



# Affordable Care Act Overview: *Are Your Calculations Correct?*

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*The contents of this presentation should not be construed as legal or tax advice on any specific facts or circumstances. The material provided is intended for general informational purposes only. Please contact your attorney or financial advisor with respect to a particular issue or concern.*





# What is ACA Tracking and Reporting

## Requirements of Applicable Large Employers

- Eligibility & Measurement
  - Identifying full-time employees
- Minimum Coverage Requirements
  - Minimum Essential Coverage, Minimum Value, Affordability
- Enforcement – Pay or Play
  - 4980H(A) & (B)
- Reporting
  - Forms 1094-C & 1095-C



# Eligibility and Measurement

## Employee Status

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

Full-Time	Part-Time	Seasonal	Variable
Employee is expected to work more than 30 hours per week on an ongoing basis – must be offered coverage by 1 <sup>st</sup> day of 4 <sup>th</sup> calendar month following hire (90 calendar day waiting period)	Employee is expected to work less than 30 hours per week on an ongoing basis	Employee is customarily expected to work for 6 months or less	Cannot be determined whether employee will work more than 30 hours
(Teachers, administrators)	(Food service, paraprofessional)	(Coaches)	(Food service, paraprofessional)

Hours to be counted: Paid time off, sick leave, FMLA, Jury Duty, Military Leave & special rules to account for Summer breaks



# Eligibility and Measurement

- The **Lookback Measurement Method** determines eligibility over a longer duration
- Employees hours are tracked and measured for the entire **measurement period**, then, if they measure greater than 30 hours per week, the employer can offer coverage to them during the **administrative period** and they will be eligible for the entirety of the **stability period**

## ➤ Advantages

- Gives employer advanced notice before the period of eligibility begins
- Makes eligibility and ACA compliance more consistent month-to-month
- Changes in eligibility can be set to coincide with the medical plan year

## ➤ Disadvantage

- The entire measurement and stability period can last over 2 years, so current eligibility may not align with current working hours or job title



# Eligibility and Measurement



## Example of IMP, IAP, ISP transition to SMP

*New hired employee who started on 7/28/23 (PT, V, S)*

2022	2023	2024	2025
	<div>IMP Aug 1, 2023 – Jul 31, 2024 (12 months)</div>	<div>IAP Aug 1-31, 2024 (30 days)</div>	<div>ISP Sep 1, 2024-Aug 31, 2025 (12 months)</div>
	<div>SMP Oct 15, 2023-Oct 14, 2024 (12 months)</div>	<div>SAP Oct 15-Dec 31, 2024 (78 days)</div>	<div>SSP Jan 1-Dec 31, 2025 (12 months)</div>

## Example of Ongoing, SMP, SAP, and SSP

*Ongoing employee*

2021	2022	2023	2024
<div>SMP Oct 15, 2021-Oct 14, 2022 (12 months)</div>	<div>SAP Oct 15-Dec 31, 2022 (78 days)</div>	<div>SSP Jan 1-Dec 31, 2023 (12 months)</div>	
	<div>SMP Oct 15, 2022-Oct 14, 2023 (12 months)</div>	<div>SAP Oct 15-Dec 31, 2023 (78 days)</div>	<div>SSP Jan 1-Dec 31, 2024 (12 months)</div>

# Eligibility and Measurement

There are special rules that must be factored into lookback measurement calculations:

- Protected Leave (FMLA, Military Leave, Jury Duty)
- Summer Breaks
- Rehire Rule

Protected leave and summer breaks can be accounted for by modifying either the numerator or denominator of the hours per week or hours per month calculation

## Numerator Method:

- If an employee does not work due to a summer break or protected leave, the employer can account for this by taking the average hours per day inside the measurement period, outside the leave, multiplying by the number of days of leave, and adding it to the total hours worked in the measurement eligibility calculation

$$\frac{\text{Hours worked in MP} + ((\text{length of leave}) * (\text{average hours per week outside of leave}))}{\text{Length of MP}}$$

## Denominator Method:

- Instead of adding hours to the measurement calculation, the employer can instead reduce the denominator by the length of the period of employment break or period of protected leave

$$\frac{\text{Hours worked in MP}}{\text{Total Length of MP} - (\text{length of protected leave})}$$





# Eligibility and Measurement

## Example Calculation

Hours	Pay Period Start	Pay Period End
68	8/27/2022	9/10/2022
67.5	9/10/2022	9/24/2022
74.25	9/24/2022	10/8/2022
65	10/8/2022	10/22/2022
68.25	10/22/2022	11/5/2022
65.75	11/5/2022	11/19/2022
68	12/3/2022	12/17/2022
47.25	12/17/2022	12/31/2022
52.75	12/31/2022	1/14/2023
67	1/14/2023	1/28/2023
66	1/28/2023	2/11/2023
60.75	2/11/2023	2/25/2023
67.5	2/25/2023	3/11/2023
53.5	3/11/2023	3/25/2023
67.5	3/25/2023	4/8/2023
67.5	4/8/2023	4/22/2023
67.5	4/22/2023	5/6/2023
67.5	5/6/2023	5/20/2023
68.5	5/20/2023	6/3/2023
68	6/3/2023	6/17/2023
36.75	6/16/2023	6/30/2023
68.5	8/17/2023	8/31/2023
68	8/19/2023	9/2/2023
0	9/16/2023	9/30/2023
71.25	9/30/2023	10/14/2023
71.25	10/17/2023	10/31/2023
94.5	10/21/2023	11/4/2023
67.5	11/4/2023	11/18/2023

