

**SENATOR JEFF BINGAMAN
HEALTH REFORM 2010**

REQUIREMENTS FOR LARGE EMPLOYERS

The *Patient Protection and Affordable Care Act (PPACA)* and the *Health Care and Education Reconciliation Act* reform our nation's health insurance system to control costs and make health insurance more meaningful. In addition, the new law develops voluntary health insurance exchanges so that employers can pool their buying power and there will be more oversight of insurance company practices, including closer scrutiny of premium increases.

As part of these reforms, large employers -- firms that employ 50 or more full time equivalents (FTEs) -- are required to provide affordable, comprehensive health insurance to their employees. If they do not and an employee accesses new health insurance tax credits, the large employer is required to make a contribution to the federal government. It is estimated that 94 percent of large firms in New Mexico currently provide coverage to their employees.¹ Thus, it is anticipated that a very small number of large employers would be required to make a contribution to the federal government. In addition, **this requirement does not begin until 2014.**

Small employers (employing fewer than 50 FTEs) are not required to provide health insurance and they are not required to make contributions. Approximately 74 percent of New Mexican employers are considered small employers under the new law.² Employees and owners of small business will be eligible to utilize new health insurance exchanges, may be eligible to receive federal tax credits to support employer sponsored coverage, and also may be eligible for tax credits on an individual basis.

The following provides a step-by-step analysis of large employer contribution requirements under the new health reform law.

- ❖ **Step One, Are you a “large employer”?** To determine if the requirement to provide health insurance or make a contribution applies to your firm, first you must determine if you qualify as a “large employer,” i.e., whether or not your firm employs 50 or more FTEs.
 - Part time workers are included in this calculation on a *pro rata* basis. Seasonal workers are not included in this calculation.
 - Also, firms must employ 50 or more FTEs for at least *4 months (120 days)* out of the year to be considered “large employers.”

- ❖ **Step Two: Does the coverage you offer meet requirements under the new law?** The new law requires that coverage:
 - Includes an actuarial value of at least 60 percent. Most large employer insurance is well above this threshold and closer to 90 percent.
 - Covers the minimum benefit standards in the new law such as inpatient care, preventive care, office visits, prescription drugs, etc. Typically, employer sponsored coverage exceeds most of these requirements.
 - Is affordable to your employees. The cost of premiums to your employees must be less than 9.5 percent of their income.
 - **If these requirements are met then NO employer contribution is required.**

- ❖ **Step Three: Calculate required contribution.**
 - **Make an Offer:** Large employers that make an *offer* of qualifying health insurance coverage that may not be affordable are required to make a contribution. The contribution is triggered as soon as one full time employee receives a health insurance tax credit. The contribution is calculated as the *lesser* of:
 - \$3,000 per full time employee that receives a tax credit, or
 - \$2,000 per [total number of all full time employees – 30]

- Do NOT Make an Offer: Large employers that do NOT make an offer of qualifying health insurance coverage are required to make a contribution. The contribution is triggered as soon as one full time employee receives a health insurance tax credit. The contribution is calculated as: \$2,000 per [total number of all full time employees – 30]

❖ **Sample Calculations:**

Example One:

An employer has 45 full time workers and 5 part time workers (equal to 3 FTEs). The employer makes no offer of health insurance and all 50 employees - including the owner of the business - are receiving health insurance tax credits in the exchange.

Required Contribution: Zero. The firm employees less than 50 FTEs and, therefore, is considered a “small business” and exempt from contribution requirements.

Example Two:

An employer has 70 full time workers and 30 part time workers. The employer makes an offer to her employees of qualifying coverage but for 6 of her employees the coverage is unaffordable and they receive health insurance tax credits. 10 employees receive new Medicaid coverage.

Required Contribution: The lesser of

- \$3,000 x 6 = \$18,000 / year; or
- \$2,000 x [70-30]= \$80,000 / year.

The employer contribution is the lesser of the two, or \$18,000 / year.

Example Three:

An employer has 70 full time workers and 30 part time workers. 10 employees are receiving Medicaid and 6 employees are receiving federal tax credits. The employer does NOT make an offer of qualifying coverage.

Required Contribution: \$2,000 x [70-30] or \$80,000 / year.

❖ **Other Considerations:**

- Employees are ineligible to receive federal tax credits if premiums of employer sponsored coverage are less than 9.5 percent of income.
 - Tax credits are not available above 400 percent of the poverty level (\$43,000 per year for an individual and \$88,000 for a family of four).
 - Thus, employers only make a contribution if coverage is above this affordability threshold for all employees below 400 percent of poverty but who do not qualify for Medicaid (below 133% of poverty, about \$10,400 per year for a single individual and \$29,300 for a family of four).
- When premium costs exceed 8 percent of income, employees are exempted from individual penalty.
- Between 8 percent and 9.8 percent of income, employers are required to offer a “free choice voucher.”
 - An employee may come to exchange but may not receive a tax credit (except between 9.5% and 9.8% of income).
 - The employer only provides the value of their existing contribution to health insurance costs.

¹ The Kaiser Family Foundation statehealthfacts.org. Data Source: Agency for Healthcare Research and Quality, Center for Cost and Financing Studies. 2006 Medical Expenditure Panel Survey - Insurance Component. Table II.A.2.

² Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, “2008 Medical Expenditure Panel Survey-Insurance Component.” http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2008/tiia1a.htm.