




Four ACA Compliance Challenges Still Impacting Employers



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From its inception more than a half decade ago, the Affordable Care Act (ACA) has presented U.S. employers with one of their biggest and most complex compliance challenges ever. A recent study revealed that a significant number of organizations are still struggling with ACA compliance.

Moreover, their compliance worries are very likely to continue. Here's why...

The ACA Compliance Bar is Now Higher Than Ever

Prior to 2016, employers essentially had been preparing to understand the full impact of the ACA. For example, in 2015, only 70 percent of full-time employees had to be offered health care coverage – and transition relief for Applicable Large Employers (ALEs) with fewer than 100 full-time employees is over. Moreover, only a few of the Marketplaces (Exchanges) were in full swing sending out employer notices.

In 2016, the ACA crossed the threshold from an emphasis on rigorous preparation for full compliance to a much tougher environment, where Internal Revenue Service (IRS) compliance requirements have increased and enforcement will begin. Specifically, 95 percent of full-time employees must now be offered coverage. More Marketplace Employer Notices will be coming in the mail ... and IRS (4980H) Penalty Notices for 2015 will likely start arriving in early 2017.

How did organizations handle their ACA compliance in 2015 and what are their strategies for 2016?

Study Reveals Companies Have Lingering ACA Challenges

ADP® completed an online study of benefits decision makers after the March 31, 2016 deadline for distributing Form 1095-C to understand how organizations handled ACA requirements, viewed their first year of ACA annual reporting experience, and to identify likely challenges and opportunities they're considering in the future.

The study – *How Companies Did ACA Compliance* – revealed that more than half of organizations chose to manage ACA compliance tasks internally. But notably, even six years after the Affordable Care Act was signed into law, they were still wrestling with core ACA-related challenges. Many organizations remain concerned about how they will manage ongoing compliance as the ACA now goes full throttle.

Challenge #1

The Accuracy of Completed Forms and Annual Reporting

Study respondents said they had problems with data accuracy. As a result, preparing ACA forms turned out to be more complicated and time-consuming than most organizations anticipated. In fact, about 40 percent reported spending more time on Forms 1094-C and 1095-C than Internal Revenue Service (IRS) estimates – specifically, four hours to prepare and submit Form 1094-C and 10–12 minutes per employee to prepare and submit Form 1095-C.

“Employee benefits data not ready” was a top-cited reason for missing the original IRS filing deadline, among those who did not distribute Form 1095-C by March 31. In many instances, data suggests that due to the sheer complexity of assimilating data from multiple sources, organizations reached a point where their combined payroll, benefits and HR data simply was not ready. Other study respondents noted that their internal processes were not ready, which could suggest that non-benefits employee data was prevented from being accessed in a timely and accurate manner.

In addition, about 10 percent of employers indicated they chose not to distribute Form 1095-C to their employees, perhaps out of frustration with the whole process.

On a more positive note, employers with some form of Human Capital Management (HCM) integration had fewer data-matching issues and were more likely to meet the original deadline.

Regardless of experience, a clear takeaway is to start early by selecting a trusted partner and gathering the required data.



of employers handling ACA compliance internally **did not meet the original deadline** for distributing Form 1095-C to their employees.

Challenge #2

Affordability Measures

With *affordability* becoming more complex as new ACA-related rules and regulations roll out – for example how wellness programs and incentives can affect affordability – study respondents reported that *affordability measures* are now among their top three ACA challenges.

Employers have to take into account multiple considerations. Understanding monthly testing requirements and various nuances about how wellness programs impact affordability are just a few of the issues that have added a degree of difficulty concerning affordability.

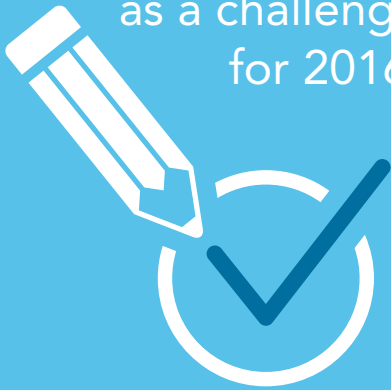
Only the accuracy of completed forms (34 percent across all segments) and annual reporting (at 33 percent) ranked as high as affordability measures on the ACA worry charts of respondents.

