



The Association of
Accountants and
Financial Professionals
in Business



The Impact of the Affordable Care Act: An IMA Survey

IRF: C-Suite Report

About IMA®

IMA, the association of accountants and financial professionals in business, is one of the largest and most respected associations focused exclusively on advancing the management accounting profession.

Globally, IMA supports the profession through research, the CMA® (Certified Management Accountant) program, continuing education, networking, and advocacy of the highest ethical business practices. IMA has a global network more than 75,000 members in 120 countries and 300 professional and student chapters. Headquartered in Montvale, N.J., IMA provides localized services through its four global regions: The Americas, Asia/Pacific, Europe, and Middle East/Africa. For more information about IMA, please visit www.imanet.org.



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Research Division

There are few issues as contentious in today's debate on U.S. domestic policy as the Affordable Care Act (ACA), with some calling for its repeal while others enumerate the benefits it has produced. Despite all the rhetoric, there have been few, if any, studies of the impact of the Act on business organizations. This report presents the results of a survey of IMA members on the impact of the ACA on their companies. These senior financial leaders, with their financial skills and broad operational knowledge, are uniquely positioned to assess the effect on businesses of the ACA.

Global Business Environment

Today's finance and accounting professionals need to be aware of global business developments in order to be knowledgeable business partners. This research area focuses on understanding international topics and the impacts they have on organizations.

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Introduction

The Affordable Care Act (ACA) is one of the most contentious issues facing business today. The ACA's "employer mandate" requires that all businesses with 50 or more full-time equivalent employees (FTE) either provide health insurance to at least 95% of their full-time employees and dependents up to age 26 or pay a fee (approximately \$2,000 per full-time employee annually). Firms with 100 or more FTE and average annual wages more than \$250,000 will need to insure at least 70% of their full-time workers by 2015 and 95% by 2016. Small businesses with 50-99 FTE will need to start insuring full-time workers by 2016. The mandate does not apply to employers with fewer than 50 FTE.¹

While millions of Americans have gained health insurance through the ACA, the legality of certain portions of the legislation continues to be challenged in court. In addition, its impact on business remains subject to debate. To address this latter issue, IMA® (Institute of Management Accountants) surveyed a sample of members who are senior financial professionals about the impact of the Act on their companies. As finance leaders within their organizations, these respondents have a great vantage point from which to evaluate the effect of the ACA.

"The great majority of firms responding to our survey (83%) expect little to no impact on the number of employees that will be working for their company in the coming year."

Of the 170 respondents, 52 (31%) were from organizations with 50 or fewer employees, a key level for the ACA. The rest of the respondents represent firms of a wide range of sizes: 14% have 51-100 employees, 17% have 101-200 employees, 18% have 201-500 employees, 5% have 501-1,000 employees, 8% have 1,001-10,000 employees, and 7% have more than 10,000 employees.

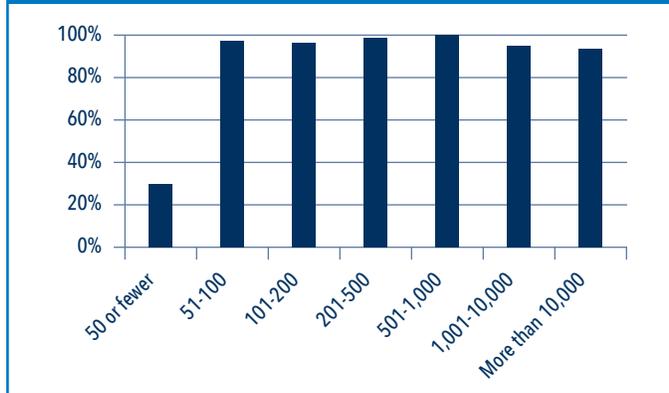
¹Obamacare Facts, <http://obamacarefacts.com/obamacare-employer-mandate>.



