Affordable Care Act

Presented by -

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One Lonely Operator Trying to Make Sense Out of This

What does the ACA require?

- Beginning in 2010, the ACA requires existing and new individual market and group health plans to satisfy certain requirements (e.g., coverage of dependents up to age 26, no pre-existing condition limitations, no annual or life-time limits)

- Effective in 2014, the ACA aims to expand coverage through a series of provisions:
  - **Individual mandate:** Requires all Americans, with some very limited exceptions, to maintain a minimum level of health coverage or pay a penalty.
  - **Insurance Exchanges:** Creates state-based health insurance Exchanges and provides premium tax credits (PTCs) to assist eligible individuals with the purchase of coverage.
  - **Medicaid expansion:** Expands Medicaid up to 133% of federal poverty level.
  - **Employer mandate:** Mandates employers with 50 or more full-time equivalents to offer coverage to full-time employees (and their dependents) or pay taxes if an employee obtains Exchange coverage and a premium tax credit.

How it's intended to work

$$ COSTS $$

What did the Supreme Court Do?

- The Court held that the law’s individual mandate is constitutional because it is a federal tax
- The Court, however, ruled that the Act’s Medicaid provisions requiring states to expand Medicaid was unconstitutional
  - Thus, states can decide to expand Medicaid eligibility
  - In states that do not expand Medicaid, employers could face greater exposure to tax penalties because lower-wage employees who would have been eligible for Medicaid may be entitled to the premium tax credit for Exchange coverage.

Employer Mandate: Keep It Simple

- The ACA does not require employers to offer coverage to its employees (regardless of size)
- However, a large employer may be subject to an excise tax beginning in 2014 if the employer:
  - Fails to offer coverage to its full-time employees "(and their dependents)", **OR**
  - Offers coverage that is not affordable to the full-time employee or fails to satisfy the minimum value requirement **AND**
  - At least one full-time employee receives a premium tax credit for Exchange coverage

Who is a large employer?

- **Large employer** = An employer who during the preceding calendar year employed at least 50 full-time employees (FTs) or full-time equivalent employees (FTEs)
  - This is measured across a controlled group versus employing entity. New regs have been issued on control groups – see tax attorney.

What is a Full-Time Employee?

- An employee that works on average 30 or more hours per week or 130 hours per calendar month.
- To assist the variable hour work force the regs have provided for measurement period and stability period.

What is affordable coverage?

- **Affordable** = where the employee's share of the premium for the employer's lowest-cost plan that is ACA-compliant does not exceed 9.5% of modified adjusted gross <u>household income</u>

- Treasury has proposed a safe harbor that permits an employer to use current Form W-2 wages for purposes of determining affordability of coverage

What is minimum value coverage?

- Minimum Value = For insured plans it is all ACA-compliant plans that have 60% actuarial value. For self-funded plans, a lot more discussion. See expertise advice.
- Statutory definition had promising language that could have led many to self-fund. Regulators are poised to adopt a less generous rule that looks to see whether a plan provides 60% actuarial equivalence when measured against a “typical” self-funded plan.
- AV = percentage of medical expenses, minus deductibles, co-insurance, co-payments, etc, paid for by the plan for a standard population and set of allowed charges

What are the penalties?

- There are two possible penalties as follows:

  Penalty #1 – If a large employer does not offer ACA-compliant coverage to their full-time employees "(and their dependents)", the employer must pay:

  - $2,000 x the total number of full-time employees if at least one full time employee is receiving a premium assistance tax credit
  - Note: The first 30 full time employees are excluded in determining the penalty
  - ACA-compliant coverage will include group major medical insurance and self-funded plan coverage

