Health Care Reform Review and Best Practices

Fall 2014 User Group Meeting
Disclaimer

This presentation is not:

- Legal advice
- Tax advice
- The final word on Health Care Reform
- A political opinion

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ADP STRONGLY RECOMMENDS THAT CLIENTS OBTAIN QUALIFIED LEGAL COUNSEL PRIOR TO MAKING ANY DECISIONS
Agenda

- ACA Timeline & Provision Overview
- Employer Shared Responsibility & Best Practices
- Tracking and Reporting
ACA Timeline & Provision Overview
The ACA Is Not Benefits Legislation
It Is Social Legislation With
Far Reaching Business Impact
ACA Will Impact....

<table>
<thead>
<tr>
<th>Employers</th>
<th>Individuals</th>
<th>Health Care Providers</th>
<th>Insurance Companies</th>
<th>Pharma &amp; Medical Device Manufacturers</th>
</tr>
</thead>
</table>
### ACA Compliance Timeline for Employers

Track Affordable Care Act guidance, deadlines, changes and updates as they happen. Understand the impact of key requirements on your business. Gain insight and perspective from experts on the front lines of Health Care Reform and its implementation. Get started.

<table>
<thead>
<tr>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Loss Ratio Rebates</td>
<td>Flexible Spending Account Annual Limit</td>
<td>Annual Dollar Limits, Waiting Periods &amp; Pre-existing Conditions</td>
<td>Employer Shared Responsibility</td>
</tr>
<tr>
<td>Dependent Coverage</td>
<td>Medicare Tax on Wages &amp; Unearned Income</td>
<td>Employer Shared Responsibility</td>
<td>Excise Tax on High-Cost Plans</td>
</tr>
<tr>
<td>Summary of Benefits &amp; Coverage</td>
<td>Form W-2 Reporting</td>
<td>Wellness Incentives</td>
<td></td>
</tr>
<tr>
<td>Patient-Centered Outcomes Research Fee</td>
<td>Employee Notice of Coverage Options</td>
<td>Automatic Enrollment &amp; Nondiscrimination</td>
<td></td>
</tr>
<tr>
<td>Additional Requirements</td>
<td>Additional Requirements</td>
<td>Additional Requirements</td>
<td></td>
</tr>
</tbody>
</table>
**2010 - 2012 - Timeline**

**Dependent Coverage**
If an employer provides coverage to dependents, they must permit dependent children up to age 26 to remain covered under their group health plan.

**Preventative Health Services for Women**
Employer group health plans’ recommended preventative health services without cost-sharing is expanded to include preventive coverage for women.

**Medical Loss Ratio (MLR) Rebates**
Employer Insured group health plans will receive MLR rebates if insurer fails MLR testing.
Group health plans receiving MLR rebates must establish procedures for compliance with ERISA plan asset rules for distribution of rebates to employees and/or plan sponsors.

**Patient-Centered Outcomes Research Fee**
A federal tax designed to help fund the Patient-Centered Outcomes Research Institute.

**Summaries of Benefit & Coverage (SBC)**
For plan years commencing on or after Sept. 23, 2012, self-insured group health plans and insurers must provide SBCs in connection with annual enrollment and for new enrollees.
2013 - Timeline

Flexible Spending Account (FSA) Annual Limit
Maximum dollar limit for an employer’s healthcare FSA plan is $2,500

Form W-2 Reporting
Employers that issued 250 or more Forms W-2 in the preceding calendar year must include the cost of group health coverage provided to employees on Form W-2

Medicare Tax on Wages and Unearned Income
Medicare tax on wages increases by 0.9. Applies to those earning $200,000 if filing single, $250,000 if married filing jointly, and $125,000 if married filing separately.

Employee Notice of Coverage Options
Employers must provide current employees with a notice describing availability of Exchange coverage by Oct. 1, 2013. The notice must be provided to new employees within 14 days of the employees start date.
2014 – Timeline

Exchanges
All state exchanges open by January 1, 2014

Wellness
Wellness incentives increase from 20% of cost of coverage to 30% (up to 50% if the wellness program is established for the purpose of tobacco use prevention or reduction).

Transitional Reinsurance Fee
Reinsurance fees begin (through 2016) for all employers providing coverage to fund state programs to stabilize premiums in the individual market.