Subject to ACA

128 (75%) of respondents are at firms subject to the provisions of the ACA, 36 (21%) are not, and six (4%) are not sure. Whether a firm is subject to this legislation is largely dependent on its size: 31% of respondents at firms with 50 or fewer employees said they were subject to the ACA, compared to the 95% of respondents at firms with more than 50 employees (see Figure 1).

Figure 1. Percentage of Respondents' Firms Subject to ACA by Size (No. of Employees)

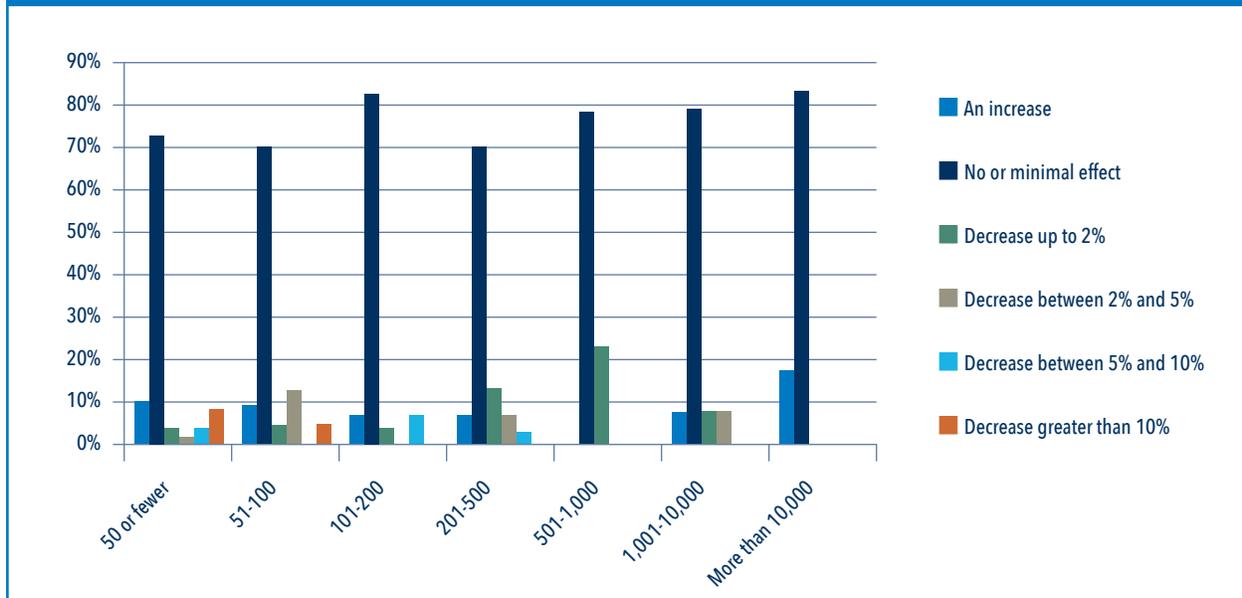


Impact on Number of Employees

A major concern with the ACA is its potential impact on companies' hiring plans. A large majority of survey respondents (83%) expect it to have little to no impact on the number of employees who will be working for their company in the coming year. Of the 17% that said there would be a negative impact on the number of employees, 7% said the negative impact would be no more than 2%, and only 3% said the impact would be greater than 10%. The ACA does not appear to be having a strong negative impact on hiring decisions.

