SET SEG

ACA 101

The purpose of this training is to equip you with the Affordable Care Act (ACA) knowledge necessary to support your school district in understanding the ACA and why Internal Revenue Service (IRS) regulation compliance is so important.

*This presentation is intended for educational purposes only. You should contact your tax and/or legal advisors regarding specific scenarios to your district.

**The Safe Harbor % and IRS assessment amounts are based on the 2022 filing year and will be indexed in subsequent years.

Overview

Part 1: What is the ACA?

Part 2: Full-Time Status Calculation?

Part 3: 4980H (a) and 4980H (b) Penalties

Part 4: Affordability Measures

Part 5: IRS Reporting Requirements


PART 1
What is the ACA?

What is the ACA?

The purpose of the Affordable Care Act (ACA) is to reduce the number of uninsured Americans.

The ACA primarily uses two methods to accomplish this:

1. The individual mandate

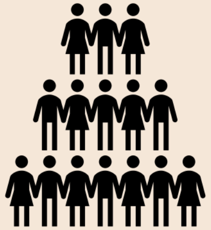
2. Employer shared responsibility provisions (ESRP)

Employer Responsibilities

The ACA requires employers to focus on two primary tasks:

1. Determine full-time/part-time status of each employee

2. Mail IRS 1095-C forms to employees and submit 1094-C and 1095-C forms to the IRS each tax year



ESRP requirements dictate that certain employers, also known as applicable large employers (ALEs), offer health coverage to employees and their dependents.

How do I know if our district is an ALE?

An ALE is an employer with at least 50 full-time employees, including full-time equivalent (FTE) employees who average 30+ hours a week, on average during the prior year.

The employer is then considered an ALE for the current calendar year.

Tip: If your district is close to having 50 full-time or FTE employees, we recommend you follow the requirements as if you were an ALE.

What are Employer Shared Responsibility Provisions?

Minimum Essential Coverage

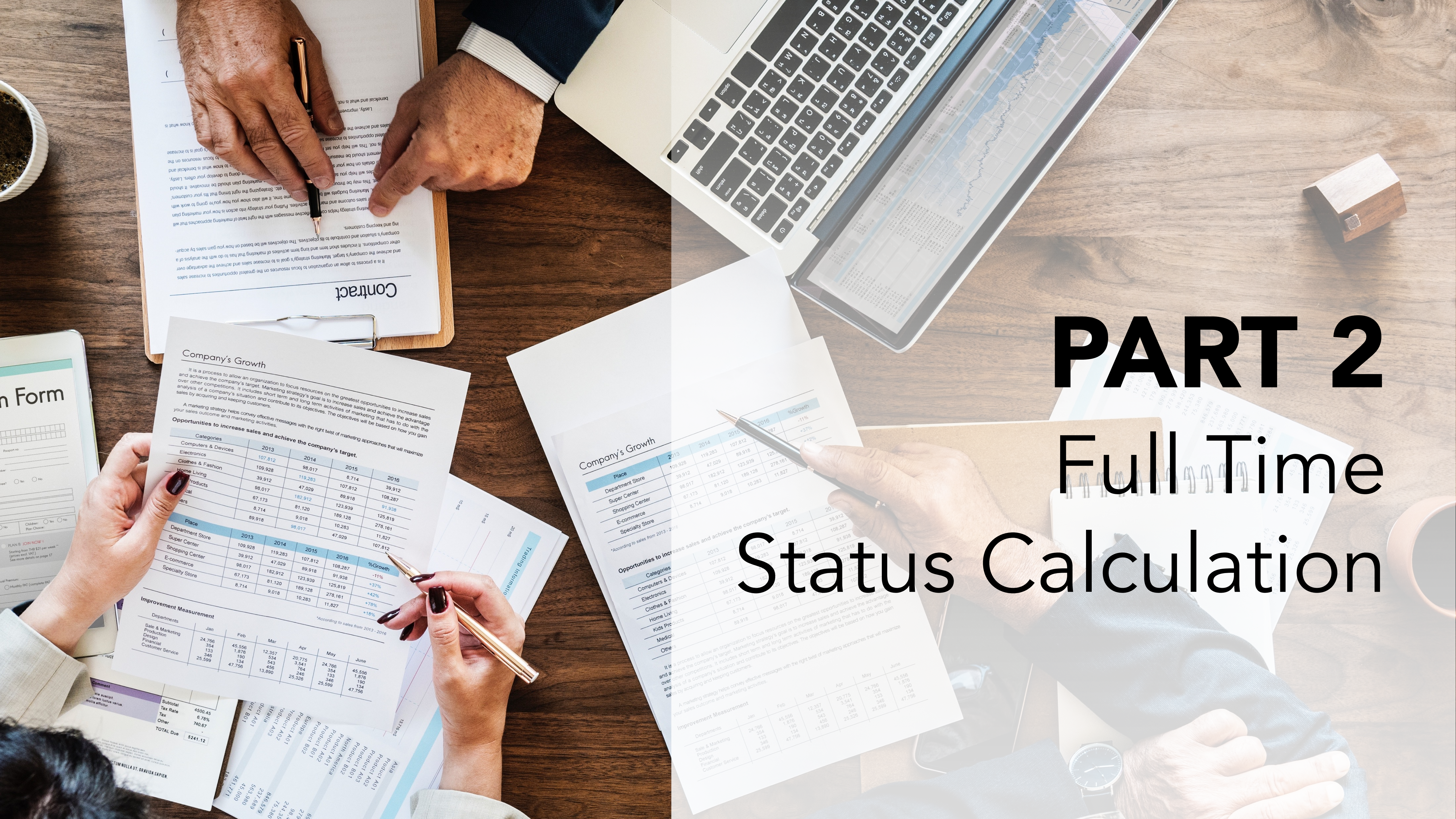
Offering at least 95% of your full-time employees and FTE employees.