Waiting Periods
Employers cannot impose a waiting period longer than 90 days

Annual Dollar Limits & Pre Existing Conditions
Employer group health plans may not impose annual dollar limits on essential health benefits, or pre-existing condition exclusions.

January 1, 2014

January 1, 2014

January 1, 2014

November 2014
Employer Shared Responsibility a.k.a. “Play or Pay”

**Note**: Penalties will not be imposed in 2015 (and months in 2016 in the 2015 plan year) on employers with 50-99 full-time employees and full-time equivalent employees as long as those employers do not restructure their workforce or change their health coverage in 2014-2015. For employers with 100 or more full-time employees and full-time equivalent employees, transition relief applies for 2015 (and months in 2016 in the 2015 plan year) under which the employer will not be assessed the penalty if it offers coverage to at least 70% of its full-time employees.
2016 - 2018 – Timeline

**Auto Enrollment**
Employers with 200+ full-time employees must automatically enroll new employees in the employer’s group health plan.

**January 2016**

**Non Discrimination**
Insured employer group health plans may not discriminate in favor of highly compensated employees.

**January 2016**

**Cadillac “Excise” Tax**
If group health coverage exceeds certain thresholds, the employer will be subject to a 40% Excise Tax on the cost of benefits exceeding the applicable cost limits. The anticipated cost limits for 2018 are $10,200 for individual coverage and $27,500 for family coverage.

**2018**
Employer Shared Responsibility
Shared Responsibility
ER Mandate: Decision Flow

1st Check
Employer has on average 100 in 2015 (50 in 2016) full-time employees plus full-time equivalent employees in the prior year?

YES

2nd Check
Does the employer offer minimum essential coverage (MEC) to at least 70% in 2015 (95% in 2016) of its ACA full-time employees?

YES

IRC §4980H(a) – “The Big Penalty”
If at least one employee receive a premium tax credit or cost sharing subsidy in an Exchange

No

ER Tax
The penalty (assessed monthly) for not offering coverage is the number of full-time employees (minus 80 in 2015; 30 in 2016) times $2,000 annually.

No

IRC §4980H(b) – “The Lesser Penalty”

3rd Check
Does the plan provide coverage of at least 60% minimum value?

YES

No

Those employees can choose to buy coverage in an Exchange and may receive a premium tax credit

No

ER Tax
The penalty (assessed monthly) for failure to offer minimum value and/or affordable coverage is a $3,000 annual penalty that will be due for each full-time employee receiving a subsidy, up to a maximum of the total number of full-time employees (minus 30) times $2,000

Yes

IR§4980H(b) – “The Lesser Penalty”

4th Check
Do any full-time employees pay more than 9.5% of current year
► Box 1 W-2 Wages,
► Rate of pay, or
► Federal Poverty Level for self-only coverage?

NO

There is no penalty payment required of the employer since it offers affordable coverage

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Applicable Large Employers are defined as having on average 50 or more full-time employees (including full-time equivalent employees [FTEs]) in the preceding calendar year. Calculate this average by adding the number of full-time and full-time equivalent employees you employed during each month of the preceding calendar year and divide by 12. Transition relief may apply.
Applicable Large Employer Worksheet

The ACA Applicable Large Employer Worksheet helps you to determine how many full-time employees, including full-time equivalent employees (FTEs), you have as defined by the ACA. Applicable Large Employers (ALEs) employ 50 or more FTEs and must comply with the Shared Responsibility provisions of the ACA. If you are not sure how many FTEs you have in your organization or find yourself on the border of the ALE threshold (50 or more FTEs), you should run this worksheet each year to make that determination.

- Summary Mode (default) – Displays the monthly full-time equivalent employee count and average full-time equivalents per month within the review period.

- Detail Mode – Displays supporting pay statement details for each employee listed in the worksheet.

<table>
<thead>
<tr>
<th>If...</th>
<th>Then...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workforce Now Version 2</td>
<td>From the Portal homepage, select Reports &gt; Payroll Reports &gt; Audit Reports &gt; Employee &gt; Personal</td>
</tr>
<tr>
<td>Workforce Now Version 7.1</td>
<td>From the Workforce Now homepage, select Reports &gt; Standard Reports &gt; Personal &amp; Employment</td>
</tr>
</tbody>
</table>
Will you elect to Play or Pay?

Employers can “play” by offering minimum essential coverage (MEC)\(^1\) or potentially “pay” a penalty.

