The Remedy for ACA Headaches in 2015

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Ben Cohen | Workforce Magazine

With the delay in the employer mandate until 2015, employers were given a reprieve in some of their planning. While much of the focus has largely been on how to comply with Affordable Care Act, a key piece is often overlooked. How can employers leverage their plan for the ACA, as well as comply with the law? Let’s focus on the items that you should consider in 2014 in anticipation of the larger requirements in 2015.

Start with strategy. Benefits are a key component of most employers’ total rewards package. The ACA provides employers with a unique, once-in-a-lifetime opportunity to examine the role of benefits as part of total rewards and their effect on recruitment and retention.

The opportunity begins with strategic questions:

• How does our organization compete? Does it utilize a cost leadership strategy like Wal-Mart or a product/service differentiation strategy like Nordstrom?
• What is our organizational strategy?
• Is the HR strategy aligned with the organization’s strategy?
• What is our total rewards strategy?
• What role do health benefits play in the defined strategies?

Once you’ve defined the applicable strategies, all planning and initiatives should align as well. The decision of whether to offer affordable coverage to full-time employees or pay a penalty should be viewed through the lens of its effect on the total rewards strategy and the ability to recruit and retain employees. If you drop coverage and encourage employees to purchase insurance through the exchange, will you be able to find and keep the employees necessary to achieve the organization’s strategic goals and objectives? Will it increase direct compensation? Does it help recruit and keep employees?

One key component of the ACA is whether an employer must offer “affordable,” “minimum essential” coverage to employees. There is no penalty for employers with fewer than 50 full-time employees who don’t provide health coverage.

For employers with far fewer than 50 FTEs, this can be a fairly easy calculation. Likewise, for those with far more than 50, the calculation is easy, and they must decide whether to offer health coverage to those regularly scheduled to work 30 or more hours per week or risk a possible penalty. It is for employers with employees numbering some margin over or under 50 that the calculation can be more difficult.

The impact of that decision will drive the steps that an employer will take in preparing for compliance with the ACA. For help with calculating your number of FTEs, see IRS.gov.

Review coverage for affordability, essential benefits and minimum value. To avoid penalties, you must offer "affordable" coverage to full-time employees. In general, ?affordability is calculated to ensure that the cost of employee-only coverage of the lowest cost, eligible health plan does not exceed 9.5 percent of an employee's household income. Of course, there is no way for an employer to discern this amount. There are, however, three safe harbors for calculating affordability. They are Box 1 of your employee's W-2 wages, hourly rate of pay or federal poverty level.

Determine who is full time and must be offered coverage. Full-time employees have largely been defined as those averaging 40 hours per week, and many employers based their benefit eligibility on that definition. In 2015, the definition of a full-time employee will be those averaging 30 or more hours per week.

For employees who are regularly scheduled to work 30 or more hours per week, the determination to offer coverage is straightforward. For those who work variable hours, or new employees whose expected hours per week are unknown or variable, the calculation is more complicated.

To make this determination, you need to establish three periods: the measurement period, the administrative period and the stability period. Put simply, the measurement period is when you record the actual hours worked of a variable hour employee. The administrative period is when you calculate the average hours worked during the measurement period, and the stability period is the time during which they become and remain eligible for benefits (i.e., considered full time).

Align, implement and communicate. All of this work is for naught if the total rewards strategy is not aligned to the HR and organizational strategy, implemented in a compliant and intentional manner and communicated to employees to leverage the actions.

Good or bad, the ACA provides employers with a once-in-a-lifetime opportunity to examine the role of benefits in attracting and keeping the employees they depend on each day. The delay in the employer mandate gave employers even more time to formulate their strategy.

Now that it's 2014, it's time to prepare for the future.