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**Strategic Advisory Services**

# ACA Administrative Requirements 2015 And Beyond

HR. Payroll. Benefits.

July 2014

## **This presentation is not:**

- Legal Advice
- The final word on Healthcare Reform
- A political opinion

**ADP is not a law firm and does not provide legal advice.**

**Before taking any action on the information contained in this presentation, Plan Sponsors should review this material with internal and/or external counsel.**



# **The Issues**

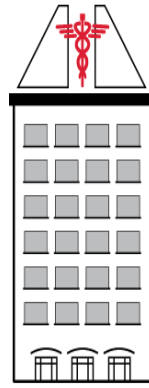
# ACA Will Impact...



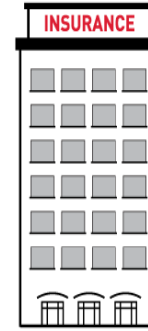
**Employers**



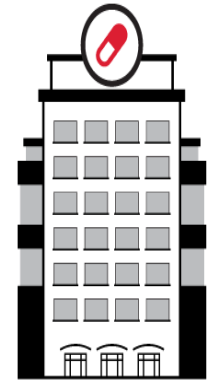
**Individuals**



**Healthcare  
Providers**



**Insurance  
Companies**

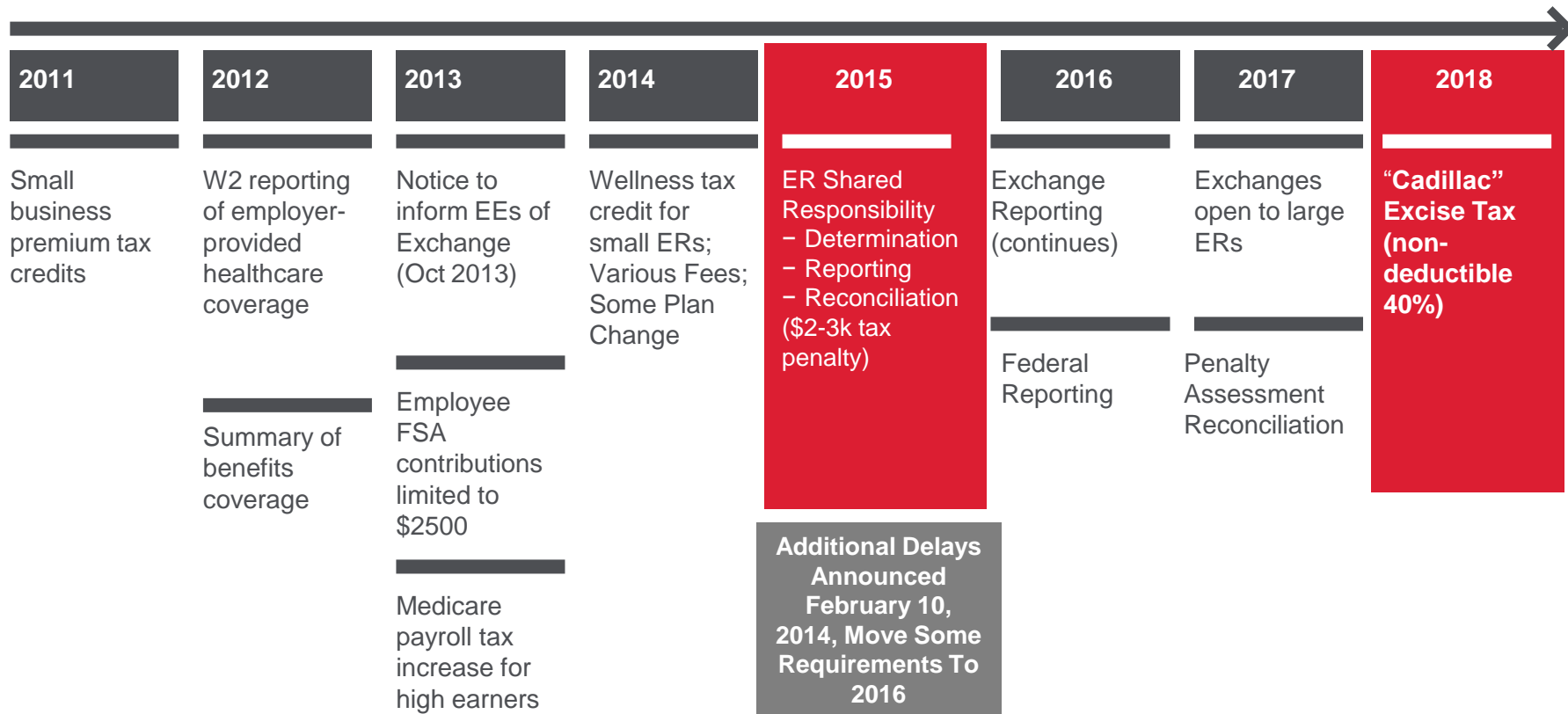


**Pharma &  
Medical Device  
Manufacturers**

# ACA Changes Increase Complexity For Employers

2011	2012	2013	2014	2015	2016	2017	2018
Small business premium <u>tax credits</u>	<u>W2 reporting</u> of employer-provided healthcare coverage	Notice to inform EEs of Exchange (Oct 2013)	Wellness <u>tax credit</u> for small ERs; Various Fees; Some Plan Change	ER Shared Responsibility - Determination - Reporting - Reconciliation (\$2-3k <u>tax penalty</u> )	Exchange Reporting (continues)	Exchanges open to large ERs	<u>"Cadillac" Excise Tax</u> (non-deductible 40%)
	Summary of benefits coverage	<u>Employee FSA contributions</u> limited to \$2500			<u>Federal Reporting</u>	<u>Penalty Assessment Reconciliation</u>	
		Medicare <u>payroll tax increase</u> for high earners					

# Some Carry Hefty Penalties



# ACA – Broad Human Capital Management Impact

<b>IT/Systems</b>	<ul style="list-style-type: none"> <li>• Integration</li> <li>• Security</li> <li>• Data exchange (17 states+ Washington, D.C., and 8 Federal partnerships. 26 states no Federal partnerships / unknown)</li> <li>• System updates/change management</li> <li>• Data recordkeeping (7 years)</li> <li>• Reporting</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>• Cost of complying/data modeling</li> <li>• Fees/fines/penalty assessments &amp; reconciliation</li> <li>• Money movement/remit payments</li> <li>• Certify Annual Health Care Coverage Report 1095-B</li> </ul>
<b>Tax</b>	<ul style="list-style-type: none"> <li>• Receive and reconcile IRS penalty estimates and appeal where appropriate</li> <li>• Auditing</li> </ul>
<b>Legal</b>	<ul style="list-style-type: none"> <li>• Stay current on complex regulations</li> <li>• Interpret law – Federal &amp; State Exchange changes</li> <li>• Ensure legal compliance</li> </ul>

<b>Human Resources</b>	<ul style="list-style-type: none"> <li>• Communication</li> <li>• Employee calls/shared service center</li> <li>• Reporting</li> </ul>
<b>Payroll and Time</b>	<ul style="list-style-type: none"> <li>• Calculating look back period (keep data in sync)</li> <li>• Affordability calculation</li> <li>• Prepare and distribute new annual report (6055/6056)</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Compliance communication</li> <li>• New plans/wellness/rewards</li> <li>• Multi-employer coordination</li> </ul>
<b>Unknown</b>	<ul style="list-style-type: none"> <li>• Notice of coverage options</li> <li>• Verification of inquiries from Exchanges</li> <li>• Receipt of notices from Exchanges</li> <li>• Management of reporting deadlines/period management</li> <li>• Administrative challenges</li> <li>• Staff to meet demands</li> </ul>