To avoid most penalties under the employer mandate, MEC must be offered to 95% (70% for 2015 and months in 2016 in the 2015 plan year) of its full-time employees, and it must be affordable and provide minimum value.\(^2\)
Employers offer MEC to full-time employees (and their children under age 26 starting in 2016). Coverage must be affordable and provide minimum value.
Employers will be subject to a **non-deductible tax penalty** if one or more full-time employees receives subsidized coverage through an Exchange because:

1. the employer does not offer MEC, or
2. the employer offers MEC that is either unaffordable or does not provide minimum value
Avoiding the Shared Responsibility Penalties

Requires meticulous documentation for all employees – whether full-time, part-time, variable hour or seasonal, union non-union salaried or hourly

Employers must determine the number of:

- Full-time and part-time employees
- Variable-hour employees (employer is unable to determine whether they will be employed on average at least 30 hours per week)
- Seasonal employees (and their approximate employment periods)

Full-time status can be calculated in one of two ways:

- Monthly Measurement Method — This can result in employees moving into and out of benefit eligibility on a monthly basis and significant administrative and COBRA activity
- Look-back Measurement Method — Can minimize the issues above but requires establishing and monitoring specific measurement, administrative (if any) and stability periods
# Measurement Periods

<table>
<thead>
<tr>
<th></th>
<th>New Hire</th>
<th>Ongoing Employees</th>
<th>Non Discrimination: Stability period length must be same for new &amp; ongoing Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Measurement Period</strong></td>
<td>Initial Measurement &gt;= 3 and &lt;= 12 months From start date, or 1st of month after start date</td>
<td>“Standard” Measurement &gt;= 3 months and &lt;= 12 months</td>
<td></td>
</tr>
<tr>
<td><strong>Administrative Period</strong></td>
<td>Up to 90 days between measurement period end date and coverage begin date</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>➢ To determine, notify &amp; allow for enrollment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>NOTE:</strong> For new hires, measurement period + admin period cannot extend beyond end of 13th month after hire date anniversary</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Stability/Coverage</strong></td>
<td>At least 6 months and no shorter than measurement period.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Employers may vary Measurement Periods and Stability Periods for different categories of employees:

- Union and Non-Union Employees (and employees under different CBAs)
- Salaried and Hourly Employees
- Employees located in different states

Employers may select an ongoing measurement period ranging from 3 to 12 months:

- Should evaluate if making all employees fully eligible for health care benefits is more cost effective than tracking hours of service
  - Applicable when there is only a small population for which benefit eligibility may vary with hours of service

Shorter measurement periods will always be more expensive due to:

- More employees will qualify as ACA F-T in shorter measurement periods due to the inability to average short-term spikes in hours of service over longer time-frames
  - As a result more will sign up for coverage and incur claims
- Eligibility will have to be calculated at least twice per year and employees attaining ACA F-T status will have to be offered the option of enrolling
- COBRA activity will increase as employees who qualified as ACA F-T due to a short-term spike in hours of service during one measurement period, fail to repeat that in the subsequent measurement period, thereby losing benefit eligibility mid-year
Hours of Service

- Hours of service includes:
  - Hours paid and worked
  - Hours paid and not worked – such as paid vacation or paid leaves
  - Special unpaid leaves of absence
    - FMLA – Family Medical Leave Act
    - USERRA – Uniformed Services Employment and Reemployment Rights Act
    - Jury Duty

- Set up a separate hours/earning code for every type of leave, both paid and unpaid
  - Ensures ability to track the current three special leave types
    - Payroll Batch – If unpaid ensure you zero out the rate
    - Manual Check
    - Provides flexibility should other leaves need to be included due to either state or federal regulations

- For some employers declaring all employees ACA F-T and eligible for medical coverage may be less expensive than tracking hours of service
  - Makes sense for employers with very few Variable Hour / Part-Time employees
  - Typical industries where this makes sense
    - Professional Services
    - Manufacturing
    - Utilities
Look-back Measurement Periods

Example 1

12-Month Initial Measurement Period starts measuring on DOH; Followed by a 60 day Administrative Period.

Employer B hires Employee Y on May 10, 2014. Employee Y’s initial measurement period runs from May 10, 2014, through May 9, 2015. Employee Y works an average of 30 hours per week during this initial measurement period. Employer B offers coverage to Employee Y for a stability period that runs from July 1, 2015 through June 30, 2016.

