

# Employers face penalties for not offering health coverage in 2014

(Note: This article pertains to companies with over 50 employees)

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## What is the “employer mandate”?

Health care reform requires employers with 50 or more full-time employees to offer minimum essential health coverage to their employees. If they don't, they must pay a penalty (a nondeductible, extra tax). They also may have to pay a penalty if any of their employees get government aid to lower their health coverage costs. Employers with fewer than 50 employees will not have to pay a penalty for dropping coverage.

## When must employers start offering coverage?

Employers have until their renewal date or start of their plan year in 2014. For instance, if an employer's plan starts on January 1, that employer must offer health coverage January 1, 2014. But if an employer's plan starts on July 1, that employer has until July 1, 2014, to offer health coverage.

## What is “minimum essential coverage”?

The health plan offered must be considered “minimum essential coverage.” That means that it must:

- Supply “minimum value” by covering at least 60% of the total cost of benefits.
- Be affordable. The premium for covering the employee must be less than 9.5% of the employee's income.

## How do employers calculate the number of employees?

1. Count the employees who worked at least 30 hours per week each month (including seasonal employees) in the prior calendar year.
2. Count the employees considered full-time by adding the number of hours worked by all part-time employees (as well as seasonal) and dividing by 120.
3. Add the monthly totals of steps 1 and 2 and divide by 12.

If the result is less than 50, the employer doesn't have to offer health coverage.

## Example: Employer with full-time employees.

In 2013, ABC Business has 20 full-time employees working an average of 30 hours per week each month. ABC Business also has 40 part-time employees who work 90 hours per month, and no seasonal employees.

1. Count the number of employees working at least 30 hours per week, per month = **20**
2. Count the number of employees who are equivalent to full time based on the formula by adding the number of hours worked by all part-time employees (as well as seasonal) and dividing by 120. Part-time employees:  $40 \times 90 = 3600$  divided by 120 = **30**
3. Add  $20 + 30 =$  **50**

ABC Business must offer coverage to full-time employees in 2014 because its average number of employees in 2013 is 50.

Calculating the number of employees can be complicated. Employers should speak with their attorney or tax adviser for help.

### **What are the penalties?**

There are different kinds of penalties, based on what part of the rule the employer didn't follow. Employers have to pay a penalty for:

- Not offering health coverage to full-time employees and their dependent children to age 26, and if any full-time employee gets government aid to lower the cost of coverage. The annual penalty is \$2,000 x the number of full-time employees, minus the first 30 employees.
- Offering health coverage for only part of the year. The penalty is based on the number of full-time employees and the number of months coverage was not offered.
- Offering health coverage to 95% of full-time employees but one or more full-time employees gets government aid to lower the cost of their coverage because the coverage is not considered affordable. The annual penalty is \$3,000 per employee getting government aid.