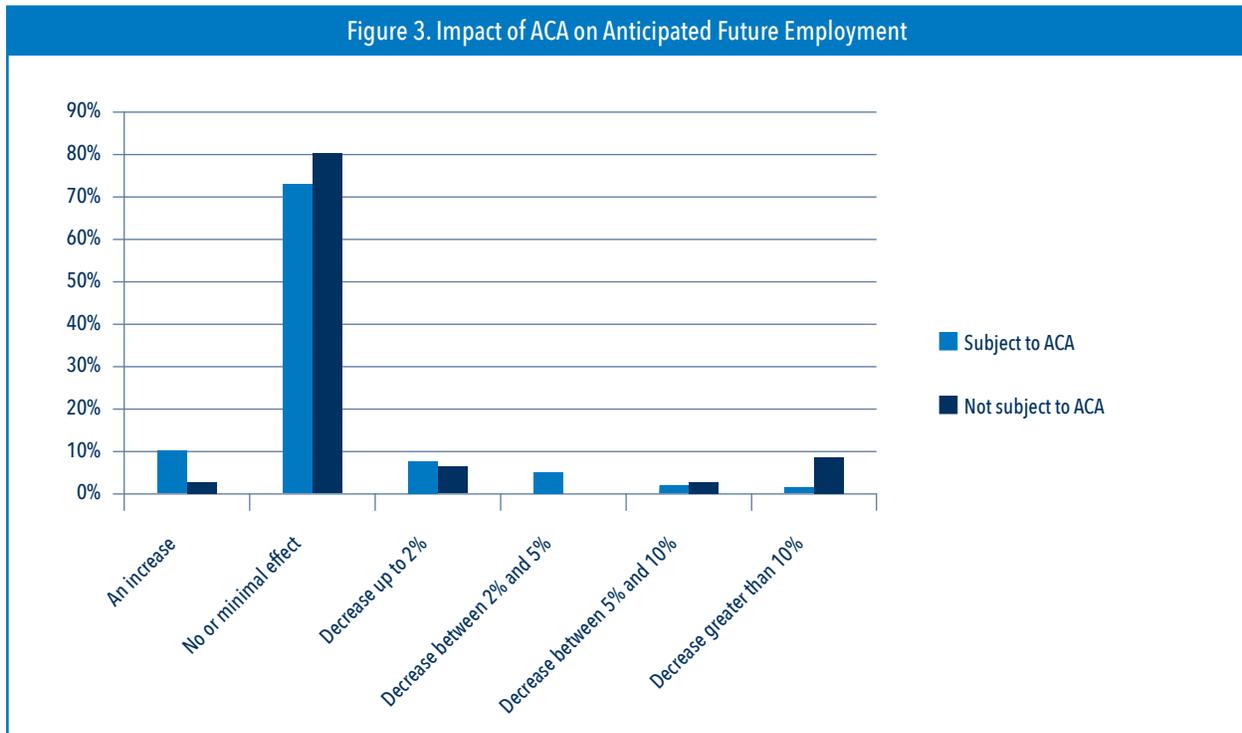
The expected impact of the ACA on company employment varies by firm size (see Figure 2). All of the respondents from the largest companies (more than 10,000 FTE) indicated that the ACA would either have minimal negative impact on the number of employees or lead to an increase. The biggest squeeze appears to be for small to midsized firms. Approximately 19% of respondents at firms with 51-1,000 FTE say they expect a decrease in employees.

Figure 2. Impact of Firm Size on Future Employment Expectations





Paradoxically, respondents at firms *not* subject to the provisions of the ACA are more pessimistic about the impact the Act will have on the number of their employees than those from companies subject to the legislation (see Figure 3). The reason for this is unclear; perhaps they are concerned about the ACA's impact on the general economy, or perhaps it is due to a general concern regarding the burden of compliance with additional government regulation. Also interesting is that 9% of respondents at firms subject to the ACA believe it will lead to an increase in the number of employees.



Analysis of respondents' survey comments indicates a concern by small employers regarding the employment thresholds in the ACA. One respondent said, "It has hindered growth due to the 50-employee level"; another said, "[The ACA] made us watch part-time vs. full-time employees more closely."

