Benefits Administration

PASSPORT

To Understanding Health Care Reform Changes

Coming Soon: Key Dates for 2010

These changes will take place upon the employer's first health insurance plan renewal after these key dates in 2010.

June 1, 2010

- Employers become eligible to receive reimbursements for costs associated with early retirees (ages 55–64).

June 23, 2010

- The Department of Health and Human Services (HHS) is mandated to establish high-risk pools to provide coverage for individuals currently unable to get coverage.
- Small businesses under 25 employees will be eligible for tax credits, retroactive to January 1, 2010.

September 23, 2010

- Pre-existing condition exclusions will be banned for dependent children under age 19.
- Lifetime maximums will be prohibited.
- Health plans providing coverage for dependent children must permit dependent children to stay on or join their parents' policies up to age 26, regardless of marital or student status. Grandfathered plans need only accept such dependents if they are ineligible for other group coverage. Plans that have lost their grandfathered status must accept them regardless.

On the Horizon: Key Dates for 2011-2018

January 1, 2011

- Over-the-counter drugs will not be reimbursable under FSAs or HSAs without a doctor's prescription.
- Individual and small group market health insurance providers must spend 80% of premium dollars on medical services (large group plans 85%).
- Employers with fewer than 100 employees will become eligible for wellness grants for up to five years.
- Employers will be required to disclose the value of health benefits on employees' IRS forms W-2 (value based on COBRA premiums).

January 1, 2013

- Employees' health care Flexible Spending Account (FSA) contributions will be capped at $2,500 per year.
- A 0.9% hospital insurance tax will be imposed on high-income individuals (annual income greater than $200,000 individual/$250,000 couple).
- A new 3.8% Medicare tax that applies to dividends, interest and other unearned income will apply for high-income individuals.
- A voluntary federal long-term care program will be offered at the employer's discretion and effective for enrollment sometime between October 2012 and 2013.

January 1, 2014

- Individuals will be mandated to obtain health care coverage.
- Employers will be required to provide "vouchers" toward the purchase of state exchange-based insurance for employees working 30+ hours per week who would pay between 8.0% and 9.8% of their household income for health coverage.
- State-based insurance exchanges will be established, and employers must notify newly hired employees of the availability of exchange-based coverage.
- Employers with more than 50 employees must offer coverage or pay a penalty of $2,000 per employee.
- Employers must pay a penalty of $3,000 for any employee for whom the employer does not contribute at least 60% of the cost of employee health insurance premiums, or any employee who pays more than 9.5% of his or her household income for health coverage (first 30 applicable workers are exempt).
- Employers with more than 200 employees must auto-enroll all new employees in health care plans.
- Employers will be permitted to offer employees incentives up to 30% of the cost of a wellness program.
- Pre-existing condition exclusions will be banned for all individuals.
- Bans will be placed on annual coverage limits and deductibles.

January 1, 2018

- A 40% excise tax will be imposed on high-cost health plans (exceeding $10,200 per year for individual; $27,500 for family coverage).

The Patient Protection and Affordable Care Act: Employer and Employee Impact

On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act (commonly referred to as PPACA), making health care reform "the law of the land." One week later, he signed the Health Care and Education Reconciliation Act, which makes changes to some of PPACA's health reform provisions. Together, these ground-breaking pieces of legislation total more than 2,500 pages, resulting in new laws that are complex and challenging.

Because some changes described in the legislation take effect 90 or 180 days from enactment, the date President Obama signed PPACA into law is significant. Other changes will be effective upon an employer's first plan year after certain milestone dates. Many of these new rules still require guidance from the Department of Health and Human Services (HHS). This is expected to be issued within the next six to 12 months.

What Employers Need to Know

What PPACA revisions directly affect employers' responsibilities? These key issues will shape employer-provided coverage over the next eight years. Here's an overview.

Employee Impact

As PPACA's provisions are enacted, employees will be affected by a number of changes. In 2010, individuals currently unable to get coverage due to high risks will have access to coverage under the new federal high-risk pool. They will also no longer be subject to lifetime maximum benefit limits as those caps are removed, and their dependent children under age 19 with pre-existing conditions may have greater access to coverage, as pre-existing condition exclusions will no longer be allowed.

Dependent children will also be able to remain on their parents' coverage until age 26, regardless of student or marital status – although this change may not affect employees in states that already grant dependents extended coverage. HHS will need to decide the interaction between state and federal laws. Over the next eight years, employees may experience some additional taxes through increased Medicare taxes on income over $200,000 ($250,000 for married filing jointly) and on unearned income, as well as reduced limits on tax-savings vehicles like FSAs. However, some employees may see greater access to health coverage options with the creation of state-based exchanges.

Tax Credits for Small Employers

Starting in 2010, there will be a new tax credit for eligible small business employers of up to 35% of health premiums paid (25% for tax-exempt organizations). In 2014 and later, the tax credit increases to 50% (35% for tax-exempt organizations) of the employer's contributions toward plan premiums. Employers with 10 or fewer full-time employees, and average annual wages of under $25,000, will receive the maximum credit; reduced credits will be applied to small employers with more than 10 employees and/or average wages over $25,000. Tax credits will expire several years after the establishment of the insurance exchanges.

Health Accounts

Effective January 1, 2011 (regardless of an employer's plan year), over-the-counter drugs will no longer be reimbursable under a health flexible spending account (FSA), health savings account (HSA) or health reimbursement arrangement (HRA), unless the drugs are prescribed by a physician. In addition, the penalty on withdrawals from HSAs for non-medical expenses will be increased to 20%. In 2013, FSA contributions will be capped at $2,500, and future caps will be tied to increases in the Consumer Price Index (CPI).

Medicare Surtax

Starting in 2013, there will be a Medicare surtax of 0.9% applied to wages of high-income individuals (annual income greater than $200,000 for individuals/$250,000 for couples). There will be an additional surtax of 3.8% on investment income.

Free Rider Provision

Beginning in 2014, employers will be required to pay if they don't offer health coverage to employees, or if they contribute less than a certain level to employees' health coverage.

- Employers must pay $3,000 per year for each employee for whom employer medical plan contributions equal less than 60% of allowed costs, or for each employee who pays more than 9.5% of his or her household income for health coverage. This provision will apply to employees working 30+ hours per week; however, an employer's first 30 employees who would otherwise qualify will not be included in the assessment.
- Employers with more than 50 employees who don't offer health coverage will be required to pay a non-deductible $2,000 penalty per employee.

Employee Voucher

Beginning in 2014, employers will be required to provide "vouchers" toward the purchase of health insurance through a state exchange for any employee working 30+ hours per week who would pay between 8.0% and 9.8% of his or her household income for health coverage. This voucher would assist these employees who opt out of employer-sponsored coverage and instead enroll in an exchange-based plan.

Employers would be required to notify each newly hired employee of the availability of exchange-based coverage and the employee's potential eligibility for a subsidy. There is no requirement that the employer must offer the same coverage as that offered through the exchange.

Looking Ahead

ADP is committed to assisting companies with their evolving compliance requirements of health care reform. Our goal is to minimize your administrative burden across the entire spectrum of HR, benefits, payroll and tax resulting from health care reform and other employment-related legislation so that you can focus on running your businesses.

ADP is working to develop automated, integrated solutions that are consistent with the provisions of the health care reform legislation.

For the latest information, please go to
www.adp.com/healthcare

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