EMPLOYERS GUIDE TO UNDERSTANDING THE ACA

A survey was recently conducted to learn about the questions stores owners wanted answered concerning the Affordable Health Care Act.

We understand that the law is incredibly complex and can make employers feel uncertain of how it will ultimately affect them. Many of the key regulations have yet to be written, adding to the uncertainty.

On July 2nd, 2013 the Treasury Department announced that they would delay the imposition of penalties under the Affordable Care Act for employers that do not provide health insurance for their employees until January 1, 2015.

1) Who is the law intended for?

Individuals:

"All American citizens & legal residents must purchase qualified health insurance - or pay a penalty"

State run insurance exchanges will be created to provide a menu of coverage options.

Employers:

Employers with **50 or more FTEs** must provide minimum coverage or face a penalty. They are not eligible to use the state Exchange. They will not be provided subsides.

Employers **under 50 FTEs*** will not be required to provide any employees "minimum essential" health insurance and there is no penalty. There is an incentive for Employers with **fewer than 25 FTEs** who may get a substantial **tax credit** (up to 50%) if they provide the required coverage through the Exchange.

** "FTE" = "Full-time Equivalent." This is based on the number of hours worked collectively by your employees. This is explained in more detail on page 3.*

2) What parts of the law came into effect in 2012?

- Women's Healthcare
- Summary of Benefits & Coverages
- W-2 reporting for employers with more than 250 employees

3) **What parts of the law came into effect in 2013?**
   - Comparative Clinical Effectiveness Research fees – meaning a $1 tax on each covered life will be used to advance research.
   - FSA Limit capped at $2500

4) **What parts of the law will be implemented in 2014?**
   - "Pay or Play" – employer and individual mandates to provide health insurance
   - State exchanges will be launched
   - No waiting periods in excess of 90 days for new employees
   - No annual dollar limits on essential benefits
   - No preexisting condition exclusions for anyone insured in a health plan
   - Coverage of clinical trials becomes mandatory in all health insurance policies
   - Automatic enrollment in the employer's group health plan for employers with > 200 employees.

5) **How does Western Grocers Trust help us with complying with the ACA?**
   - This is our business and we are here to help our members. We will keep you advised of all changes in the law as well as modify our plans in ways to keep you compliant, by providing the options you desire and control your cost of benefits any way we can.

6) **Do I have to provide benefits for all my employees?**
   - If you are an employer with <u>under 50 FTEs</u> you have no requirement to provide insurance for anyone and there is no penalty.
   - If you have <u>over 50 FTEs</u> you are required to provide health benefits for any employee working 30 hours or more. You are not required to provide insurance for part-time employees defined as working an average of less than 30 hours.

7) **Do I have to provide benefits for family members?**
   - There is no requirement in the law that employers must pay anything for dependent benefits, but large employers must make it available for employees to purchase for their dependent children. The individual mandate is a requirement that everyone must have insurance, so you may have more employees seeking dependent coverage.

8) Does the ACA differentiate employers?

- Yes, the law applies differently based on the number of employees.

  UNDER 50 FTEs

  NOT required to provide insurance

  NOT subject to penalty

  Tax incentive for small employers (under 25 FTEs)

  50 OR MORE FTEs

  Required to provide minimum coverage for full-time employees (not part-time employees)

  Penalty if coverage not provided or insufficient

9) How does the law define a FTE?

FTE is not "full-time employee" – it's "full-time equivalent." The calculation for a part-time employee is not just half of a full-timer, they are calculated based on average number of hours.

- **Calculation formula**

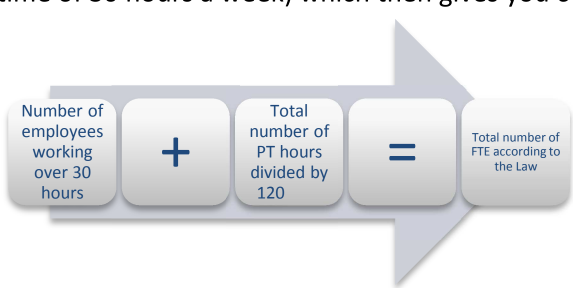
  FTE = Full-time Equivalent

  Includes:

  - Full-time employees: 30+ hours/week, and
  - Part-time employees: Total hours of service per month/120 hrs
  - The calculation will be based on previous year's average

- **Example**

  If you have 40 Full-time employees, and 30 part-time employees who work between 10-29 hours/week and have total monthly hours of 720…You divide that by 120 (full-time of 30 hours a week) which then gives you 6 full-time equivalents.



10) What about W2 reporting?

- W-2 reporting for employers with more than 250 employees will be required for 2013.
- W-2 reporting for employers with fewer than 250 will not be required until the IRS provides at least 6 months' notice. This will be reported on Box 12 with code DD. In general, it should include portion paid by employer AND portion paid by employee. HRA, FSA, and HSA contributions are generally NOT included.

11) If I am a small employer, what are the rules that will affect me?

- Since small employers are exempt from penalties, the only effect is that you may get a tax credit for providing health insurance to your employees.
- If the law causes premiums to inflate, those benefits may cost more.

12) What are the Tax incentives for small employers?

- Employers are currently eligible for a credit (not a deduction) for up to 35% of premiums paid for employees (not owners). The amount of the credit is affected by the average annual wage of employees.
- In 2014, if small employers buy their insurance through the exchange, the credit is 50%. There will be no credit for insurance purchased outside of the exchange.

13) How does the law impact large employers?

- Employers with over 50 FTEs must provide full-time employees with "minimum essential coverage" that is "affordable" or pay a penalty.

14) What does "minimal essential coverage" mean?

- This is not something you will likely have to worry about. Any plan offered by an insurance carrier or the exchange will automatically meet the requirements of minimum essential coverage. This has nothing to do with premium – just the employee cost-sharing of actual coverage.