# Changes, Delays and Transition Relief: February 2014

- Section 4980H(a) Penalty
  - Postponed until 2016 for employers with fewer than 100 employees
  - Revised for 2015 for employers with 100 or more employees
    - Must offer to at least 70% of ACA F-T EEs (95% after 2015)
    - May exclude first 80 EEs (30 after 95%) when determining penalty
- Dependent Children
  - Not required to include
    - Foster Children
    - Step Children
- Offer of Coverage
  - Roll-over of existing election meets this requirement
- Non-Calendar Year Plans
  - Must have been in effect on or before Dec. 27, 2012
  - Can wait until plan year begins in 2015 to comply
    - Must meet either coverage (25%) or offering (33%) requirements, however
- No IRC Sec. 125 Mid-Year Elections for Non-Calendar Year Plans
- One Time Short Measurement Period Permitted
  - No less than 6 consecutive months
  - Begins no later than July 1, 2014
  - Ends no earlier than 90 days before the first day of the plan year beginning on or after January 1, 2015
- Simplified Reporting alternatives if certain requirements are met

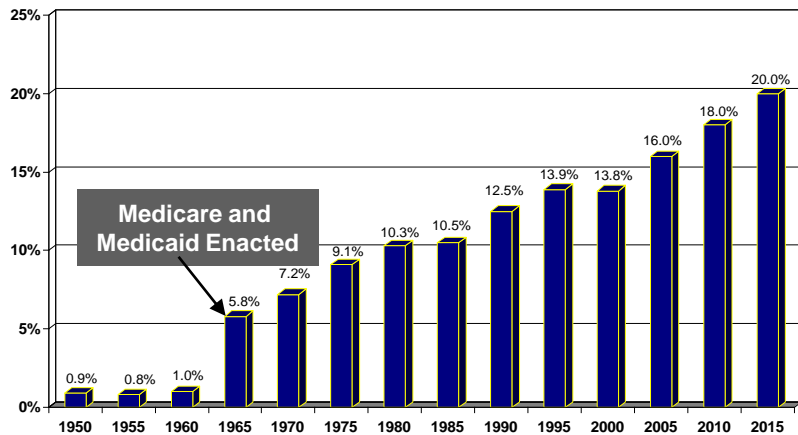




# **2018 Excise Tax**

# Health Care Cost Continue A Long Term Cost Increase Far In Excess Of Inflation

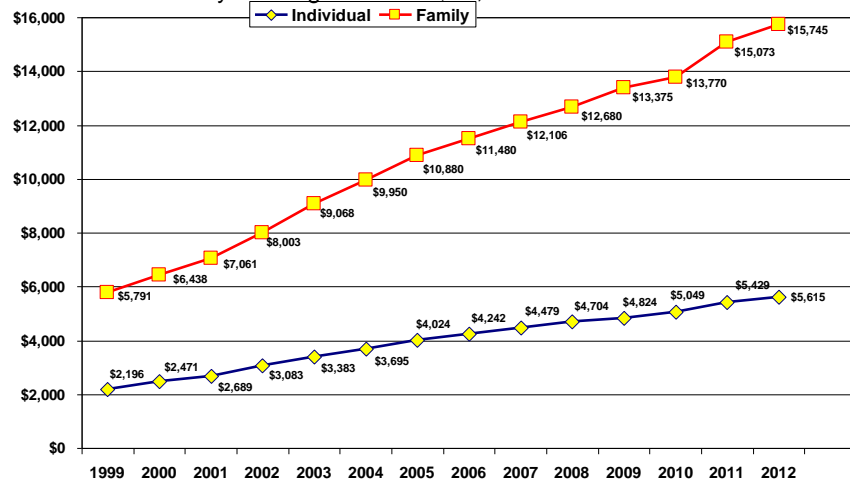
- Health care represents a larger portion of the GDP almost every year since 1965 – and will account for over 18% of GDP in 2012



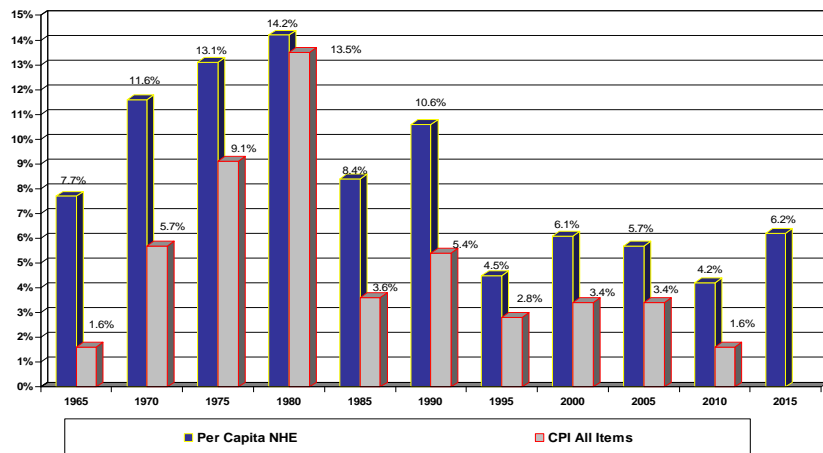
Source: Centers For Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, U.S. Department of Commerce, Bureau of Economic Analysis

- Average annual cost of employer provided health care rose an average of 8% annually between 1999 and 2012

- Employee Only coverage exceeds \$ 5,600 in 2012<sup>1</sup>
- Family coverage exceeds \$15,700 in 2012<sup>1</sup>



Source: 1 Kaiser Family Foundation, 2012 Employer Health Benefits Survey



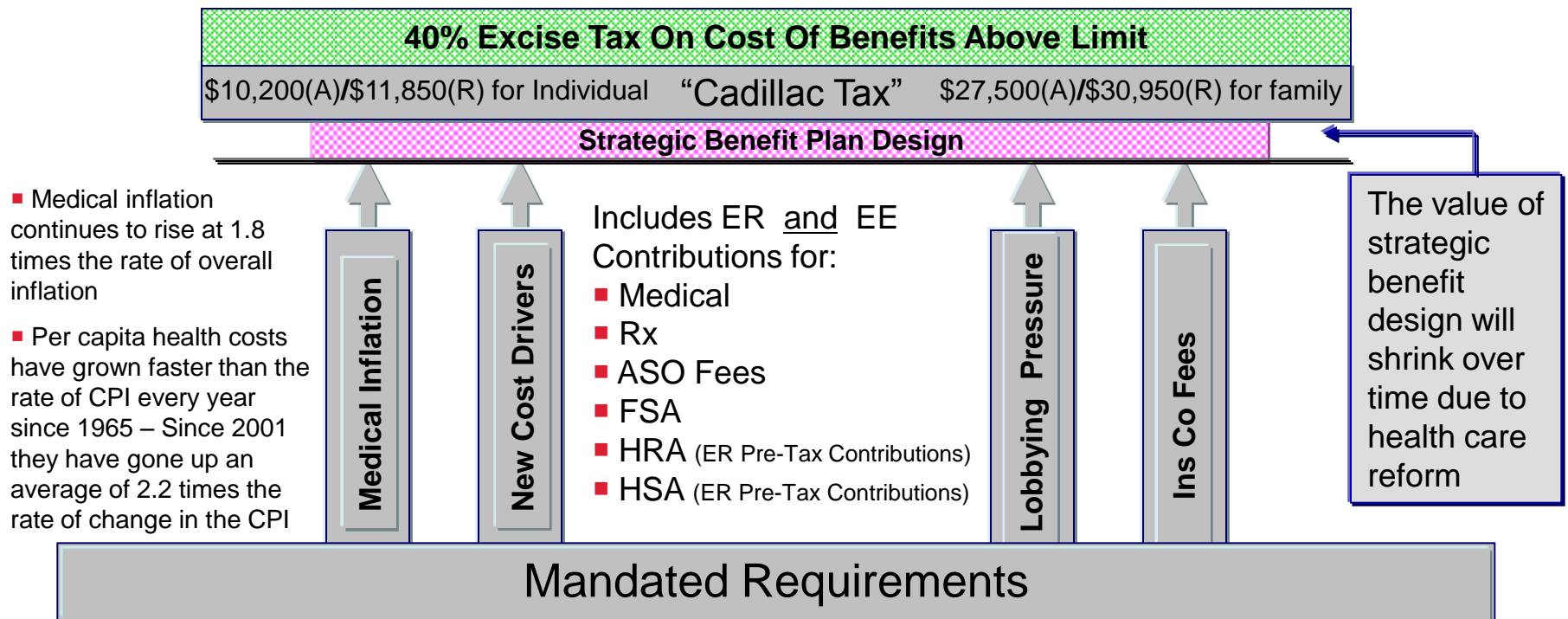
- Every Year since 1965:
  - Medical CPI has risen faster than general CPI
  - Percent change in per capita health care expenditures has been higher than change in medical CPI

