

# A Review of Employer Challenges resulting from Healthcare Reform



## Making a Case for an Outsourcing Partner

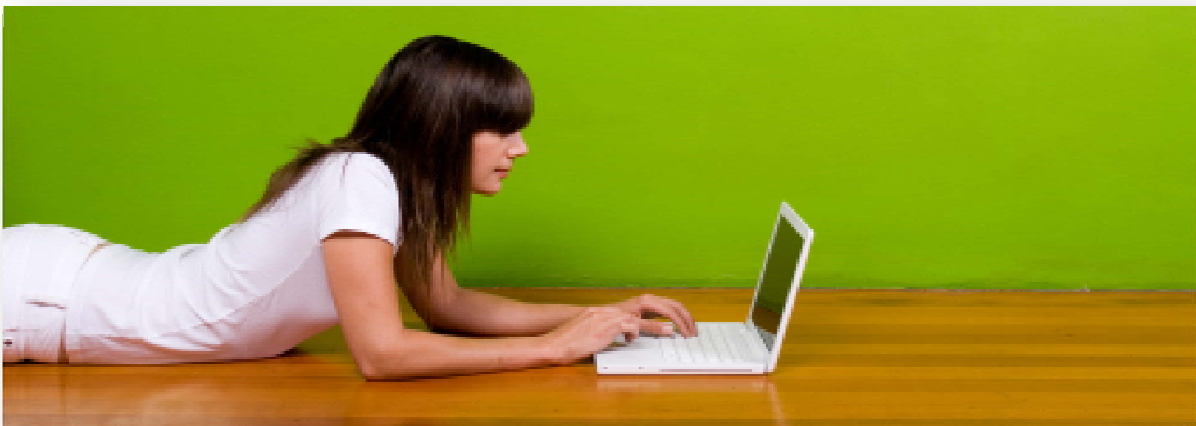
Each of the challenges are paired with solutions provided by CoAdvantage & PlanSource for easing the burden of new administrative requirements

**It is no secret that the economy has taken its toll on businesses across the United States over the past 3 years. In many cases, this has resulted in large reductions in employment for many organizations and a swift tightening of the belt for most others. Faced with a choice of where to make cuts, most CEO's focused on preserving revenue generating positions and trying to make do with fewer back-office positions like HR. As a result, HR departments have been forced to become more efficient. In some cases, these companies have found relief through "outsourcing" partnerships. Others continue to struggle on their own with the limited resources available to them.**

In March of 2010, President Obama signed both the Patient Protection and Affordable Care Act (PPACA) and the Healthcare Education Reconciliation Act (HCERA), a sum of over two-thousand pages of legislation filled with new and complex regulations.

This legislation must now be administered by these same companies that have been forced to cut back and lack the resources necessary to implement such sweeping changes. The penalty for not complying with these new laws and regulations will be extremely costly to those employers unable to manage the new requirements. In addition, unless navigated with care, the new provisions could significantly impact employee morale and productivity. If finding a partner was important before, it has become even more critical now.

Through the last several years of economic downturn, CoAdvantage has been helping its clients succeed and is uniquely positioned to continue that trend as the sophisticated provisions of healthcare reform are piled on. In the remainder of this white paper, you will find a partial list of major provisions your organization may need to be aware of and prepared to administer. In addition to listing several of the key provisions, we will list some of the ways that CoAdvantage can partner with you and help you be successful.



## Key Healthcare Reform Provisions – 2010 & 2011

### 1. **Small Business Health Tax Credits** **(Credit available in 2010)**

Under the provisions of PPACA, small businesses are eligible to receive a tax credit for offering health insurance benefits to their employees. In order to qualify for the credit, the employer must cover at least 50% of the cost of healthcare coverage (based on the single rate), have less than 25 full-time workers (or 50 half-time workers), and pay an average annual wage below \$50,000 (blended across employee base, excluding owners).

The credit is worth up to 35 percent of premium costs in 2010. On Jan. 1, 2014, this rate increases to 50 percent (35 percent for tax-exempt employers). The credit phases out gradually for firms with average wages between \$25,000 and \$50,000 and for firms with between 10 and 25 full-time equivalent workers.