- An employee typically working over 30 hours per week may not measure as full time without properly accounting for qualified leave of absence and educational breaks

Period	Start	End	Duration (weeks)
Measurement	10/22/2022	10/14/2023	51
Educational Break	6/15/2023	8/16/2023	8.857142857
FMLA	9/16/2023	9/30/2023	2
Total Hours	Adjusted Measuremnt Length	Hours Per Week	
1231	40.14285714	30.66548043	
1231	42.14285714	29.21016949	*without FMLA
1267.5	49	25.86734694	* without educational Break

- Method of calculation used to account for breaks does not impact measurement

Total Hours	Average Outside of Excluded Periods	Total Duration of Breaks	Break Hours awarded	Total Adjusted Hours	Total Length	Average
1231	30.66548	10.85714	332.9395	1563.94	51 Weeks	30.66548



# Minimum Coverage

## Minimum Requirements of Medical Coverage



### Minimum Essential Coverage

A health plan that meets IRS-defined **minimum benefits** which can include some wellness, preventive services, prescription discounts, and telehealth services.



### Minimum Value

A health plan that covers 60% of expected medical expenses for a standard population and includes substantial coverage of physician and inpatient hospital services



### Affordability

Whether the monthly cost to enroll in the plan exceeds 9.5% (indexed) of an employee's monthly household income





# Enforcement

## 4980H(A) Penalty - 2024

- 95% or all but 5 full-time employees must be offered MEC in each month
- \$2,970 per employee-per year with 30 employee exemption
- The most severe \$2,970 annual assessment on every employee is based on whether employees were offered minimum essential coverage (MEC)

FT Employee Count	Penalty (annual)
50	\$ 59,400.00
100	\$ 207,900.00
250	\$ 653,400.00
500	\$ 1,395,900.00
1000	\$ 2,880,900.00
2000	\$ 5,850,900.00



# Enforcement

## 4980H(A) Penalty – 2024 Examples

- > An employer has 120 full time employees but doesn't offer health insurance at all.

Penalty:  $(120-30) * \$247.5 \text{ per month} * 12 \text{ months} =$   
**\$267,300**

- > Example: Employer with 100 total full-time employees only offers coverage to 94 of them. One of the 6 employees not offered coverage received a marketplace subsidy.

Penalty:  $(100-30) * \$247.5 \text{ per month} * 12 \text{ months} =$   
**\$207,900**

Average annual employer medical premium contribution (single, 2022):  
\$5,692

Total medical plan spending:  $\$5,692 * 94 =$  **\$535,048**

FT Employee Count	Penalty (annual)
50	\$ 59,400.00
100	\$ 207,900.00
250	\$ 653,400.00
500	\$ 1,395,900.00
1000	\$ 2,880,900.00
2000	\$ 5,850,900.00



# Enforcement

## 4980H(B) Penalty - 2024



The \$4,460 assessment per subsidy-qualifying employee is based on whether the offer of coverage meets two criteria:

- It must be “affordable” meaning that it can't cost the employee more than 8.39% (2024) of their household income
- It must meet or exceed “minimum value” meaning that it must pay for at least 60% of an average person’s average annual medical expenses



# Enforcement

## 4980H(B) Penalty – 2024 Examples



- > An employer offers affordable, minimum value coverage to 95 of its 100 full time employees. Two of the five get a marketplace subsidy, one for the entire year, the other for six months.

Penalty: 18 total months \* \$372 per month = \$6,696

- > Another employer offers affordable, minimum value coverage to 125 of its 150 full time employees. The other 25 Full time employees are offered the same plan but must pay 100% of the premium. 2 enroll in the employer plan and 10 get subsidized marketplace coverage for the whole year.

Penalty: 120 total months \* \$372 per month = \$44,640

- > Seeking to minimize healthcare spending and focus on compensation, another employer offers MEC to all employees, but the plan is not affordable to anyone and does not provide minimum value.

