PPACA – Healthcare Reform Moving Forward

Given that PPACA (Patient Protection Affordable Care Act) is here to stay, it is time to embrace the change and continue preparations to comply with the law. Although there will likely be some minor modifications to the Act and regulations clarifying its implementation, we have a pretty good picture of what to expect.

Among other preparations, employers need to anticipate increased cost as insurance carriers will now be accepting more risk, extending coverage requirements, paying a premium tax and incurring other related PPACA implementation expenses.

In this article, we provide an overview of PPACA, reviewing what has happened so far and the preparations required in 2013 and, most importantly, 2014 where most of the provisions take effect.

The Past: 2010 - 2012

Starting in 2010, PPACA reforms have gradually begun implementation of these key changes with new provisions in 2011 and 2012.

2011

- Dependent care increases age limit to age 26, allowing adult kids to remain on parent plans longer;
- No lifetime limits on coverage, leading to no annual limits in 2014;
- No pre-existing exclusions for kids to age 19, moving to apply to everyone in 2014;
- Increased preventative and emergency services;
- Available tax credits for organizations with 25 or fewer employees who offer medical coverage: up to 35% of employer’s contribution now, then to 50% in 2014;
- Grandfathering provisions allowing qualifying organizations to avoid or defer implementation of some of the changes.

2012

- W-2 Reporting: Groups with 250 or more W-2s in the previous year are required to report the aggregate cost of their employer-sponsored medical insurance cost on W-2s issued in January 2013.
- Women’s Wellness: Insurers were required to increase benefits including 100% coverage for women’s preventative services when performed by an in-network doctor.
- Summary of Benefits & Coverage: Insurers and group health plans must provide a summary of benefits and coverage (SBC) document to each full time employee, and to family members of those enrolled in coverage in a standardized, consumer-friendly format, making it easier for participants to compare it with other plans. The health insurance carrier prepares this for fully insured plans, and employers are responsible to prepare the SBC for self-funded policies.
- Medical Loss Ratio Reporting: Health plan insurers are now held to new minimum spending requirements – 85% large group (51+ eligible employees) and 80% small and individual groups. Overages of these amounts were sent as rebates to policyholders August 2012.

2013 PPACA

There are a few changes taking place in 2013, mostly related to tax provisions & preparation for the major changes taking place in 2014.

- Health Insurance Premium Tax: A premium tax on health plans called the “patient-centered outcomes research fee” or “comparative effectiveness fee” paid by both fully insured and self-insured health plans due 7/31/13 for the 2012 plan year.
- Medicare Tax Increase: High earners, those claiming 200K individual or $250K joint filing, receive a Medicare tax increase from 1.45% to 2.35%. A separate Medicare tax of 3.8% will also be employed on unearned income such as dividends, interest, annuities, rent and other income.
- Medical Expense Threshold: The itemized medical expense deductions threshold increases from the current 7.5% to 10%.
- FSA Contributions: Capped at $2,500.
- State Insurance Exchange Notice: As of 3/1/13 employers are to provide notices to all employees regarding new health insurance exchanges that are required to be operational in 2014. Exchanges provide organizations and individuals the ability to shop and compare plans and rates online; or to continue to use insurance brokers. Brokers will continue to play a critical role in helping clients shop for coverage, create cost control strategies, wade through the many changes, and implement coverage with employees.
- Wellness Participation Rewards Allowed: Organizations are allowed to create incentives and premium differences of as much as 20% of an individual insurance cost, encouraging healthy behavior and accountability. This incentive increases to 30% in 2014.

Major Changes 2014 PPACA

Everything has been leading up to 2014, where we see most of the PPACA provisions fully implemented. Employers need to begin making plans now to ensure they are prepared to comply and execute these changes.
• **Individual Mandate:** Everyone is required to have medical insurance or pay a penalty. Although not too serious, the penalty is $95 for individuals and $285 for families or 1% of income, whichever is greater. These penalties increase in 2016 to $695 per person or $2085 family or 2.5% of income.

• **Guaranteed Issue:** Insurance providers can no longer deny anyone coverage or charge based on health or experience. There are also no more pre-existing conditions. Insurance companies can base rates on family structure, age, tobacco use, and geography.

• **Employers Required to Offer Coverage:** Large employers (those with 50 or more full-time equivalents) are required to offer minimum essential coverage or pay penalties. Employees who work an average of 30 hours or more per week are considered full-time. Full-time equivalents are calculated taking the total hours worked in the month by part-time employees divided by 120. Plans must meet an Essential Benefits Standard. Penalty for not offering a plan is $2,000/EE/Year. Insurance plans must also be affordable, meaning they are 9.5% or less of W-2 Income. The fine to companies is $3,000 per person if their plan is found to be unaffordable. In general, large employers who do not offer coverage will pay a penalty if one or more of their full-time employees are eligible for federal subsidies. The first 30 FTEs are exempt from the penalty. The large employer penalty is not tax deductible. The calculation: Penalty = $2,000 annually (pain in monthly increments) x [total number of full-time employees – first 30 full-time employees].

There is no penalty for employers who have fewer than 50 FTEs. But in order to encourage small employers to provide insurance coverage to their employees, small business tax credits are available to help offset the employer contribution toward employee premiums.

• **Insurance Exchanges:** Every State must have an insurance exchange – an organized marketplace where individuals and small business owners can view, compare and purchase coverage making coverage more accessible and easier to obtain.

• **Individual Subsidies:** Individuals whose employers don’t offer minimum essential coverage and whose household incomes are 133 - 400% of the federal poverty level will qualify for federal subsidies to help them pay their insurance premiums or cost sharing obligations.

• **Medicaid Expansion:** Expands Medicaid for low income Americans up to 133% of the poverty line ($14,856 individual and $30,657 family of four). Covers all individuals under age 65.

• **Waiting Period Capped at 90 Days:** Organizations must begin to offer coverage within at least 90 days. Although the IRS did not specify, according to the Department of Health & Human Services, they will allow coverage to begin the first of the month following 90 days of service.

• **Auto Enrollment:** Companies with 200+ employees are required to automatically enroll employees in their medical plans. Employees can still opt out of coverage (Currently on Hold).

• **Discrimination:** Still to be defined, organizations will not be able to discriminate in favor of highly compensated employees in their medical insurance terms, benefits and premiums.

**Employer Preparations**

Although many of these requirements don’t take effect until January 1, 2014, employers will want to get a handle on the implementations for their business now. The following actions will help employers be prepared for future PPACA requirements:

1) Stay up-to-date and comply with all PPACA provisions. HR Service, Inc. keeps our clients informed of what they need to know and do, when it is needed.

2) Develop healthy lifestyles and employee responsibility for health and cost control.

3) Create wellness programs, including premium and reward incentives to encourage healthy behavior. Our next article will cover wellness programs, requirements, and techniques to make them effective.

4) Revise health care strategies for employees and review benefits as part of total rewards.

5) Assess each of the PPACA provisions already implemented and those to come, making sure you are complying and identifying actions needed.

6) Estimate and plan for the potential costs you could incur for offering and contributing to health insurance coverage.

7) Consider the penalty for low-income workers who will be eligible for federal subsidies. This will be difficult since employers have no way of knowing what their employees’ household incomes are or how many people are in their household.

8) Work closely with your insurance broker to get guidance on cost control, benefit strategies, ensure your plan meets essential minimal coverage requirements, and to receive assistance on PPACA implementation.

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**HR & Compliance Assistance**

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