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Health Care Reform Update

What to expect in 2014 and what you should be doing **NOW** to prepare!

By:

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The most sweeping provisions of Health Care Reform are set to begin in 2014 and if you haven't started preparing, then now is the time to start. Some of the 2014 provisions, such as the employer mandate, use 2013 as a look-back period. So, your company's actions today could have implications next year.

The Patient Protection and Affordable Care Act was a massive piece of legislation with far reaching effects. It would be impossible for me to provide details on all of the provision in this article. However, I want to summarize a few of the biggest changes that will affect Kentucky employers in 2014.

Large Employers

If your company employs the equivalent of 50 or more full-time workers, then you are subject to the employer mandate. Here are some frequently asked questions on the employer mandate.

Q: My business has over 50 full-time equivalent employees and we do not offer health insurance to our employees. What is the penalty?

A: To calculate the penalty for not offering coverage, a business needs to add up the total number of full-time employees, then subtract 30, then multiply that number by $2,000. This is the annual penalty. So, if your business has 100 full-time workers, then your penalty would be $140,000 for 2014 (100 minus 30 times $2,000).

Q: My business has over 50 full-time equivalent employees, and we offer health insurance to our workers. Will I still be subject to a penalty?

A: Yes, even if you offer insurance you can be subject to a penalty if the coverage is not affordable or does not meet a minimum value.

The penalty for offering a plan that is unaffordable or does not meet minimum value is $3,000 times the number of employees who purchase their own coverage through an insurance exchange and receive a federal subsidy to help pay for it. However, the total penalty under this provision will not be greater than the total penalty if you did not provide coverage at all.

Q: How do I determine whether the coverage my business offers is affordable and meets minimum value?

A: For the affordability test, you need to determine if any of your employees are required to pay more than 9.5% of their income for single coverage for the lowest cost plan that you offer. The IRS has provided three safe harbor methods for determining income, including using the employee's w-2 income.

For example, if an employee has w-2 income of $24,000 and the employee is required to contribute more than 9.5% of income ($190 per month) for single coverage, then the coverage is unaffordable for that employee.

The other test is minimum value. The IRS will be providing a minimum value calculator that will allow a plan to be tested to see if it meets minimum value. As of this writing, the calculator has not been released; however, it is expected during the first part of 2013.

Once the calculator is released, then you will be able to determine whether your plan meets minimum value. If it does not, then you would need to improve the benefits before the start of your 2014 plan year in order to avoid being subject to the employer penalty.

Q: My employee count is around 50. How do I know for sure if I am subject to the employer mandate?

A: If your employee count is hovering around 50 full-time equivalent employees, then 2013 is a crucial year for you because your 2013 employee count is used to determine if you are subject to the mandate. The IRS has issued detailed regulations so you can determine your employee count for purposes of the employer mandate. If you are in this category, then it is urgent that you discuss this issue with your employee benefits advisor and qualified legal counsel.

Small Employers

Employers with fewer than 50 employees face an entirely different set of challenges. There is no employer mandate for small employers, however, there are significant changes coming in the form of marketplace reform.

The biggest change for Kentucky employers is the implementation of modified community rating. Currently, small employers are rated based on employee health and medical history. Under modified community rating, employers cannot be rated using employee health or claims history. Instead, all employers are rated using an average rate.

When this change occurs in 2014, small employers with a relatively healthy workforce can expect to see large double-digit rate increases as their rates are moved up to the average. Employers with a less

healthy workforce could expect to see rates decrease as their rates move down to the average. However, the overall average will be higher than it is today because we expect some employers with healthy workers to drop coverage completely, or move to the self-funded market.

In addition, insurance companies will be required to offer plans that meet certain actuarial values, and there will be limits on the deductible amounts available. These changes will put additional upward pressure on rates.

Now is the time to start preparing for these changes. There are solutions to combat the coming rate increases.

Your Kentucky Oil & Gas Association has already taken steps to ensure that you continue to have access to an affordable association health plan. Under health care reform, your KOGA association health plan will receive special treatment and is one possible solution to prepare for the coming changes.

There are many other questions that small businesses are asking. Should your business consider dropping coverage completely? What about changing to a partially self-funded plan? There are no one-size-fits-all answers to these questions. These are important decisions that will have long term effects on your business. It is important to seek out an employee benefits advisor who can offer you answers to these questions and provide solutions tailored to your business to address the changes coming in 2014 and beyond.

Scott Brown is a licensed employee benefits broker and consultant, and is designated as a Registered Health Underwriter. He has over 14 years of experience helping employers of all sizes with their employee benefits plans. For more information, visit www.philbrowninsurance.com.