Affordable

An employee's single subscriber monthly cost must be less than 9.61%** of their household income.

Minimum Value

The health insurance plan must pay for at least 60% of a person's average annual medical expenses.



PART 2

Full Time Status Calculation

Employee Designation

The ACA requires employers to designate all employees as one of four types:

Full Time: The employee is expected to work more than 30 hours per week on an ongoing basis

Employee Designation

The ACA requires employers to designate all employees as one of four types:

- Part Time: The employee is expected to work less than 30 hours per week on an ongoing basis
- Seasonal: The employee is customarily expected to work for 6 months or less
- Variable: It cannot be determined whether the employee will work more than 30 hours

The ACA states that any employees classified as full-time are required to be offered health insurance benefits no later than the first day of the fourth month following their hire date.

The ACA prescribes two methods of determining whether ongoing part-time, variable, or seasonal employees qualify as full-time.

Tip: We recommend adopting the 12-month lookback method.

The Lookback Method:

A measurement method that employers can use to determine the full-time status of an employee during a future period (referred to as the stability period), based on the employee's hours of service in a prior period (referred to as the measurement period). Using this method means that an employer looks back over a defined period of time to determine if the employee averaged at least 30 hours per week.

Monthly Measurement Method:

A measurement method that employers can use to determine each employee's status as a full-time employee by counting the employee's hours of service at the end of each calendar month. An employee with at least 130 hours of service during the calendar month will be considered a full-time employee for that month.

The Lookback Method

1. Measurement Period

Up to a 12-month past period of time during which an employee’s actual service hours are averaged.

2. Administrative Period

An up to 90-day period of time to complete calculations and offer coverage.

3. Stability Period

An up to 12-month period of time during which an employee is eligible for coverage offer regardless of hours worked.

An Example of an Employee in an Ongoing Measurement Period

Employee "A" averaged more than 30 hours during their standard measurement period (SMP)

Jul. 1, 2021–Jun. 30, 2022	Jul. 1, 2022– Aug. 31, 2022	Sep. 1, 2022–Aug. 31, 2023
Standard Measurement Period	Administrative Period	Standard Stability Period
12 Months	61 Days	12 Months

Benefits should be offered by September 1, 2022

Full Time Determination

There are many detailed rules relating to full-time determination, including:

- What counts as a service hour
- How to account for summer breaks
- What to do with leaves of absence, like FMLA, military and jury duty
- How to handle newly hired employees (full-time vs. non-full-time)
- What to do about employees that retire but then come back to work part-time

Special Circumstances

Districts may encounter especially challenging hour calculations in the following cases:

