



Texas Service Sector Outlook Survey

DALLAS FED

August 26, 2014

SPECIAL QUESTIONS

Data were collected Aug. 4–7, and 191 Texas business executives responded to the survey.

1. What are your best estimates of the annual percentage change in your firm's overall health care costs per worker, for both this year and next year?

	2013–14 (percent change)	2014–15 (percent change)
Average	11.7	15.3
Median	10.0	12.0

NOTE: 167 respondents answered for the change from 2013 to 2014; 125 answered for the change from 2014 to 2015.

2. How would you say the Affordable Care Act (ACA) has affected your firm's health care costs in question 1 above?

	Effect of ACA in 2014 (percent)	Expected effect of ACA in 2015 (percent)
Reduce costs a lot	0.0	0.0
Reduce costs a little	0.6	0.6
No effect	17.3	8.4
Raise costs a little	48.2	27.3
Raise costs a lot	33.9	63.6

NOTE: 168 respondents answered for the effect in 2014; 154 answered for the effect in 2015.

3. Are you changing (or have you changed) your health care plan in response to the ACA?

	Percent
We are keeping our plan unchanged	31.9
We are making modifications to our plan	51.6
We are dropping health insurance	1.1
We are offering health insurance for the first time	2.2
We do not offer health insurance and don't plan to offer it	2.2
Other	11.0

NOTE: 181 respondents answered this question.

4. How, if at all, are you changing (or have you changed) any of the following because of the effects that the ACA is having on your firm?

	Lower due to ACA (percent)	Higher due to ACA (percent)	No change due to ACA (percent)
The number of workers you employ (including full-time, part-time, etc.)	20.8	2.7	76.5
The proportion of your workers that are part-time, contract or temporary	7.1	22.4	70.5
Amount of work outsourced to other firms	0.5	18.0	81.4
Wage and salary compensation per worker	16.9	6.6	76.5
Other benefits, including retirement	18.0	10.4	71.6
Prices you charge to customers	1.6	24.6	73.8

NOTE: 182 respondents answered this question.

TEXAS RETAIL OUTLOOK SURVEY

Data were collected Aug. 4–7, and 49 Texas retailers responded to the survey.

1. What are your best estimates of the annual percentage change in your firm's overall health care costs per worker, for both this year and next year?

	2013–14 (percent change)	2014–15 (percent change)
Average	14.9	15.2
Median	10.0	12.0

NOTE: 48 respondents answered for the change from 2013 to 2014; 34 answered for the change from 2014 to 2015.

2. How would you say the Affordable Care Act (ACA) has affected your firm's health care costs in question 1 above?

	Effect of ACA in 2014 (percent)	Expected effect of ACA in 2015 (percent)
Reduce costs a lot	0.0	0.0
Reduce costs a little	0.0	0.0
No effect	13.3	7.7
Raise costs a little	46.7	17.9
Raise costs a lot	40.0	74.4

NOTE: 45 respondents answered for the effect in 2014; 39 answered for the effect in 2015.

3. Are you changing (or have you changed) your health care plan in response to the ACA?

	Percent
We are keeping our plan unchanged	41.3
We are making modifications to our plan	45.7
We are dropping health insurance	4.3
We are offering health insurance for the first time	0.0
We do not offer health insurance and don't plan to offer it	0.0
Other	8.7

NOTE: 46 respondents answered this question.

4. How, if at all, are you changing (or have you changed) any of the following because of the effects that the ACA is having on your firm?

	Lower due to ACA (percent)	Higher due to ACA (percent)	No change due to ACA (percent)
The number of workers you employ (including full-time, part-time, etc.)	21.7	4.3	73.9
The proportion of your workers that are part-time, contract or temporary	2.2	23.9	73.9
Amount of work outsourced to other firms	0.0	28.3	71.7
Wage and salary compensation per worker	13.0	10.9	76.1
Other benefits, including retirement	17.4	10.9	71.7
Prices you charge to customers	2.2	26.1	71.7

NOTE: 46 respondents answered this question.

