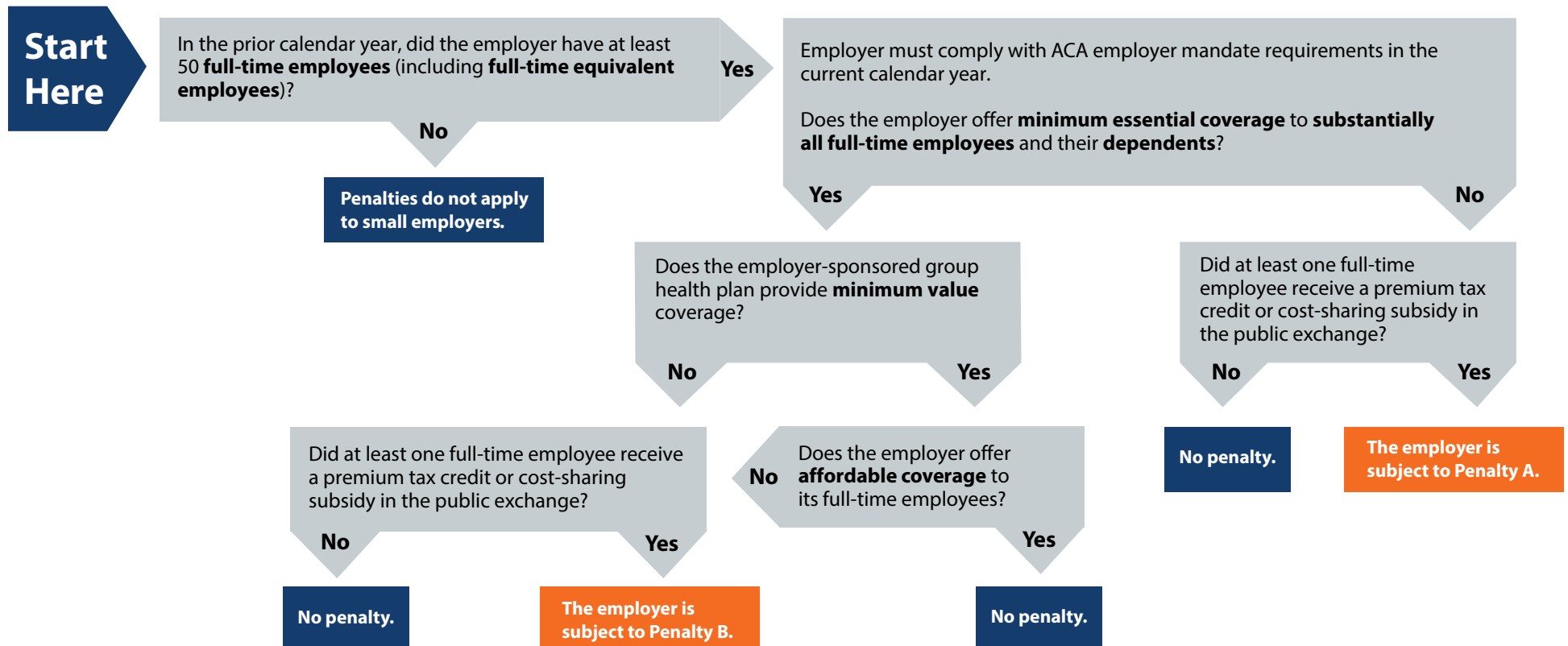


ACA: EMPLOYER MANDATE FLOWCHART



IMPORTANT TERMS AND DEFINITIONS

Employers that are subject to the ACA employer mandate must understand the definition of key terms to ensure compliance with the mandate. For further information about these terms and definitions, as well as a more detailed discussion of employer mandate penalties, see the NFP publications [ACA: Applicable Large Employers](#), [ACA: Full-Time Employees](#) and [ACA: Employer Mandate Penalties and Affordability](#).

Affordable Coverage

Coverage under an employer-sponsored group health plan is affordable for an employee if the employee's premium cost-share for the lowest-cost single-only coverage does not exceed a designated percentage (as determined annually by the IRS) of that employee's household income. Under IRS approved safe harbors, employers can use either the federal poverty line, the employee's rate of pay (whether salaried or hourly), or the current year Form W-2 Box 1 wages as the threshold for determining whether coverage is affordable. Safe harbor calculations that rely on an annual value must be divided by 12 to compute monthly amounts.

Dependent

"Dependent" means a child of an employee who has not attained age 26. This includes biological and adopted children, but does not include step or foster children or the children of an employee's domestic partner. Dependent status applies for the entire calendar month during which the child attains age 26. Importantly, the term does not include a spouse (whether same- or different-sex) or a domestic partner. Thus, an employer need not offer coverage to employees' spouses or domestic partners to avoid liability for the employer mandate penalty. (Keep in mind that for fully insured plans, state law may prohibit an employer from excluding spouses or domestic partners from coverage.)

Full-Time Employees

Full-time employees (FTEs) for purposes of the employer mandate are defined as those who are employed on average at least 30 hours of service per week (or 130 hours of service per month). Further, an employer that had 50 or more full-time employees in the prior calendar year is considered an applicable large employer in the current calendar year.

Full-Time Equivalent Employees

Full-time equivalent employees are calculated by first identifying part-time employees (those who work less than 30 hours per month). Add together the monthly hours worked by all part-time employees and divide by 120. Add this total to the number of full-time employees already counted (employees who work 30 hours or more a week) to determine if the employer has at least 50 full-time employees (including full-time equivalents). (Note that when determining full-time equivalents for purposes of ACA applicable large employer status, the total hours worked by part-time employees is divided by 120 hours. However, when identifying full-time employees for purposes of making an offer of coverage, employees working 30 hours per week (or 130 per month) are deemed full-time.)

Minimum Essential Coverage

Minimum Essential Coverage (MEC) is broadly defined as an "eligible employer-sponsored plan," which includes fully insured group coverage offered in the small or large market, as well as many self-insured plans. Importantly, though, MEC does not include HIPAA-exceptions benefits, such as health FSAs, disability coverage, accidental death and dismemberment coverage, and limited purpose or stand-alone dental or vision coverage.

Minimum Value

Coverage is considered minimum value if the plan pays at least 60% of the costs incurred by the participant and their beneficiaries. In other words, the employee cannot be responsible for more than 40% of the total benefit costs that they incurred under the plan.

Penalty A

Penalty A is triggered if the employer fails to offer minimum essential coverage to substantially all FTEs and their dependents, and at least one FTE receives a premium tax credit or cost-sharing reduction through a state health insurance exchange. It is assessed on the total number of FTEs (minus the first 30) in each month for which the triggering failure occurs. In the case of a controlled group of companies, any employee reduction must be allocated on a pro rata basis.

Penalty B

Penalty B is triggered if the employer offers minimum essential coverage to substantially all FTEs and their dependents, but the coverage is either not of minimum value or is not affordable. It is assessed only on the sub-set of employees who receive a premium tax credit or cost-sharing reduction through a state health insurance exchange. The total Penalty B amount can never exceed the Penalty A amount.

Substantially All Full-Time Employees

To comply with the requirement to offer coverage to "substantially all" of an employer's full-time employees and avoid liability for Penalty A, an applicable large employer must offer health insurance coverage to at least 95% of its full-time employees (or, if greater, five full-time employees) and their dependents.