

# ACA Readiness from an Employer's Perspective

Affordable Care Act Full Time Employees and Offers of Coverage





# SUMMIT

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- Third Party Administrators and Actuaries for 401(k), Defined Benefit and Cash Balance retirement plans, and Affordable Care Act Employer Mandate



- Incorporated 1990
- Partners since 1994
- Center for Fiduciary Excellence Certified
- 30 TPAs outsource their work to us
- Employees and clients across the country

# Overview

- Offer of Coverage
  - MV/MEC/Affordable
- Full-Time Employees
  - Monthly Measurement Method
  - Look Back Measurement Method

# Affordable Care Act

## Employer Shared Responsibility Provisions

### Internal Revenue Code Sections:

- 4980H - Employer Mandate
- 6056 & 6055 - Large Employer Reporting
  - IRS Form 1095 C & 1095 B
  - IRS Form 1094 C & 1094 B

# Who is a 'Large Employer'?

Employ, on average,  
50 or more  
'Full-time  
and  
Full-time Equivalent Employees'  
per month in the prior calendar year.

What are the definitions of

- 'Full-time' and
- 'Full-time Equivalent Employees'?

# Calculating Number of FT and FTEs

Full-time:

Over 120 hours equals 1 Full-time Employee

Full-time Equivalent:

Aggregate of hours worked by all employees who worked under 120 hours divided by 120

Full-time + Full-time Equivalent  $\geq$  50

If YES, then ALE

# Control & Affiliated Service Groups

- Common Ownership and Member Entities should be evaluated by a Legal Counselor
- Determine the # Full-time and Full-time Equivalents for each member
- Add up Full-time and Full-time Equivalents for all members
- If total is 50 or more then each member is considered a 'Large Employer'
- The CG or ASG is an Applicable Large Employer (ALE)
- Each member of the CG or ASG is an Applicable Large Employer Member (ALEM)
- Each member must comply with IRC 4980H and 6056
- An hour worked for any ALEM is used to determine the employee's entitlement to an offer
- Each ALEM must complete IRS Reporting
- Penalties are prorated among ALEMs

# Offer of Coverage

Is an Offer that provides...

Minimum Essential Coverage

Offered to Dependents

Minimum Value

Affordable

For all days of the Calendar month



# Affordability Safe Harbors

Employee Premium doesn't  
exceed 9.5% of....

**Box-1 W-2 Wages**  
(Annual Determination only)

**Lowest Hourly Rate** (per month) **x 130**  
(Monthly Salary option)

**Federal Poverty Line Annual Income**  
(Used for qualifying offer method)

# Full-Time Employees

## Which definition do we use?

'Full-time employee' is used 254 times in IRC 4980H and 6056

There are two major definitions - both different and specific to the context of the regulations:

- 1) Large Employer Determination (easy way)
  - A. 120 hour rule ('full-time')
  - B. fraction of 120 ('full-time equivalent')
  
- 2) Offer/Reporting (to 'full-time employees' - and dependents)
  - A. MMM - 2 options to choose from
    - a. Weekly rule - 30 hours a week
    - b. Monthly equivalent - 130 hour a month
  - B. LBMM - 285 basic varieties :)

# Who to Offer Coverage to?

## When?

## How long?

The answer is, of course :) 'Full-time Employees'

- Here there are two (and ONLY two) allowable definitions of Full-time Employee:
  - Monthly Measurement Method
  - Look Back Measurement Method (we cannot use this method for determining ALE / ALEM status)

Both require tracking actual hours worked per *CALENDAR* month (some payroll period shifting is allowable)

# Monthly Measurement Method

- An employee who works 130 hours in the calendar month is entitled to an offer for that calendar month
- New full-time employees
  - Must offer by first day of fourth month
  - If no offer, penalties apply to calendar months following date of hire
  - Rule applies only once per period of employment

# Monthly Measurement Method - Weekly Rule

Can use successive one-week periods to determine eligibility for the month.

