Health Care Reform Overview

The Affordable Care Act (ACA), otherwise referred to generally as "Health Care "Reform" has ushered in the most sweeping regulatory changes to the U.S. healthcare system since Medicare and Medicaid were passed about 50 years ago. It raises a full range of health care issues and will continue to do so as provisions take effect through 2020. Some have suggested this is the most sweeping and comprehensive tax reform our Millennial Generation will ever see!

The ACA impacts all group health plans, including Section 105 medical reimbursement plans. Specifically, as of January 1, 2014, all Section 105 medical reimbursement plans must be designed to comply with PHS Act 2711 (annual limit requirements) and 2713 (preventative care requirements). The penalties for noncompliance are particularly burdensome in this area. See details below.

IMPORTANT- Due to the many changes impacting health insurance and employer reimbursement plans, we recommend that all employers consult with their employment law attorney, benefits consultant and/or payroll provider to make sure their health plans and medical reimbursement plans are in compliance with the new regulations. If not, it's important to understand if a penalty exception applies so there are no surprises later. If you have additional questions, feel free to contact us as we are available to help or put you in touch with one of the aforementioned specialists.

Below we have summarized the major areas impacted by the ACA and we have attempted to highlight the most important ACA provisions that may apply to you.

1. How to comply with the large employer mandate (or pay a penalty)
2. Small employer considerations (or pay a penalty in some situations)
3. How to comply with the individual mandate (or pay a penalty)

What is the 'large employer' mandate?

1. 2015-large employers are those that employ on average 50 or more full-time employees. If affordable coverage is offered to less than 70% of full-time employees, a $2,000 penalty per employee applies. During 2015 only, a penalty exception applies for employers with employees in the range of 51-99. However, these employers must still comply with the Form 1095-C reporting requirements discussed below.
2. 2016- large employers are those that employ on average more than 50 employees. If affordable coverage is offered to less than 95% of full-time employees, then a $2,000 penalty per employee applies.
3. Different penalties apply when insurance is offered but is considered unaffordable and/or if an employee obtains a marketplace subsidy.

650 Hawthorne Ave. SE, Suite 110, Salem, OR 97301
PH. 503.399.7306 • FAX 503.399.3977
www.kuenzicpas.com

4. Who is a full-time employee?
    a. An employee is someone who works an average of 30 weeks per year or 130 hours per month
    b. The working hours of part-time employees are combined and counted as equivalent full-time employees
    c. Seasonal workers working less than 120 days per year are excluded.
5. Employers must look at controlled groups and related companies and combine employees to determine whether they are a large employer.
6. NEW- starting in 2015, <u>large employers</u> must file Form 1095-C's at the end of the year indicating months of coverage provided for each employee. The Form 1095-C must be provided to the employee for use in preparing their 2015 income tax return. Contact your payroll provider to make sure they have made provision for this reporting requirement and be prepared to provide additional information necessary to facilitate the filing.

What are some 'small employer' concerns?

1. Small employers are those with <u>less</u> than 100 employees (2015) or 50 employees (2016). Therefore, they are not required to offer qualifying group health insurance to employees or pay a penalty.
   Many small employers offer some type of health insurance to their employees as part of their compensation package. The ACA imposes a penalty for certain employer reimbursement plans (Section 105 plans) of $100 penalty per employee per day.
2. In the past, many small employers reimbursed employees for individual policies due to the ease of administration as well as individual policies being cheaper, but under the ACA most of these plans (Section 105 plans) that predate the ACA are illegal, and the penalties for noncompliance are substantial.
3. Following are some common situations we see with small employers. Please review and let us know if you have any questions or concerns.
    a. <u>Situation 1: Group Health Insurance</u>- An employer continues to offer group health coverage to all full-time employees. These plans generally comply with the new market reforms and likely avoid being subject to penalties.
    b. <u>Situation 2: Employer Reimbursement Plans</u>- An employer reimburses employees for individual policies and therefore does not offer group health insurance. Effective July 1, 2015, these plans are subject to $100 penalty per day per employee.
    c. <u>Situation 3: One Employee Exception</u>- An employer has one employee and reimburses that employee for their individual policy. This fits the "one employee exception" and is not subject to the $100 penalty per day per employee.
    d. <u>Situation 4: S Corporation Shareholders</u>- An employer reimburses for individual policies of the S Corporation 2% or more shareholder premiums and includes in Box 1 of Form W-2 to provide for a self employed health insurance deduction on the shareholders personal tax return. Effective January 1, 2016, these plans are subject to $100 penalty per day per employee. We expect further guidance from the IRS in 2016.

What is the individual mandate?

1. Starting in 2014, you and your dependents <u>must</u> have qualifying health insurance or be subject to a potential penalty.
2. This penalty is called the "individual shared responsibility payment" and is computed and reported on your individual federal income tax return.
3. You may be exempt from ACA's individual coverage requirement if you experience certain exception events, some of which are listed below:
    a. Hardship- you are experiencing a hardship that prevents you from obtaining coverage
    b. Poverty- your minimum payment for annual premium exceeds 8.05% of household income
    c. Short gap coverage- You were in between jobs without insurance for two months
    d. You belong to a group specifically exempt from the coverage requirement (certain Indian tribes, religious groups, etc.)
    e. You participate in a health care sharing ministry
4. If your employer doesn't offer insurance, you can purchase from the Health Insurance Marketplace (the Marketplace). The Marketplace:
    a. Facilitates the purchase of health insurance in each state in accordance with the ACA
    b. Offers various levels of plans (Bronze, Silver, Gold and Platinum) that allows individuals to "shop" for their health insurance
    c. Makes you potentially eligible for the premium assistance tax credit
5. The penalty for not having qualifying insurance increases over time
    a. 2015- up to $325 per uninsured person ($162.50 for children under 18)
    b. 2016- up to $695 per uninsured person ($347.50 for children under 18)
6. NEW- starting in 2015, everyone receiving insurance either from their employer or from the Marketplace will receive a Form 1095 (A, B or C) indicating they had qualifying insurance. Please provide this to us when we prepare your 2015 income tax return.