Preparing for Applicable Large Employer Status

A PPACA Business Profile

Summary

PPACA (Patient Protection and Affordable Care Act) will go into effect for Applicable Large Employers—those organizations with 100 or more full-time employees in 2015. But in 2016, the Large Employer threshold will drop to include organizations with 50 or more full-time employees.

What does this mean? It means that many businesses do not qualify as Applicable Large Employers in 2015 will qualify in 2016. This paper follows Kari, the owner of a bakery and catering business, who does not qualify as an Applicable Large Employer in 2015, as she determines how she needs to prepare for 2016.

PPACA Takes Effect in 2015

In spite of recent rulings, the PPACA (Patient Protection and Affordable Care Act) is still scheduled to take effect in 2015. This means many companies have little time to avoid penalties. The first step is to determine whether or not they fall under PPACA provisions.

Only Applicable Large Employers (as defined by PPACA) need to provide health care coverage or face penalties for non-coverage. But PPACA transition rules change who qualifies as an Applicable Large Employer in 2015 versus 2016:

Applicable Large Employer Transition Rules: 2015 vs. 2016
In **2015**, organizations that employ more than **100 full-time or full-time equivalent (FTE) employees** in the previous calendar year are considered Applicable Large Employers
In **2016**, this threshold will lower to include organizations that employ **50 or more full-time or FTE employees**

Meet Kari

- Owns a bakery and catering business
- Currently provides health insurance benefits to employees
- Wants to comply with PPACA
- Employs 46 full-time employees and seasonal part-time help

The Large Employer definition can be confusing for organizations close to the employee threshold. Let's walk through a scenario with business owner Kari who knows she will not qualify as an Applicable Large Employer in 2015 but is unsure if she will qualify in 2016.

Is Kari an Applicable Large Employer?

Kari has 46 permanent employees who work 4 or 5 days a week, but she hires extra help in December to cater corporate holiday events and during the summer for the wedding season. During those seasonal busy periods, the extra employees may be working close to full-time, although Kari's not sure.

Here's a summary of Kari's seasonal hires last year:

Month	Seasonal Employees	Hours per Week
May	12	38
June	12	38
July	10	30
August	8	24
December	5	38

Kari knows she will not qualify as an Applicable Large Employer in 2015 because she has fewer than 100 full-time employees. She does not expect her business to change in the upcoming year and she wants to know if she will be an Applicable Large Employer in 2016 when the employee threshold lowers to 50 full-time employees.

Based on her numbers, it's confusing whether or not Kari will be an Applicable Large Employer in 2016 because she's close to the 50 full-time-employee mark. This means each year, she'll need to figure out whether or not she qualifies.

In addition, she'll need to examine the seasonal exception. IRS regulations state that if an organization employs more than 50 employees for 4 months (or fewer) during the year, and seasonal employees push it over the limit, then the business is not considered an Applicable Large Employer.

Who qualifies as a seasonal employee?
Using some general guidelines, employers can use their best judgment in determining who is a seasonal employee.
• Workers have to be employed for a season that typically lasts no longer than 6 months each year and occurs at generally the same time of year each year. • The IRS specifically names holiday retail workers, ski resort workers, and agricultural workers as examples.

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Kari decides her extra hires fit the seasonal retail worker definition. This means every January, she'll need to tally the numbers for the previous calendar year to figure out whether or not she qualifies as an Applicable Large Employer. But first, she needs to figure out if her total yearly average is 50 employees or more.

Unfortunately, that's not as simple as it sounds because it's not a straight yearly average.

First, Kari must break it down by month. How many full-time employees is she employing each month?

PPACA defines a **full-time employee** as someone who works—on average—at least 30 hours per week or 130 hours per month.

Then, how many part-time workers is she employing each month? She must calculate their ***full-time equivalency (FTE)*** and add that number to the number of full-time employees.

Calculating Full-Time Equivalency for Part-Time Help	
For any given month:	
Total Hours Worked by Part-Time Employees* / 120	= # of FTE equivalents
** Capped at 120 hours for any single employee*	

After calculating her FTEs and adding them to her number of full-time employees for each month, she can then calculate the yearly average. Kari finds she crossed the 50 full-time-employee threshold 5 months last year. This means ***PPACA will consider Kari an Applicable Large Employer in 2016***, making her subject to its provisions.