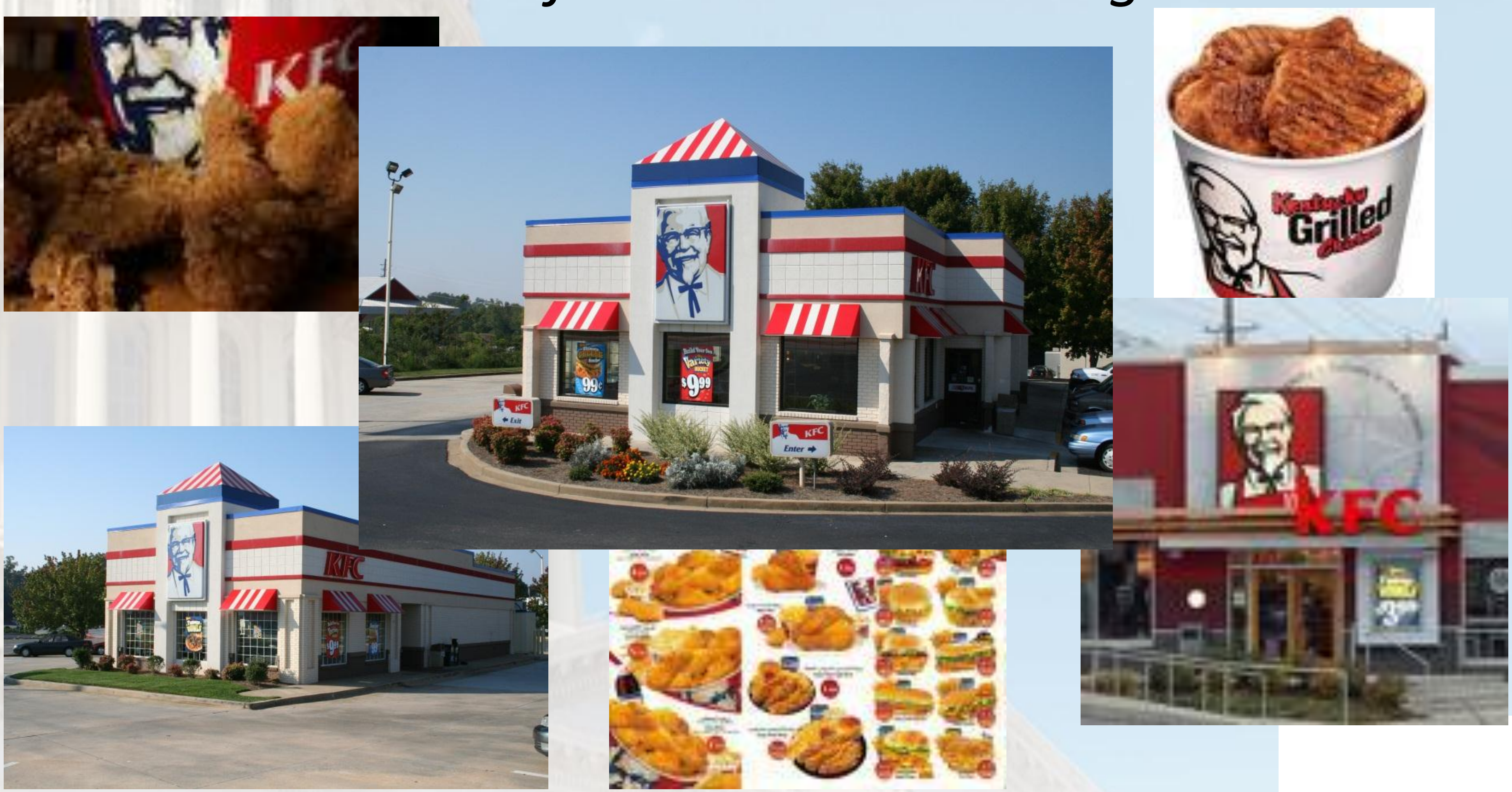
What are the penalties?

- **Penalty #2** – If a large employer offers coverage to their full-time employees and their dependents but the coverage is unaffordable to certain employees or does not provide minimum value, employers face a penalty of:
  - The lesser of $3,000 x the number of full time employees receiving a premium assistance tax credit or $2,000 x the total number of fulltime employees
  - Note: The first 30 full time employees are excluded in determining the penalty

A Case Study

PMTD Restaurants LLC – 23 KFC/Taco Bells/KT's

A franchisee owner/operator of restaurants in small towns of Alabama and Georgia.



PMTD Restaurants LLC – 23 KFC/Taco Bells/KT's

A franchisee owner/operator of restaurants in small towns of Alabama and Georgia.

