Limiting Penalties as an Applicable Large Employer

A PPACA Business Profile

Summary

The Patient Protection and Affordable Care Act takes effect for qualifying employers in 2015. But what about employers unable to afford insurance for employees—or the non-compliance penalties that follow? This paper follows Dean, the owner of a construction company, as he determines which steps he can take to minimize his PPACA penalty liability.

 ©2014 Attendance on Demand, Inc. All rights reserved.

Meet Dean

Dean owns a construction business, employing both salaried and hourly workers. He knows he can't afford to provide health coverage to all employees and remain profitable—or even in business. So his goal is to find a strategy that helps him limit his PPACA penalties.

- Owns a construction business
- Employs 40 salaried workers and 150 hourly workers
- Currently offers health coverage for salaried workers but can't afford to cover hourly workers
- Wants to limit costs and penalties

Is Dean an Applicable Large Employer?

Under PPACA, only businesses that qualify as "Applicable Large Employers" are required to provide health coverage to qualifying employees—or face penalties for non-coverage.

For 2015, "Applicable Large Employers" are defined as employers with 100 or more full-time (or full-time equivalent) employees in 2014. After 2015, the definition is 50 or more full-time employees or FTEs. In 2015, applicable large employers are required to provide health care coverage to at least 70 percent of qualifying employees to avoid non-coverage penalties. (In 2016 and beyond, this percentage jumps to 95 percent.)

Dean has 40 salaried employees currently receiving health insurance and 150 hourly workers with no health benefits. Of his 150 hourly employees, 100 employees are full-time, and the rest are part-time, working about 20 hours per week.

 ©2014 Attendance on Demand, Inc. All rights reserved.

Here's a breakdown of Dean's workforce last year:

Employee Type	Number
Salaried Full-Time	40
Year-Round Hourly Full-Time	100
Hourly Part-Time	50

Just by looking at the full-time numbers, Dean knows he qualifies as an applicable large employer. He doesn't have to look at FTEs. He also knows that means he'll be subject to penalties for not offering health coverage to all of his full-time employees.

Types of PPACA Penalties

Dean discovers there are two types of penalties PPACA can assess.

Two Types of PPACA Penalties
PPACA penalizes employers who offer full-time employees:
• No insurance coverage or • Limited insurance coverage

Because Dean has more than 100 full-time employees, he will be assessed one of these two penalties for 2015 (with the penalty itself payable the following year) depending on the decisions he makes.

In order to decide which penalty will cost him less, Dean takes a closer look at how the no coverage penalty would affect his business.

No Coverage Penalty
• Assessed for offering coverage to less than 95% of full-time employees (and their dependents) • Penalty is $2,000 for each full-time employee (minus the first 30 workers) when one qualifying employee gets a health coverage tax credit/subsidy

In 2015 only, employers that cover at least 70 percent of their qualifying workforce would be excused from the penalty. Unfortunately, Dean doesn't meet that qualification either since he currently offers insurance to less than 50 percent of his workforce.

 ©2014 Attendance on Demand, Inc. All rights reserved.

Dean calculates his projected no coverage penalties for 2015:

Dean's No Coverage Penalties
• 40 salaried + 100 hourly full-time employees (part-time workers are not included in penalty calculations) • 140 total full-time employees – 30 = 110 penalty count • 110 x $2,000 = $220,000 per year

Ouch! Dean stares at his calculator, then decides to see how the second type of penalty—the limited insurance penalty—would affect him.

Limited Coverage Penalty
• Assessed when an employer offers coverage to nearly all employees, but the coverage doesn't meet PPACA standards • Specifically, the coverage does not meet minimum value or is not affordable (by PPACA definitions) • Penalty is $3,000 per full-time employee receiving a coverage tax credit/subsidy

Who Gets the Tax Credit/Subsidy that Triggers Penalties?

Dean understands that all penalties are contingent on employees receiving a tax credit/coverage subsidy, so he researches who is eligible.