Sources: 1. Per Capita National Health Expenditures (NHE) - Centers For Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, U.S. Department of Commerce, Bureau of Economic Analysis

2. Percent Change in CPI (All Items and Medical Care) – U.S. Dept of Labor, Bureau of Labor Statistics

# ACA Impact On Employer Sponsored Plans

- Government mandated coverage coupled with ongoing health care inflation will reduce employers' ability to design health care plans that act as a differentiating component of total compensation and will increase likelihood of employers:
  - Eliminating / reducing coverage
  - Focusing on consumer based solutions
    - HDHPs
    - HRAs, HSAs
    - Wellness
  - Potentially moving some employees to exchanges for coverage



**The Excise Tax Applies To Both Grandfathered Plans and Non-Grandfathered Plans**

# The Excise Tax: Two Simple Examples

- Exceeding the excise tax limits by even a small amount can result in a significant **non-deductible** penalty
  - In Example 1
    - Individual costs exceed the excise tax limit by only \$350 per year (\$29 per month)
    - Family costs exceed the excise tax limit by only \$725 per year
  - In Example 2 – the only thing that has changed is the number of employees
    - This example illustrates the impact on an employer with 8,000 employees rather than the first example's 2,000 employees

<b>EXAMPLE 1</b>	Individual Coverage	Family Coverage	
Excise Tax Limit	\$10,200	\$27,500	
Cost of Plans	\$10,550	\$28,225	
Amount Subject To Excise Tax	\$350	\$725	Total
Number Enrolled	500	1,500	2,000
Annual Penalty In 2018	\$70,000	\$435,000	<b>\$505,000</b>

<b>EXAMPLE 2</b>	Individual Coverage	Family Coverage	
Excise Tax Limit	\$10,200	\$27,500	
Cost of Plans	\$10,550	\$28,225	
Amount Subject To Excise Tax	\$350	\$725	Total
Number Enrolled	1800	6,200	8,000
Annual Penalty In 2018	\$252,000	\$1,798,000	<b>\$2,050,000</b>

# Example: Estimating Excise Tax in 2018

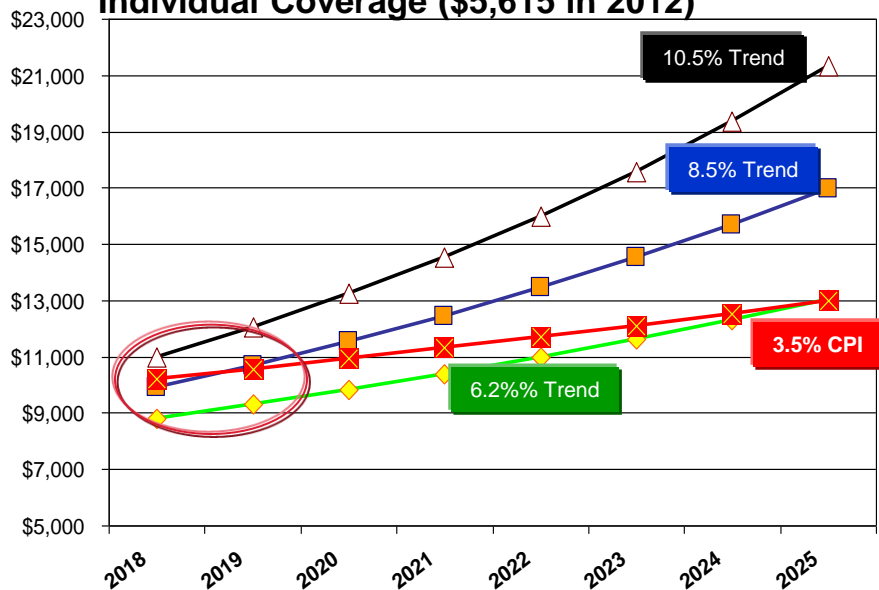
## Assumptions

- Health Care plan costs in 2012 (includes ASO fees for self-insured plans):
  - Individual - \$ 5,615
  - Family - \$15,745
- Average annual FSA contribution of
  - Individual: \$ 750 (held constant - not increased for any inflation assumption)
  - Family: \$1,250 (held constant - not increased for any inflation assumption)

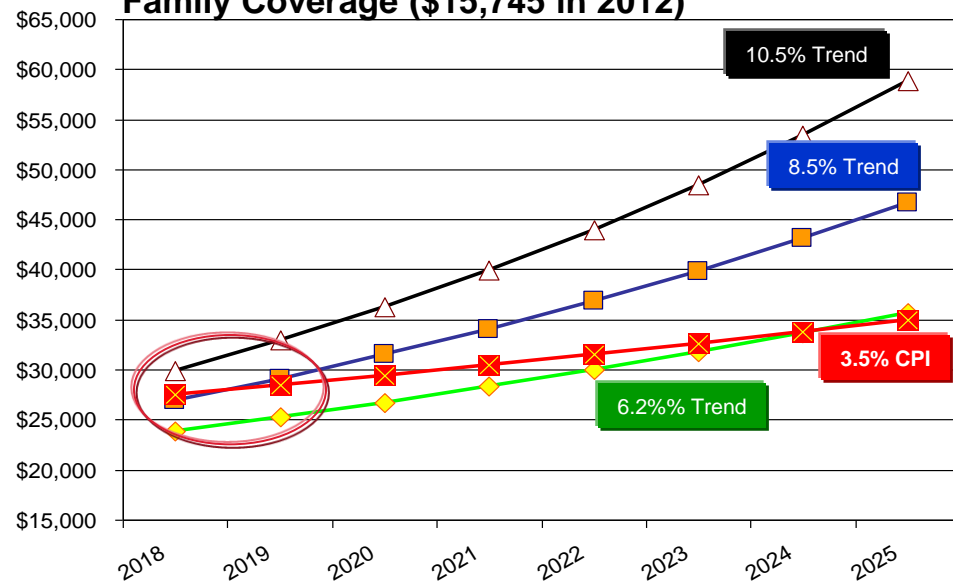
Source: Kaiser Family Foundation, 2012 Employer Health Benefits Survey

Note: cost are approximately 1.5% higher for large employers – but average costs are used below

**Individual Coverage (\$5,615 in 2012)**



**Family Coverage (\$15,745 in 2012)**



**Unless They Make Plan Changes, Most Employers Will Exceed The Excise Tax Limits No Later Than 2019 – With Many Incurring A Penalty in 2018**

# Example: Estimating Excise Tax in 2018

## Estimated Tax Liability

Number of Employees:			2,500														
Individual Coverage			20%			Family Coverage			80%			Total			100%		
Year	6.20%	8.50%	10.50%	6.20%	8.50%	10.50%	6.20%	8.50%	10.50%	6.20%	8.50%	10.50%					
2018	\$0	\$0	\$154,341	\$0	\$0	\$1,930,120	\$0	\$0	\$2,084,461	\$0	\$0	\$2,084,461					
2019	\$0	\$26,470	\$297,597	\$0	\$526,712	\$3,567,782	\$0	\$553,181	\$3,865,379	\$0	\$553,181	\$3,865,379					
2020	\$0	\$121,540	\$460,893	\$0	\$1,624,982	\$5,431,299	\$0	\$1,746,522	\$5,892,192	\$0	\$1,746,522	\$5,892,192					
2021	\$0	\$228,385	\$646,508	\$0	\$2,856,453	\$7,546,272	\$0	\$3,084,839	\$8,192,780	\$0	\$3,084,839	\$8,192,780					
2022	\$0	\$348,137	\$856,966	\$0	\$4,233,841	\$9,941,056	\$0	\$4,581,979	\$10,798,022	\$0	\$4,581,979	\$10,798,022					
2023	\$0	\$482,027	\$1,095,064	\$0	\$5,770,993	\$12,647,053	\$0	\$6,253,020	\$13,742,116	\$0	\$6,253,020	\$13,742,116					
2024	\$0	\$631,393	\$1,363,897	\$0	\$7,482,983	\$15,699,030	\$0	\$8,114,375	\$17,062,927	\$0	\$8,114,375	\$17,062,927					
2025	\$9,251	\$797,695	\$1,666,894	\$542,719	\$9,386,217	\$19,135,481	\$551,970	\$10,183,912	\$20,802,375	\$551,970	\$10,183,912	\$20,802,375					

