What business owners should know about the Affordable Care Act

Health-care law drives sweeping changes

The Affordable Care Act (ACA) introduced the most comprehensive changes to the nation's health-care system in decades. The law, enacted in 2010, expands access to health-care coverage for many, regardless of pre-existing conditions. While focused largely on ensuring that individuals have access to affordable health care, the law is transforming the industry — from the way health care is delivered to how insurance companies offer coverage.

The ACA also affects businesses, which are required to provide a minimum level of coverage to their full-time employees. The impact is considerable — the Kaiser Foundation estimates that about 56% of non-elderly Americans are currently enrolled in health-insurance plans through their employers.

Understanding the employer mandate

Employers with 50 or more full-time equivalent employees (also known as "applicable large employers") are required to offer affordable health insurance coverage to employees or face penalties. A full-time employee is defined as an individual who works an average of at least 30 hours per week. Employers with 50 or more employees are subject to the employer mandate. Additionally, the health insurance plan must offer coverage to at least 95% of full-time employees and dependents.

Key facts:

- Businesses already offering health insurance may face a penalty if the coverage does not meet certain thresholds of quality and affordability.
- A full-time employee is defined as an individual who works an average of 30 hours per week. Part-time employees are aggregated to determine the number of full-time equivalents (FTEs). For example, two 15-hour-per-week employees would equal one FTE for purposes of determining the 50-employee threshold.
- Employers with high-cost, or so-called "Cadillac," plans will be subject to an excise tax on the excess spending, beginning in 2018. The 40% excise tax is applied on the value of health insurance benefits above a certain level — $10,200 for individual coverage and $27,500 for family coverage.

What are the penalties?

A penalty may apply if the employer:

- Does not offer any health insurance coverage
- Offers coverage to fewer than 95% of its full-time employees and at least one full-time employee receives a premium tax credit to help pay for coverage on a marketplace exchange
- Does not offer coverage that meets minimum standards (i.e., covers at least 60% of out-of-pocket costs on average, AND is affordable, meaning that employee contributions for employee-only coverage do not exceed 9.5% of wages)

Scenario	Penalty
Employer offers no health-care coverage	$2,000 per full-time employee over a threshold of 30 employees
Employer coverage does not cover at least 60% of expenses or employees pay more than 9.5% of their income on coverage	$3,000 per full-time employee receiving a federal tax credit purchasing coverage through an insurance exchange*

* The total employer penalty cannot exceed $2,000 per full-time employee based on the total amount of full-time employees, minus 30.

How are the penalties assessed?

Penalty example 1

Violation: Employer does not provide insurance coverage

Penalty: $2,000 per number of FTEs minus 30

- ABC Manufacturing has 100 full-time employees and provides no insurance coverage
- Penalty is assessed on the total number of full-time employees, minus 30 (100 – 30 = 70 employees)
- 70 employees x $2,000 = $140,000 penalty

Penalty example 2

Violation: Employer provides coverage but does not meet affordability and minimum benefits requirements

Penalty: $3,000 for each employee who opts out of employer coverage AND obtains insurance via a health-care exchange AND receives a premium tax credit (i.e., subsidized coverage)

- XYZ Services has 200 employees and offers insurance coverage that does not meet the minimum standards as defined by the law
- Of the 200 employees, 30 decide to opt out of the employer-provided coverage and purchase insurance via a health-care exchange
- 20 of the 30 who opted out received tax credits to offset the premium costs
- 20 employees x $3,000 = $60,000 penalty

Tax credits available to certain small businesses

Beginning in 2010, a tax credit is available for smaller businesses to offset the cost of providing health insurance.

Requirements for tax credits

- Must cover at least 50% of the cost of single (not family) health-care coverage for each employee
- Must have fewer than 25 full-time employees (sole proprietors are excluded)
- Employees must have average wages of less than $50,000 annually

Tax credit facts

- Maximum credit equals 50% of premiums paid by small business employers
- The credit is available for two consecutive years
- Only the portion paid by the employer is counted in calculating the credit
- The percentage amount of the credit is based on a sliding scale; the amount increases as average wages and the number of employees decrease. Only firms with 10 or fewer employees are eligible to receive the full credit

Considerations for business owners

- Determine if the 50 full-time employee threshold applies to your business. Remember that part-time, including seasonal, employees must be included in your calculation
- Review your existing health-care coverage, which must also meet the new minimum requirements of the ACA
- To avoid a penalty, develop a plan to ensure that 60% of out-of-pocket costs are covered by the employer and that the share of employee premiums does not exceed 9.5% of wages
- Determine if your business is eligible to receive federal tax credits to offset insurance costs

Explore shifting the composition of your workforce

You can make changes to your business model to avoid the insurance mandate. For example, you may consider hiring part-time workers or changing to a mix of part-time and full-time employees. Be mindful that work hours are aggregated to determine the number of full-time equivalents for the 50-employee threshold.

You could increase the number of hours worked by existing employees to avoid hiring additional workers. Engaging consultants is another way to manage the employee mix. Changing insurance offerings is another option. You may want to explore whether a consumer-based health-care savings option such as a Health Savings Account (HSA) may make sense for your organization.

Important considerations for offering coverage

The case FOR offering insurance coverage

- Providing coverage can give you a competitive advantage and support employee retention and attraction
- It may be consistent with your corporate goals, philosophy, and brand
- There are tax benefits (i.e., deductible business expenses), and you may avoid penalties due to the employer mandate
- Employer contributions to health-care plans are tax-free to the employee while insurance purchases by individuals through an exchange are made with after-tax dollars
- A group health plan may be less costly to employees than purchasing individual coverage through an exchange

The case AGAINST offering coverage

- Cost savings from dropping coverage may be greater than the penalty, and business owners may opt to distribute a portion of these savings back to employees
- Less administrative burden on office staff and management
- No ongoing due diligence for insurance provider and plan selection
- Employees will be able to obtain coverage through exchanges, regardless of their health, and cannot be denied coverage due to pre-existing conditions
- Employees cannot be charged higher premiums except based on type of plan (individual or family coverage), age, tobacco use, and where they live
- Depending on their income, employees may be eligible for premium tax credits to purchase health insurance through the exchanges*

* Those with income levels ranging between 138% and 400% of the federal poverty level (FPL) are eligible for federal tax credits toward the purchase of insurance on health-care exchanges. For 2016, the FPL for individuals is $11,880 and $24,300 for a family of four.

Seek advice to explore options

Business owners should discuss the options with a financial advisor or a qualified health-care benefits professional. For more information, visit healthcare.gov.

This information is not meant as tax or legal advice. Please consult with the appropriate tax or legal professional regarding your particular circumstances before making any investment decision.

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