Hours of service can be counted over four and five week long periods, that either include the first or last day of the month, applied consistently

Eligible employees will work

- 120 hours in four-week long months

- 150 hours in five-week long months

Offer of coverage must still be for entire calendar month

§54.4980H-3 (c) (3) Monthly measurement method -- Use of weekly periods

## Monthly Measurement Method - Pros

- An employee who works 130 hours in the *calendar* month is entitled to an offer for that calendar month
- Administratively easier (if your crystal ball is perfect)
- Simpler than LBMM
- No Stability Period - don't have penalty liability when employees work less than 130 hours a month

# Monthly Measurement Method - Cons

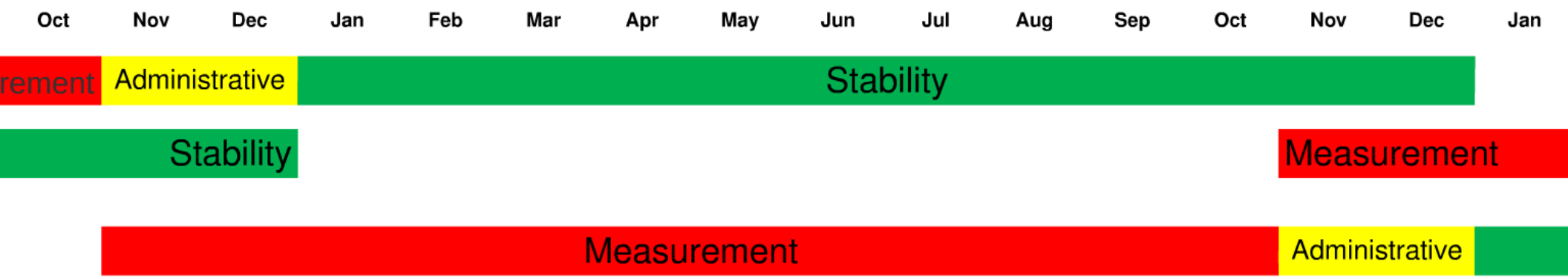
- Use MMM when work force has very stable and predictable schedules
- Employer
  - Covers everyone
  - Doesn't cover anyone
- Not a good method when employer has variable hour workers that the employer does not want to cover
- Potentially disastrous method if the employer does not want to cover its variable hour workforce and the VHs are greater than 5 employees or 5% of the full-time employees

# Look Back Measurement Method - Standard

- Measurement Period
  - Period in which to measure employees' hours to see if they averaged 130 hours per month
  - 3-12 months in length (BE CAREFUL!!)
  - Pick Beginning and End dates
  - Can use Payroll Period shifting
- Stability Period
  - Period in which eligible employees are offered and enrolled in coverage - regardless of hours
  - CALENDAR month based
  - Must be at least length as Measurement Period
  - Must follow Measurement Period and any subsequent Admin Period
- Administrative Period
  - Optional (highly recommended)
  - Calculate eligibility and complete offer/enrollment
  - cannot be longer than 90 days
- 14th month rule



# Look Back Measurement Method



Sep

Oct

Nov

Dec

Jan

Feb

Mar

Apr

May

Jun

Jul

Aug

Measurement

Administrative

Stability

Stability

Measurement

Apr

May

Jun

Jul

Aug

Sep

Oct

Nov

Dec

Jan

Feb

Stability

Measurement

Measurement

Administrative

# Look Back Measurement Method - Plan Options

Four primary decisions to make:

## 1. Standard Stability Period

- 6 or 12 months are the only good choices
- Standard Stability Period length for eligible employees must be the same as measurement period or longer but no more than 12 months.

## 2. Standard Measurement Period

- 3, 4, 6 or 12 months (but choose 6 or 12)
- Not to exceed Standard Stability Period

## 3. Standard Admin Period

- Directly after measurement period end
- No more than 3 months

## 4. Initial Measurement and Stability Period for New variable hour/ seasonal/non-full-time Employees

- (More on this later)

## Look Back Measurement Method - Use of Payroll Periods

LBMM can use payroll periods of one week, two weeks, or semi-monthly in duration

Shift the start of the measurement period to the first day of the Payroll Period that either includes the first day of the measurement period or includes the last day of the measurement period

\*Monthly payrolls that are not a calendar month are NOT a permitted equivalence (ex. 25th to 24th)

# Look Back Measurement Method - New Variable Hour and Seasonal Employees

## New Employees Initial Measurement Period

### Starts

- Date of Hire (Not a good choice, ends poorly)
- First Day of first payroll after Date of Hire (ok)
- First Day of first month after Date of Hire (great if you have access to calendar month hours)
- Any day between Date of Hire and the later of the First Day of first payroll after Date of Hire or First Day of first month after Date of Hire

## Initial Admin Period

Cannot exceed 90 days (including days between DOH and Initial measurement period)  
(if 12 month measurement, watch for 14 month rule)