#### **CoAdvantage Solutions**

**CoAdvantage Insurance Services** - If you don't already offer health insurance to your employees, this provision may now actually help you to afford it. One of CoAdvantage's Insurance specialists can help you with an analysis to take a look at a plan that could be perfect for your organization.

#### **PayAdvantage HR / PlanSource Benefits Administration / PEO Advantage** -

When processing benefits on any of our product platforms, we have developed customized reports that will assist you in

pulling the information needed to apply for this tax deduction on your organizations annual return. With all of the data organized in a single place, our systems will make the filing process simple.

### 2. **Extension of Child Coverage to Age 26** **(Effective: September 23, 2010)**

Adult children may now be covered by their parents' health insurance plan up to the age of 26, without regard to student status, dependency, or marriage. Though state laws may further extend the age for child coverage, this regulation sets uniform standards for availability and consistency. If the company's health plan is grandfathered and the child has health coverage available through his/her employer, this coverage is not required to be offered.

#### **CoAdvantage Solutions**

**PEO Advantage** – As a part of our PEO solution, you will have a dedicated benefits team focused on delivering the compliant communication to employees newly eligible for the master health plan. In addition, our team will carefully monitor benefit applications and evaluate if dependents are truly eligible to enroll. With an average cost of \$3,000 dollars per year to the employer, it is important to closely monitor dependent enrollment.

**PayAdvantage HR / PlanSource**– As a part of these solutions, the PlanSource system helps your benefits administrator stay up to date on these provisions by offering system flags & warnings throughout the benefits enrollment process to ensure proper benefits enrollment and plan setup.

### **3. Grandfathered Plans (Effective: Plans with start date after September 23, 2010)**

Grandfathered plans are exempt from putting certain benefit provisions in place as required by healthcare reform as long as they maintain “Grandfathered Plan” status. Even so, Grandfathered plans do not avoid many of the rules and requirements of PPACA (as noted below). In order to maintain “Grandfathered” status, a plan must keep most of its options and benefits that existed as of March 23, 2010, the enactment date of healthcare reform. In all likelihood, most Grandfathered plans will not be able to maintain their grandfathered status for more than a year or two. Below is a list of PPACA provisions with which grandfathered plans must still comply:

- May not impose pre-existing condition exclusions for children under 19 (This extends to anyone in 2014) or may not discriminate based on health status
- No lifetime or annual limits
- Prohibition on plan rescissions
- Extension of child coverage up to age 26

- Development and utilization of uniform explanation of coverage documents and standardized definitions
- Rules on bringing down the cost of healthcare coverage
- Prohibition on excessive waiting periods (2014)

If you had a health plan in place for your organization as of March 23, 2010, how do you determine whether or not your plan will be grandfathered? This question will be important to evaluate prior to the first plan year effective on or after September 23, 2010 (six months after enactment of reform). Below are some of the things that will cause your plan to lose its Grandfathered status:

- Eliminating all or substantially all benefits to diagnose or treat a particular condition
- Increasing a percentage cost-sharing requirement (such as coinsurance)
- Increasing a fixed-amount cost-sharing requirement other than a copayment
- Increasing a fixed-amount copayment by more than the greater of \$5 (adjusted annually for medical inflation) or a percentage equal to medical inflation plus 15 percentage points
- Decreasing the employer’s contribution rate by more than five percentage points
- Adding or tightening an overall annual limit on the dollar value of benefits
- Changing Health Insurance Carriers

### **CoAdvantage Solutions**

**PEO Advantage** – When your organization joins the PEO's master benefits program, you will be provided with the necessary tools to comply with the provisions of the law including appropriate regulations for non-discrimination testing. This is particularly important, as the penalty for non-compliance can add up to as much as \$500,000 annually (see additional details in "Non-Discrimination Testing" section).

**CoAdvantage Insurance Services** – The consultants at Coadvantage Insurance Services are experts at helping their clients understand what changes will be required in plan administration for groups that are grandfathered and for those that are not. They can also help you decide if you really want or need to be grandfathered and break down the pros and cons of each. Consulting with one of our professional agents is the first step to success in your journey towards healthcare reform compliance.

**PayAdvantage HR / PlanSource** – As the backbone technology for benefits administration, our PlanSource system is rapidly adding functionality to provide system users with warning messages and updates as they walk through the plan setup process. Arming your organization with a best-in-class platform like PlanSource will no doubt help you in your efforts to successfully administer benefits

without increasing staff or administration costs.