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Credit Intermediation and Related Activities

- > We have modified our health care plan by reducing benefits and coverage and increasing deductibles and out-of-pocket contributions.
- > We think the biggest risk is that we still are not sure of the impact of the ACA on our business. Too much is not known.
- > We believe the ACA will have a greater impact on the cost of insurance beginning in 2015. We anticipate that the insurance policy covenants will be adjusted in an attempt to keep costs for employees at affordable levels by increasing deductibles and raising employee copays. It will be a challenge for those companies currently paying for employees' health insurance.
- > We have to keep decreasing coverage to keep costs in line. Our original increase this year was 42 percent. We decreased coverage to lower the increase to 31 percent. The projection for next year is a 40 percent increase.

Securities, Commodity Contracts, and Other Financial Investments and Related Activities

- > Our firm is a member of a Professional Employer Organization (PEO) that manages the employee administration process, including health insurance.

Water Transportation

- > Our projected percent increase for health care costs in 2015 does not include any plan design changes.

Truck Transportation

- > In our company, we feel that the employment of our team is a commitment of stability and predictability, not something we change due to business environment cost change. We view the ACA as a "work-around" task for our leadership.

Support Activities for Transportation

- > Our firm currently is small enough that we are not required to offer health insurance. If we were required, we are not sure we would be able to offset the cost through higher pricing. We would probably have to adjust hours and go to more part-time workers.

Publishing Industries (except Internet)

- > We are very nervous about next year's costs for health care. We were able to keep our costs down this year by renewing early; otherwise, our costs would have increased dramatically, hurting our ability to hire more people. We would have had to cut people or cut insurance. We do not yet have new quotes for next year.

Insurance Carriers and Related Activities

- > We are self-insured. Our rates and prior changes to our health care program are a function of the benefits we intend to provide to our employees and our actual experience from year to year. We don't know how the ACA will impact our program.
- > Our rates are also a function of claims, so it is hard to judge how much of our increase is due to the ACA and how much of it is claims-related.

Rental and Leasing Services

- > The ACA is hampering business and our ability to compete.

Professional, Scientific and Technical Services

- > We are working very closely with our health care consultants to make sure we employ the right mix of benefits so as to avoid high levels of taxes on our plan by 2018, and we have started phasing in changes. We are also trying to manage costs and are planning to shift more and more of the increase in cost to employees and partners at the firm by increasing deductibles, using generic drugs and giving price breaks to employees following good medical practices. Also, we are phasing out retiree benefits, especially for those who depart prior to age 65.
- > We renewed our 2014 plan early in December 2013 to delay the effects of the ACA on our health insurance. We expect a large increase for the 2015 plan year when we renew in December this year.
- > The ACA is a severe hardship to businesses. We will diminish our coverage offered, and the bottom line is it hurts all of us.
- > We have cut our 401k match in half to help offset costs.
- > Through fiscal 2014, we have not seen any effect of the ACA. However, the longer term plan is to drop insurance once the national exchange stabilizes and compensate employees for premiums.
- > We are just very concerned that in the near future we will not be able to offer health insurance to our employees.

Management of Companies and Enterprises

- > An effort is being made to outsource functions that have traditionally been performed by our employees. In addition, we are employing more part-time employees to reduce the impact of the ACA.
- > The extent of our reaction to the ACA will depend on the extent of increased costs.