Penalty: \$4,460 per employee receiving subsidy





# Enforcement

## 4980H(B) Penalty – Affordability Safe Harbors

There are 3 methods available to show a plan is affordable by comparing the minimum required employee contribution against a calculated assumed household income:

- Federal Poverty Level
  - Household Income = Federal Poverty Line (2023/24: \$14,580)
  - Plan must not exceed:  $14580 * (1/12) * .0839 = 101.94$
- Rate of Pay
  - Lowest hourly rate of pay \* 130
- W2 Box 1 earnings
  - W2 Box 1 Earnings (gross pay – pre-tax deductions)
- 2024 Affordability Percentage: 8.39%

Method	Wage/Earnings	Assumed Monthly HouseHold Income	Max Monthly Premium
FPL	14,580	\$1,223.26	\$101.94
Min. Wage (ROP)	10.33	\$1,342.90	\$112.67
Rate of Pay using \$15/Hour	15	\$1,950	\$163.61
W2 Box1 Monthly Earnings	1800	\$1,800	\$151.02

# Enforcement

## Affordability Safe Harbors – 2024 Examples



### FPL

Employer offers 3 health plans that cost \$75, \$120, and \$150 to enroll as a single subscriber. Any employees offered the \$75 plan are considered to have been offered affordable coverage under the Federal Poverty Line safe harbor Method (\$75 < \$101.94)



### Rate of Pay

At the same employer, one class of employees is only offered the \$150 plan. The starting (min) wage for this class of employees is \$13 per hour.

$$13 * 130 * 8.39\% = 141.791$$

Since \$150 > \$141.79, this plan is unaffordable to anyone making \$13/hour

$$\text{Min. Affordable Wage} = \frac{\$150}{(.0839 * 130)} = 13.76 \text{ per hour}$$



### W2

Another class of employees is only offered the \$120 plan. For one employee in this class, their W2 Box 1 total wages for January is \$2290  
 $2290 * .0839 = \$192$  max premium  
The \$120 plan is affordable under the W2 Safe Harbor method.

# Enforcement

## Penalty Chart



Tax Filing Year	2023	2024
4980H(a) penalty		
• Annual Amount (per employee)	\$2,880	\$2,970
• Monthly Amount (per employee)	\$240	\$247.50
• Required Med offer % of full-time	95%	95%
• Full-time Exemption	30	30
4980H(b) penalty		
• Annual Amount (per employee)	\$4,320	\$4,460
• Monthly Amount (per employee)	\$360	\$371.67
• Affordability Safe Harbor %	9.12%	8.39%
• Applicable 100% FPL (prior year)	\$13590	\$14580
• FPL Affordability Annual Amount	\$1,239.40	\$1,223.26
• FPL Affordability Monthly Amount	\$103.28	\$101.94

# Pay or Play – Compliance Strategy

Employers are not required to avoid ESRP penalties, and some employers design their benefit plans to assume some level of ACATR compliance risk depending on their organizational benefits strategy, though most employers who offer an employee health plan will work to ensure they avoid the \$2,970 on every employee. Things to consider when deciding on an approach to ACATR compliance:

- Union relations and contract negotiations
- Employee recruitment and retention
- Budget priorities and total-rewards offerings
- Employee demographics

Employee Count	Average Cost of HealthCare (Monthly)	Max Affordable Premium (\$15/hr)	Min. Employer Contribution	Monthly Total Cost
30	\$606.33	163.605	\$443	\$13,281.75
Employee Count	4980H(B) Penalty	Monthly Cost of not offering affordable coverage		
30	372	\$11,160		



# Pay or Play – Compliance Strategy



## 2024 FPL Chart

- How does this affect employees?
- What are their coverage options outside of employer sponsored plans?

### Income limits for government subsidized health coverage

Family size	2024 income numbers	Max Income to receive premium tax credit	Max Income to Enroll in Medicaid in Michigan
For individuals	\$15,060	\$60,240	\$19,578.0
For a family of 2	\$20,440	\$81,760	\$26,572.0
For a family of 3	\$25,820	\$103,280	\$33,566.0
For a family of 4	\$31,200	\$124,800	\$40,560.0
For a family of 5	\$36,580	\$146,320	\$47,554.0
For a family of 6	\$41,960	\$167,840	\$54,548.0
For a family of 7	\$47,340	\$189,360	\$61,542.0
For a family of 8	\$52,720	\$210,880	\$68,536.0
For a family of 9+	Add \$5,380 for each extra person		

# Reporting

## IRS Form Penalties

Intentional disregard - \$660 per form (no max)

### Corrections:

- Within 30 days - \$60 per form
- 31 days thru July 31<sup>st</sup> - \$130 per form
- After August 1<sup>st</sup> or not at all - \$330 per form (max of \$3.987m)

### “Reasonable Cause”

- ✓ Acted responsibly before and after the failure occurred AND
- ✓ Have significant reasons or the failure resulted from circumstances beyond your control





# Reporting



## IRS Form Mailing & Filing Dates



- > Mail 1095-C forms to your employees by 3/2 (leap year 3/1)
- > Electronical file 1094-C and 1095-C forms with the IRS by 3/31



Beginning in 2024, the IRS requires all ALEs to file their 1095-C forms electronically (e-file)



Thank You!

