

Health Care
HC4ME
for Maine

The Affordable Care Act and the Maine Business Community

In 2010, Congress passed the Affordable Care Act (ACA). The ACA includes a number of important health care reforms and has already had a positive impact on individuals and businesses. Changes already in effect include dependent coverage for young adults up to age 26; the elimination of pre-existing condition exclusions for children; interim coverage for adults with pre-existing conditions; the elimination of co-pays for early detection and preventative services; and the elimination of lifetime limits on insurance coverage. In addition, since 2010 some small businesses have been eligible for tax credits of up to 35%.

A number of new ACA provisions will go into effect in 2014 that will have an impact on businesses:

Employers with 50 or Fewer FTE Employees Will Have Access to the Marketplaces (Exchanges)

Marketplaces will offer a variety of plans for employers through the Small Business Health Options Program (SHOP). There will also be an Individual Marketplace for people who want to buy health insurance on their own. Marketplace plan options will be made public in late summer or early fall of 2013. Enrollment will begin October 1, 2013 for coverage beginning January 1, 2014.

Tax Credits Available to Some Businesses

Since 2010, some small businesses have been eligible for tax credits of up to 35% (25% for tax exempt organizations). Beginning in 2014, the credit will only be available for coverage purchased on the Marketplace and the amount of the credit available will increase; however, the qualifications for tax credits remain the same. As an employer, your business will be eligible for a tax credit if:

- You purchase your employees' health insurance through a Marketplace. (Navigators and insurance brokers can assist you in understanding your choices in the Marketplace);
- You have fewer than 25 full time equivalent (FTE) employees (for tax credits, FTE is defined as 40 hours per week, e.g., two 20-hour workers = one FTE);
- You cover at least 50% of the cost of a single (not family) premium for each enrolled employee; and
- Combining the wages of all your employees, the average is less than \$50,000 (using the total amount paid in wages and dividing by the number of FTEs).

In 2014, the maximum tax credit allowed will be 50% of total cost of premiums (35% for tax-exempt employers, which for the non-profits can be applied to their payroll tax). If taxes aren't owed in a given year, a credit can be carried forward or back to another tax year. A business expense deduction is allowed for premium costs paid that exceed the credit. For tax-exempt employers (non-profits), the credit is refundable up to the amount of the organization's tax withholding and Medicare tax liability. The amount of credit a business will receive is based on a sliding scale, depending on the size of the business and average salary of the workers.

The Impact of the ACA on Employers with more than 50 FTE Employees

Most companies with 50 or more FTE employees already offer employee health insurance coverage. Here in Maine, 97% of these employers now provide coverage. Here, a FTE employee is defined as an employee who

works 30 hours or more per week. Seasonal employees are not counted. In 2014, the employer can define “seasonal employees” as either: 1) the number of FTE employees who worked in any six consecutive months during 2013, or 2) the time period during which seasonal employees work (using a reasonable or “rational person” standard); then not count employees who only work during these months.

In 2014, a company (or companies if they are related) will be required to pay a penalty if the minimum required coverage isn’t offered or if the premium cost for individual coverage is unaffordable for their employees. “Unaffordable” is defined as more than 9.5% of the employee’s annual earnings.

Employers will have to evaluate their individual situation in order to make a decision on whether or not to provide coverage. Employers need to consider the following: premium cost is a business tax deduction (penalties paid are not); not providing coverage may necessitate increasing salaries to compensate for the reduction in benefits/total compensation; and the employer’s decision may have an impact on successful attraction and retention of employees. For employees, the cost of individual coverage is NOT tax deductible (while a contribution to employer coverage is), and individual coverage might be more expensive, especially for those who are not eligible for subsidies. Note that if the employer offers “affordable” coverage, the employee *and their family* would not be eligible for any subsidy.

Other important ACA information for employers (and employees):

- **Employers with fewer than 50 FTE employees** are not penalized, if they decide **not** to provide health coverage to their employees.
- **The Medical Loss Ratio (MLR)** is a financial measurement of the percent of each coverage dollar that is used to pay medical claims. If an insurer does not meet the MLR requirements they must pay a rebate to the employer (the employer will need to share the rebate with the employees in a manner dependent on the percent contributed to the cost of the premium).
- Under the ACA, insurance companies and health plans are required to give consumers an easy-to-read **Summary of Benefits and Coverage (SBC)** when they are considering enrollment in a plan; before their annual re-enrollment date; and any other time, on request. This summary will help consumers compare plans and make informed decisions about their health insurance coverage. Employers should receive a copy of this summary from the insurer and make sure it is distributed to all personnel.
- Employers will be required to report the cost of coverage under their group health plans on their **employees’ annual W-2 form**. This cost is NOT taxable income.
- **Contributions to a Flexible Spending Account (FSA)** for medical expenses are limited to \$2,500 per year (with an annual cost of living adjustment). Health Savings Accounts (HSA) and Health Reimbursement Arrangements (HRA) are not affected by this limit.
- Beginning with the 2014 plan year, employer cafeteria plans can qualify as **Simple Cafeteria Plans**, making the plans more straight forward and easier to set up.

Additional Resources:

IRS: <http://www.irs.gov/uac/Affordable-Care-Act-Tax-Provisions>

Small Business Administration: <http://www.sba.gov/healthcare>

Health Insurance Marketplace: <http://www.healthcare.gov/marketplace/index.html>

FMI on tax credits: <http://www.irs.gov/uac/Small-Business-Health-Care-Tax-Credit-for-Small-Employers>

FMI on penalties for businesses with 50 or more FTE employees: <http://healthreform.kff.org/the-basics/employer-penalty-flowchart.aspx>