



## Affordable Care Act

Greetings Valued Clients,

Beginning with this month's article, Infinite Workforce Solutions will be sending out a series of articles relating to the Affordable Care Act. This month we are introducing an overview of the Patient Protection and Affordable Care Act with some potential employer financial implications.

### What is the Affordable Care Act?

Beginning in 2014, employers with 50 or more full-time or full-time equivalent employees must offer medical coverage that is "affordable" (costs no more than 9.5% of an employee's wages) and provides "minimum value" (covers 60%+ of total covered costs) to their full-time employees and their dependent children up to age 26 or be subject to penalties.

This is known as the employer mandate or the employer shared responsibility payment. The employer mandate is effective on January 1, 2014. However, employers with non-calendar-year plan years as of December 27, 2012, will not pay penalties for any full-time employees and dependents who are offered coverage on the first day of their 2014 plan year.

The employer mandate does NOT apply to small groups with two to 49 employees.

### Financial Implications for Employers

(By Benjamin Halbach – Catto & Catto Benefits Group)

The Affordable Care Act, or ACA, stands to have a significant financial impact on businesses of all types. To understand its affect on your bottom line, you must first understand the context of the legislation. Health care reform is an attempt to reform the cost of insurance, not the cost of health care. The bill primarily addresses who is newly eligible for insurance and how much they have to pay for it.

Facilitating the connection of buyer and provider, exchanges — or marketplaces — will be set up by the federal government and will look like an online travel search website, but with health plan options. The Congressional Budget Office forecasts about 27 million people will have access to subsidized coverage, a tremendous benefit. The drawback is the \$1.3 trillion price tag. Employers will need to understand and proactively plan for both the opportunity and the cost.

### Small Employers

If an employer has two to 50 employees and currently provides benefits, the cost will be influenced by various market reforms. The ACA imposes a community rating, which requires health insurers to offer policies within a given territory at the same price regardless of health status or medical underwriting. Because of this, many employers are considering an early renewal in 2013, since compliance with ACA isn't required until renewal in 2014. Plans will be required to meet an actuarial definition of "minimum value," which means the plan must cover 60 percent of an individual's health care costs.

Some groups will get a discount while some will experience dramatic rate increases. In a classic scenario of unintended consequences, older and sicker employers will pay less while younger and healthier groups will pay more.



## Large Employers

To offer benefits or pay the tax -- that is the question. Beginning in 2014, applicable large employers must offer minimum essential health coverage to all full-time employees or face the possibility of "shared responsibility payments." The tax, or penalty, applies to 50 or more full-time employees working more than 30 hours a week in the prior calendar year. There are two different penalties. The first, which relates to access, is \$2,000 per year. If employees are not given access to coverage, the tax is levied on the whole population if one employee buys coverage in the exchange. The second penalty, which relates to affordability, is \$3,000 per year. If an employee's cost of insurance is more than 9.5% of their income, employers are penalized for each employee that receives a subsidy and buys coverage.

Many employers' initial reaction is to drop benefits and pay the penalty. However, there are hard and soft costs to consider. The penalty is non-deductible and a direct bottom line expense whereas current benefits are tax deductible. Employees may lobby for additional compensation, which will affect a business' payroll taxes and workers' compensation premium base. Employer competitiveness also comes into question. Can employers that don't offer health care benefits attract top-tier talent?

## **Summary**

There is more than just the insurance marketplace that is being reformed. The way companies operate now must be managed within, or around the financial implications of the Affordable Care Act.

Infinite Workforce Solutions has a great Benefits resource available to you. Brenda McBride is our on-staff Benefits Manager who will be happy to help you navigate what the benefits aspects of the Affordable Care Act means to your company. You may contact Brenda at [bmcbride@infinite-ws.com](mailto:bmcbride@infinite-ws.com) or call her at 512-271-9700, ext. 211. Also, please consult your tax expert relating to tax implications of the ACA. As always, please contact me, Sharon Ely, HR Director to assist you with your HR needs at [sely@infinite-ws.com](mailto:sely@infinite-ws.com), 512-271-9700, ext. 209.