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Health-Care Reform: Considerations for Employers

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You may have heard that the health-care reform legislation passed in 2010 requires all employers to provide health insurance to their employees. That is not the case. But the law does try to encourage employers to offer health insurance by imposing penalties on larger employers that don't offer affordable health insurance coverage, and by offering incentives in the form of tax credits to smaller employers who do provide their workers with affordable health-care coverage.

Grandfathered plans

Employer plans that were in existence on the date the health-care law was enacted (March 23, 2010) are considered grandfathered and are subject to some of the provisions of the health-care reform law. Provisions of the new law that affect grandfathered plans include:

Starting in 2010,

- Plans must extend dependent care coverage (if offered by the plan) to adult children up to age 26
- Plans can no longer impose lifetime coverage limits
- Plans can no longer include pre-existing condition exclusions for children

Starting in 2014,

- Plans can no longer apply annual limits on coverage
- Plans can no longer impose pre-existing condition exclusions for adults
- Plans cannot extend coverage waiting periods beyond 90 days

Tax penalty begins in 2015

Beginning in 2015, large employers that do not offer health insurance coverage to employees will generally be subject to a tax penalty if even one full-time employee buys coverage through a state exchange and is entitled to a tax credit or cost-sharing reduction. You're considered a large employer if, in the prior year, you had an average of at least 50 full-time employees. (The rules for calculating average full-time employees can be a little tricky, though--part-time employees are factored in as part of the determination, for example.) The penalty can be up to $2,000 per year for every full-time employee after the first 30 full-time employees.

If you're a large employer and do offer health insurance coverage to your employees, but the coverage isn't considered affordable, a separate penalty calculation applies--this penalty can amount to up to $3,000 per year for each employee who purchases health insurance coverage through a state exchange and is entitled to a tax credit or cost-sharing reduction, but it's capped at the amount of penalty that you would pay if you offered no insurance coverage at all. The coverage you provide may be considered unaffordable if it doesn't cover at least 60 percent of the cost of covered services, or the premium for an employee's coverage exceeds 9.5 percent of the employee's household income.

Small business tax credit

The health-care reform law does provide an incentive in the form of tax credits to certain small businesses (generally those with fewer than 25 full-time employees) that pay at least half the cost of health insurance for their employees.

The credit is available in two phases. For years 2010 through 2013, the maximum credit can be up to 35 percent (25 percent for eligible tax-exempt small employers) of the employer's premium expenses. For tax years 2014 and later, the maximum credit increases to 50 percent for employers that purchase coverage for employees through the federal or a state exchange (35 percent for eligible tax-exempt employers).

To be eligible for the maximum tax credit, the employer must have 10 or fewer employees and average annual wages not exceeding $25,000. The credit is phased out for employers with between 10 and 25 full-time employees, and for employers whose full-time employees have average annual wages between $25,000 and $50,000. In addition, the credit is capped based on the average cost of health insurance in the area where the small business is located.

SHOP exchanges to be established in 2014

Small businesses with 100 or fewer employees should be able to purchase health insurance through state-based Small Business Health Options Program (SHOP) exchanges by 2014. The exchanges will offer at least four benefit categories of plans based on covering an increasing percentage of benefit costs, and allow employers to more easily compare plan prices and benefits. In 2017, states may elect to allow employers with more than 100 employees to buy coverage through SHOP exchanges. (Note: In late 2013, the online enrollment option for the federal SHOP exchange was delayed a year until late 2014. Until that time, employers wishing to compare and purchase policies through the federal SHOP program must go through a broker who is familiar with the Exchange, and file paper applications.)

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