Special Circumstance:		Tip:
Employees who are not compensated on an hourly or salary basis (e.g., an employee that makes a daily rate)	→	Consider using Michigan Office of Retirement Services (ORS) hour equivalency rates
Bona-fide Volunteers	→	Count all hours if the volunteer is also an employee
Student Workers	→	Treat as an employee, unless the individual is a federal work-study student

PART 3

4980H (a) and 4980H (b) Penalties

Coverage Requirements

If ALEs responsibilities are not met, assessments may apply

These assessments are commonly referred to as the IRS 4980H (a) and (b) penalties, or the play or pay mandate, and they are assessed if employers fail to take certain action

What Is the Risk if Our District Does Not Comply?

Most Severe:

Employers who do not offer at least minimum essential coverage to 95% of their full-time employees can be assessed $2,750** on every one of their full-time employees, minus the first 30

What Is the Risk if Our District Does Not Comply?

Most Manageable:
Employers can be assessed $4,120** for each full-time employee who is not offered qualifying coverage

4980H (a) Penalty

An employer is subject to the pay or play mandate if health insurance coverage is not offered to 95% or more of its full-time employees and dependents.

Regulation: Employers must offer health insurance coverage to at least 95% of its full-time employees.

All or nothing penalty.

If not met, employers run the risk of being fined up to $2,750** per full-time employee (minus the first 30).

Example: An employer only offers coverage to 90% of employees. One of these employees goes to the exchange and buys a tax-subsidized health insurance plan.

Employer has a total of 125 employees

125 – 30 = 95 x $2,750** (per employee)
Total penalty of $261,250

4980H (b) Penalty

An employer is subject to a penalty fine if the employer-sponsored health insurance plan is unaffordable, does not meet minimum value, and one or more full-time employees receive subsidized coverage through an exchange.

Regulation: Employers must offer affordable health coverage that meets the minimum value requirements to its full-time employees.

Example: Employer offers coverage to at least 95% of FTEs, but for some employees, it is not affordable and/or doesn't meet minimum value.

Case-by-case penalty.

Employer has a total of 25 employees not offered affordable and/or minimum value coverage who received health insurance through an Exchange.

Risk assessment if not offering affordable or minimum value coverage = $4,120** per full-time employee who received a marketplace subsidy.

25 full-time employees x $4,120** (per employee)
Total penalty of $103,000

- An ALE may be subject to one of two employer-shared responsibility payments, but not both, and the two types of payments are calculated differently. An ALE may not be subject to both types of payments regardless of the decisions it makes about offering or not offering minimum essential coverage to its full-time employees (and their dependents).

- In general, an ALE that does not offer minimum essential coverage to at least 95% of its full-time employees (and their dependents) will be liable for the first type of employer-shared responsibility payment if at least one full-time employee receives the premium tax credit for purchasing coverage through the marketplace.

- However, under a special rule, if an ALE offers coverage to all but five of its full-time employees (and their dependents), and the five is greater than 5% of the employer's full-time employees, the employer will not owe the employer-shared responsibility payment that would otherwise apply under the rule for an employer that offers coverage to less than 95% of its full-time employees (and their dependents).

PART 4

Affordability Measures

Importance of Affordability

Affordability plays an important role because the act is designed to make healthcare more accessible to the majority of Americans.

- The plan used to define affordability is the lowest priced self-only plan the employer offers — meaning a plan covering only the employee, not dependents. This is true even if someone is enrolled in a plan that costs more or covers dependents.
- The cost is the amount the employee would pay for the insurance, not the plan’s total premium.

Calculating Affordability

The IRS recognizes that an employer would have no way to determine an individual's household income, so the IRS created three affordability safe harbors to determine what 9.61%** of an employee's household income would be.

Your district has the option of selecting a new safe harbor every year. One safe harbor can cover the entire employee population, or the safe harbor can be applied to separate segments.

Tip: We recommend using Federal Poverty Level (FPL)

Types of Safe Harbors

W-2 Box 1 Earnings (W2)

To determine if the health insurance plan is affordable, the wages in W-2 Box 1 cannot exceed 9.61%** of the health insurance annual premium.

