

Health Care Reform Summary

Two pieces of health care reform legislation were signed into law by President Obama in early 2010:

- Patient Protection and Affordable Care Act (PPACA) on March 23, 2010
- Health Care and Education Affordability Act (HCEAA) of 2010 (which amended PPACA) on March 30, 2010

These Acts potentially impact all employers and employer-sponsored health benefits. This document summarizes the key provisions that impact employers.

Effective Dates

Because of the sweeping changes to U.S. social policy, there is an eight year phase in period for various provisions.

2010-2011 Payroll/Employer Implications

These provisions must be implemented for plans years beginning six months or later from the signing date. Consequently, beginning with plan years starting **October 1, 2010** or later, the following apply:

- Group health plan dependent coverage extended
 - Eliminates pre-existing condition exclusions for individuals under age 19
 - Requires coverage for adult children up to age 26, unless they are eligible under another group plan.
 - Extends the pre-tax deduction qualification for dependent coverage cost regardless of dependent age, eliminating the current imputed income requirement for dependents over age 19.
- Lifetime limits on “essential benefits” eliminated
 - Beginning with the new plan year, employers must now offer health insurance for “essential benefits” to those who may have exceeded lifetime limits in the past.
 - The definition of “essential benefits” will be forthcoming from the Department of Health and Welfare
- Reporting cost of employer-sponsored coverage on Form W-2
 - Beginning for calendar year 2011, employers must calculate and report the aggregate value of company-sponsored medical, vision, dental and supplemental insurance coverage (W-2s issued in 2012.)
 - Calculated value follows COBRA calculations.
- A temporary reinsurance program for early retirees age 55-64
 - To help offset the costs of claims for employers when retirees are not eligible for Medicare, program reimburses 80% of the cost of claims between \$15,000 and \$90,000
 - There is a \$5 billion cap for this program; therefore, employers are urged to submit their claims timely.

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2012-2013 Payroll/Employer Implications

- Health flexible spending account (FSA) contributions cannot exceed \$2,500 per plan year to retain cafeteria plan qualification (begins 2013.) This is currently not mandated; rather it is determined by the employer. Note: dependent care flexible spending accounts are already mandated to not exceed \$5,000 per plan year.
- High income earners additional taxes (begins 2013.)
 - Additional **employee-only** Medicare tax withholding of .9% on wages in excess of \$200,000.
 - No matching employer contribution
 - Individuals are required to pay the additional .9% tax on wages over \$200,000 if filing singly and over \$250,000 if filing a joint tax return. Employers are not required to identify employees who may be eligible/exempt for the tax based upon combined income with a spouse.
 - These high-income earners will also pay a Medicare surtax of 3.8% on investment and other non wage income including rents, interest dividends, royalties and capital gains. However, this is not a payroll withholding.
- No later than March 1, 2013, employers must notify employees of their potential eligibility to participate in a state-based health insurance exchange.
 - These exchanges will likely operate as an online portal through which a variety of private health insurance plans may be compared, including services, premiums, co-pays, and deductible.
 - States are not required to create the exchanges until 2014.

2014 Payroll/Employer Implications

- Employers with 50 or more employees will be required to offer affordable, bronze-level coverage to their employees or pay fines.
 - “Affordable” is defined as costing less than 9.5% of employee household income (amended from 9.8% by HCEAA.) This relates to the employer contribution toward premiums.
 - “Bronze-level” plans are those that pay at least 60% of benefit costs with maximum out-of-pocket not exceeding federal limits for Health Spending Accounts (HSA.) This relates to plan design.
 - If employer is not offering bronze-level coverage, and at least one employee is receiving federal premium credits, penalty is \$2,000 per full-time employee in excess of 30.
 - If employer is offering coverage but it is not affordable, and at least one employee is receiving federal premium credits, penalty is \$3,000 per premium credit recipient or \$2,000 per full-time employee, whichever is less.

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2014 Payroll/Employer Implications (continued)

- Individuals must purchase health insurance or pay a fine, which is either a flat dollar amount or a percentage of income, whichever is higher.
- State-based health insurance exchanges must be in place.
- Group health plan changes:
 - Eliminate pre-existing condition exclusion for adults (clause for children eliminated in 2010)
 - Limit employee enrollment waiting period to under 90 days

2018 Payroll/Employer implications

- An excise tax will be imposed on high-value health plans. The tax is equal to 40% of the aggregate value of the insurance that exceeds \$10,200 for individual coverage and \$27,500 for family coverage, multiplied by the health cost adjustment percentage and increased by the age and gender adjusted premium.

Other individual and plan design changes are included in the Acts. This Summary highlights payroll/employer implications and issues that likely require a change in payroll system setup or additional recordkeeping.