Calculating the Yearly Average	
Sum of monthly full time & FTE / 120	= Yearly Average

Which of Kari's Employees Need Coverage?

Now that Kari has discovered she qualifies as an Applicable Large Employer, she wants to comply by providing health care coverage to qualifying employees.

This seems simple since Kari is already providing coverage to her full-time employees, but there's a catch: up to this point, Kari considered any employee who worked 35 hours or more as full-time. But the PPACA definition (average 30 hours/ week) means she'll need to reassess which of her employees qualify as full-time.

It's not as easy as checking last year's schedule, either. The IRS has defined a Safe Harbor method of determining if an employee qualifies for coverage. Fortunately for Kari, she has some control over the process.

Understanding the Determination Process

The IRS outlines a Determination Process that includes three employer-defined periods: a measurement period, an administrative period and a stability period.

1. The ***measurement period*** allows Kari to use her time and attendance records to determine which employees qualify as full-time.

Kari's Choice	Kari can choose how long her measurement period lasts—anywhere between 3-12 months.

2. Once Kari has determined which employees qualify, the ***administrative period*** is designed to give Kari time to notify her employees, offer coverage and enroll them.

Kari's Choice	The administrative period is optional. Kari can choose its length (up to 90 days) or opt to skip it completely.

3. During the ***stability period***, an employee's status as full-time is considered set. Qualified employees are offered coverage based on the measurement period findings, regardless of their current hours or schedule.

Kari's Choice	Kari can choose the length of her stability period, but it must be at least 6 months and not shorter than the measurement period. (For part-time employees, the stability period can't be longer than the measurement period.)

Kari Sets Her Determination Process for Current Employees

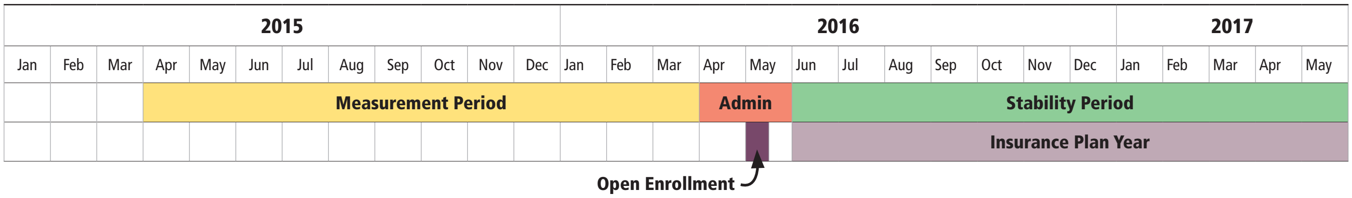
Kari appreciates that she has options in setting each period, but she's not sure how to make those decisions. How long should her measurement periods and stability periods be? Should she use an administrative period?

Rule of Thumb

As much as possible, base your determination process on your current insurance plan.

- Stability Period = Insurance plan year
- Administrative Period = Overlaps with insurance enrollment
- Measurement Period = Same length as stability period

Kari's insurance plan begins June 1 with open enrollment occurring the first two weeks of May. Based on this, she identifies her designation process like this:



But since seasonal employees only work at certain times during the year, Kari knows they'll need a different designation process. Also, any new full-time hires will need a different designation process as well since they could be hired at any point in the year—even in the middle of her regular determination process.

Kari's Determination Process for New Employees

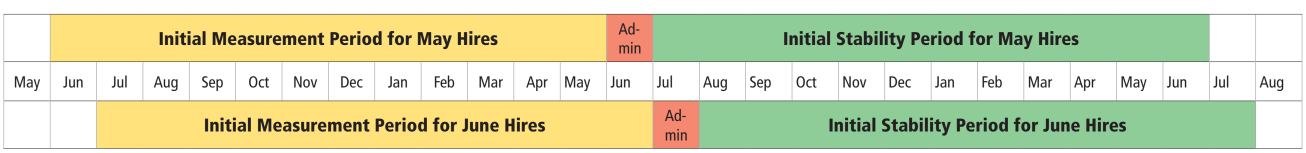
Kari has three different types of employees: ongoing employees already employed with her, new variable-hour (including seasonal) employees, and new full-time hires. She's already established a standard determination process for ongoing employees but needs to create a determination process for new hires—both seasonal and full-time—based on their hire date.