Types of Safe Harbors

Lowest Rate of Pay (RoP)

Lowest rate of pay for an employee is determined by examining the employee's lowest hourly payrate for the month and multiplying by 130 hours (the minimum total of hours an employee must work on average to be ACA full-time). This amount will be multiplied by the affordability percentage of 9.61%*. The cost per month for a single subscriber lowest-cost plan must not exceed this amount.

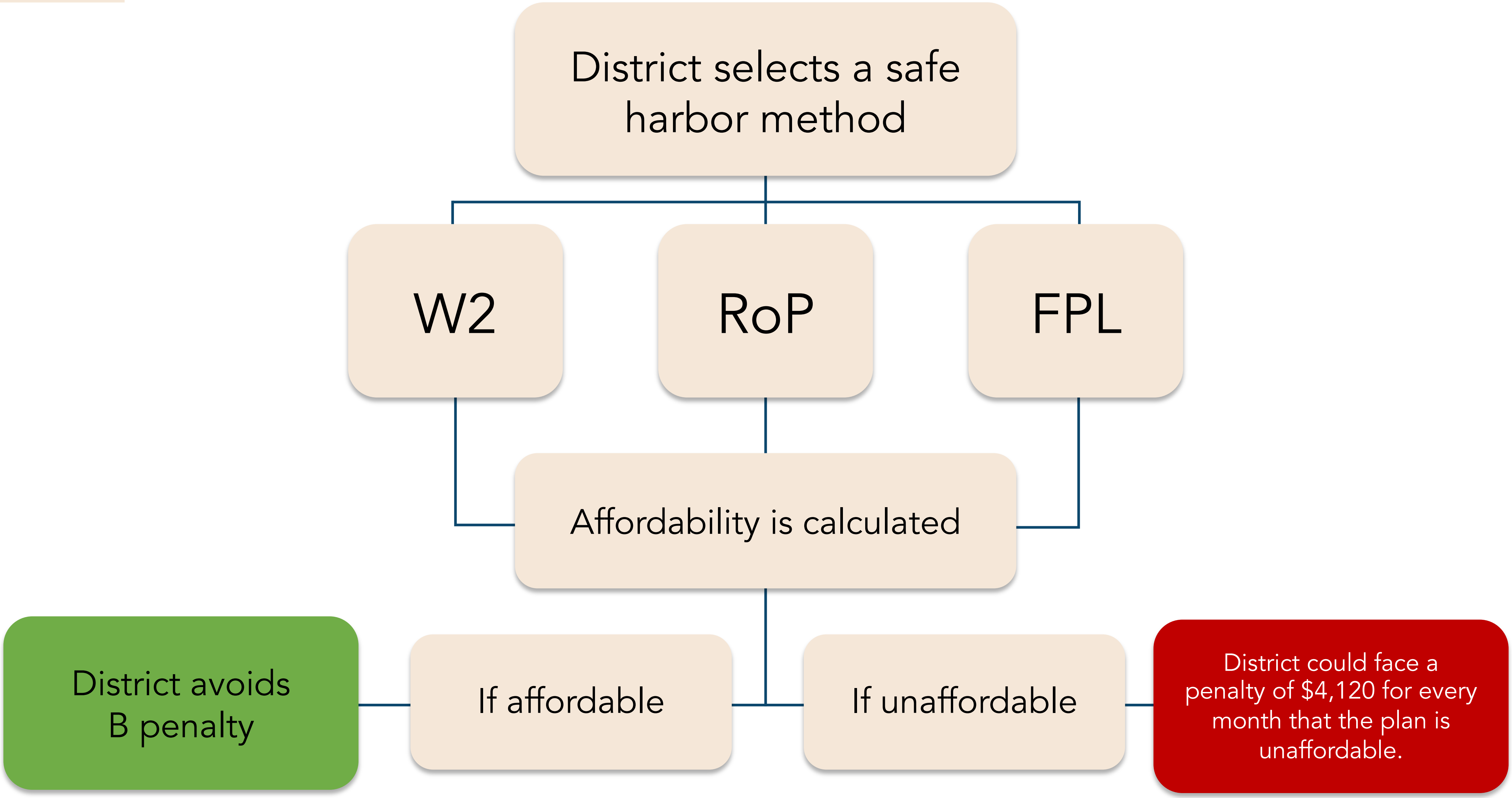
Example: Employees hourly rate is $14.00/hr x 130 hours =
Gross monthly pay of $1,820 x 9.61%** = $174.90

If the health insurance monthly premium is $174, it is considered an affordable plan.