Employer B is **NOT** subject to any payment under § 4980H with respect to Employee Y, because Employer B complies with the standards for the initial measurement period and stability period for new variable hour employee

1. Initial measurement period that does not exceed 12 months

2. Administrative period totaling not more than 90 days

3. The combined initial measurement period and administrative period that does not last beyond the final day of the first calendar month beginning on or after the one-year anniversary of Employee Y’s start date. Accordingly, from Employee Y’s start date through June 30, 2016,
Employee Y begins working for Employer B on 05/10/2014.

Employee Y begins being tested also by the Standard MP that begins after Employee Y's start date on 10/03/2014.

Employer B offers MEC coverage to Employee Y for a stability period that runs from January 1, 2016 through December 31, 2016.

Employer B must test Employee Z again based on the period from October 03, 2015 through October 02, 2016. For the 2017 plan year.
Look-back Measurement Periods

Example 2

12-Month Initial Measurement Period starts measuring on the 1st of the month following DOH; Followed by 2-Month Administrative Period

Employer C hires Employee Z on May 10, 2014. Employee Y’s initial measurement period runs from June 1, 2014, through May 31, 2015. Employee Y works an average of 30 hours per week during this initial measurement period. Employer C offers coverage to Employee Z for a stability period that runs from August 1, 2015 through July 31, 2016.

Employer B is potentially subject to a payment under § 4980H and fails to comply with PHS Act § 2708

1. Initial measurement period that does not exceed 12 months

2. Administrative period totaling not more than 90 days

3. Employer B does not satisfy the standards for the safe harbor method in section III.D of IRS Bulletin: 2012-41 Notice 2012-58 because the combination of the initial partial month delay, the twelve-month initial measurement period, and the two month administrative period means that the coverage offered to Employee Y does not become effective until after the first day of the second calendar month following the first anniversary of Employee Y’s start date.
**Look-back Measurement Periods**

### Initial (New Hire) Measurement Period: 12 Months

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>Feb</td>
<td>Mar</td>
</tr>
<tr>
<td>Jan</td>
<td>Feb</td>
<td>Mar</td>
</tr>
</tbody>
</table>

- **Initial MP: 06/01/2014 - 05/31/2015**
- **Stability Period: 08/01/2015 - 07/31/2016**

**05/10/2014**
Employee Z begins working for Employer C

**10/03/2014**
Employee Z begins being tested also by the Standard MP that begins after Employee Z's start date

**06/01/2015**
Employee Z works an average of 30 hours per week during this initial measurement period.

**10/03/2015**
Employee Z works an average of 30 hours per week during this standard measurement period.

**08/01/2015**
Since August 1, 2015 is potentially longer than, the safe harbor method defined in Section III D IRS Bulletin: 2012-41 Notice 2012-58
Employer C could face penalties

Employer C offers MEC coverage to Employee Z for a stability period that runs from August 1, 2015 through July 31, 2016.

Employer C must test Employee Z again based on the period from October 03, 2015 through October 02, 2016. For the 2017 plan year.

### Standard (On Going) Measurement Period: 12 Months

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct</td>
<td>Nov</td>
<td>Dec</td>
<td>Jan</td>
</tr>
<tr>
<td>Oct</td>
<td>Nov</td>
<td>Dec</td>
<td>Jan</td>
</tr>
</tbody>
</table>

- **Standard MP (12 month): 10/3/2013 - 10/2/2014**
- **Stability Period: 01/01/2015 - 12/31/2015**
- **Standard MP (12 month): 10/3/2014 - 10/2/2015**
- **Stability Period: 01/01/2016 - 12/31/2016**
- **Standard MP (12 month): 10/3/2015 - 10/2/2016**

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Look-back Measurement Periods

Example 2 – Best Practices to avoid penalties

1. 11-Month Initial Measurement Period starts measuring on the 1\textsuperscript{st} of the month following DOH; Followed by 1-Month Administrative Period

<table>
<thead>
<tr>
<th>Initial (New Hire) Measurement Period: 11 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
</tr>
<tr>
<td>Jan</td>
</tr>
<tr>
<td>Initial MP: 06/01/2014 - 05/31/2015</td>
</tr>
</tbody>
</table>

2. Follow example 1: 12-Month Initial Measurement Period starts measuring on DOH; Followed by a 60 day Administrative Period