Administrative and Support Services

- > Impacts of the ACA on employers like us, with just over 50 employees, have created anxiety of the unknown. To group a company like ours in the same class as one with thousands, or tens of thousands, is irresponsible. This, coupled with an employer mandate that does not necessarily match up with employee desires, creates a conservative approach to future growth and future jobs. Regardless of government mandates, our employees have proven year after year that, despite having a company-provided plan, they choose the lower cost alternative of county hospitals.
- > It is difficult to discern the actual impact of the ACA. We are a small company and had a few employees with large insurance claims. This definitely affected the rate increase, but the business absorbed the costs of maintaining the same level of benefits.
- > The ACA could force us to close our doors to restructure our business. Even if our employees had 100 percent paid health insurance, they wouldn't pay the copay. They have no desire to pay 50 percent, and so finding care they would use is going to be next to impossible.
- > It is very difficult to forecast. Our advisors do not completely know what is going on, and therefore, we are all guessing. We do know that we cannot afford the fines and that we may have to outsource. This dramatically affects our model that has proved successful for 33 years. The model we have requires full-time employees with no subcontractors. The service requirements and customer needs require close control of the employee-customer interaction.
- > We experienced a large increase two years ago in our insurance costs, and last year we experienced no increase. We have fewer than 50 employees, so any major claim has an effect on our premiums. Based on our best estimates, we are expecting a double-digit cost increase, although this is not a result of any increase in claims. We are trying to change prices to account for our increased costs, but the market is not fully accepting of these increases due to competition and customer budget constraints. When we are able to raise prices, it does not fully cover our increase in costs. We try to offset with efficiency improvements in our company.
- > We have a self-funded plan, and the ACA has had seemingly little impact. However, our revenues are primarily paid by insurance carriers for our health care service. We have noticed a significant increase in patient responsibility—copays and deductibles—and a resultant material slowdown in our cash flow.

Ambulatory Health Care Services

- > We have been partially self-insured for several years, which has helped shield us from some of the effects of the ACA. Our costs will continue to rise, in part due to increased regulations and taxes mandated by the ACA.
- > We have seen increased health care costs, taxes and fees related to the ACA. We are doing what we can in other areas to minimize the

impact on employees. However, we are not sure how much longer we can do this before increased health care costs are shared with employees. We also have been hit with the medical excise tax, which is seen as a pass-through to the manufacturers. We can't increase our fees; in fact, we are expected to decrease our fees as our customers are primarily hospitals.

- We are self-insured and use the private exchange. The ACA has had little effect other than some increased costs due to the extension of benefits for dependents until age 26.
- As an outpatient imaging center, we have no ability to raise our prices, while our costs constantly increase. We currently only have a 2 percent margin despite approaching capacity on equipment, so we are teetering on the edge of substantial cutbacks that would include employee reduction, should further stresses occur in the system. Our payroll costs have increased from 19 to 37 percent of gross collections since 2005, and our insurance costs have increased 140 percent since 2005. We have cut costs to the bone, including refinancing at low interest rates but can cut no more. Radiologist professional fees have been cut 45 percent over that same interval. We have cut our capital expenditures this year by 70 percent and do not anticipate any large capital purchases over the next 16 months.
- We cannot pass any increased costs on to customers since our reimbursement is fixed by the government as we are 80 percent Medicare. The 30-hour a week employee who is now considered full time is what is going to be costing us more, since we now have to offer them health insurance.

Hospitals

- The ACA has impacted both our employees and our customers; rural hospitals are being impacted on both sides. Our cost to do business is increasing as we will be forced to convert part-time employees to full-time and because companies in health care are increasing costs in expectation of the impacts of the ACA. Regulation and reporting requirements will increase, and rural hospitals are expected to meet the same regulatory and reporting requirements of larger hospitals with reduced reimbursements. Our percentage of self-pay patients is increasing, and we are not seeing benefits from the ACA.

Nursing and Residential Care Facilities

- Our company offered substantially better health insurance benefits—both in cost and coverage—prior to the ACA. Because of the cost increases associated with the ACA, we now offer the minimum required benefits. The ACA has negatively affected both the quality and morale of our employees.

Social Assistance

- The 125 percent increase expected in 2015 is based on not doing any modifications to our existing plan. We are still working on finding a way to reduce our annual cost.

