individual employees," grants *Washington Post* analyst Paul Waldman, "but most of those Walmart workers will likely come out ahead. ... They could be eligible for Medicaid and pay nothing at all for insurance, or get substantial subsidies that would make a private plan extremely affordable."

The contours of the current debate should now come into sharper focus. In particular, the discussion is more

complicated than a given employer's financial motives. On the one hand, for example, Ungar argues the position that Walmart is using the ACA as "a tool for ridding itself of the obligation to provide healthcare for many of its associates"; the ACA, charges Ungar, provided "a perfect opportunity for the giant retailer to foist its obligations onto the backs of the American taxpayer." On the other hand, according to Jon Healey, a tech and economics editor at the *Los Angeles Times*, Walmart's move reflects a perfectly logical—and predictable—strategy in light of the ACA requirement that large employers provide healthcare or face penalties. That mandate, says Healey, "is an open invitation for the Walmarts of the world to do what Walmart [did]. It's a lesson some lawmakers seem to have trouble learning: When the government orders people to do something that's costly, it gives them an incentive to push those costs onto someone else."

The *Washington Post*'s Waldman takes this position a step further in arguing that Walmart's decision to act on that incentive is a step in the right direction toward U.S. healthcare reform: "I'm not saying Walmart should get a medal or anything," he writes, "but this is a development that we should welcome. ... The more companies do this, the farther we move away from the system of employer-provided health coverage ... that serves neither employees nor employers very well. ... The most important thing the ACA did was provide health security for everyone. ... Now that everyone can get insurance through the government or through an exchange, there's no reason to keep the middleman of the employer."

Case Questions

1. What about you? What "things of value" do you want most in a benefits package offered by an employer? If you were offered a "cafeteria benefit plan," what additional or enhanced benefits would you choose? Why?
2. Do you have healthcare? If so, what part of the coverage best satisfies your needs? Do you need any kind of coverage that you can't get or can't afford? Do you think you might be better off if you got your coverage under the Affordable Care Act?
3. In your opinion, what kind of healthcare coverage does the average American worker (and his or her family) need? Is there any level of coverage to which, in your opinion, the average American worker should be entitled at a reasonable cost? What sources should provide the money to pay for this coverage?
4. Person for person, according to *Consumer Reports*, healthcare in the United States costs about twice as much as it does in the rest of the developed world. In 2000, the average family health plan cost U.S. companies $6,438 per worker; by 2013, that figure had reached $16,351. In the same period, average wages increased 20 percent (just barely keeping up with an inflation rate of 18 percent) while the cost of family health coverage went up by 87 percent. "Higher healthcare costs," the report reminds us, "mean higher premiums for everyone."*

   Why do you think healthcare costs are so high in the United States? How are healthcare prices set? What does the former CEO of one giant health maintenance organization mean when he says that healthcare "prices are made up depending on who the payer is"?

*"It's Time to Get Mad about the Outrageous Cost of Healthcare," *Consumer Reports* (September 2014), http://consumerreports.org, on January 27, 2015.

Case References

Hiroko Tabuchi, "Walmart to End Health Coverage for 30,000 Part-Time Workers," *New York Times* (October 7, 2014), www.nytimes.com, on January 22, 2015; Nathan Layne and Siddharth Cavale, "Wal-Mart Raises Healthcare Costs, Cuts Benefits for Some Part-Timers," Reuters (October 7, 2014), www.reuters.com, on January 22, 2015; Rick Ungar, "Walmart Bails on Obamacare—Sticks Taxpayers with Employee Healthcare Costs," *Forbes* (December 9, 2012), on January 23, 2015; Tami Luhby, "What You'll Actually Pay for Obamacare," *CNN Money* (August 21, 2013), http://money.cnn.com, on January 26, 2015; Paul Waldman, "How Walmart Is Showing That Obamacare Works," *Washington Post* (October 8, 2013), www.washingtonpost.com, on January 23, 2015; Jon Healey, "Wal-Mart's ACA-Approved Path to Cut Costs: End Part-Timers' Coverage," *Los Angeles Times* (October 7, 2014), www.latimes.com, on January 22, 2015.

YOU MAKE THE CALL — Elementary, Watson

1. These days, according to more and more experts, "every worker is a knowledge worker." Consider the definition of *knowledge workers* in the text: "workers whose contributions to an organization are based on what they know." In what sense might just about any employee qualify as a "knowledge worker"? For example, what qualifies as "knowledge" in an organization's operational activities (that is, in the work of creating its products and services)? What's the advantage to an organization of regarding all employees as knowledge workers?