



# AFFORDABLE CARE ACT UPDATE

And the Impact On  
Governmental Agencies

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# THE AFFORDABLE CARE ACT

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June 6, 2009- President Obama is quoted 37 times saying,

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December 31, 2013 “If you like your plan, you can keep your plan.”

# THE AFFORDABLE CARE ACT

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March 23,  
2010

The Affordable Care Act is signed into law by President Obama.

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June 12,  
2012

The Supreme Court upholds The Affordable Care Act, ruling it Constitutional.

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# THE AFFORDABLE CARE ACT

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October  
1, 2013

Health Ins. Exchanges  
and Healthcare.gov open  
but with many problems.

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# THE AFFORDABLE CARE ACT

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Individual Mandate and  
Subsidized Health  
Insurance Begins.

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January  
1, 2014

Insurance Underwriting  
Changes.

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# THE AFFORDABLE CARE ACT

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## Insurance Underwriting Changes

- No More Annual Limits
- No More Lifetime Limits
- No More Pre-Existing Conditions
- Insurers Can Ask Only 3 Questions:
  - Age?
  - Tobacco?
  - Zip Code?

# THE AFFORDABLE CARE ACT

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January 1, 2015      Employer Mandate  
Begins

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June 25, 2015      Supreme Court Upholds  
ACA Subsidies

# GOAL: LEARN TO ANSWER THESE FIVE QUESTIONS

- 1. When does the pay or play provision become effective?**
- 2. What is the definition of a large employer?**
- 3. What is the definition of a full-time employee?**
- 4. How much is the penalty if a large employer doesn't offer coverage?**
- 5. How will you know whether the coverage meets the minimum requirements?**



# PAY OR PLAY PROVISION

- **Employer mandate provision takes effect Jan. 1, 2015\***
- **The act doesn't *require* employers to provide coverage**
  - May impose penalties on larger employers that don't offer coverage or that provide coverage that doesn't qualify as "affordable"
  - Penalties will increase annually based on premium growth
- **Employers with 50+ full-time employees that don't provide coverage may be penalized**
- **A full-time employee is one working at least 30 hours per week or 120 hours per month**



# PAY OR PLAY PROVISION

## • **Transitional Issues:**

- **No penalty for all of 2015 for employers with <100 FTE's**
- **For 2015, penalty calculated by subtracting 80 employees instead of 30**



# APPLICABLE LARGE EMPLOYER STATUS

- **Employed an average of at least 50 full-time employees, including full-time equivalent employees during the preceding year**
  - The employer will need to determine the total number of full-time employees and full-time equivalent employees on a monthly basis and take the average for the year.
  - Full-time equivalents are computed by dividing the aggregate number of hours of service by employees who are not full-time for the month by 120.
    - An employer with 40 part timers who average 90 hours per month would have 30 FTEs ( $40 \times 90 = 3,600 / 120 = 30$ )

# ASSESSING THE PENALTY

- **The annual penalty for a large employer not offering coverage is \$2,000 per full-time employee in excess of 30 workers.**
  - The penalty will be calculated on a monthly basis at \$166.67 per full-time employee in excess of 30 workers
  - Penalties will only be assessed if one or more full-time employees purchases coverage through an exchange and receives a premium credit

# PENALTY EXAMPLE

## Summary results: Pay or play analysis

Full time employees	53
Less 30 workers	-30
Number of employees subject to penalty	<u>23</u>
Multiplied by annual penalty amount	<u>x \$2,000</u>
Penalty for not offering coverage to all full-time employees	<u><u>\$46,000</u></u>

## Cost of Providing Coverage

Annual cost of current plan	\$ 275,000
Employee contributions	\$ (100,000)
Value of Federal Tax Deduction	<u>\$ (61,250)</u>
Employer's net cost of current plan	<u><u>\$ 113,750</u></u>



# MORE ON ASSESSING THE PENALTY

- **Employers that provide coverage that is not affordable or does not provide minimum value may also face penalties**
  - The annual penalty is the lesser of \$3,000 per employee for each worker receiving a premium credit, or \$2,000 for each full-time employee beyond first 30 employees
  - The penalty is calculated on a monthly basis at \$250 per month
  - This requires two penalty computations to determine the lower penalty

# AFFORDABILITY AND MINIMUM VALUE

- **The health plan must cover at least 60% of the healthcare expenses for a typical population**
- **The employee's share of the premium coverage cannot exceed more than 9.5% of their annual household income**