	Total	Currently Eligible Pre-ACA	Currently Enrolled Pre-ACA
# of active employees	412	36	30
# of full time	109	36	30
# of part-time	303	0	0

PMTD’s Plan currently qualifies as affordable to Employees

	Employee Only	Family Coverage
Annual premium	**$5,028**	**$12,612**
Paid by Employer		
- $	**$4,073**	**$4,349**
- %	**81%**	**34%**
Total $ paid by Employer	**$129,000**	
Paid by Employee	**$955**	**$8,263**

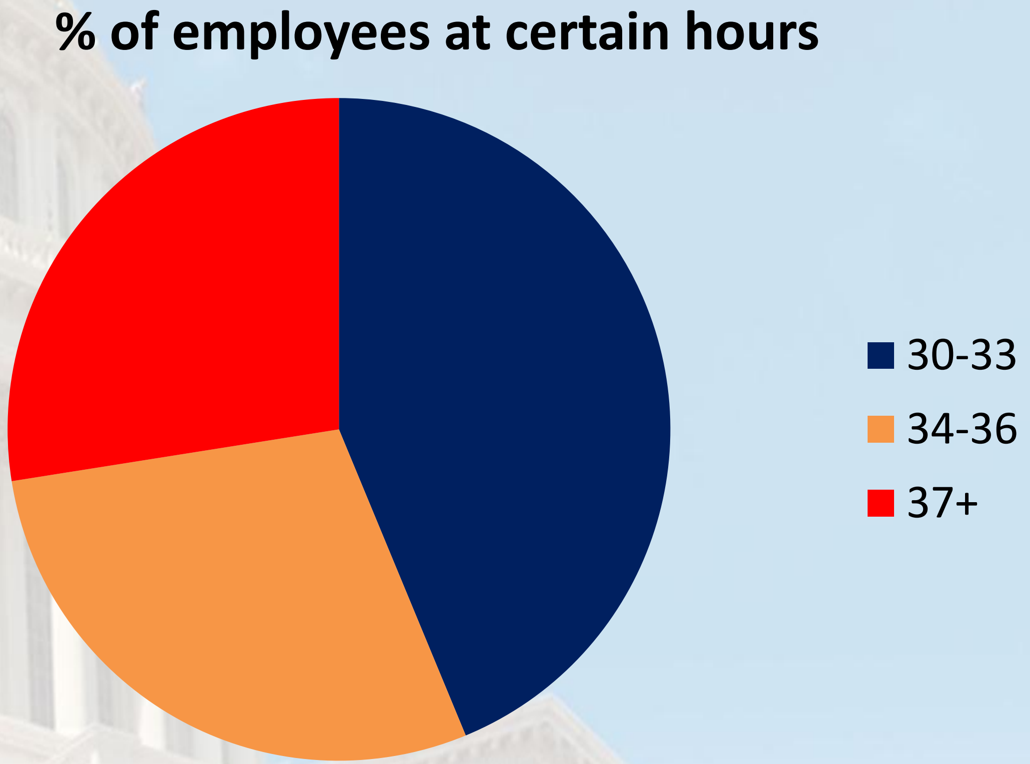
PMTD’s plan will meet the affordability test (less than 9.5% of employees pay) for its employees as full time employees make at least $10,000 per year.

ACA will increase insurance cost to Employer

	Total $ Paid by Employer
Currently pre-ACA	**$129,000**
Estimate under ACA with no change to plan	**$444,000**

This approx. $300,000 increase represents 1.5% of sales

As a result, many in the industry are looking at reducing full-time employment



35 of the 80 hourly full-time work between 30-33 hours.

Cost will be reduced through three factors -

		# of FT Employees		Total Cost
Beginning Total		109		$444,000
1) Reduction of Hours		(35)		($142,500)
2) Employees On Spouse Plan		(6)		($24,400)
3) Employees Opting Out (35% take)		(25)		($101,800)
3) Change in Plan design				($21,000)
Ending Total		43		$154,300

If cannot otherwise lower expense then Employers may resort to the Exchange

	Total $ Paid by Employer
Currently pre-ACA	**$129,000**
Estimate under ACA with no change to Plan	**$444,000**
Everyone goes into the Exchange	**$158,000**

Exchange is calculated as 109 employees less exemption for 30 full time employees times $2,000 per employee