

Healthcare Reform Series: Impact on Employers

Employer-based health coverage is a mainstay of the US health insurance system, and nearly 160 million people under age 65 living in the US obtain their health coverage through employer-sponsored insurance plans.¹ Employers and employees alike continue to feel the impact of the rising costs of healthcare. The 2010 employer health benefits survey released by the Kaiser Family Foundation and the Health Research and Educational Trust found the following trends: health benefits expenses for employers have outpaced the rate of inflation since the late 1990s; averages for family coverage premiums have increased by 114% since 2000; and, employers continue to shift more costs to employees, as employee contribution to single and family coverage increased at a statistically significant level for the first time since KFF/HRET began the survey in 1999.² Several provisions of the Patient Protection and Affordable Care Act (ACA) and the Health Care and Education Reconciliation Act (Reconciliation Act), collectively referred to as “healthcare reform,” were designed to overhaul these and other trends in the employer-based health insurance system, and the new changes may drastically affect how employers provide coverage to their employees. How employers will progress and the ACA’s ultimate impact on business enterprises and will be determined by a multitude of factors, including the employer’s size.

ALL EMPLOYERS

Most of the healthcare reform provisions affecting all employers, regardless of size, mandate certain reporting requirements. Section 9002 of the ACA added Section 6051(a)(14) to the Internal Revenue Code and generally provides that the aggregate cost of applicable employer sponsored coverage must be reported on Form W-2 beginning in 2011.³

Additionally, expanded Form 1099 requirements are scheduled to go into effect in 2012. Section 9006 of the ACA requires all businesses, non-profits, and governments – federal, state, and local – to file 1099 tax returns with the IRS for compensation paid for goods and services (including any payments made to corporations) totaling \$600 or more during a calendar year.⁴ The US Chamber of Commerce, the National Federation of Independent Business, and the Small Business Majority recently supported eliminating the expanded 1099 provision.⁵ President Obama additionally endorsed eliminating the requirement at his latest State of the Union address on January 25, 2011.⁶ On March 3, 2011, the US House of Representatives

voted to repeal the 1099 provision, and the measure has been placed on the Senate calendar for consideration.⁷

LARGE EMPLOYERS

The ACA does not directly require employers to provide health insurance coverage to workers.⁸ Instead, beginning January 1, 2014, large employers, or those with 50 or more full-time employees (FTEs), will be subject to penalties if they chose not to provide qualified coverage.⁹ Some refer to this ACA provision as “Pay or Play.”¹⁰ Large employers who fail to provide “*minimum essential coverage*” and have at least one FTE that qualifies for a federal premium credit or cost-sharing reduction will be subject to a nondeductible federal tax penalty. The ACA considers coverage inadequate to meet the minimum essential standard “[if] the plan’s share of the total cost of benefits is less than 60 percent, and it is unaffordable if the employee premium constitutes more than 9.5 percent of the employee’s household income.”¹¹

Currently, two penalties may be ascribed to employers under “Pay or Play” i.e. either one penalty for employers that choose not to provide minimum essential coverage, or one for employers who provide minimum essential coverage that is deemed inadequate or unaffordable.¹² Employers cannot be subject to both penalties, and the penalties for inadequate policies cannot exceed penalties for refusal to participate.¹³ Employers who refuse to provide minimum coverage may be subject to a \$166.67 monthly penalty per FTE, excluding the first 30 full-time workers. Offering inadequate or unaffordable care will subject employers to a \$250.00 penalty, assessed for each FTE who receives a premium tax credit for enrolling in a qualified health plan through a state run exchange.¹⁴

The ACA requires employers with more than 200 employees who offer healthcare benefits to automatically enroll employees in the offered health plan, and employers must provide employees with notice of automatic enrollment and a chance to opt out of enrollment. The effective date of this requirement is yet to be determined.¹⁵

SMALL EMPLOYERS

Differences in provisions between large and small employers generally reflect Congress’s recognition of challenges small employers face regarding the affordability of health coverage. Currently, 36 percent of those persons employed by small employers – approximately one-third of the US population – do not

have health insurance coverage, compared 15 percent covered through large employers.¹⁶

“Small employer” refers to businesses with at least one, but not more than 100, FTEs. Under the ACA, States have an option to treat companies with 50 or fewer employees as small employers, although this substitution will only be valid until 2016.¹⁷ Prior to the passage of the ACA, small businesses did not receive discounts on health insurance plans, mainly due to a lack of buying power.¹⁸ As a result, small firms paid, on average, up to 18 percent more in premiums than large firms for the same health insurance coverage.¹⁹ To ease the burden on small businesses with 25 or fewer FTEs, the ACA implements a federal tax credit, which, depending on need, will offset up to half of insurance premiums.²⁰ To qualify for the credits, an employer must pay at least half the premium for each employee. Currently over four million companies have been deemed eligible for the credit.²¹

Beginning in 2010, employers with 10 or fewer FTEs that have average wages of up to \$25,000 are eligible for the maximum credit of 35 percent of the amount the company contributes towards insurance premiums. The maximum credit will increase to 50 percent beginning in 2014 and must be purchased through the newly established state-run insurance exchanges, otherwise known as the Small Business Health Options Program (SHOP).²² For more information on health insurance exchanges, see Health Capital Topics, Vol.3 Issue 11: *American Health Benefits Exchanges*. As the number of employees nears 25, the percentage of credit received decreases.²³ Tax exempt organizations will receive a 25 percent (increasing to 35 percent in 2014) credit in the form of a refund.²⁴ However, a provision for tax exempt employers limits the refund to the amount of the federal income tax and the Medicare payroll tax that the employer withholds from the employee’s wages, plus the Medicare tax paid by the employer.²⁵

It is also hoped that limitations on insurance deductibles will help ease market discrimination against small employers. Under section 1302 of the ACA, beginning in 2014, deductibles for small group employer health plans may not exceed \$2,000 for individual coverage or \$4,000 for group coverage.²⁶

CONCLUSION

A majority of Americans obtain their insurance through employers, and both employers and employees have felt the burden of the rising costs of healthcare.²⁷ ACA mandates attempt to address the trend of growing expenses and make better quality, more affordable employer-sponsored health insurance accessible to the millions who are covered by employer-based plans. As such, the ACA will greatly affect employers and the insurance landscape in the coming years. The next article in this series will look into the effect of healthcare reform on states.