# PENALTY EXAMPLES

- **Employer with 53 full-time employees providing coverage with employee premiums in excess of 9.5% of employee income for a number of employees. Plus add the cost of coverage from our previous example.**
- **10 employees receive premium credit – penalty is lesser of:**
  - $10 \times \$3,000 = \$30,000$
  - $23 \times \$2,000 = \$46,000$
- **20 employees receive premium credit – penalty is lesser of:**
  - $20 \times \$3,000 = \$60,000$
  - $23 \times \$2,000 = \$46,000$

# To Drop or Not To Drop?

- **Financial Considerations:**

- Tax penalties associated with not offering a qualified health plan are not tax deductible. Therefore, a \$2,000 penalty could equate to a \$3,000 premium
- Small Business Tax Credit – up to 50% of premiums paid for small business employers and 35% of premiums paid for small tax-exempt employers

# To Drop or Not To Drop?

- **Non-Financial Considerations:**
  - Employee satisfaction
  - Ability to recruit and retain top talent
  - Improve health of workforce

# To Drop or Not To Drop?

## **Other options:**

- Reduce the coverage benefits and in some cases dramatically
- Impose the premium increase on the employees
- Gap Coverage



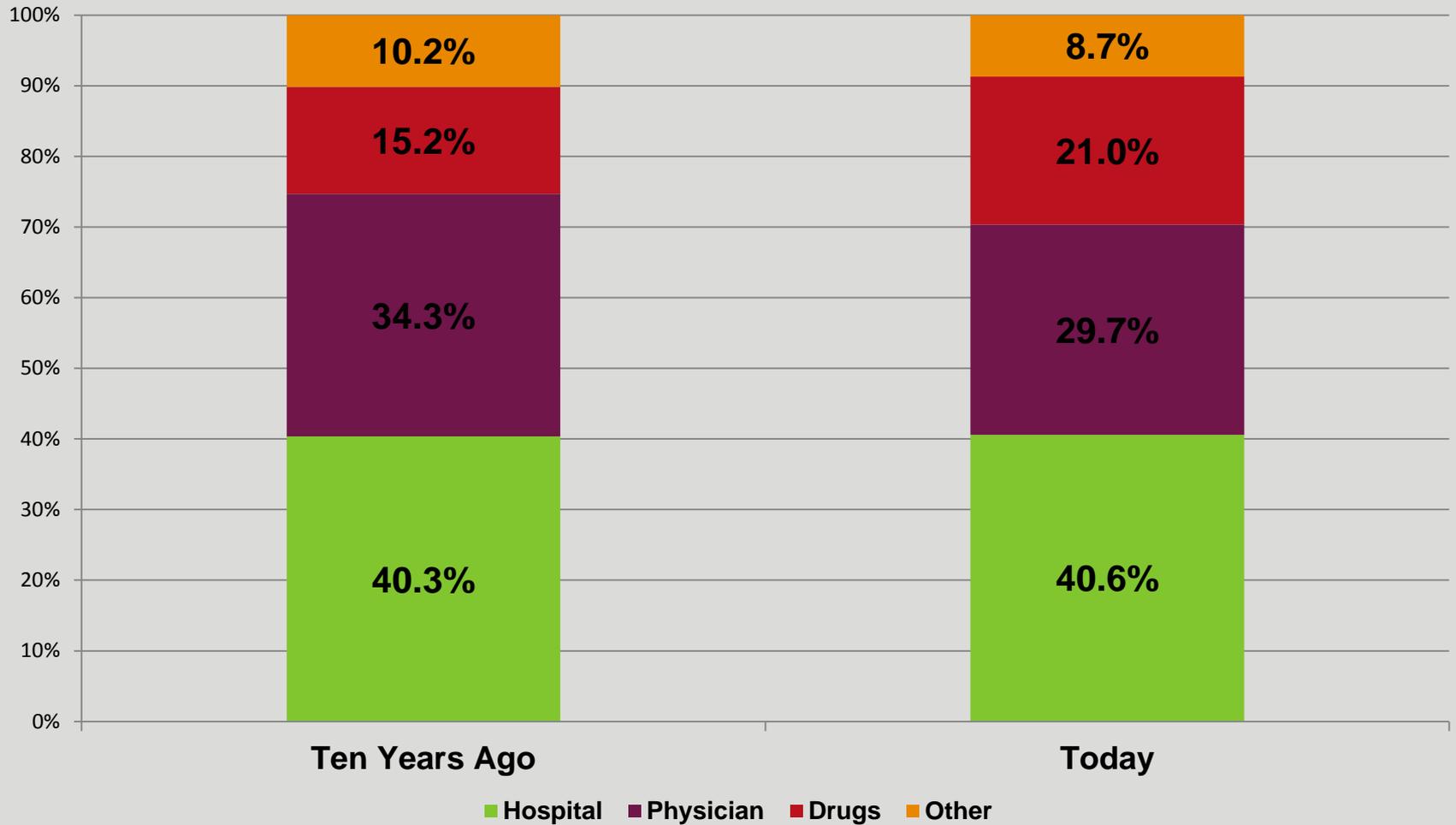
# INDIVIDUAL MANDATE

- **Centerpiece of Supreme Court case**
  - Mandate requires majority of Americans to purchase health insurance by 2014
    - Those who don't purchase health insurance will likely pay a penalty
  - Uninsured individuals must weigh penalty against cost of health coverage
  - Penalty phase-in (greater of)
    - 2014 = \$95 or 1% of household income
    - 2015 = \$325 or 2% of household income
    - 2016 = \$695 or 2.5% of household income

# OPTIONS FOR INDIVIDUALS WITHOUT COVERAGE

- **Pay the penalty**
- **Purchase coverage from a traditional insurance provider**
- **Purchase coverage through an exchange**
  - States have the option of implementing and running their own exchange or the federal government will run the exchange in states that do not have their own exchange
  - An exchange is a government-regulated marketplace for purchasing affordable healthcare coverage

# Additional Information



# PLAN OPTIONS

Benefit	Blue Choice® Platinum <i>for Business</i>	Blue Access® Gold <i>for Business</i>	Blue HSA Gold <i>for Business</i>	Blue Secure Silver <i>for Business</i>	Blue Saver® Bronze <i>for Business</i>
<b>SUMMARY OF COST SHARING PROVISIONS</b> (Includes Mental Health and Substance Abuse)					