Types of Safe Harbors

Federal Poverty Level (FPL)

FPL is a federally-based amount that is decided by the Centers for Medicare and Medicaid (CMS) and the Department of Health & Human Services (DHHS). For 2022, FPL is an annual income of $12,880. The single subscriber cost can't exceed 9.61%** of FPL.


District selects a safe harbor method
W2
RoP
FPL
Affordability is calculated
District avoids B penalty
If affordable
If unaffordable
District could face a penalty of $4,120 for every month that the plan is unaffordable.

Affordability Measures and 4980H Penalties

Some districts strategically decide to incur the "B" penalty for the year. A district might make a business decision to incur a penalty rather than offering an affordable plan, if they decide they would spend significant more money subsidizing affordability.

Tip: We recommend that school districts in the state of Michigan try to avoid the "A" penalty at all cost.

Note - This doesn't work for every district, so we highly recommend evaluating what works best for your specific circumstances by consulting your legal counsel and benefits administrator.

PART 5

IRS Reporting Requirements

IRS Code Sections

Two IRS code sections outline the employer reporting requirements for the ACA

1.

Section 6055 tracks individual compliance with the individual mandate. This applies to any provider of minimum essential coverage. These are districts that offer a self-funded health insurance plan

2.

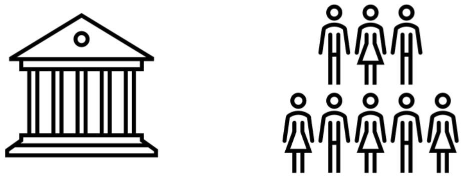
Section 6056 tracks employer compliance with the ESRP and applies to employers with at least 50 full-time or FTE employees

IRS Forms

Every year, ALEs are required to prepare and file two types of IRS forms, as they relate to the ACA. These are known as 1094-C and 1095-C Forms.

Form 1094-C

Reports to IRS



Form 1095-C

Reports to IRS & Employees

Form 1094-C

The Form 1094-C is a summary of information for each ALE that is used to transmit 1095-C Forms to the IRS. This could be considered as a cover page for the individual 1095-C Forms.

1094-C includes:

- The number of 1095-C Forms the IRS can expect from your district
- Who the IRS will contact should they have questions
- Whether or not your district offered health insurance coverage to 95% or more employees in each month.

Form 1095-C

This form exists for any employee who is considered full-time for one or more months of the calendar year or for any employee enrolled in a self-insured plan. ALEs must report individual compliance information for all 12 months of the calendar year for each employee.

Part 1:

- Employee name
- Address
- Social Security Number

Form 1095-C

This form exists for any employee who is considered full-time for one or more months of the calendar year or for any employee enrolled in a self-insured plan. ALEs must report individual compliance information for all 12 months of the calendar year for each employee.

Part 2:

Includes three significant items, line 14, 15 and 16. These lines together explain:

- Was the employee full-time?
- Were they offered coverage?
- What was the type of coverage offered?
- Are they actually covered?
- Was coverage made available to a spouse and/or dependents?
- What is the cost of the lowest-cost self-only coverage offered?

Form 1095-C

This form exists for any employee who is considered full-time for one or more months of the calendar year or for any employee enrolled in a self-insured plan. ALEs must report individual compliance information for all 12 months of the calendar year for each employee.

Part 3:

Incudes:

- Each covered individual, including spouses and dependents, per month.

Reporting Process

1. Populate Forms

Form 1095-C will be populated for each individual full-time employee. Form 1094-C will be completed with the district's information.

2. Disseminate Forms

Form 1095-C will be mailed to each full-time employee and/or employees enrolled in a self-insured health insurance plan, no later than March 2.

3. Transmit Forms

Both the Form 1095-C and the Form 1094-C will be electronically filed with the IRS by March 31.

ACA 101 Recap

Determine ALE Status

Classify Your Employees Appropriately

(Full-Time Determination)

Follow ESRP Guidelines

(MEC, MV, and Affordability)

Avoid Costly Fines

File with the IRS

As part of the ACA Tracking and Reporting service, we will assist you in complying with IRS regulations.

For any questions or assistance, contact us at:
customerservice@setseg.org | 800-292-5421