Seasonal Determination Process

Because Kari hires seasonal staff in May and early June for the wedding business, she doesn't have to offer them insurance, but she needs to measure their hours with a designation process based on their hire date.

For example, the May employees have one measurement period and the June employees have another. It's the same concept as the standard measurement period for ongoing employees, except that whole process is based on the employees' hire dates. Kari starts the initial measurement period on the first of the month following the hire date. The administrative period is shorter to comply with the requirement that the stability period begin before the 14th month of employment (should they remain employees with Kari).

For those May and June seasonal hires, Kari's designation process would look something like this:



New Full-Time Determination Process

Kari can apply this determination process to all new employees based on their hire date. But she must remember: any new employees she expects to be full-time (by the PPACA definition) must be offered insurance within 90 days of employment or Kari will face a penalty.

Kari Discovers a Secret Weapon

Although Kari's done great work up to this point, she's worried about dealing with this while running her business. She can't afford an HR person or service to do it for her, but she knows she has to comply or face steep penalties.

Talking with her friend Ken, who owns a landscaping business, Kari discovers he recently switched to a PPACA-compatible time and attendance system to help him manage all the moving parts. Ken calls his new system his "secret weapon" and suggests Kari find one of her own.

Kari decides Ken's got the right idea. She decides which PPACA activities she needs help with and finds a PPACA-compatible time and attendance system that fits the bill. Kari's new system helps her:

- ***Easily determine if she qualifies as an Applicable Large Employer.***
  Kari's system features a PPACA Summary report that automatically calculates her status based on employees' service hours from the previous year. If she qualifies as an Applicable Large Employer, she'll have PPACA obligations throughout the year. But if she doesn't, this report is the only thing she'll need to run until the next calendar year.
- ***Automatically remember when PPACA-related items are due.***
  For instance, Kari's system reminds her when her enrollment period is up. She can quickly open her system's dashboard and drill down to a list of her employees, their average hours, and status recommendations—all she has to do is review and accept with a single click. But she can also override the system recommendation and make individual status edits on that screen just as quickly, and if she has questions about one of her employees, she can drill down for details.
- ***Quickly identify full-time employees for coverage.***
  Kari's system has a built-in PPACA Full-Time Status Report feature. Once she's reviewed and set the status for all of her employees, she can quickly run a report on who qualifies as full-time and should be offered insurance.
- ***Manage returning seasonal hires as new hires.***
  When Kari rehires college students for seasonal work, her system resets their service date so that they'll be treated like a new employee for PPACA. In fact, the system might reset the date automatically when it imports new hires in from her payroll system, but the time and attendance system lets her double-check just in case. But if anyone she hired as a seasonal employee last year ended up staying with her on a permanent basis, the system will alert Kari to his or her status so the employee won't accidentally go overlooked.

With her new time and attendance system ready to go, Kari feels more optimistic about the coming year. Thanks to its built-in PPACA features, Kari is sure the system will simplify her PPACA obligations and keep her attention focused where it belongs—her business.

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Attendance on Demand supports the labor management needs of thousands of companies and more than a half million employees across North America. Launched in 2006, Attendance on Demand is a rapidly deployed, cloud-based solution that minimizes a company's risk and technology investment while providing advanced features for securely managing labor data—calculating pay rules, scheduling employees, budgeting labor, and automating recordkeeping for labor law compliance. With standard uptime over the industry average of 99.995% and above average customer retention rates, Attendance on Demand removes the worry of maintaining expensive infrastructure. An extensive North American distribution network helps organizations use Attendance on Demand to reduce labor expenses and improve decision making.

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