#### **4. Non-Discrimination Testing (Effective: Plan Years beginning after September 23, 2010)**

All non-grandfathered plans are now subject to the nondiscrimination testing requirements of Internal Revenue Code Section 105(h), beginning with the first plan year starting on or after September 23, 2010.

Before the PPACA legislation was signed into law, Code Section 105(h) applied only to self-insured plans. Section 105(h) prohibits discrimination in eligibility or benefits that favor "highly compensated individuals." Highly compensated individuals are defined as the five highest paid officers, 10% or greater shareholders, and the highest paid 25% of employees.

If any of the following conditions are true of your health plan, you may be out of compliance with IRS Code Section 105(h):

- A Plan that provides enhanced benefits to select groups of key or highly-paid employees or retirees or to groups of such employees who benefit from severance and early-retirement window packages
- A plan with shorter eligibility requirements for salaried vs. hourly or overtime exempt vs. non-exempt individuals, or for classes of employees identified for purposes of recruiting or retention,
- A plan with different levels of benefits depending on geographic locations,

industry or position to reflect competitive market conditions

Beginning September 23, 2010, the penalty for violating the nondiscrimination requirements will be imposed annually on the sponsor of the plan. The proposed maximum penalty is \$100 per day for each highly compensated individual to whom the failure relates, capped at \$500,000 or 10% of the employer's annual health expenses for the previous year, whichever is less.

### **CoAdvantage Solutions**

**PEO Advantage** – See benefits in “Grandfathered Plan” section.

**PayAdvantage HR / PlanSource** – see benefits in “Grandfathered Plan” section.

## **5. W-2 Reporting of Healthcare Premiums** **(Effective: Tax Year 2011)**

Beginning in 2011, employers must report on Line 14 of the W-2 the annual contribution amounts the company and its employees contributed to employer-sponsored health benefit plans. As a result, employers should be prepared for their payroll system to begin collecting this information by January 1, 2011.

Plans for which coverage costs must be reported under the new requirement include medical plans, dental or vision coverage if included in the medical plan, prescription drug plans, executive physicals, on-site clinics (if they provide more than *de minimus* care), Medicare supplemental policies, and employee assistance programs. The cost of coverage under flexible spending accounts, stand-alone dental or vision plans, health savings

accounts and specific disease or hospital/fixed indemnity plans is *excluded* from the reporting requirement.

Reporting may also apply to former employees who are provided with health coverage, including early retirees, retirees, terminated employees on COBRA and surviving spouses. Many of these individuals would not typically receive a Form W-2 from the employer, at least not for taxable years following their termination of employment. If new regulations do not specifically omit these individuals, an employer's overall W-2 reporting requirements may increase dramatically.

### **CoAdvantage Solutions**

**PEO Advantage / PayAdvantage HR** – With CoAdvantage as your payroll processing back-office engine, we will automate the process of pulling employer and employee benefit plan deductions and placing them on line 14 of the W-2. By engaging our HRMS technology and highly skilled processing teams, you won't have to worry about these new requirements, as CoAdvantage will provide the critical information and reporting tools for you.



## Other Health Care Reform Provisions Requiring Additional Benefits Administration

- **Automatic Plan Enrollment (timing guidelines yet to be confirmed)** - Requires employers with more than 200 employees to automatically enroll employees into health insurance plans offered by the employer. Employees may opt out of coverage. Employers will need to have proper process and automation in place in order to ensure compliance with this regulation.
- **FSA / HSA / HRA / MSA Changes to Qualified Expenses (1/1/2011)** - Expenses for over-the-counter drugs not prescribed by a doctor can no longer be reimbursed using funds from an FSA, HSA, HRA, or Archer Medical Savings Account. Though not a large administrative task, clear communication to employees and re-education will need to be done.
- **CLASS Act (2011)** - Establishes the creation of a national, voluntary long-term care program for providing community living assistances and supports. Employers must provide access to the national plan and enroll employees unless they choose to

voluntarily opt out. Employers will need an effective way to add this plan option into their enrollment package for benefits.