Number of Employees:			5,000														
Individual Coverage			20%			Family Coverage			80%			Total			100%		
Year	6.20%	8.50%	10.50%	6.20%	8.50%	10.50%	6.20%	8.50%	10.50%	6.20%	8.50%	10.50%					
2018	\$0	\$0	\$308,683	\$0	\$0	\$3,860,239	\$0	\$0	\$4,168,922	\$0	\$0	\$4,168,922					
2019	\$0	\$52,939	\$595,195	\$0	\$1,053,423	\$7,135,564	\$0	\$1,106,363	\$7,730,759	\$0	\$1,106,363	\$7,730,759					
2020	\$0	\$243,079	\$921,786	\$0	\$3,249,964	\$10,862,599	\$0	\$3,493,044	\$11,784,385	\$0	\$3,493,044	\$11,784,385					
2021	\$0	\$456,771	\$1,293,015	\$0	\$5,712,906	\$15,092,544	\$0	\$6,169,677	\$16,385,560	\$0	\$6,169,677	\$16,385,560					
2022	\$0	\$696,275	\$1,713,932	\$0	\$8,467,683	\$19,882,113	\$0	\$9,163,958	\$21,596,044	\$0	\$9,163,958	\$21,596,044					
2023	\$0	\$964,053	\$2,190,127	\$0	\$11,541,986	\$25,294,105	\$0	\$12,506,040	\$27,484,232	\$0	\$12,506,040	\$27,484,232					
2024	\$0	\$1,262,786	\$2,727,794	\$0	\$14,965,965	\$31,398,060	\$0	\$16,228,751	\$34,125,854	\$0	\$16,228,751	\$34,125,854					
2025	\$18,501	\$1,595,390	\$3,333,787	\$1,085,438	\$18,772,434	\$38,270,963	\$1,103,939	\$20,367,824	\$41,604,750	\$1,103,939	\$20,367,824	\$41,604,750					

Number of Employees:			10,000														
Individual Coverage			20%			Family Coverage			80%			Total			100%		
Year	6.20%	8.50%	10.50%	6.20%	8.50%	10.50%	6.20%	8.50%	10.50%	6.20%	8.50%	10.50%					
2018	\$0	\$0	\$617,366	\$0	\$0	\$7,720,478	\$0	\$0	\$8,337,844	\$0	\$0	\$8,337,844					
2019	\$0	\$105,879	\$1,190,389	\$0	\$2,106,847	\$14,271,129	\$0	\$2,212,726	\$15,461,518	\$0	\$2,212,726	\$15,461,518					
2020	\$0	\$486,159	\$1,843,572	\$0	\$6,499,929	\$21,725,197	\$0	\$6,986,088	\$23,568,769	\$0	\$6,986,088	\$23,568,769					
2021	\$0	\$913,542	\$2,586,031	\$0	\$11,425,813	\$30,185,089	\$0	\$12,339,355	\$32,771,119	\$0	\$12,339,355	\$32,771,119					
2022	\$0	\$1,392,550	\$3,427,863	\$0	\$16,935,366	\$39,764,225	\$0	\$18,327,916	\$43,192,089	\$0	\$18,327,916	\$43,192,089					
2023	\$0	\$1,928,106	\$4,380,254	\$0	\$23,083,973	\$50,588,211	\$0	\$25,012,079	\$54,968,465	\$0	\$25,012,079	\$54,968,465					
2024	\$0	\$2,525,571	\$5,455,587	\$0	\$29,931,930	\$62,796,120	\$0	\$32,457,502	\$68,251,708	\$0	\$32,457,502	\$68,251,708					
2025	\$37,002	\$3,190,781	\$6,667,575	\$2,170,876	\$37,544,868	\$76,541,926	\$2,207,878	\$40,735,649	\$83,209,501	\$2,207,878	\$40,735,649	\$83,209,501					



# **Shared Responsibility / Employer Mandate**

# Key Employer Considerations

## ■ Determining ACA Full-Time Status

- Average hours credited per week per calendar month (all compensable time)
- Breaks in service
- Special rules applicable to
  - FMLA, USERRA, or Jury Duty
  - Teachers and other Educational Employees
  - Rehires

## ■ Management of hours worked

- Look-back determination
- Real-time active management

## ■ Coverage availability

- Offer coverage to at least 95% of ACA F-T employee's
- Dependent determination and documentation of coverage offering

## ■ Affordability determination

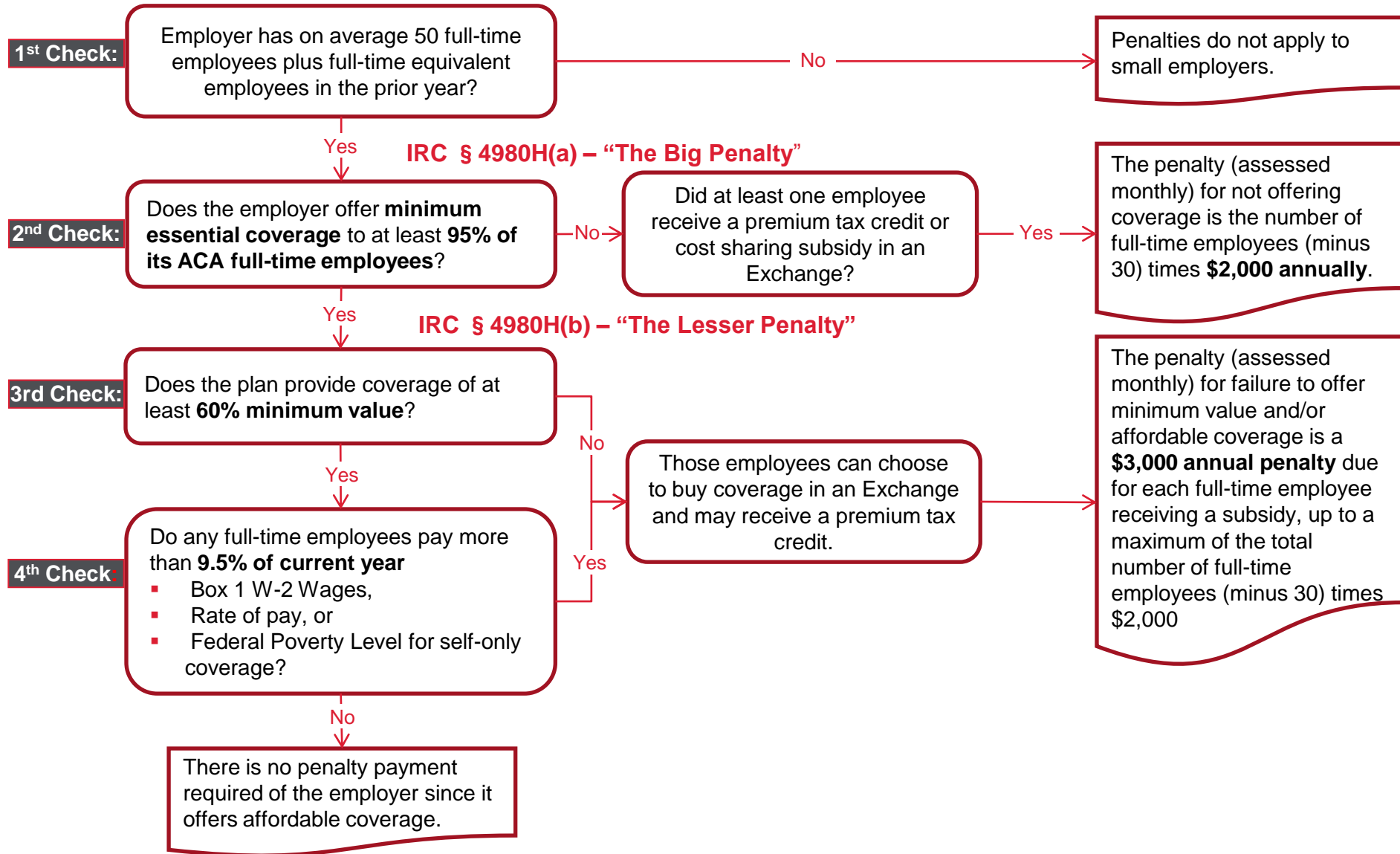
- Integration of payroll and benefits data
  - Year-end determination
  - Real-time determination
- Federal Poverty Level calculation

