The Patient Protection and Affordable Care Act (ACA) and the Health Care and Education Act of 2010 – commonly referred to as Health Care Reform – is now a definitive reality, bringing with it perhaps the most complex compliance challenge for midsized businesses in U.S. history.

Of note, many businesses may not be adequately prepared. According to a study from the ADP Research Institute, only 17% of human resources and employee benefits decision makers at midsized companies are highly confident that they understand their responsibilities under Health Care Reform.

At the same time, the escalating cost of complying with Health Care Reform is among the critical challenges confronting employers. More than 80% of decision makers at midsized businesses surveyed in the same ADP study think the cost of supplying employer-sponsored health insurance will be a barrier to their company achieving its business goals.

With several of the legislation's coverage and compliance mandates already implemented, and even more taking effect in the coming weeks and months, this paper provides essential information midsized businesses need to know now about Health Care Reform – and five key strategies to help navigate the complex change required in this coming year, and beyond.

Introduction

5 Strategies to Help Businesses Navigate Health Care Reform
Introduction

The Affordable Care Act (ACA) – commonly referred to as Health Care Reform – is now a definitive reality, bringing with it perhaps the most complex compliance challenge for businesses in U.S. history.

Of note, many businesses may not be adequately prepared. According to a study from the ADP Research Institute, only 17% of human resources and employee benefits decision makers at midsized companies and less than half at large companies (41%) are highly confident that they understand their responsibilities under Health Care Reform.¹

At the same time, the escalating cost of complying with Health Care Reform is among the critical challenges confronting employers. More than 80% of decision makers at businesses surveyed in the same ADP study think the cost of supplying employer-sponsored health insurance will be a barrier to their company achieving its business goals.²

With several of the legislation’s coverage and compliance mandates already implemented, and even more taking effect in the coming weeks and months, this paper provides essential information businesses need to know now about Health Care Reform – and five key strategies to help navigate the complex change required in this coming year, and beyond.

5 Key Strategies:

*Evaluate > Educate > Enroll > Execute > Empower*
Strategy #1: Evaluate

The starting point for navigating Health Care Reform is evaluating and understanding the legislation’s potential impact across your business. There are three main areas of concern you should fully understand:

• **Comprehend requirements and time frames:** Invest the time and resources needed to clearly comprehend the ACA’s legal requirements and time frames in order to accommodate its tax implications and avoid penalties for non-compliance. To help you begin your requirements and time frames evaluation, refer to the included timeline, which outlines key milestones and requirements for 2013 and 2014 (see page 7).

• **Determine administrative impact:** Evaluate how oversight of changes mandated by Health Care Reform may increase administrative burden. A prime example of an ACA provision with potentially large administrative impact is Shared Responsibility. Beginning in 2015, it requires tracking each employee’s full-time or part-time status every month, and maintaining that information as part of employee tax records. Under the ACA, employees who work an average of at least 30 hours of service per week or 130 hours per month are eligible for health benefits.¹

• **Calculate financial implications:** Identify all the ways in which mandated healthcare changes, reporting requirements, additional taxes, etc., will affect your cost of doing business. Financial impact is likely to come from the effect of coverage mandates on benefits plan design, as well as from ACA measures such as the nondeductible excise tax on high-cost healthcare coverage (sometimes referred to as the “Cadillac” tax) that places a 40% excise tax on insurers and self-insured plans if annual premiums exceed $10,200 for individual coverage or $27,500 for family coverage.

If you have any questions about ACA mandates and their implications, consult your legal counsel or your tax advisor. As Health Care Reform continues to evolve, you can also find online updates and explanations from the ADP Research Institute at [ADP.com/research](http://ADP.com/research).

¹Note: The information provided is for general guidance only and should not be considered legal or tax advice. Please consult your legal or tax advisor for specific guidance.
Strategy #2: Educate

Health Care Reform is a game changer. Education is absolutely critical – and now mandated – to help your employees navigate their benefits options, understand the value of their options, and evaluate new options available to them under the ACA. There are several ACA requirements designed to help educate individuals about their benefits plans:

• **Provide your employees a Summary of Benefits and Coverage (SBC):** In no more than four pages (front and back) per plan, you must provide your employees with documentation that clearly explains in a culturally and linguistically appropriate manner what benefits coverage is available. It is a best practice for employers to obtain acknowledgement of receipt of the SBC from employees.

• **Changes to Forms W-2:** Employers who issued 250 or more Forms W-2 in calendar year 2012 must include the cost of group health coverage provided to employees on Forms W-2 for the 2013 tax year. They must also confirm that their payroll system is set up to track and include this figure on Forms W-2 when printed. This requirement is informational only, as employer-provided coverage currently is not subject to income tax.

• **Notify your employees of Public Exchanges:** By October 1, 2013, you must provide current employees with notice describing the availability of Exchange coverage. Notice must be provided upon hire for employees hired after October 1. [Exchanges will be covered in more detail in Strategy #3].