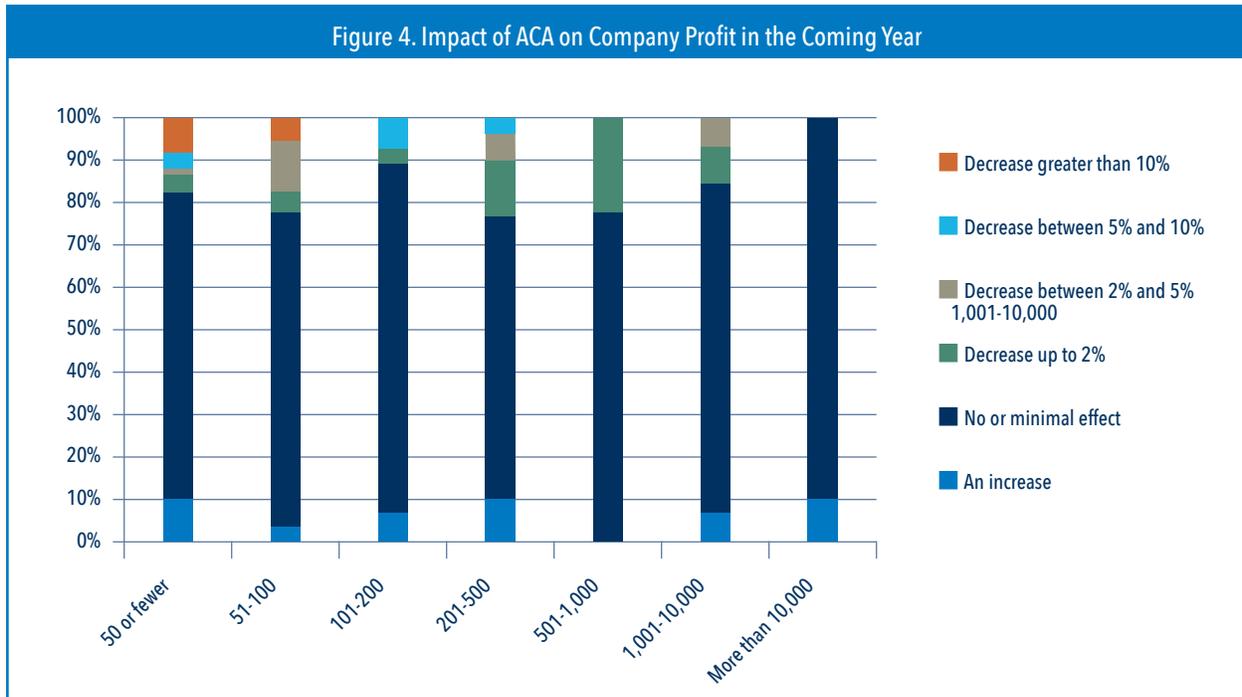
Impact on Profitability

Respondents and their companies are adopting a variety of strategies to cope with the cost of ACA compliance, including "reducing other expenses," "modifying current business practices to avoid additional liability," and "raising prices." A majority of respondents (57%) expect the ACA to have some negative impact on firm profits in the coming year. (That percentage increases to 60% when limited to respondents from companies that are subject to the ACA.) Thirty-eight percent of respondents expect it to have no effect, and 5% expect it to increase profitability.

Overall, 31% of respondents indicate the decrease in profitability would be no more than 2%; 14% indicate the decrease would be between 2%-5%; 8% indicate a decrease of 5%-10%; and 4% project the impact would be greater than 10%. Figure 4 shows that the impact on profits is fairly consistent across



firm sizes, with the impact perhaps being less for larger firms. Again, paradoxically, the great majority of respondents who expect the impact to be greater than 10% are from firms with 50 or fewer employees, which are not subject to the ACA provisions.