<table>
<thead>
<tr>
<th>Initial (New Hire) Measurement Period: 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
</tr>
<tr>
<td>Jan</td>
</tr>
</tbody>
</table>
Determining and Tracking ACA Benefit Status within ADP
Reports > Custom Reports > Run > All Standard/Sample

1. Run reports
   - Select filter & sorting options
   - Run the following reports:
     - ACA Affordability Benefits Worksheet
     - ACA Benefits Eligibility Status Worksheet

2. Save the reports as Excel files

3. For the ACA Benefits Eligibility Status Worksheet—
   Add data manually
   - Add the following data:
     - Stability Period Dates
     - Comments

4. Save the reports as text files

If you use a non-ADP payroll service—
Create a data file in your payroll application and pick up the process in Step 3.
### ACA Benefit Status Worksheet Example

<table>
<thead>
<tr>
<th>Name</th>
<th>SSN #</th>
<th>Benefit Status</th>
<th>Measurement Period Start Date</th>
<th>End Date</th>
<th>Days in Period</th>
<th>Average Hours of Service Per Week</th>
<th># Wks</th>
<th>Per Month</th>
<th># Mos</th>
<th>Total Hours Actually Paid</th>
<th>Total Regular Earnings Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adams, Adam (Totals)</td>
<td>123-45-6789</td>
<td>Part Time</td>
<td>06/01/2013</td>
<td>12/31/2013</td>
<td>213</td>
<td>5</td>
<td>50</td>
<td>24</td>
<td>7</td>
<td>176.00</td>
<td>57,438.68</td>
</tr>
<tr>
<td>Bender, Bob (Totals)</td>
<td>234-56-7890</td>
<td>Part Time</td>
<td>06/01/2013</td>
<td>12/31/2013</td>
<td>213</td>
<td>12</td>
<td>30</td>
<td>53</td>
<td>7</td>
<td>176.50</td>
<td>53,711.39</td>
</tr>
<tr>
<td>Christensen, Chris (Totals)</td>
<td>345-67-8901</td>
<td>Full Time</td>
<td>06/01/2013</td>
<td>12/31/2013</td>
<td>213</td>
<td>42</td>
<td>30</td>
<td>182</td>
<td>7</td>
<td>1,352.51</td>
<td>46,965.13</td>
</tr>
<tr>
<td>Davis, Dave (Totals)</td>
<td>456-78-9012</td>
<td>Part Time</td>
<td>06/01/2013</td>
<td>12/31/2013</td>
<td>213</td>
<td>19</td>
<td>50</td>
<td>63</td>
<td>7</td>
<td>681.00</td>
<td>19,963.63</td>
</tr>
<tr>
<td>Johnson, John (Totals)</td>
<td>567-89-0123</td>
<td>Part Time</td>
<td>06/01/2013</td>
<td>12/31/2013</td>
<td>213</td>
<td>9</td>
<td>50</td>
<td>7</td>
<td>7</td>
<td>2.00</td>
<td>48,281.25</td>
</tr>
<tr>
<td>Markson, Mark (Totals)</td>
<td>678-90-1234</td>
<td>Full Time</td>
<td>06/01/2013</td>
<td>12/31/2013</td>
<td>213</td>
<td>26</td>
<td>50</td>
<td>154</td>
<td>7</td>
<td>1,159.75</td>
<td>18,864.09</td>
</tr>
</tbody>
</table>
WFN v2 with HRB
ACA Benefit Status Process Flow

Switch to Benefits and import your files

5
Select the import template, as needed

6
Upload the payroll files
Map any data elements

7
Proceed with the Import
**Importing in HRB ACA Benefit Status Fields**

HRB > Imports > Work Event ACA Benefit Status Change

The Employee Data will aid in populating the WORK Tab ACA fields.