Nearly $\frac{1}{3}$
of organizations listed
**affordability
measures**
among their top three
ACA challenges.



Up to a $\frac{1}{4}$ of organizations view eligibility requirements

as a challenge for 2016.



Challenge #3

Determining ACA Eligibility

The government has once again set the bar even higher on ACA eligibility tracking – increasing to 95 percent from 70 percent the number of full-time employees who must be offered health care coverage.

Identifying who is eligible to be offered coverage under ACA rules is a core ingredient of attaining compliance and is replete with opportunities for errors.

Better than a third of the organizations taking part in the study indicated they may make changes in determining eligibility under ACA rules, perhaps to help improve their ability to make correct eligibility determinations to align with ACA requirements.

Clearly, ACA eligibility remains an area of concern that businesses need to keep top of mind, as they move through the calendar year. Ongoing, accurate and well-documented ACA eligibility tracking is the best prescription to avoid ACA noncompliance penalties.

Challenge #4

Responding to Marketplace Notices

The trickle of health insurance Marketplace Notices that businesses received in 2015, will likely become a much stronger flow in 2016, as Federally Facilitated Marketplaces in at least 27 states increase the release of Marketplaces Notices to employers.

A Marketplace Notice is generated and sent to the employer identified by the employee whenever an employee applies for and receives a premium tax credit or a direct subsidy to help them pay for health care coverage. This situation typically takes place when an employee states they were not offered Minimum Essential Coverage by their employer or the coverage they were offered was either not affordable or fell short of providing minimum value as defined by the ACA.

“Responding to Marketplace/Exchange Notices” was one of the primary ACA challenges on the radar screen of study respondents.

As more Health Insurance Marketplace Notices find their way into the mailboxes of employers, ADP clients are more likely – than those that use other companies – to say that they already had a process and expertise in place to document and reconcile the status and penalty impact of such notices.



Nearly
30%

of organizations
said responding
to **Marketplace
Notices** is
a significant ACA
challenge.

How Employers May Change How They are Handling ACA Compliance for 2016

The study indicates that up to a quarter of organizations are still up in the air concerning their overall compliance strategy for 2016, while more than a third of study respondents left the door open to changing the way they perform ACA tasks.

Core business factors are apparently influencing decision makers facing the requirement to balance the needs of ongoing business operations with the immovable object of ACA compliance. Among those organizations planning to make a change next year, around one-third reported that they do not have the expertise internally to successfully handle the tasks. A quarter said they simply did not have sufficient resources internally.

For organizations that would not prefer to expand their employee base in order to gain access to ACA compliance expertise, a likely option would include partnering with an entity that brings a comprehensive ACA solution to the table.

Conclusion

The study delivers several key insights:

- Employers realize that complying with the ACA is harder than expected.
- Performing compliance tasks is taking longer than expected.
- Simple mistakes can cause big problems.
- Most importantly, preparing for what's next is essential to any organization's ACA compliance plan.

Further, a significant number of organizations gave the same two reasons why they are now considering a solution that is other-than-internal to handle their ACA tasks in the coming year: 1) compliance is simply too time-consuming, and 2) their internal resources lack the necessary expertise.

One thing is for sure. Organizations that must comply with the Affordable Care Act have no choice but to turn the page to an important new ACA chapter, where the emphasis is clearly on compliance and enforcement. A solid compliance strategy, sound preparation, and being ready for the expected (and unexpected) are tools employers need to succeed. Having a trusted outsourcing partner on your team to handle your ACA tasks can also go a long way toward making sure noncompliance doesn't become a costly issue.

Methodology

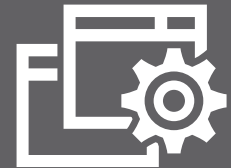
In April 2016, ADP conducted an online, quantitative study to evaluate How Companies Handled ACA Compliance. In order to qualify for the 15-minute survey, respondents needed to be Benefits Decision Makers at a company with at least 50 employees. A total of 778 interviews were completed, including readable base sizes of companies with 50-999 employees and 1,000+ employees.

Nearly **40%**
of organizations
planning to make a
change noted that



**ACA compliance was
too time-consuming.**

Top Four Reasons to Outsource ACA Compliance



1. Ensure compliance with laws and regulations
2. Alleviate the burden on internal staff
3. Leverage the expertise of an external partner
4. Minimize or avoid IRS penalties



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