15) How is that different from "essential benefits"?

- Essential benefits are based on actuarial percentage of cost-sharing . Minimum coverage requires 60% -- i.e., 60% of health care expenses are paid by the plan, 40% are paid by the employee. This can be accomplished by a mix of deductibles, co-pays, and co-insurance.

16) What does it mean that coverage has to be "affordable"?

- Large employers will be responsible for ensuring that each employee's portion of the premium is less than 9.5% of their average income. You will need to manage this requirement to identify how you split the premium payment with your employees.

17) How is the penalty calculated for large employers?

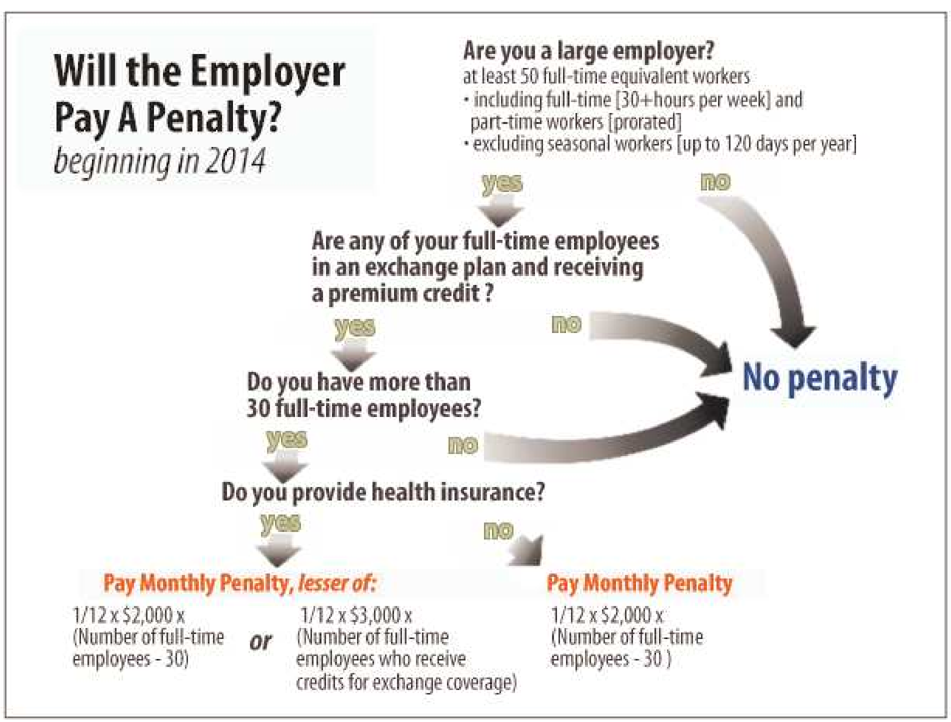
The penalty is based on any of your full-time employees participating in the exchange and/or receiving a tax credit. Under certain circumstances you can avoid the penalty even if you do have an employee receiving a tax credit (see "Safe Harbor" below).

There are two types of penalties:

a. If you choose to not provide **coverage**:
You will pay $2000 x total number of full-time employees (less the first 30 FTEs)

b. If your **coverage is insufficient**, penalty is the lesser of:
$3000 x each FTE employee who receives a tax credit or cost-sharing subsidy through the exchange or the penalty as calculated in 1 above.

18) PENALTY FLOW CHART



19) What if I want to just pay the penalty – how will that affect me?

- Once you calculate the penalty, you can decide if that is the best financial choice.
- Then you have to decide how not providing benefits may impact your employee morale and/or your ability to attract new employees.
- By not providing health benefits, some experts predict substantial increases in Workers Compensation claims.

20) What is my 'Safe Harbor'?

The employer will not be liable for penalties even if the employee receives a tax credit through the exchange IF:

- The employer offers minimum essential coverage to FTEs and their dependents AND……
- The employee-only premium share for the lowest cost coverage that provides minimum value is less than 9.5% of the employee's W-2 wages.

21) What is the purpose of the Exchange?

- To provide access to qualified plans to individuals and small employers that will provide menu of coverage options.

22) How will it work?

- Starting in mid-2013 each states Exchange will be notifying employers how to access carriers through its Internet portal. Options and applications will be on their website.

23) Will I qualify for subsidies?

- Yes, if you have fewer than 25 employees and fall under the employee average salary calculation.

24) What part of this law will be good for my employees?

- The law is intended to provide better access to health insurance for individuals and small employers.
- The law will also make sure everyone qualifies and has access to basic levels of insurance.
- If you already offer a plan, your employees likely won't notice much of a difference other than free preventive care and extra motivation to add dependents in light of the "individual mandate."

25) Will the law change how we interact with Unions?

- The law applies equally to union plans meaning everyone will operate under the same rules.

26) Will my cost of benefits go up?

- This is unknown at this point. The crafters of the plan felt that over time the cost would go down (or inflate at a slower pace) because more people will have insurance, meaning less people would have to share the cost for the uninsured. Opponents are convinced that the plan inherently adds expenses to the system meaning that costs will go nowhere but up. We will have to wait and see.

27) What do I need to do to prepare for the changes coming?

- Review your Personnel Policies to make sure they are not in conflict with the law. For example, make sure your waiting period for eligibility does not exceed 90 days.
- Stay informed by attending workshops and through information shared by Unified and other industry partners.

28) What is the best resource for information going forward?

- We will do our best to keep you informed in the most understandable way possible.
- The official government site for information is probably the most up-to-date and reliable and can be found at **www.healthcare.gov**
- Valuable information is also available from the Western Grocers Health Trust which is sponsored by Unified Grocers for employers in the northwest and Alaska.

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