- **Standardized Benefit Summaries (2012)** - This provision requires a specific presentation of the benefits that are provided by the plan being offered to your employees. Certain font sizes are required along with many other language and layout provisions. All employees must receive a copy of this newly formatted benefits summary. Employers may face the burden of creating these employee-friendly versions of the benefit summary and distributing it to all employees.
- **Employee Notifications of Plan Options available in Health Exchanges (Q2 2013)** - Employers will be required to notify all employees of the existence of the state Health Insurance Exchange, a description of the service that the Exchange provides, and a way to contact and/or use the Exchange. If the Employer plan does not meet a certain contribution threshold, the notice must also include a description of a potential premium subsidy that would be available to the employee in the Exchange.



- **Notice of Qualified Health Coverage (2014)** – Employers will be required to provide written notice of whether they offered health insurance, the length of the waiting period, the names of the employees receiving coverage, along with the amount of premium that was offered to be paid by the employer. It is contemplated that failure to file on time may result in a penalty to the employer.
- **Quality of Care Report (2014)** – Each year at annual enrollment, an employer must complete a “Quality of Care” report to the government. This report will then be posted on a public website for individuals to have a method of evaluating the quality of benefits provided by your organization.

- **Free Choice Vouchers (2014)** – If the employee’s cost to obtain health insurance exceeds 8% (but not more than 9.8%) of their total household income, and if their household income is less than 400% of the poverty level, this employee would be eligible to receive a Free Choice Voucher from their employer. A Free Choice Voucher would allow the employee to take the same amount of money the employer would have provided for its group plan and apply it to a plan of their choice for purchase on the Health Exchange. Employers will face the future burden of knowing when they need to offer this Free Choice Voucher and ensure it is properly distributed and managed in order to avoid severe financial penalties.



## Health Care Reform Provisions that Include Taxes & Penalties: *A snapshot of what's at stake*

- **Penalty for benefits discrimination from non-compliance of Section 105(h) - (2010)** - It is estimated that the penalty for non-compliance will be \$100 per offender per day, up to \$500,000. Additional details are provided in the “Non-Discrimination” section above.
- **Tax on unqualified HSA Expenses (2011)** – The tax on expenses that are taken out of an HSA that are not qualified expenses has been raised from 10 to 20 percent.
- **Elimination of Medicare Part D subsidy (2013)** – The tax exemption for employers who receive Medicare Part D retiree drug subsidies will be eliminated at this time. This will result in a large increase in cost for large employers who take advantage of this subsidy today.
- **Tax on individuals without health Insurance (2014)** – Beginning in 2014, individuals will be required to have health insurance coverage or they will be required to pay a penalty.

The penalty progressively increases between 2014 and 2016 and is the greater of the two values indicated below:

- **2014** – \$95 or 1% of household income
  - **2015** - \$325 or 2% of household income
  - **2016** - \$695 or 2.5% of household income
- **Employer penalty for offering inadequate coverage to employees (2014)** – Employers with more than 50 employees must offer qualified coverage or face penalties of \$2,000 or more per employee (excluding the first 30 employees). Even if an employer offers health insurance, but if it is not deemed to be “minimum essential coverage, the employer may still face the penalty.
  - **Penalty for failure to offer qualified employees Free Choice Vouchers (2014)** – If an employer does not offer Free Choice Vouchers to employees that qualify (described in section titled, “Free Choice Vouchers (2014)”), employers will be subject to additional financial penalties.

- **Tax on “Cadillac” benefits (2018) –**  
PPACA establishes a 40% tax on employer benefit plans with an aggregate value of \$10,200 for individuals and \$27,500 for families. Employers are responsible for calculating and reporting these values. Failure to do so in an accurate or timely manner will result in significant financial penalties.



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## Healthcare Reform Solutions

The information provided above illustrates how CoAdvantage can help your organization navigate through the administrative challenges of healthcare reform. In addition, we have developed unique tools and continue to create solutions that are worth mentioning here:

### **Reform Junction**

If the social media movement has taught us anything, it is that there is value in collaboration. New ideas have been created, problems solved, alliances formed, and much more. We thought it would be helpful to create a forum where brokers, employers, and other healthcare professionals could collaborate and find solutions on very practical problems that arise out of healthcare reform. The result is Reform Junction, an online community dedicated to providing answers to those very questions. Check it out and ask your most pressing healthcare reform question at [www.reformjunction.com](http://www.reformjunction.com).