Food Services and Drinking Places

- There was no impact in 2014 because of the delay in the employer mandate. 2015 health care costs will increase dramatically if the employer mandate is not delayed again. We are still considering how to minimize the impact in 2015, but we have been careful to maintain grandfather status on our three existing plans. The most likely option at this point is that we will give up our current base plan and replace it with lower cost coverage—probably a Minimum Essential Coverage plan—that will be used to measure affordability, while maintaining our two other plans. We are using a 12-month initial assessment period to determine the status of variable hour staff, which includes most of our staff and only reduce the ratio of full-time to part-time where it makes business sense for operational reasons, not because of the ACA. We have already begun the process of reducing benefits that we previously offered to both full-time and part-time hourly staff to help offset the expected cost of having to buy health coverage for a projected 200 to 300 more people—out of a pool of 550 to 650 people—a cost the company simply does not have the ability to cover. Any cost increase greater than what we save by reducing other benefits is going to have to be passed directly to our customers through price increases. We estimate employee benefits costs to increase 50 to 75 percent, which is a very optimistic figure. Even if only a relatively small portion of those newly eligible actually sign up for coverage, our number covered will more than double.
- We are continuing an existing plan and intend to hold on to this plan for another year through 2015.
- We will probably be reducing the percentage of premiums we pay for dependents next year to make up for the additional employees we will now have to cover.

Personal and Laundry Services

- We dropped our health care coverage for the group after 20 years of providing it. Our projected rate increase for annual renewal in September 2013 was 70 percent over the prior year for same policy. After looking at higher deductibles and other cost-cutting measures, the smallest increase we could get was 50 percent, and that was not a cost we wanted to afford.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- We are a not-for-profit company and cannot compete for employees on a salary basis. As a strategy established long ago, we offer a rich benefit plan as a way to attract and retain our employees. The ACA did not make too much difference to our cost structure, although we've had a number of employees take advantage of the ACA by covering their dependents via the Federal Exchange.
- We don't know yet whether we will make any changes, but we are conducting a thorough review of our health care options.
- We have already been paying a higher rate for our small group plan, so the ACA didn't have any effect, but we anticipate some changes to that cost in future years.

Merchant Wholesalers, Durable Goods

- We have provided health coverage for a long time, and while individuals need to be covered, health care should not be part of the employer-employee bargain. We have not reduced employment in response to it; however, that is only due to the boom in the Texas economy. Over the long haul, we absolutely plan to have fewer employees.
- Our costs are a lot higher due to the ACA.

Merchant Wholesalers, Nondurable Goods

- We will not know the full effects until December 1, 2014.

Motor Vehicle and Parts Dealers

- > We have made no major changes at this time, but we are somewhat concerned about continued increases in actual health care costs.
- > We are not changing anything at this time. As further implementation of the ACA occurs and the rules are further adjusted, this may change.
- > Our primary concern is that we suddenly have more employees on our plan. Some had previously gone without insurance, and others who were covered by spousal plans are now on our coverage. This has added significantly to our costs.
- > More employees are now taking coverage under our plan, which leads to a higher cost of benefits for the company. Only 1 percent of employees opted out this year and will be paying the ACA penalty.
- > Even though we are not changing anything at this time, if the cost increases continue, we will be forced to lay off some employees or discontinue health insurance benefits and pay the penalty.

Furniture and Home Furnishings Stores

- > The ACA is the single most costly effect imposed by our federal government in the 23 years we have been in business. Prior to the ACA, we provided better coverage to our employees for less money. This large increase will remove 10 percent of our net profit.

Building Material and Garden Equipment and Supplies Dealers

- > This act is a disaster for us. We are a small business that is project driven, and the ACA is forcing us to drop health insurance.
- > We moved to a Professional Employer Organization (PEO) this last year as our savings on health care more than paid the administrative cost of joining the group. We will compare our cost in March 2015 when it is time to renew health care again and see what the difference is in staying with the PEO group or leaving.

General Merchandise Stores

- > We are taking more aggressive actions to curb health care inflation in general than for the ACA.

Nonstore Retailers

- > We have a blue collar work force with fairly low pay. Benefits are crucial to hiring and retaining these employees. Also, our contracts with customers don't allow for price increases as a result of the impact of the ACA; they typically only allow us to increase our pricing if our suppliers increase their costs to us. Thus, we must absorb any cost increases due to the ACA, and modify benefits to minimize the impact on our margins.