The Work Event will aid in triggering Work Events for those whose status has changed due to ACA.
Locating the ACA Benefit Fields

HR & Benefits > Work > ACA Benefit Status

**ACA Benefit Status:**

- ACA Benefit Status:
- Stability Period:
- Measurement Period:
- Administrative Period End Date:
- Comment:

**Change Date:**

- Average Hours of Service Per Week:
- Average Hours of Service Per Month:
- Total Hours Paid:
WFN v2 with HRB
Changing Benefit Class

Company Edit

Corporate Group Administration

Structure: Class

Select a Corporate Group:
COBRA
Contractor
Executive
Full Time
Intern
Part Time
Part Time - Benefit ACA

Key: PA - Pending Activation, PT - Pending 1

Change Corporate Group - Edit Corporate Group

Employee: Rosie Diaz

Corporate Groups as of 03/01/2014

Business Unit: Headquarters
Location: Company Headquarters
Class: Part Time
Home Department: Default Department
Pay Group: C052WWS
Union: N/A (NA)

Change Corporate Groups

Business Unit: ---------- - No Changes ----------
Location: ---------- - No Changes ----------
Class: Part Time - Benefit ACA
Home Department: ---------- - No Changes ----------
Pay Group: ---------- - No Changes ----------
Union: ---------- - No Changes ----------

*PT - Pending Termination

Scheduled Changes

Corporate Group Change Reason: ACA Status Change
HR & Benefits > Benefits > Edit

Or

Enrollment Profiles for Employee Self Service
Step 1

Affordable Care Act Settings
• Setup > Benefits > Benefit Settings and select the Affordable Care Settings tab

Step 2

Setup of Employee Categories
• Process > Benefits > ACA Measurement Periods and select the Employee Categories tab

Step 3

Setup of Initial Measurement Periods, and Corresponding Administrative and Stability Periods
• Process > Benefits > ACA Measurement Periods and select the Initial Measurement Period tab
Setup of Standard Measurement Periods, and Corresponding Administrative and Stability Periods
- Process > Benefits > ACA Measurement Periods and select the Standard Measurement Period tab

Process Pending Administrative Actions
- Process > Benefits > ACA Measurement Periods > Initial or Standard Measurement Period tab

Verifying ACA Benefit Status for Employees
- People > Statutory Compliance > ACA Benefit Status, then select a Stability Period
People > Benefits > ACA Benefit Status, then select a Stability Period

ACA Benefit Status: Part-Time
Last Changed: 10/16/2014 by SUPERUSER
Calculation Mode: Both Calculation Modes

Hours Summary
This summary reflects data from the previous measurement period.

Average Hours of Service Per Week: 14.00
Average Hours of Service Per Month: 58.52
Total Hours Paid: 351.14

ACA Benefit Status: Full-Time
Last Changed: 08/12/2014 by SUPERUSER
Calculation Mode: Both Calculation Modes

Hours Summary
This summary reflects data from the previous measurement period.

Average Hours of Service Per Week: 87.79
Average Hours of Service Per Month: 380.02
Total Hours Paid: 2,280.11
Safe Harbor

Because employers are not able to determine household income, the Internal Revenue Service has provided employers with three safe harbor approaches to determine affordability:

1. **W-2**, based on the cost of single coverage not exceeding 9.5% of the employee’s current W-2, Box 1 wages

2. **Rate of Pay**, based on the monthly cost of single coverage not exceeding 9.5% of the employee’s hourly rate of pay as of the first day of the coverage period multiplied by 130

3. **Federal Poverty Line**, based on the monthly cost of single coverage not exceeding 9.5% of the federal poverty line for a single individual for the calendar year, divided by 12
## ACA Base Benefit Plan Option - Affordability

### Medical Plan Setup

**Plan Type:**
- Traditional Indemnity Plan
- Managed Care Plan

*Important Note:* If the same provider provides you with both a traditional and managed care plan, then you should create two separate medical plans.

**ACA Base Plan Identifier:**
- Client certifies that this plan will be used to determine affordability of the company’s ACA Base Plan, which has the lowest cost of coverage with minimum essential coverage and minimum value under the Affordable Care Act.

### Medical Plan Setup

**Coverage Levels**

Check Coverage Types Included in Plan and Enter Monthly Rates:

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>Employee Paid (% of earnings)</th>
<th>Total (dollars/month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EE (Employee)</td>
<td>95</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>Employee Paid (dollars/month)</th>
<th>Employer Paid (dollars/month)</th>
<th>Total (dollars/month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EE + Spouse</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EE + 1</td>
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<td></td>
<td></td>
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<tr>
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<td>EE + Child</td>
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<td>EE + Children</td>
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<td>EE + Family</td>
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</table>
Administrative Best Practices & Trends
Implement a “compliance plan” with a 60% actuarial value that is available to all employees of the employer