Who Gets a Tax Credit/Coverage Subsidy?
To qualify, employees must:
• Be a U.S. citizen • Enroll for coverage through a state or federal insurance exchange (also known as a marketplace) • Have a household income between 100-400% of the federal poverty level ($46,680 for individuals and $95,4000 for a family of four in 2013) • Not be eligible for other coverage such as Medicaid

Dean figures that 40 of his full-time employees—mostly the new guys, general laborers and clerical staff—make below $46,000. If he decided to offer insurance that includes a plan for hourly workers where they pay most (or all) of the premium, he knows he'd be assessed the limited coverage penalty.

 ©2014 Attendance on Demand, Inc. All rights reserved.

He calculates his potential limited coverage penalty:

Dean's Limited Coverage Penalty
• 140 full-time employees • 40 employees with wages below $46,000 = 40 employees eligible for subsidy/tax credit • 40 x $3,000 + $120,000 per year • $100,000 less than his no coverage penalty

Knowing that his limited coverage penalty is less expensive than a no coverage penalty, Dean decides to consider offering insurance to all employees without worrying about the affordability part. If it's going to cost him, he'd rather benefit his employees than the IRS, and he knows insurance premiums are deductible expenses.

Dean calls Sarah, a benefit consultant, who runs the numbers on a few different scenarios for him and helps him investigate insurance plans at different cost structures until he finds one that makes the most sense for his business.

Options for Limiting Penalties

Now that Dean understands the penalties, he wants to find a strategy to limit his costs.

Two Strategies for Limiting PPACA Penalties
• Minimize full-time hourly workers • Ensure part-time workers stay below 30 hours a week/130 hours a month (to keep them from qualifying as full-time under PPACA)

Dean knows penalties are only assessed for full-time employees, so the more he can minimize the number of employees that qualify as full-time under PPACA, the lower his penalties will be. But he realizes cutting full-time employees' hours may send good employees looking for full-time work elsewhere. Dean's not sure he's ready for this strategy.

A much easier strategy for Dean to implement is ensuring part-time workers stay part-time. In fact, it's one he can implement right away with the right tools.

Dean's Effective Strategy for Minimizing Penalties

In order to limit his penalties, Dean needs to make sure part-time employees don't work over their allotted hours. He calls a workforce management specialist for advice, and the specialist points him to a tool Dean already has—and uses.

His time and attendance system.

 ©2014 Attendance on Demand, Inc. All rights reserved.

Up to this point, Dean only used his time and attendance system to record employees' hours for payroll. But the specialist recommends he call his time and attendance vendor to see if his system can help him better manage his part-time workforce. Specifically, the specialist advises him to ask if the system will:

- ***Alert him when part-time workers get close to the full-time threshold.***
  If a part-time worker is approaching full-time hours, the system automatically notifies Dean in real-time so he can take action immediately and adjust schedules.
- ***Assist with reporting and record keeping.***
  With custom and predesigned reports, Dean can quickly run reports on PPACA-related information such as employee hours and status, as well as reports on which employees are approaching full-time to better manage shift scheduling.
- ***Identify employees for shift-swapping.***
  If a part-time employee is approaching 30 hours in a single week, Dean can pull up a list of eligible part-time employees who aren't nearing the full-time threshold to swap shifts or reschedule.

Dean feels confident about following the new PPACA guidelines in the coming year, thanks to his time and attendance system. By offering insurance to all employees and managing his part-time workers more carefully, he can limit his PPACA penalties *and* his coverage costs, keeping his business healthy today—and tomorrow.

About Attendance on Demand, Inc.

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.

This document simplifies a complex Act as it is understood by Attendance on Demand, Inc. It is not to be taken as legal advice. For further information about PPACA compliance, please visit the U.S. Department of Labor at www.dol.gov/ebsa/healthreform or call 1-866-444-EBSA.

To find out how Attendance on Demand can help your organization, call 800-465-9980 or visit www.attendanceondemand.com

 ©2014 Attendance on Demand, Inc. All rights reserved.

Attendance on Demand is a registered trademark of Attendance on Demand, Inc. 11/14 rev. 12/14