## ■ Reporting and Reconciliation

- Exchanges / Marketplaces
- Federal government



# Shared Responsibility (Employer Mandate): Decision Flow To Avoid Penalties



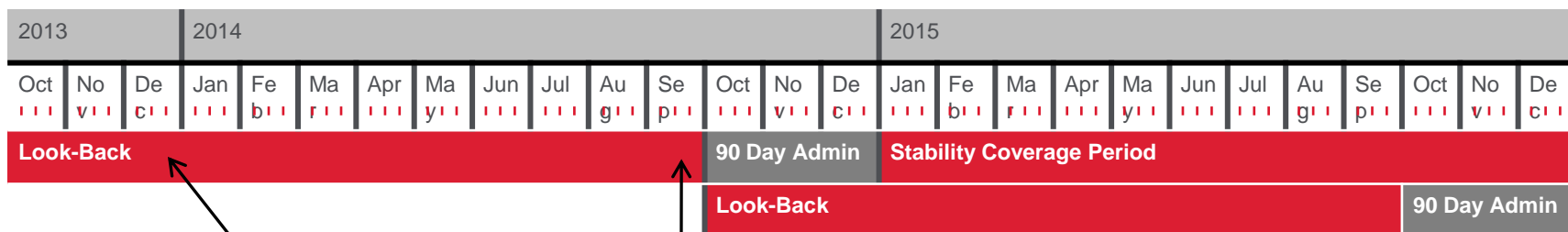
# ACA Status Determination Look-Back Period Tracking

- Depending on employer's plan year and required administration period this tracking may need to commence as early as the first pay period of October 2013
  - Hours paid and worked
  - Hours paid but not worked (i.e., Vacation, PTO, Paid Leave, etc.)
  - Unpaid leave associated with
    - FMLA
    - USERRA
    - Jury Duty

<b>Assuming A Calendar Plan Year Hours Of Service Must Be Tracked Beginning As Shown Below</b>	
<b>Administration Period Needed</b>	<b>Track Hours As Of First Payroll In</b>
90 Days	October 2013
60 Days	November 2013
30 Days	December 2013

# 12 Month Look-Back Period With 90 Day Administrative Period

## 12 Month Look Back Standard Period: Ongoing Hourly EE



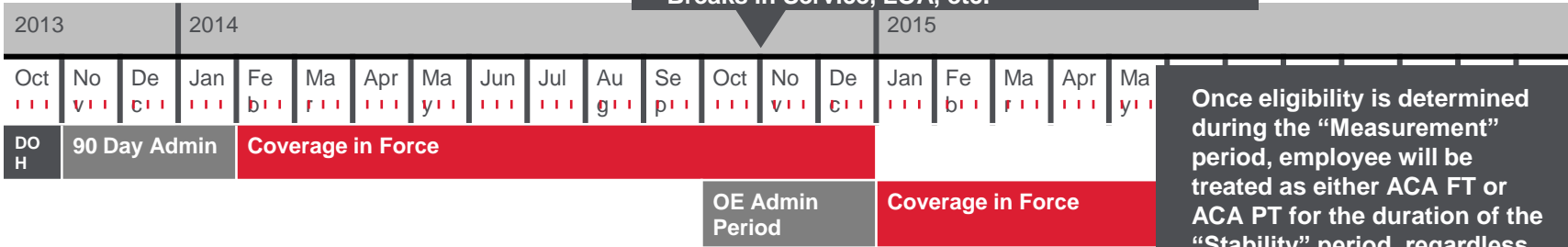
**Hours of Service  
Need To Be Tracked  
Beginning With The  
First Pay Period In  
October 2013**

**Look-Back Period  
Ends With Last Pay  
Period In September  
2014 (Ending In First  
Few Days Of October)**

# New Hire And Ongoing Measurement Periods With Administrative Periods

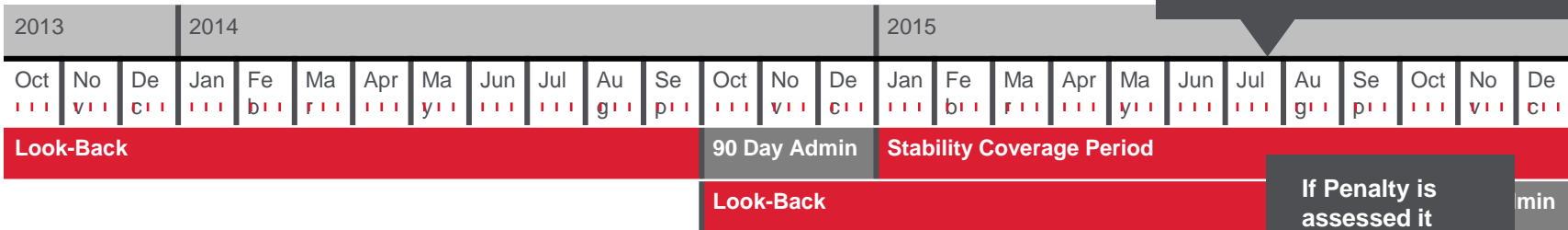
## Full-Time Employees

Groups: Hourly , Exempt, Collectively Bargained, States  
 Flags & Rules: Seasonal, Variable Hour, Breaks in Service, LOA, etc.



Once eligibility is determined during the "Measurement" period, employee will be treated as either ACA FT or ACA PT for the duration of the "Stability" period, regardless of hours worked.

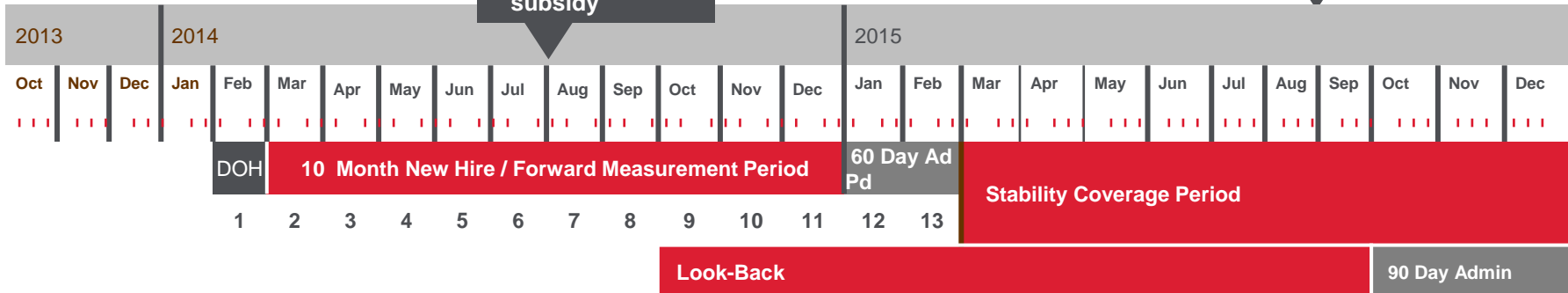
## 12 Month Look Back Standard Period: Ongoing Hourly EE