¹ “Employer Health Benefits: 2010 Annual Survey,” Kaiser Family Foundation and Health Research & Educational Trust, September 2010.

² “Employer Health Benefits: 2010 Annual Survey,” Kaiser Family Foundation and Health Research & Educational Trust,

September 2010.

³ “The Patient Protection and Affordable Care Act” Public Law 111-148, March 23, 2010.

⁴ “The 1099 Provision: A Tax-Reporting Requirement for Businesses, Designed to Raise Revenues to Finance Health Reform, is Now Likely to be Repealed.” By Jennifer Haberkorn, Health Affairs: Health Policy Brief, February 14, 2011.

⁵ “The 1099 Provision: A Tax-Reporting Requirement for Businesses, Designed to Raise Revenues to Finance Health Reform, is Now Likely to be Repealed.” By Jennifer Haberkorn, Health Affairs: Health Policy Brief, February 14, 2011.

⁶ “The 1099 Provision: A Tax-Reporting Requirement for Businesses, Designed to Raise Revenues to Finance Health Reform, is Now Likely to be Repealed.” By Jennifer Haberkorn, Health Affairs: Health Policy Brief, February 14, 2011.

⁷ “Bill Summary and Status,” The Library of Congress & Thomas, <http://thomas.loc.gov/cgi-bin/bdquery/D?d112:1:./temp/~bdvQkj:/home/LegislativeData.php?n=BSS;c=112> (Accessed 03/16/2011).

⁸ The legislation defines full-time employees as employees who work, on average at least 30 hours of service per week. “Employers Guide To Health Care Reform” By Brian M. Pinheiro, et.al, Austin, TX: Aspen Publishers, 2010, p.# 10-6 - 10-8.

⁹ “The Patient Protection and Affordable Care Act” Public Law 111-148, March 23, 2010.

¹⁰ “Employers Guide To Health Care Reform” By Brian M. Pinheiro, et.al, Austin, TX: Aspen Publishers, 2010, p.# 10-6 - 10-8.

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¹² “The Patient Protection and Affordable Care Act” Public Law 111-148, March 23, 2010.

¹³ “Employers Guide To Health Care Reform” By Brian M. Pinheiro, et.al, Austin, TX: Aspen Publishers, 2010, p.# 10-6 - 10-8.

¹⁴ “Employers Guide To Health Care Reform” By Brian M. Pinheiro, et.al, Austin, TX: Aspen Publishers, 2010, p.# 10-6 - 10-8.

¹⁵ “The Patient Protection and Affordable Care Act” Public Law 111-148, March 23, 2010.

¹⁶ “Small Business Tax Credits. The Affordable Care Act Offers Incentives so that More of These Companies Will Help Provide Their Employees with Health Insurance” By Amanda Cassidy, Health Affairs: Health Policy Brief, January 14, 2011.

¹⁷ “The Patient Protection and Affordable Care Act” Public Law 111-148, March 23, 2010.

¹⁸ “Small Business Tax Credits. The Affordable Care Act Offers Incentives so that More of These Companies Will Help Provide Their Employees with Health Insurance” By Amanda Cassidy, Health Affairs: Health Policy Brief, January 14, 2011.

¹⁹ “Small Business Tax Credits. The Affordable Care Act Offers Incentives so that More of These Companies Will Help Provide Their Employees with Health Insurance” By Amanda Cassidy, Health Affairs: Health Policy Brief, January 14, 2011.

²⁰ “The Patient Protection and Affordable Care Act” Public Law 111-148, March 23, 2010.

²¹ “Small Business Tax Credits. The Affordable Care Act Offers Incentives so that More of These Companies Will Help Provide Their Employees with Health Insurance” By Amanda Cassidy, Health Affairs: Health Policy Brief, January 14, 2011.

²² “Small Business Tax Credits. The Affordable Care Act Offers Incentives so that More of These Companies Will Help Provide Their Employees with Health Insurance” By Amanda Cassidy, Health Affairs: Health Policy Brief, January 14, 2011; “Patient Protection and Affordable Care Act” Pub. L. 111-148, p. 55 (March 23, 2010).

²³ “Small Business Tax Credits. The Affordable Care Act Offers Incentives so that More of These Companies Will Help Provide Their Employees with Health Insurance” By Amanda Cassidy, Health Affairs: Health Policy Brief, January 14, 2011.

²⁴ “The Patient Protection and Affordable Care Act” Public Law 111-148, March 23, 2010.

²⁵ “Health Policy Brief: Small Business Tax Credits. The Affordable Care Act offers incentives so that more of these companies will help provide their employees with health insurance” By Amanda Cassidy, Health Affairs, January 14, 2011.

- ²⁶ "The Patient Protection and Affordable Care Act" Public Law 111-148, March 23, 2010.
- ²⁷ "Small Business Tax Credits. The Affordable Care Act Offers Incentives so that More of These Companies Will Help Provide Their Employees with Health Insurance" By Amanda Cassidy, Health Affairs: Health Policy Brief, January 14, 2011.



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