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CLIENT ALERT

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Employer Choices and the Affordable Care Act November 2011

Many employers are considering how to react when the employer mandate of the Affordable Care Act takes effect on January 1, 2014. Understanding the law can help employers assess how they should respond to it. Employers have choices under the new law and can take proactive steps to avoid additional health care costs.

In order to assess the impact of federal reform, it is important to understand some basic facts about the law.

- Employers with an average of 50 or more full time equivalent (FTE) employees are subject to the employer mandate. Special rules apply for counting full-time, part-time and seasonal employees.
- Employers subject to the mandate must offer affordable minimum benefits to employees or face possible penalties. Benefits must cover at least 60% of covered expenses.
- The new law imposes federal income tax penalties on employers in the following circumstances:
 - Employers that do not offer minimum benefits to workers will be subject to a \$2,000 penalty per FTE employee (with the first 30 employees excepted) in the event one employee buys coverage through an insurance exchange and gets a low-income subsidy.
 - Employers that do offer minimum benefits may incur a \$3,000 penalty for each employee that buys coverage through an insurance exchange and receives a federal low income subsidy if the employer's coverage is not affordable. Under the law, benefits are not affordable if the employee must contribute more than 9.5% of wages to take up coverage.

Despite these penalties, employers have choices under the new law to reduce their health care costs. An employer can avoid federal penalties by providing minimum benefits to workers and limiting the employee's contribution to less than 9.5% of wages. Employers that continue to provide benefits to workers can structure their plans to avoid all federal penalties.

Other employers will find it beneficial to not offer coverage and, instead, pay penalties. In fact, in some cases, not offering coverage will benefit both the employer and the employees. The employer can benefit by not having to pay for health benefits, and employees can benefit because they can buy affordable coverage through health exchanges with low income federal subsidies.

In some cases, the best approach will be for the employer to provide benefits but to set employee contributions levels to minimize health care costs. Setting contributions levels correctly can encourage some employees to forego employer coverage and instead buy better, lower cost exchange coverage. At the same time, the employer can still provide quality benefits to other employees who still want to take up coverage. Both the employer and employees can come out ahead from this approach.

Employers should review their current circumstances to plan for federal health care reform. Employers have choices available to them to reduce their health care costs. If you would like more information about the Affordable Care Act or help with an assessment as to how your company should plan for implementation, please call Doug Anderson at Bailey Cavaliere LLC (614) 229-3301 or Doug.Anderson@baileycavaliere.com.