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Preparing for the Affordable Care Act's Employer Mandate

By Karl Rebay
Director
Moss Adams LLP

The new year ushered in several new health care mandates for employers. As part of the Affordable Care Act (ACA), companies are now required to report the total cost of employer-sponsored health care benefits to the IRS via W-2 forms starting with the 2012 tax year. Additionally, employers must limit flexible spending accounts to $2,500 per employee and will no longer receive Medicare Part D drug subsidy payments for retirees.

However, this is only the tip of the federal overhaul of the health care system. Companies are scrambling to determine what they should do about health care benefits before the employer mandate goes into effect on January 1, 2014.

What Is the Employer Mandate?

In less than a year, employers with at least 50 full-time workers will have to decide whether to provide comprehensive and affordable health insurance to employees who work at least 30 hours a week—or pay a penalty. Analysts anticipate that employers in the hotel and retail industries will be most affected by the employer mandate, since they must provide coverage to full-time employees who aren't typically covered. Many large companies are now weighing their options to determine whether restructuring their payrolls may be necessary to blunt the projected financial impact.

Evaluating Your Options

As the ACA stands now, there are financial incentives for large companies to provide health insurance through "pay or play" provisions. What many companies don't know is that not only does the ACA impose a penalty if employers don't provide health coverage, but if existing coverage doesn't meet the mandated standards, there's a penalty for that too. Below are three scenarios you must consider:

- **If you choose not to offer health insurance**, you'll have to pay a penalty of $2,000 per employee, excluding the first 30 employees.
- **If you choose to offer health insurance but it doesn't meet ACA standards** (either because it's deemed not affordable or doesn't meet a minimum level of coverage), your employees are eligible to receive a premium tax credit and can buy coverage through a state-run health insurance exchange. In this case you must pay a penalty of $3,000 per full-time employee, up to a certain total limit. The penalty will increase each year in proportion to the growth in insurance rates.
- **If you choose to offer health insurance and it meets ACA standards** (because it covers at least 60 percent of employee health care expenses and keeps employee premiums under 9.5

percent of family household income), you'll avoid federal penalties. Interestingly, recent guidance also clarifies whether employers must offer coverage for their employees' dependents. Given that the definition of *affordable* in the ACA applies only to individuals, dependent health care costs could shift to the employee.

Although the ACA does make provisions to grandfather in existing employer-sponsored health insurance plans, it's likely that strict compliance regulations will cause many employers not to pursue this protection. After weighing all the options, companies may decide to not offer health insurance and simply pay the penalty, which could be less than the cost of providing benefits.[1]

Before You Make Any Insurance Decisions

Something you must remember is that business overhead cost isn't the only factor that affects the bottom line and makes a company successful. It's important to weigh expenditures against the potential business impact of not offering any health coverage.

According to a 2012 survey by the American Psychological Association, 60 percent of employed Americans said a company's benefits package is extremely or very influential in attracting and retaining talented employees. Looking at broader business objectives, companies still need to remain competitive, and one of the key ways to do that—especially in industries that require a specific skill set—is by being a place where people want to work.

What's Next?

Originally the ACA mandated that employers must provide employees with information about the existence of health insurance exchanges, premium tax credits, and potential effects on their federal income tax by March 1, 2013. However, the IRS hasn't yet issued final guidance, and this mandate has since been delayed until late summer or fall of 2013.

As a result, you won't have to notify employees until final regulations are issued and a final effective date is specified. Until then, you should continue to become familiar with the proposed guidance available and ensure you're accurately classifying your employees, since it may impact your health care coverage requirements.

Beyond the employer mandate, employers with self-funded health insurance plans should also be aware that payment of the first patient-centered outcomes research institute (PCORI) fee is due by July 13, 2013. The ACA helps fund medical research conducted by PCORI, and employer fees required for this research will be filed on IRS Form 720. Additionally, the Cadillac Health Insurance Excise Tax will go into effect in 2018. Employer-sponsored health plans with premiums exceeding threshold amounts of $10,200 for individuals or $27,500 for families will be subject to a 40 percent excise tax.

We're Here to Help

The IRS is expected to announce final employer mandate guidance over the next six months. Moss Adams LLP will continue to monitor health care reform developments and issue alerts as they happen. In the meantime, for help weighing your financial options and ensuring your business is compliant with upcoming ACA federal regulations, contact your Moss Adams professional.

Karl has been in the health care industry since 1993. He leverages his deep expertise in strategic business planning, financial operations, turnarounds, feasibility studies, development of capitation models, negotiation and analysis of managed care agreements and service line analysis and development for both hospitals and physician organizations. He also has experience with risk bearing organizations and management services organizations. Karl holds a BS in accounting from California State Polytechnic University, Pomona and an MBA from the University of California Irvine. Karl can be reached at Karl.Rebay@mossadams.com. Visit the Moss Adams LLP web site at www.MossAdams.com

[1]"Will Employer-Based Healthcare Live or Die?" accessed on March 7, 2013 at http://www.mossadams.com/LandingPages/Health-Care-Reform