- Aids in keeping health plan costs below the excise tax limits that begin in 2018
- Plan can be used as the “compliance plan” for all required testing
  - Meets Minimum Essential Coverage (MEC) requirements
  - Is offered to at least 95% of all ACA F-T EEs (70% in 2015)
  - Has 60% actuarial value
  - Meets Affordability Requirements
- Can make meeting affordability requirements easier if other/current plans have an actuarial value greater than 60%
Dependent Verification

- People covered under a plan generate costs in the form of:
  - Claims and related administrative expenses
  - PCORI fee equal to the average number of lives covered during the policy year or plan year multiplied by the applicable dollar amount for the year as shown below:
    - $1 for plan years ending after Sept. 30, 2012 and before Oct. 1 2013
    - $2 for plan years ending after Sept. 30, 2013 and before Oct. 1 2014
    - Amount to be announced based on inflation in National Health Expenditures for future years
  - Transitional Reinsurance Fees
    - The fee is currently set at $63 per covered life
    - First payment due November 2014
    - Set to expire after 3 years

- Implement the following controls:
  - Conduct initial dependent eligibility audit
  - Require proof of dependent status when adding every new dependent
  - Create system edits to preclude ineligible dependent status from being permitted
    - Aging rules
    - Dual spouse/significant other edit
    - Failure to provide proof of dependent status
Due to the importance of controlling both costs and ensuring that only those who should be considered eligible are actually covered, employers should implement limitations on participation by spouses who are employed and offered coverage by their own employer.

- Spouses are not required to be offered coverage under ACA
- Limitations can help reduce:
  - Claims and related administrative expenses
  - PCORI Fees
  - Transitional Reinsurance Fees

Limitations can vary depending on employer goals.

- UPS has indicated that spouses offered coverage where they work will not be eligible to enroll for coverage under the UPS plan
- Other employers are implementing spousal surcharges – charging spouses who are offered coverage through their employer an additional premium in order to be covered under the employee’s plan
Compliance Documentation

- As part of employer annual renewal and open enrollment process
  
  ▪ Obtain from carrier written documentation that each plan (or the “compliance plan”) meets Minimal Essential Coverage (MEC) requirements
  ▪ Document actuarial value of each plan (or the “compliance plan”)
    - For small number of plan designs it may be necessary to have actuarial valuation done
  ▪ Obtain annual authorization (should also be obtained as part of new hire on-boarding) to use employee provided personal email for distribution of legally required documents
    - Only applicable for employers who do not provide email and computer to each employee
    - Signed authorization should fully comply with DOL Electronic Distribution requirements
    - Authorization language should be drafted in consultation with qualified legal counsel
Coming Soon – Summer 2015

ADP Health Compliance
The ACA may have enormous financial implications for your organization, including penalties for non-compliance; however, unlike payroll or corporate tax management, your ability to maintain compliance with ACA mandates depends on the alignment of information, processes, and strategies across Payroll, Time and Benefits. If you are not currently managing your benefit program with technology this is an area you should evaluate to ensure you are not only capturing enrollment choices but also what you offered. It will also provide you with the opportunity to enroll employees who meet the criteria for benefits mid year.

In late spring we will be introducing a service that complements our current offering available within the benefits module including filing of annual notices.

For clients purchasing this service ADP provides research and reconciliation between the client the marketplace, and Health & Human Services (HHS). If you wish to appeal a penalty, ADP submits a timely appeal on your behalf. ADP’s annual health coverage reporting service prepares and submits the required employer annual report to the federal tax authority on behalf of the client.

Our regulatory management specialists leverage ADP’s industry-leading tax and compliance expertise to help our clients manage and mitigate all potential financial ACA penalty exposure.

ADP’s Health Compliance Solution:

- Provides required Notice of Coverage Options to your new hires.
- Provides post-enrollment verification information to applicable marketplaces.
- Manages notices issued by state and federal marketplaces.
- Supports the calculation of penalties.
- Collects data and then prepares and files the required Annual Health Coverage Report.

This offering minimizes operational burdens to support government and public insurance marketplace requirements and helps reduce barriers to ACA compliance, thus mitigating risk of non-compliance penalties.
ADP Health Compliance is progressively being rolled out in various ways across the enterprise to provide ADP clients with complete support to comply with the Affordable Care Act.

ADP Health Compliance will file IRS 1094-C and 1095-C for clients who provide the required technology and purchase the solution. In addition, ADP Health Compliance will provide complete regulatory management services for notice filing, appeals and penalty management in addition to annual reporting.