### **Healthcare Reform Compliance Updates**

Stay informed as new regulations are released over the next 8 years. Simple, yet effective, we recommend you subscribe to CoAdvantage news by visiting our website at [www.coadvantage.com/blog](http://www.coadvantage.com/blog) and subscribe to our healthcare reform updates.

### **Employer Healthcare Reform Needs Analysis Tool (coming soon)**

In partnership with Littler, the leading national law firm for Employment Law, we are developing an analysis tool to help your organization determine what changes need to be made to your plans and processes to avoid penalties and successfully comply with healthcare reform. This in-depth analysis goes a step beyond basic compliance and actually provides you with suggested strategies for a successful benefits program in the new climate based on the goals stated by your senior leadership. A combination of online tools and consultation, this service is an exceptional value and will help your organization succeed over the next decade.

## Healthcare Reform Solutions (*continued*)

### **PEO Advantage**

When you partner with our PEO, we become your Human Resources Department, your Benefits Department, your Risk Management Department, and your Payroll Department all for the cost of about a single part-time employee per year. We also offer a proven, nationally ranked Human Resources Management System (HRMS) that keeps all employee benefits information in a simple, comprehensive, user-friendly format. Partnering with our PEO is one way to ensure you have fool proof systems in place to effectively comply with the complex legislation of healthcare reform. Our PEO service effectively takes control of your back-office HR so you can get back to day-to-day sales and operations. Our PEO solution fits best for businesses with 5 to 150 employees.



### **PlanSource Benefits Administration**

Our state-of-the-art online benefits administration platform automates all benefits transactions and connects with your insurance carriers. It is simple to install and cost effective to maintain. Some of the many features include online enrollment, plan configuration, ad-hoc reporting, employee decision support, role based security, automated data feeds to carriers for single source management of life events, payroll platform integration, and many many more.

### **PayAdvantage HR**

PayAdvantage HR™ is a comprehensive back-office HR solution that provides the power of our PlanSource benefits administration platform with a state of the HR payroll processing engine and web-based HR Management system (HRMS). Incredible efficiency is gained by having these systems integrated and managed by a single vendor. This is especially true in light of all the changes coming out of healthcare reform and how that affects both payroll and benefits administration. PayAdvantage HR fits best for business with 100 or more employees.

### **CoAdvantage Insurance Services**

The insurance consultants at CoAdvantage Insurance Services (CIS) are fully committed to coupling solutions that solve employers administrative challenges along with the standard requirements of helping you design a benefits program that fits your organization's unique demands. This is rare to find. Our consultants are uniquely equipped to help you on both sides of the house and know our technology better than anyone. Also, if they have a problem, they can walk across the hall and talk to our payroll or benefits administration teams to get it solved instantly. The result is that with CIS your customer service experience is guaranteed to be one you will describe as excellent. Embracing technology and a good benefits design is going to be essential to succeed in the next several years with all of the changes at hand due to healthcare reform. Our team will help you succeed.

**For more information on any or all of our solutions, call [888-278-6055](tel:888-278-6055) and for a sales associate regarding the product of interest, or email us at [info@coadvantage.com](mailto:info@coadvantage.com)**



## **About CoAdvantage**

CoAdvantage is a leading provider of Human Resources and Employee Benefits solutions for small- and medium-sized businesses. We offer in-depth expertise, cutting-edge products, and — as our satisfied clients and partners have confirmed — five-star service that helps companies improve efficiency and productivity.

Our HR products and services range from payroll processing to a leading Human Resource Management System (HRMS); our benefits platform offers benefits administration software to Fortune 500-level health, life, and retirement benefits; our risk management services include workers' compensation administration, compliance, and payroll tax filing.

We provide access to the most comprehensive suite of services in the industry, including a Professional Employer Organization (PEO) and a Human Resources Outsourcing (HRO) solution, as well as benefits administration software-as-a-service (SaaS). Our PEO is ideal for smaller businesses and we are one of the first organizations in our industry that successfully meets companies' needs as they mature with our HRO solution. Our products and services touch approximately 550,000 worksite employees. For more information, visit [www.coadvantage.com](http://www.coadvantage.com)

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