If Penalty is assessed it calculated monthly on Stability Period

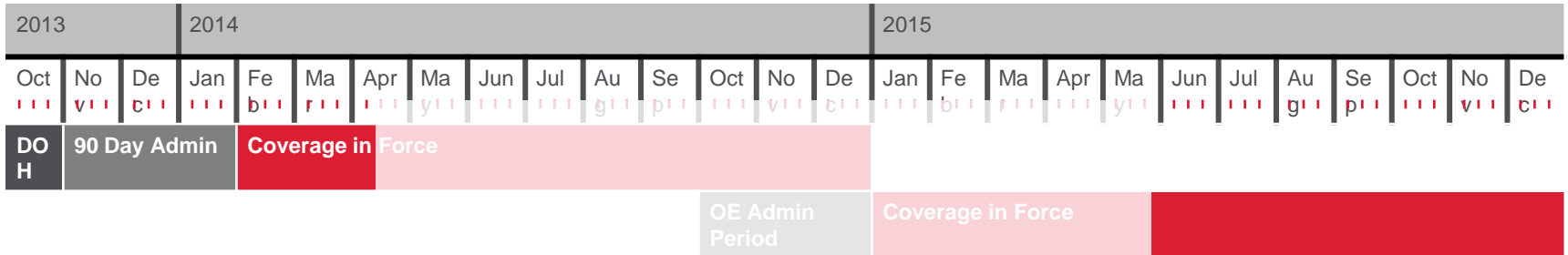
## 10 Month Look Back Initial Measure EE can enroll in Exchange & qualify for subsidy

## Variable Hour New Hire



# Offering Requirement Applies

## Full-Time Employees



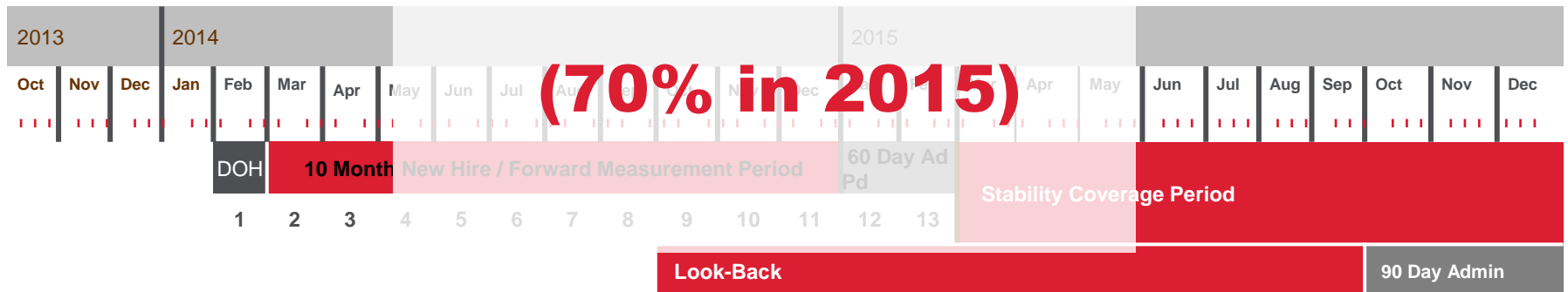
## 12 Month Look Back Standard Period: Ongoing Hourly EE



**95%**

## 10 Month Look Back Initial Measure Period to determine Eligibility: New Hire

## Variable Hour New Hire



**(70% in 2015)**

# Annual Reporting Requirements

- Who is responsible for the reporting?
  - IRC section 6056 and 6055: ALE with both fully-insured and self-insured plans are subject to the reporting
  
- How does an employer report the information?
  - Form 1094-C – Employer Transmittal
  - Form 1095-C – Employee Statements
  
- When will reporting begin?
  - Form 1095-C: January 31, 2016 (in conjunction with W-2 distribution)
  - Form 1094-C: February 28, 2016 (or March 31, 2016 if filed electronically).
    - The report must cover information for the 2015 calendar year
  - Employers must continue to report annually.
  - The IRS encourages employers to voluntarily comply with the information reporting provisions in 2014 in order to test reporting systems, processes and plan designs prior to full implementation in 2015

# Exchanges And Federal Reporting Requirements

## Form 1094-C

- Proposed regulations issued September 9, 2013
- Form 1094-C (Employer Transmittal)
  - Name, address, and employer identification number of the employer
  - Name and telephone number of the employer's contact person
  - Number of individual employee statements being submitted
  - Whether the coverage offered to employees and their dependents meets minimum value
  - Certification as to whether the ALE member offered to its full-time employees (and their dependents) the opportunity to enroll in minimum essential coverage, by month
  - Number of full-time employees for each month
  - Months during which the employer was not conducting business
  - If the employer/ALE member expects that it will not be an ALE member the following year

# Exchanges And Federal Reporting Requirements

## Forms 1095-C

### ■ Forms 1095-C (Employee Statements)

- Name, address, and employer identification number of the employer;
- Name and telephone number of the employer's contact person
- Calendar year for which the information is reported
- For each full-time employee, by month:
  - The months during which coverage was available
  - The employee's monthly premium for the lowest cost self-only coverage providing minimum value offered to that full-time employee
  - Name, address, and taxpayer identification number of each full-time employee and the months, if any, during which the employee was covered
  - Whether minimum essential coverage was offered to:
    - The employee only
    - The employee and the employee's dependents only
    - The employee and the employee's spouse only; or
    - The employee, the employee's spouse and dependents
  - Coverage was not offered to the employee and the employee was
    - In a waiting period
    - Not a full-time employee
    - Not employed during that month, or
    - No other code or exception applies
  - Coverage was offered to the employee for the month although the employee was not a full-time employee during that month; and
  - Employer met one of the affordability safe harbors with respect to employee
    - Implies that an employer may assert any safe harbor test for any employee
    - Although all employee-level reporting elements are reported by month, affordability safe harbor results generally will not differ from month to month; unless for example, an employer has a fiscal year plan and premium levels change



# Consolidated Sec. 6055 and 6056 Reporting

- Combined reporting under sections 6055 and 6056 in order to allow for a simplified reporting process and avoid duplicative reporting.
  - Self-insured employers MUST use this combined reporting approach
  
- The combined form will have two sections:
  - The top half will include the information needed for section 6056 reporting
  - The bottom half will include the information needed for section 6055 – and will be completed by the insurance company for fully-insured plan
    - For self-insured plans, the employer will be responsible for completing this section

# Modified Simple Reporting Requirements

- Simplified report format permitted if one of the following is met
  - Employer offers 60% Minimum Value Coverage (which also meets the MEC requirements) at employee only cost of no more than **9.5% of FPL** and also offers coverage to spouse and dependent children
    - One time option for 2015: Employer offers 60% Minimum Value Coverage (which also meets the MEC requirements) **to at least 95% of ACA F-T employees** at cost of no more than 9.5% of FPL and also offers coverage to ACA F-T employee's spouse and children
  - Employer offers Affordable (using any of the safe harbors) 60% Minimum Value Coverage to at least 98% of all employees for whom they are required to submit Employer Shared Responsibility reports (i.e., ACA F-T employees) and their dependents (i.e., children – not spouse)

# Federal Poverty Level For 2013

- Individuals can qualify for federal subsidies in the exchanges with adjusted gross family incomes up to 400% of the Federal Poverty Level (FPL)
- Employers may use the FPL as the basis of one of the affordability safe harbors
  - Individual FPL is likely to be lower than actual Box-1 W-2 wages, however

No. Persons In Family	Federal Poverty Level: 2014 48 Contiguous States	400% of FPL 48 Contiguous States/DC
1	\$11,670	\$46,680
2	\$15,730	\$62,920
3	\$19,790	\$79,160
4	\$23,850	\$95,400
5	\$27,910	\$111,640
6	\$31,970	\$127,880
7	\$36,030	\$144,120
8	\$40,090	\$160,360