<b>Calendar Year Deductible</b>  Calendar year deductible amounts met in-network will not apply to the out-of-network calendar year deductible  Calendar year deductible amounts met out-of-network will not apply to the in-network calendar year deductible	<b>In-Network:</b> \$100 per individual; \$200 aggregate amount per family  <b>Out-of-Network:</b> \$100 per individual; \$200 aggregate amount per family	<b>In-Network:</b> \$500 per individual; \$1,000 aggregate amount per family  <b>Out-of-Network:</b> \$500 per individual; \$1,000 aggregate amount per family	<b>In-Network:</b> Self-Only Coverage: \$1,500 Family Coverage: \$3,000  <b>Out-of-Network:</b> Self-Only Coverage: \$1,500 Family Coverage: \$3,000  For self-only coverage, no benefits, except preventive care, are paid by the plan until medical expenses paid by the individual equal the deductible amount. For family coverage, no benefits, except preventive care, are paid by the plan to any family member until the total medical expenses paid by the family equal the family deductible amount.	<b>In-Network:</b> \$2,000 per individual; \$4,000 aggregate amount per family  <b>Out-of-Network:</b> \$2,000 per individual; \$4,000 aggregate amount per family	<b>In-Network:</b> \$4,200 per individual; \$8,400 aggregate amount per family  <b>Out-of-Network:</b> \$4,200 per individual; \$8,400 aggregate amount per family
<b>Calendar Year Out-of-Pocket Maximum</b>  Deductibles, copays and coinsurance for in-network services apply to the out-of-pocket maximum	<b>In-Network:</b> \$4,000 individual (including calendar year deductible); \$8,000 aggregate amount per family (including calendar year deductible)  <b>Out-of-Network:</b> There is no out-of-pocket maximum for out-of-network services	<b>In-Network:</b> \$5,000 individual (including calendar year deductible); \$10,000 aggregate amount per family (including calendar year deductible)  <b>Out-of-Network:</b> There is no out-of-pocket maximum for out-of-network services	<b>In-Network:</b> Self-Only Coverage: \$3,000 (including self-only calendar year deductible) Family Coverage: \$6,000 (including family calendar year deductible)  <b>Out-of-Network:</b> There is no out-of-pocket maximum for out-of-network services	<b>In-Network:</b> \$6,350 individual (including calendar year deductible); \$12,700 aggregate amount per family (including calendar year deductible)  <b>Out-of-Network:</b> There is no out-of-pocket maximum for out-of-network services	<b>In-Network:</b> \$6,350 individual (including calendar year deductible); \$12,700 aggregate amount per family (including calendar year deductible)  <b>Out-of-Network:</b> There is no out-of-pocket maximum for out-of-network services
After you reach Calendar Year Out-of-Pocket Maximum, applicable in-network expenses covered at 100% of the allowed amount for remainder of calendar year					

