

Health Care 2014: Pay or Play



by David Bottoms, CFP®, RHU, REBC
Senior Vice President, Benefits
dbottoms@thebottomsgroup.com

As full implementation of Health Care Reform in 2014 approaches, employers are grappling with one decision above all others: Pay or Play?

In short, employers¹ are faced with two options. They can choose to drop medical coverage and “pay” the penalty, which is \$2,000 annually for each full-time employee.¹ Alternately, they can continue to “play” by offering coverage that is deemed to provide “minimum essential coverage” at an “affordable cost” for their employees, and thus avoid penalty.

As employers make this determination of whether to pay or play, they will need to thoroughly examine and determine individualized calculations relating to the costs associated with either approach, both monetary and otherwise. During 2013 and beyond, The Bottoms Group is prepared to advise clients as they weigh their options and craft their benefit plan structure and strategy to maintain efficiency and effectiveness.

That said, over the course of the past couple of years, pundits have been making de facto statements that it will be cheaper for employers to drop coverage and pay the fine; however, this approach overlooks a few very important points. Upon a more thorough analysis, we expect many employers will decide to maintain coverage, albeit with some very significant changes to minimize long-term employer cost.

When determining whether to drop medical coverage, an employer needs to consider that:

WILL THE EMPLOYER PAY A PENALTY? Beginning in 2014

ARE YOU A LARGE EMPLOYER?

- At least 50 full-time equivalent workers
 - including full-time workers (30+ hours per week) and part-time workers (prorated)
 - excluding seasonal workers (up to 120 days per year)

YES

NO

Do you provide “affordable/qualified” health insurance to employees?

YES

NO
PENALTY

NO

Are any of your full-time employees in an exchange plan and receiving a premium credit?

NO

PAY MONTHLY PENALTY
 $1/12 \times \$2,000 \times$
(# of full-time employees - 30)

YES

PAY MONTHLY PENALTY LESSER OF:

- $1/12 \times \$2,000 \times$ (# of full-time employees - 30)
- $1/12 \times \$3,000 \times$ (# of full-time employees who receive credits for exchange coverage)

- The \$2,000 penalty is *not* tax deductible as a business expense and there is high likelihood that the penalty will increase as the cost of the legislation continues to escalate.

Medical coverage purchased on the individual market, outside of the employer’s purview, will *not* be

eligible for pre-tax premium payment resulting in significantly higher tax adjusted cost for employees will now be required to cover health insurance. This will make employers providing coverage significantly more attractive to potential employees.

By dropping coverage, the employer will *not* receive continued benefit from the reduced FICA tax cost resulting from employee premium contributions via the employer's Section 125 cafeteria plan.

The primary reasons why employers have offered coverage in the past: retain and attract key

to pay the differential premium.

Transition employee contributions to a "defined contribution" model wherein the employer's contribution to the coverage is pegged to a specific dollar amount rather than to a percentage of premium. Not only will this make it easier for the employer to communicate the significant value of the plan, this approach will reduce employer cost in future years as costs continue to escalate by removing them from the chains of a percentage based approach. This approach will also make it fairly easy to ensure that coverage remains "affordable" for

employers who provide strong benefit plans will, perhaps now more than ever, be in a position to leverage their benefit program to attract and retain key employees.

Needless to say, Health Care Reform brings with it no shortage of complexity; however, at The Bottoms Group, we are well informed on the legislation and its requisite impact on employer strategy related to benefit plans. To the extent that you have specific questions related to any of the information above or how the "pay or play" dynamic will impact your organization, please let us know.

... OVER THE COURSE OF THE PAST COUPLE OF YEARS, PUNDITS HAVE BEEN MAKING DE FACTO STATEMENTS THAT IT WILL BE CHEAPER FOR EMPLOYERS TO DROP COVERAGE AND PAY THE FINE; HOWEVER, THIS APPROACH OVERLOOKS A FEW VERY IMPORTANT POINTS.

employees, provide tax-favored access to needed coverage, facilitate employee health and wellness, etc. have not been addressed or changed in any way by Health Care Reform.

The employers that elect to continue providing medical coverage will want to consider making changes to their current benefit plan strategy for long-term sustainability and competitiveness, such as:

Implement a base plan that meets but does not exceed "minimum essential coverage" levels. This will, in most cases, result in a reduction in base plan benefits relative to current benchmark base plan levels. Based upon benchmark averages, this will result in downward pressure on baseline benefit offering in the market. Of course, additional buy-up plans can be provided as in the past for those employees desiring more comprehensive coverage and willing

lower-paid employees and ensure the avoidance of any fines.

Consider reducing employer contributions for dependent coverage. It is highly likely that employer contributions for dependent coverage will become the exception rather than the norm. The IRS has proposed "Safe Harbor" guidance regarding the affordability test that very clearly aligns compliance with the affordability test with contributions to employee, not dependent or family, coverage.

Ensure that employees fully understand their benefit options and the significant employer investment into the plan. As many employers shift their plans to the new culturally-acceptable, government-approved minimum common denominator,



¹Employer mandate applies to employers with more than 50 full time equivalent employees. Penalty of \$2,000 is payable for each full time employee after subtracting out the first 30 employees.