12-1-12

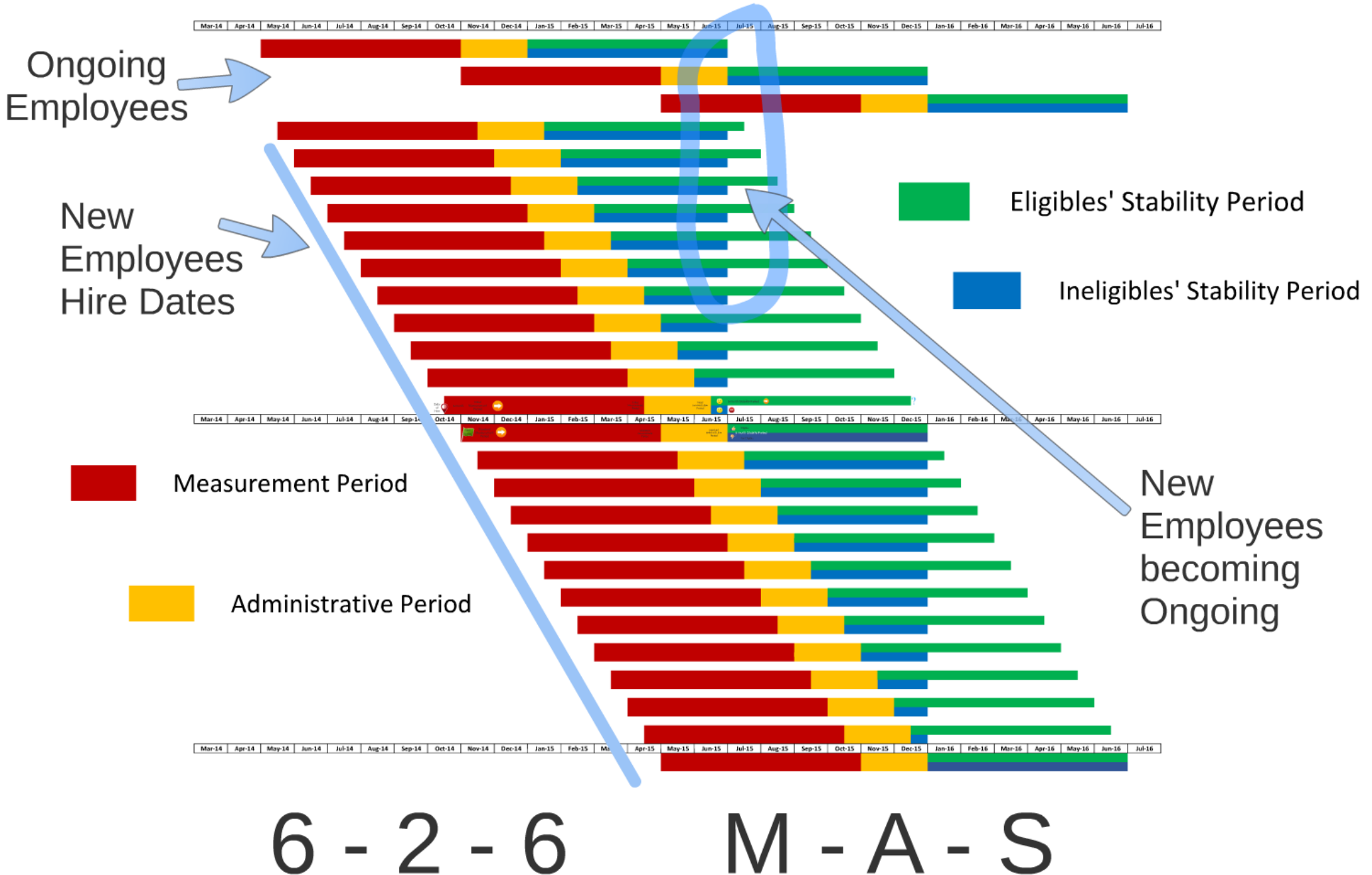
or

11-2-12

## Initial Stability Period

Must be as long as Standard Stability Period for eligible employees  
(watch for truncating ineligible Initial Stability Periods)

# Interplay between Initial and Standard Periods



# Monthly Measurement Method versus Look Back Measurement Method

- LBMM is more complicated and more costly to administer
- LBMM will likely produce fewer eligible employees
- LBMM provides time to determine eligibility and enroll employees
- LBMM is best choice when employers have variable hour employees they do not want to cover except to avoid penalties



# Affordable Care Act's Employer Mandate

## Problem:

- Complicated rules require more than just tools
- In house expertise is expensive and risky
- Time sensitive determinations
- Large consequences

## Solutions Available:

- Tracking Tools
- Full Service Administration





**SUMMIT**

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Thank you!

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