It is important to note that the 1094-C and 1095-C are in draft form today and the IRS is actively soliciting feedback. ADP has a strong relationship with the IRS and is providing feedback so we can best support our clients.

The draft forms currently require information from both payroll and benefits. We know that we will be able to provide the information from payroll to our payroll only clients to help them comply but at this time we believe to support the filing end to end with the IRS clients will need to have both payroll and the benefits module. We will continue keep clients informed about the finalization of the forms and how ADP will support all of our clients with this compliance requirement.
### Your ACA Responsibilities

<table>
<thead>
<tr>
<th><strong>Employee</strong></th>
<th><strong>Penalty Management</strong></th>
<th><strong>Response</strong></th>
<th><strong>Annual Filings</strong></th>
<th><strong>Review</strong></th>
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<th><strong>Request</strong></th>
<th><strong>Communication</strong></th>
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<tbody>
<tr>
<td>Hires new associate</td>
<td>Validate that the Notice of Coverage meets DOL</td>
<td>Conduct regulatory testing on MEC for all Exchange notices received</td>
<td>Ensure you are within the specific Exchange guidelines</td>
<td>Receive penalty resolution</td>
<td>Reconcile all employee W2s, Exchange notices and 1094c</td>
<td>Update status in tracking system</td>
<td>Prepare for appeal by collecting all data from payroll system, benefit system, Exchange notices and 1094cs to support the penalty appeal</td>
</tr>
<tr>
<td>Determine if associate is insurance eligible and full-time</td>
<td>Send Notice of Coverage via email and first class mail</td>
<td>Conduct regulatory testing on minimum value for all Exchange notices received</td>
<td>Determine which Exchange notices are subject to penalty</td>
<td>Store all resolutions in document tracking system for future reference</td>
<td>Document all penalties to be paid for each employee</td>
<td>Send appeal of new penalty notice to IRS</td>
<td></td>
</tr>
<tr>
<td>Prepares Notice of Coverage to be sent via email and first class mail</td>
<td>Certify that Notice of Coverage was mailed</td>
<td>Conduct regulatory testing on affordability for all Exchange notices received</td>
<td>Determine if there is a need to take action to mitigate risk of monthly accrual of penalty</td>
<td>Prepare annual filings 1094/1095c</td>
<td>Remit payment on behalf of each employee to the IRS</td>
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<td>Access payroll system for regulatory testing</td>
<td>Access benefits system for regulatory testing</td>
<td>Respond to any of the 18 Exchanges</td>
<td>Request an appeal from the appropriate 1 of 128 Exchanges</td>
<td>Send employees and IRS copies of 1094/1095c</td>
<td>Track and monitor penalty payment receipts in tracking system</td>
<td>Document resolution for every employee in document tracking system</td>
<td></td>
</tr>
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### EMPLOYER

- Receives Notice of Coverage via email and first class mail within 14 days of hire date
- Employee goes to 1 of 18 State or Federal Exchanges

### EXCHANGE

- Exchange sends marketplace notice to employer
- Sends notice to employer and employee within 90 days of appeal being accepted or dismissed
- Exchange sends preliminary notice to employer
- Send timely receipt of appeal request
- Send notification to employer and employee of appeal being accepted or dismissed within 90 days

### IRS

- Reconcile annual Exchange reports (1094/1095c), health insurer reports (1094/1095c) and taxpayer tax returns
- IRS sends final amount of penalty to employer after IRS penalty reconciliation deadline
- Sends communication on penalty resolution remittance
- Send timely acknowledgement of appeal receipt
- Send notification to employer of penalty being valid or sends notice of dismissal if penalty is invalid/dismissed within 90 days of appeal

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## Your ACA Responsibilities with ADP Health Compliance

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<td>Conduct regulatory testing on minimum value for all Exchange notices received</td>
<td>Determine which Exchange notices are subject to penalty</td>
<td>Store all resolutions in document tracking system</td>
<td>Document all penalties to be paid for each employee</td>
<td>Research and access all Exchange notices, payroll system, benefit system and 1095cs to determine if penalty is valid</td>
<td>Request an appeal from the appropriate 1 of 128 Exchanges</td>
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<td>If escalated, determine if there is a need to take action to mitigate risk of monthly accrual of penalty</td>
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• Support Center / HR Community – Release information
Questions