## Health Insurance Reimbursements

- Starting July 1, 2015, the penalty for paying an employee a health insurance reimbursement (under section 4980D) is \$100 per day per employee. That's \$36,500 per year per employee.
- This applies to other health care and medical reimbursement type expenses too, if paid outside of a section 125 cafeteria plan
- The ACA encourages companies to offer group health insurance to their employees. However, if an employee buys their health insurance elsewhere (through spouse, the exchange, BCBS, etc), the company can NOT reimburse them, or else they are likely subject to these penalties.
- The IRS states “tax free reimbursements” are not permitted. However, the DOL stipulates it's a violation to reimburse them at all, without regard to the tax and W-2 treatment (pre-tax or after-tax). A recent Forbes article says employers must eliminate all appearances of a plan or a reimbursement.

## Forms 1094 and 1095

- The ACA imposes new 2015 health insurance reporting requirements on applicable large employers (50 or more full-time equivalent employees) and for all companies who sponsor self-insured health plans.
- The new information reporting is similar to the current W-2 system in that an information return (form 1095-B or 1095-C) will be prepared for each applicable employee and these returns will be filed with the IRS using a single transmittal form.
- Penalties for not filing are up to \$500 per return.
- Small companies that are part of a controlled group that collectively have 50 or more FTEs are required to file
  - nonprofits and governmental units are also subject to the controlled group rules of section 414 and may be required to file
- All applicable large employers must file, regardless of whether they offer health insurance
- A form 1095 must be filed for each full-time employee regardless of whether they participated in the group health plan
- A form 1095 must be filed for each part-time employee and non-employee (directors, retirees, COBRA) who participated in the group health plan

## Forms 1094 and 1095

- Monthly information to be reported on the form includes:
  - type of coverage offered (single, includes spouse, includes dependents, etc)
  - employee's share of lowest cost monthly premium offered for self-only minimum value coverage (may be different than their actual coverage)
  - other information including, part-time or full-time, transitional relief, etc.
- This is a 12 column monthly reporting schedule – one for each employee
- It's important for all applicable large employers to maintain signed copies of health insurance election forms from each employee
  - Companies with 50-100 FTEs are NOT required to offer health insurance in 2015 but ARE required to do this reporting
- Companies are coming out with tracking software now to help in preparation of these forms
- The IRS will use this information to determine if employees are eligible for premium subsidies or subject to penalties for not having insurance. It also allows the IRS to determine which employers are subject to penalties for not offering affordable, minimum value coverage.

**Employer-Provided Health Insurance Offer and Coverage**

► Information about Form 1095-C and its separate instructions is at [www.irs.gov/1095c](http://www.irs.gov/1095c).

VOID  
 CORRECTED

OMB No. 1545-2251  
**2014**

<b>Part I Employee</b>				<b>Applicable Large Employer Member (Employer)</b>								
1 Name of employee			2 Social security number (SSN)		7 Name of employer				8 Employer identification number (EIN)			
3 Street address (including apartment no.)					9 Street address (including room or suite no.)				10 Contact telephone number			
4 City or town		5 State or province		6 Country and ZIP or foreign postal code		11 City or town		12 State or province		13 Country and ZIP or foreign postal code		

<b>Part II Employee Offer and Coverage</b>													
	All 12 Months	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
14 Offer of Coverage (enter required code)													
15 Employee Share of Lowest Cost Monthly Premium, for Self-Only Minimum Value Coverage	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
16 Applicable Section 4980H Safe Harbor (enter code, if applicable)													

**Part III Covered Individuals**  
 If Employer provided self-insured coverage, check the box and enter the information for each covered individual.

(a) Name of covered individual(s)	(b) SSN	(c) DOB (if SSN is not available)	(d) Covered all 12 months	(e) Months of Coverage											
				Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
17			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



**QUESTIONS?**



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### Profile

Steve Barranco joined the Firm in 1989 and is a Member in the Firm's Healthcare Consulting Division. With more than 23 years of experience in public accounting, Steve specializes in serving hospitals, physician group practices and other healthcare-related companies. Steve also provides assurance and tax services to individuals and small businesses. He recently completed his presidency for the 2006-2007 term of the Alabama Society of CPAs.