Source: Federal Register on January 22, 2014

**Median Household Income In The U.S. was \$51,371 In 2012**

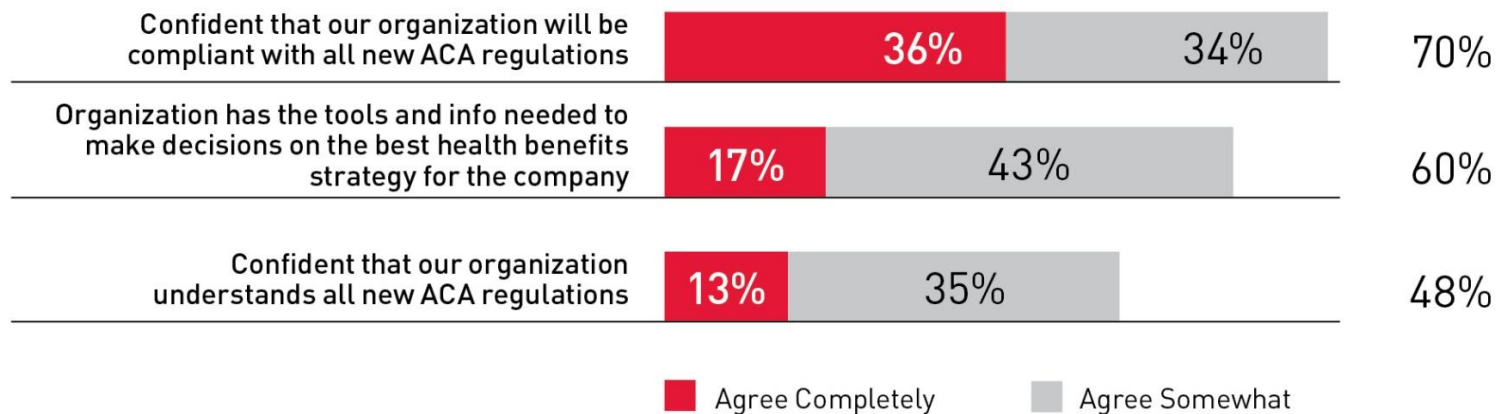
U.S. Census Bureau – <https://www.census.gov/prod/2013pubs/acsbr12-02.pdf>



# **Compliance And Design Considerations**

# Employers Are Still Confused By ACA

## Confidence With Ability to Handle New ACA Regulations



**Although 70% of employers report that they will be compliant with ACA, less than half indicate that they actually understand ACA requirements**

# ACA Is Driving Change

## Offering Compliance Alternatives

- Make no changes to employee status
  - Track and report hours of service
- Move part-time employees to F-T status
  - Makes sense when employer has few part-time employees
  - Cost of tracking hours of service may be equal to or greater than offering coverage to additional full-time employees
- Move additional employee to P-T status
  - Requires active management of hours to ensure that people scheduled to work less than 30 hours per week, don't exceed this limit
- Terminate Coverage
  - Makes sense if 85% - 90% of current employees are not offered coverage and cost of health care would reduce operating margins to an unacceptable level
  - Will result in penalty payment

## Impacting Plan Design

- Increasing shift to DC approach
  - Limited by recent guidance on use of HRAs
  - Potential for a quasi-DC approach is still viable
- Move to more CDHP Plans
  - Involve employees more as consumers/shoppers
  - Reduce likelihood of triggering **Excise Tax** in 2018 and beyond
- Expand Wellness activities
  - Potentially reduce/delay demand for health care
  - Improve productivity
- Restrict access
  - Dependent audits
  - Spousal limitations
  - Narrow networks
- Value Based Insurance Design
- Move to exchanges
  - Public – available in 2017
  - Private – available now



# **Administrative Best Practices**

# Compliance Documentation

- As part of employer annual renewal and open enrollment process
  - Obtain from carrier written documentation that each plan (or the “compliance plan”) meets Minimal Essential Coverage (MEC) requirements
  - Document actuarial value of each plan (or the “compliance plan”)
    - Use HHS Calculator at: <http://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/mv-calculator-final-4-11-2013.xlsm>
    - For small number of plan designs it may be necessary to have actuarial valuation done
  - Obtain annual authorization (should also be obtained as part of new hire on-boarding) to use employee provided personal email for distribution of legally required documents
    - Only applicable for employers who do not provide email and computer to each employee
    - Signed authorization should fully comply with DOL Electronic Distribution requirements
    - Authorization language should be drafted in consultation with qualified legal counsel



# Measurement Period

- Employers may select an ongoing measurement period ranging from 3 to 12 months
- Shorter measurement periods will always be more expensive due to
  - More employees will qualify as ACA F-T in shorter measurement periods due to the inability to average short-term spikes in hours of service over longer time-frames
    - As a result more will sign up for coverage and incur claims
  - Eligibility will have to be calculated at least twice per year and employees attaining ACA F-T status will have to be offered the option of enrolling
  - COBRA activity will increase as employees who qualified as ACA F-T due to a short-term spike in hours of service during one measurement period, fail to repeat that in the subsequent measurement period, thereby losing benefit eligibility mid-year
- Will result in full 12 month stability period which is one of the requirements to use the simplified reporting approach (i.e., 12 month offering of coverage to ACA F-T employees)

# Hours of Service

- Hours of service include
  - Hours paid and worked
  - Hours paid and not worked – such as paid vacation or paid leaves
  - Special unpaid leaves of absence
    - FMLA – Family Medical Leave Act
    - USERRA – Uniformed Services Employment and Reemployment Rights Act
    - Jury Duty
- Set up a separate leave code for every type of leave, both paid and unpaid
  - Ensures ability to track the current three special leave types
    - Critical to ensure that coverage is offered to at least 95% of all ACA F-T employees
  - Provides flexibility should other leaves need to be included due to either state or federal regulations

# Plan Design

- Implement a “compliance plan” with a 60% actuarial value that is available to all employees of the employer
  - Aids in keeping health plan costs below the excise tax limits that begin in 2018
  - Plan can be used as the “compliance plan” for all required testing
    - Meets Minimum Essential Coverage (MEC) requirements
    - Is offered to at least 95% of all ACA F-T EEs (70% in 2015)
    - Has 60% actuarial value
    - Meets Affordability Requirements
  - Can make meeting affordability requirements easier if other/current plans have an actuarial value greater than 60%

# Medicaid As Alternative

- Medicaid can be an affordable alternative for low paid employees
  - The Affordable Care Act expands coverage low income Americans by creating an opportunity for states to provide Medicaid eligibility, effective January 1, 2014, for individuals under 65 years of age with incomes up to 133 percent of the federal poverty level (FPL)

No. Persons In Family	Federal Poverty Level: 2014 48 Contiguous States	133% of FPL 48 Contiguous States/DC
1	\$11,670	\$15,521
2	\$15,730	\$20,921
3	\$19,790	\$26,321
4	\$23,850	\$31,721
5	\$27,910	\$37,120
6	\$31,970	\$42,520
7	\$36,030	\$47,920
8	\$40,090	\$53,320

- **Source:** Federal Register on January 22, 2014
- Beginning in 2014 coverage for the newly eligible adults will be fully funded by the federal government for three years. It will phase down to 90% by 2020
- Only 26 states have expanded Medicaid eligibility

# Medicaid As Alternative (continued)

- 26 states (plus the District of Columbia) have expanded Medicaid eligibility

Arizona	Iowa	New Mexico
Arkansas	Kentucky	New York
California	Maryland	North Dakota
Colorado	Massachusetts	Ohio
Connecticut	Michigan	Oregon
Delaware	Minnesota	Rhode Island
District of Columbia	Nevada	Vermont
Hawaii	New Hampshire	Washington
Illinois	New Jersey (not permanent)	West Virginia

- Three additional states are considering expansion (Missouri, Pennsylvania, Utah)
- In states that have expanded Medicaid eligibility, eligible employees who qualify for Medicaid can enroll in coverage that has:
  - No cost
  - No deductibles
  - No Co-pay
- Networks offered to Medicaid participants tend to be narrow – and some providers are not taking new patients
- Employers are not subject to any ACA penalty for employees who are eligible to enroll and who elect to do so

