

# Trendsetter Barometer

## Private company CEOs size up healthcare reform It's still early days in the assessment



### Highlights

- 70% of private company CEOs are contemplating changing their companies' healthcare plans, but most have yet to make modifications.
- 47% think the healthcare reform act is likely to have a notable financial effect on their business; 31% say it's too soon to tell.
- Nearly one-third of CEOs expect the healthcare reform act's tax provisions for high-income individuals to have a moderate-plus impact on their business.
- Among private companies, large businesses lead the way in refocusing on long-term wellness programs and preventive care.

In the initial months following passage of the federal Patient Protection and Affordable Care Act (the "Act"), many leading private companies have continued to assess its potential impact on their organizations. A good number of them are still determining which changes they'll have to make to comply with the various new provisions, including those that will begin to take effect over the next several years.

### Nearly half of private companies foresee a notable financial effect

Forty-seven percent of the 224 private company chief executive officers interviewed from May through August 2010 for PwC's *Private Company Trendsetter Barometer* survey say they expect the Act to have a notable financial effect on their companies. Thirty-one percent say it's too soon to tell, while 20 percent do not expect a notable financial impact.

Companies that don't anticipate a notable financial impact are forecasting well-above-average revenue growth for the next 12 months, compared with the other companies surveyed. The 47 percent of respondents who do expect a notable financial impact are forecasting average revenue growth and have an above-average number of employees covered by their healthcare plans (828), as compared with survey respondents overall (548).

**Actions that private companies in general plan to take:**

**70%** plan to re-evaluate their benefits strategy.

**52%** expect to significantly change employee contributions.

**60%** expect to change their benefit plan provisions to comply with the act.

**42%** of private companies plan to increase their investment in wellness programs.

Despite nearly half of Trendsetter CEOs anticipating a notable financial effect, many are still uncertain about which of the Act's provisions are most likely to have such a result. They are also unsure about how best to comply with the Act's various requirements, a number of which have yet to take effect.

"In helping our clients assess the effect that health reform will have on their organizations, we've been looking at their overall healthcare benefit packages to evaluate whether they're in compliance with the Act, as well as considering strategies for managing the expected increase in healthcare costs," says Ken Esch, a partner in PwC's Private Company Services practice. "In light of current economic conditions, it's imperative that companies begin assessing their healthcare plans and cost-containment strategies sooner rather than later."

**Strategic planning may mitigate the tax impact**

Many of the Act's provisions will take effect between 2011 and 2018, including the increase in the Medicare hospital insurance tax for high-income individuals and the new tax on certain net investment income, both of which start in 2013. A fair number of private company CEOs expect these taxes will have a moderate to significant effect on their business (31 percent say this about the Medicare tax increase and 26 percent about the net investment income tax).

"This is an interesting time for Trendsetter CEOs when you consider that they'll be implementing new healthcare reform requirements in tandem with increasing tax rates," says Esch. "It's possible that this could create a cash flow issue as CEOs look to continue reinvesting in their business. Every company is different, of course, but we're seeing clients consider accelerating income or deferring deductions now, at the lower tax rates, which should provide a permanent tax benefit when rates go up."

**Evaluating the scope of change**

The Act's requirement that companies offer affordable healthcare to all fulltime employees means that private businesses may have big decisions to make. To be sure, some private companies might find that they simply need to make minor adjustments to their healthcare coverage, but others could end up substantially redesigning their benefits packages, as well as rethinking their overall approach to healthcare coverage.

Of the 47 percent of private company CEOs who expect the Act's provisions will have a notable financial impact on their business, 81 percent say they are re-evaluating their overall benefits strategy, and 67 percent expect to change their benefit plans to comply with the Act. Seventy-three percent say that, in the process, they are likely to change employee contributions for medical coverage, which could well be in the form of passing premium increases on to employees, as has been happening at companies in general for some time now.

**Companies expecting a notable financial impact from the Act are planning a more aggressive response:**

**81%** plan to re-evaluate their benefits strategy.

**73%** expect to significantly change employee contributions.

**67%** expect to change their benefit plan provisions to comply with the Act.

**51%** of private companies plan to increase their investment in wellness programs.

**Renewed focus on preventive and wellness measures**

A fair amount of private businesses also say they're likely to increase their investment in wellness programs as a result of the Act. Large companies in particular say they are apt to do this (57 percent versus 34 percent of smaller companies<sup>1</sup>).

“The number of companies that ultimately enhance their focus on wellness and preventive measures might easily rise in the next few years,” says Esch, “as companies try to continue managing healthcare costs while, at the same time, possibly having to take expensive measures to comply with the Act. So there’s a good chance we’ll see a shift in focus toward sustainable solutions that will make healthcare cost increases lower over the long term.”

**Healthcare strategies in uncertain times**

How the Act’s various provisions play out for private companies remains to be seen. Many of the provisions are complex and most have yet to take effect. The approach that private companies take to health reform may, to some degree, depend on how the Act’s provisions interact with changes in the economy and governmental policy (e.g., deficit-driven changes in the federal tax structure) over the next year or so.

As Esch notes, “The potential business impact of health reform is just one among a host of issues — regulatory, legislative, economic — that’s creating uncertainty for CEOs right now. We’re advising our clients that with proper planning and a big-picture perspective, they can effectively navigate through these challenges and emerge a stronger, more efficient business.”

For more information on the survey findings and to find out how healthcare reform affects private businesses, please contact one of the following individuals at PwC:

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<sup>1</sup> Smaller companies are those with less than \$100 million in annual revenue.

PricewaterhouseCoopers' Trendsetter Barometer tracks the business issues and best practices of privately held US growth businesses. The second-quarter 2010 results incorporate the views of 224 chief executive officers (CEOs/CFOs) at leading private companies averaging \$256.7 million in enterprise revenue/sales, and including large, \$300 million-plus private companies.

**Profile of management panel demographics:**

Average number of employees	929.9
Average revenues	\$161.1M
Average enterprise revenues	\$256.7 M
Average five-year growth	75%

PwC's Private Company Trendsetter Barometer is developed and compiled with assistance from the opinion and economic research firm of BSI Global Research, Inc.

For more information about Barometer surveys, including recent economic trend data and topical issues, please visit our Web site: [www.barometersurveys.com](http://www.barometersurveys.com)

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