Our results are fairly consistent with the recent Bank of America Merrill Lynch *2015 CFO Outlook* survey, which involved CFOs at companies with annual revenues between \$25 million and \$2 billion. That survey found that 69% of CFOs expected company labor costs to rise to cover the costs of the ACA (average increase of 7.1%). More than 75% of CFOs said their companies would pass those costs along to the employees, while almost two-thirds said they would cut spending in other parts of the business to compensate. Half said they would raise prices to pay for the healthcare.²

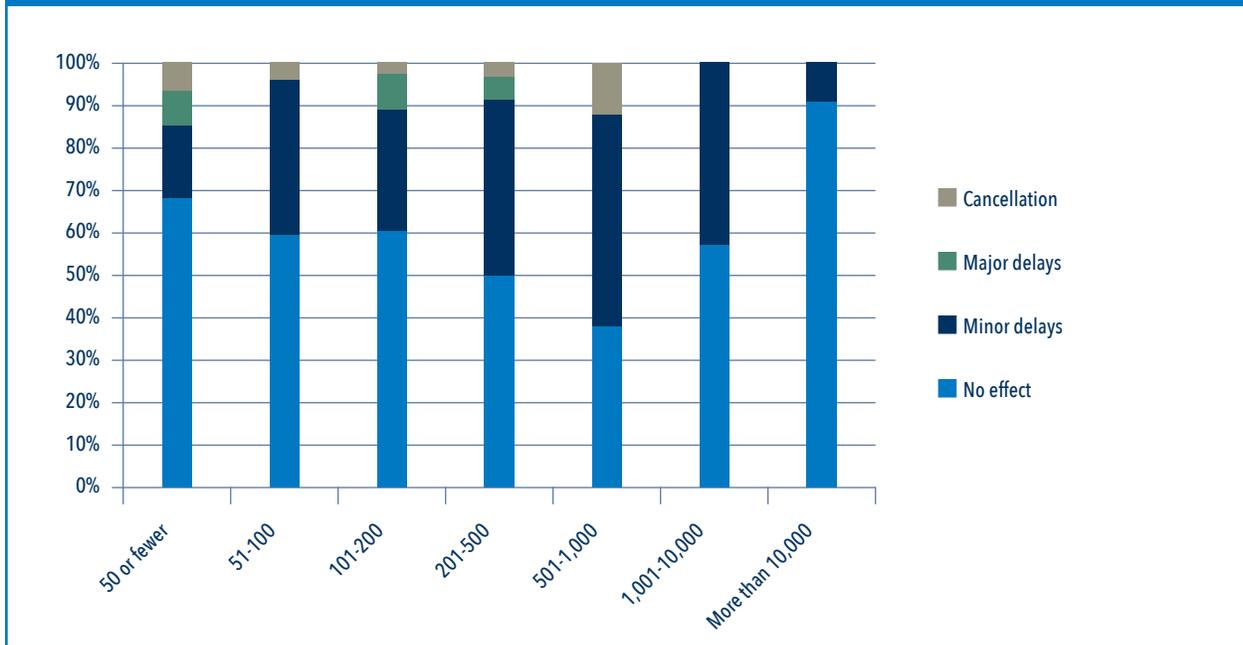
Impact of Uncertainty about ACA on Business Plans

Our respondents appear to be gaining clarity about how the ACA will affect their firms' business. Overall, 90% of respondents said uncertainty about the ACA would have little to no effect on their company's business plans to implement a new project or product. But not all were that certain. Comments include, "[We] do not know if anyone will go to the marketplace to get insurance," and "uncertain about the future of community-based care management..., which acute healthcare providers to align/partner with..., [and] the future of Accountable Care Organizations (ACO)." As shown in Figure 5, uncertainty regarding the ACA is largely affecting only smaller firms: None of the respondents at firms with more than 500 employees reported significant impact on their plans.

²Vipal Monga, "Workers to Bear Burden of ACA Cost Increases," *The Wall Street Journal's CFO Journal*, December 8, 2014, <http://blogs.wsj.com/cfo/2014/12/08/workers-to-bear-burden-of-aca-cost-increases>.



Figure 5. Impact of Uncertainty Regarding ACA on Business Plans by Firm Size (No. of Employees)



“The biggest squeeze appears to be for those small to mid-sized firms. For firms with 51-1,000 FTEs, approximately 19% said they expect some decrease in employees.”