# Dependent Verification

- People covered under a plan generate costs in the form of
  - Claims and related administrative expenses
  - PCORI fee equal to the average number of lives covered during the policy year or plan year multiplied by the applicable dollar amount for the year as shown below:
    - \$1 for plan years ending after Sept. 30, 2012 and before Oct. 1 2013
    - \$2 for plan years ending after Sept. 30, 2013 and before Oct. 1 2014
    - Amount to be announced based on inflation in National Health Expenditures for future years
  - Transitional Reinsurance Fees
    - The fee is currently set at \$63 per covered life
    - First payment due November 2014
    - Set to expire after 3 years
- Implement the following controls
  - Conduct initial dependent eligibility audit
  - Require proof of dependent status when adding every new dependent
  - Create system edits to preclude ineligible dependent status from being permitted
    - Aging rules
    - Dual spouse/significant other edit
    - Failure to provide proof of dependent status

# Employed Spouse Restrictions

- Due to the importance of controlling both costs and ensuring that only those who should be considered eligible are actually covered, employers should implement limitations on participation by spouses who are employed and offered coverage by their own employer
  - Spouses are not required to be offered coverage under ACA
  - Limitations can help reduce
    - Claims and related administrative expenses
    - PCORI Fees
    - Transitional Reinsurance Fees
- Limitations can vary depending on employer goals
  - UPS has indicated that spouses offered coverage where they work will not be eligible to enroll for coverage under the UPS plan
  - Other employers are implementing spousal surcharges – charging spouses who are offered coverage through their employer an additional premium in order to be covered under the employee’s plan

# Excise Tax

- Beginning in 2018 ACA places hard dollar limits on how much can be spent on health care by employers
  - These limits are indexed to CPI going forward
  - Since 1965 there is not a single year in which per capita health spending did increase faster than inflation as measured by the CPI <sup>1</sup> and <sup>2</sup>
  - Published estimates indicate that as many as 60% of employers will incur this tax in 2018 unless they make changes to their plans before that date <sup>3</sup>
- Any costs above these limits will be subject to a 40% non-deductible excise tax
- Conduct excise tax liability analysis
  - Project through 2025
  - Identify when plan costs will exceed excise tax cap
  - Evaluate alternative plan designs
    - Consumer Driven Health Plans can be a critical component in addressing this

## Sources:

1. Per Capita National Health Expenditures (NHE) - Centers For Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, U.S. Department of Commerce, Bureau of Economic Analysis
2. Percent Change in CPI (All Items and Medical Care) – U.S. Dept of Labor, Bureau of Labor Statistics
3. Expanding Options for Employers in Next-Generation Private Exchanges, Towers Watson, July 2013



# Shared Responsibility Is Broad-based And Requires Month-To-Month Oversight

## ACA Mandates



### Applicability

Designed for small- to mid-sized employers who have not determined whether ACA applies to their company or are on the cusp



### Eligibility

Calculate eligibility based on hours of service  
Create and historically track multiple measurement periods and employee groups  
Understand ACA benefit eligibility trends with insightful analytics



### Affordability

Centrally access essential employee payroll and benefits information  
Assess and monitor employee income in relation to various safe harbor tests



### Regulatory Management

Provide required notice of coverage options for new hires  
Provide post-enrollment verification information to applicable marketplaces  
Manage notices issued by state and federal marketplaces  
Automate the required annual health coverage report  
Calculate, reconcile and file payment of penalties

## HCM Enablers



### Enrollment

Inform benefits solution with eligibility indicators



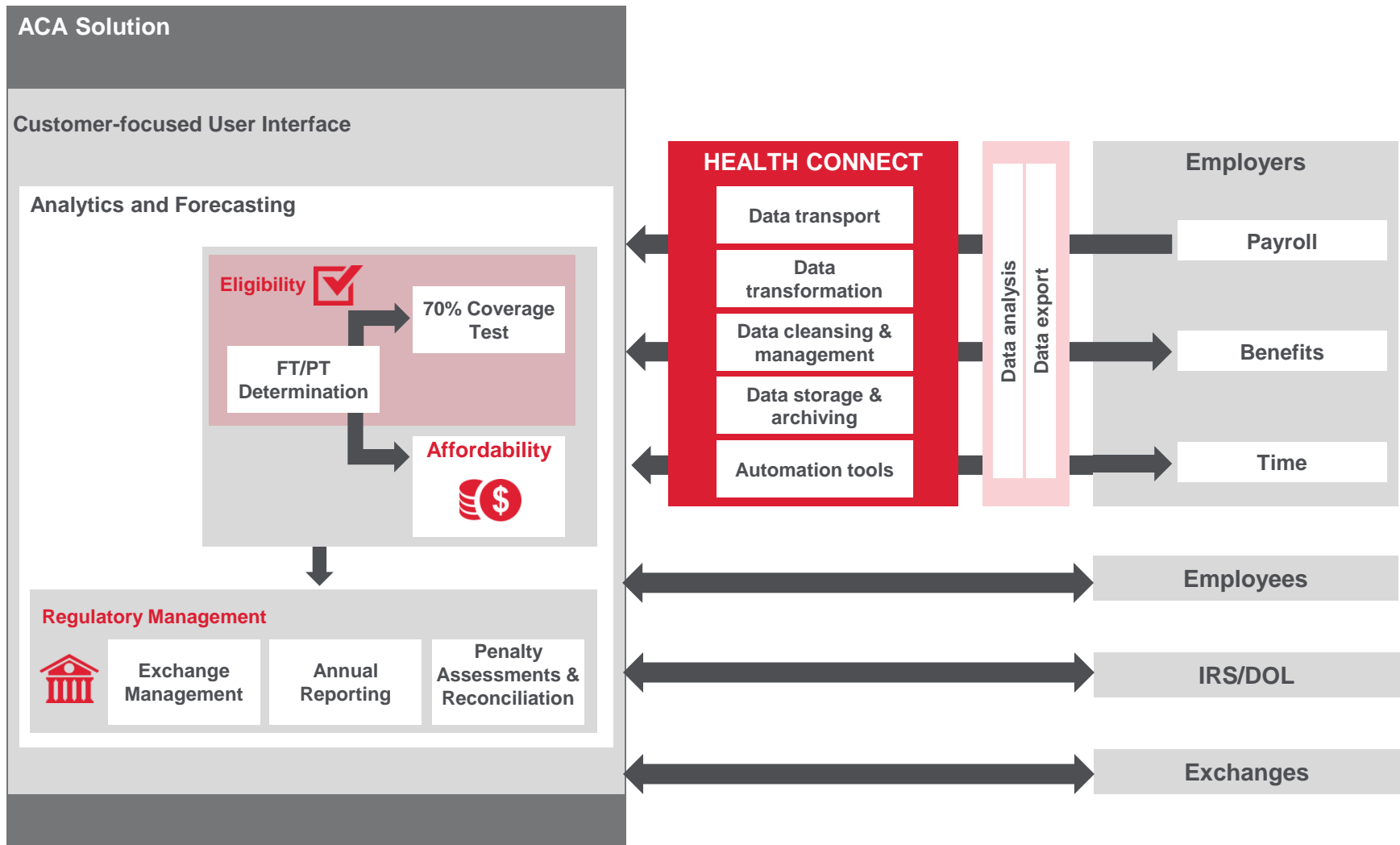
### Workforce Management

Leverage reporting track/monitor employee hours towards approaching ACA eligibility thresholds  
Provides indicators to help enable proactive scheduling adjustments for employees approaching organizations' defined thresholds

# A Comprehensive Vision

- Platform-agnostic
- Comprehensive – all pillars ACA
- Flexible – adjusting as the law evolves
- Data utilities for import/export, mapping, auditing and data management
- Managed services in key areas to mitigate ACA administrative burdens
- Leading user experience

# ADP Proprietary Solution For Crucial Data Management Role



# Questions