Experience in Complying With ACA

We asked respondents how they would describe their experience in complying with the ACA. Fifty-three percent of those subject to provisions of the ACA said it has been somewhat to very difficult. Only 11% said it has been easy or very easy.

Some of the comments centered around the complexity of the legislation, such as: “Compliance concerns due to complexity of laws,” “Compliance has

been somewhat challenging,” and “Could not have done it without using consultants.”

Additional comments related to the future impact of the ACA include: “Because we are not fully in yet, only small changes have occurred. But we have seen healthcare policy quotes in ACA-compliant plans that were more than 100% increase in cost. That just is not feasible,” and “It has caused major concern in hiring and cast uncertainty over the future profit picture.”

Not all comments were negative. For example: “The ACA has given us a broader field of job applicants with more experience, which has allowed us to upgrade our work force.” The use of outside professionals has greatly eased the process for some: “Our agent handles and employee signups thus very easy,” and “Working with a PEO [professional employer organization] has minimized our compliance headaches.”



Conclusions

While the Affordable Care Act continues to be a very controversial piece of legislation, we find that strong concerns about higher unemployment due to the ACA do not seem to be warranted. Our findings show that the impact on hiring decisions for the coming year, when the employer mandate/penalty kicks in, is expected to be minimal. Firms with 51-1,000 FTE appear to be most at risk. We do find that more than half of those surveyed expect profits to decrease, but generally only by 5% or less—probably because of plans to shift the extra burden to employees and customers or to cut other spending. Finally, the ACA does not appear to have caused most companies to change their business plans.



Appendix. Survey Summary Statistics

Question	Potential responses	No. of responses Total	% Total
1. Is your company subject to the provisions of the Affordable Care Act (ACA)?	Yes	128	75.3%
	No	36	21.2%
	Not sure/Don't know	6	3.5%
	Total	170	100.0%
2. What do you expect the impact of the ACA to be on the <i>number of employees</i> working for your company in the coming year?	An increase	14	8.3%
	No or minimal effect	127	75.1%
	Decrease <2%	11	6.5%
	Decrease 2%-5%	7	4.1%
	Decrease 5%-10%	5	3.0%
	Decrease >10%	5	3.0%
	Total	169	100.0%
3. What do you expect the impact of the ACA to be on your <i>company's profit</i> in the coming year?	An increase	8	4.7%
	No or minimal effect	66	38.8%
	Decrease <2%	52	30.6%
	Decrease 2%-5%	24	14.1%
	Decrease 5%-10%	13	7.6%
	Decrease >10%	7	4.1%
	Total	170	100.0%

"It has hindered growth due to the 50-employee level."
(Small business employer)



Question	Potential Responses	No. of responses	%
		Total	Total
4. How has <i>uncertainty</i> regarding the provisions of the ACA affected your company's business plans?	No effect.	96	56.8%
	It has caused minor delays in implementing a new project or product.	45	26.6%
	It has caused major delays in implementing a new project or product.	7	4.1%
	It has caused us to cancel a new project or product.	7	4.1%
	Other	14	8.3%
	Total	169	100.0%
5. How would you describe your experience in complying with the provisions of the ACA?	Very Easy	8	4.7%
	Easy	10	5.9%
	Neither easy nor difficult	48	28.2%
	Somewhat difficult	48	28.2%
	Very difficult	33	19.4%
	N/A	13	7.6%
	Other	10	5.9%
	Total	170	100.0%
6. How many <i>full-time</i> (or equivalent) <i>employees</i> are in your organization? (Select one.)	50 or Fewer	52	30.6%
	51-100	23	13.5%
	101-200	29	17.1%
	201-500	31	18.2%
	501-1,000	9	5.3%
	1,001-10,000	14	8.2%
	More than 10,000	12	7.1%
	Total	170	100.0%