In addition, providing decision support tools can make it easier and faster for employees to understand and evaluate their benefits options. These tools may also help your company lower its overall costs by reducing the time your HR and benefits departments spend on administrative tasks, such as answering inquiries or distributing information manually. Common types of tools include: Flexible Spending Account (FSA) calculators, plan comparison tools, medical cost calculators and wellness incentive models.
Strategy #3: Enroll

Health Care Reform requires that employers with at least 50 full-time employees plus full-time equivalent employees offer their full-time employees affordable, minimum value coverage or be subject to tax penalties as high as $3,000 per employee per year (for details on coverage requirements and potential penalties, see page 8). An enrollment strategy aligned with healthcare coverage stipulations can help you be in compliance, control costs, and keep employees engaged:

• **Get employees enrolled:** Implement systems and processes to provide all of your employees that are eligible with the opportunity to enroll. In tandem, establish a system to easily track, update and report on employee eligibility and enrollment to maintain ongoing compliance.

• **Enroll employees’ dependents:** Under the ACA, beginning in 2015, employers must offer coverage to qualifying dependent children of full-time employees up to age 26. In order to confirm you are only covering qualified dependents, you may also want to consider conducting a dependent eligibility audit. Eligibility audits typically show an average of 3-15% of dependents claimed by employees are not qualified for benefits. Considering that the average individual cost of health benefits is approximately $3,000 per year, rigorously tracking dependents’ eligibility can quickly lead to substantial savings.

• **Prepare for automatic enrollment:** Employers with 200+ full-time employees must automatically enroll new employees in the company’s group health plan. The effective date of this requirement is yet to be determined; however, current information provides that guidance will likely be issued sometime within 2014, with an effective date some reasonable time following. If you haven’t already, you’ll need to start thinking about solutions to address this requirement.

• **Assess your Exchange/coverage options:** Employers will generally choose from three different plan approaches for covering their employees – Employer-Sponsored Plans, Private Exchanges and the new Public Exchanges created under the ACA (see the table on this page for details).

### A QUICK SUMMARY OF EXCHANGES/COVERAGE OPTIONS

<table>
<thead>
<tr>
<th>Employer-Sponsored</th>
<th>Private Exchanges</th>
<th>Public Exchanges</th>
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<tbody>
<tr>
<td>Employer-Sponsored healthcare is generally offered with 3-to-6 different plan options, and can therefore be thought of as a “Limited Exchange.” Typically, all plans use a “Defined Benefit” design.</td>
<td>Private Exchanges are hosted by an outside provider and offer a variety of plan choices based on employer input. In this approach, employers can embrace a “Defined Contribution” strategy, where employees receive tax-free funds with which they can buy a plan of their choosing.</td>
<td>State or federal governments host Public Exchanges, which will likely vary by jurisdiction in terms of coverage, quality and participant support/experience. Starting in 2015 companies may have to pay a tax penalty (the Shared Responsibility Assessment) if employees opt for Public Exchange coverage—but this still may be a cost-effective option for some companies.</td>
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Strategy #4: Execute

There are several additional ACA mandates not previously covered in this paper that you need to execute now—
and several other initiatives you should consider executing to help manage healthcare costs and mitigate risk of non-compliance:

- **Distribute Medical Loss Ratio (MLR) rebates:** MLR rebates are sent to employers from their insurance carrier whenever health insurers do not spend at least a certain percentage (generally, 80-85%) of the prior year’s health insurance premiums on healthcare services. If you receive MLR rebate dollars, the plan must make a fiduciary decision, in accordance with guidance from the Department of Labor, as to how the MLR rebate will be used. A best practice is to communicate to your employees your intention as to how the MLR rebate will be used. For more information on MLR rebates, read this ADP Eye On Washington report.

- **Withhold Medicare taxes based on new rates:** As of January 1, 2013, the Medicare tax on high earners increases by 0.9%. This tax applies to employees earning $200,000 if filing single, $250,000 if married filing jointly, and $125,000 if married filing separately. Employers are required to withhold on wages in excess of $200,000, regardless of an employee’s filing status.

- **Limit employee Flexible Spending Accounts (FSA):** Prior to the enactment of the ACA, the IRS permitted employers to determine the maximum amount an employee could set aside tax-free in a Flexible Spending Account. For plan years beginning on or after January 1, 2013, you will need to enforce a $2,500 annual limit on all employee healthcare FSA contributions.

- **Prepare to track full-time and part-time employee status:** The ACA requires you to track each employee’s full-time or part-time status every month and keep that information as part of employee tax records beginning in 2015. This enables the IRS to determine the amount of a business’ Shared Responsibility Assessment, if any. Read this ADP Eye On Washington report for more information, and for the IRS’s safe harbor rules pertaining to this mandate.

- **Consider offering an employee wellness program:** A recent ADP Research Institute study showed that offering wellness programs is the most popular strategy large companies are implementing to help offset the expense of healthcare—without passing on additional costs to employees.

In addition to improving employee health, another reason to consider wellness programs is that the ACA increases the permitted wellness incentive from 20% of the cost of coverage to 30% for plan years beginning on or after January 1, 2014.
Strategy #5: Empower

Health Care Reform presents enormous challenges. But Health Care Reform also presents a tremendous opportunity for companies to increase visibility into their businesses, better mitigate risk, extract greater productivity from their workforce, optimize processes to more effectively manage talent from recruitment to retirement, engage their people, and create a sustainable competitive edge.

Here are two ways to empower your business to more easily and effectively navigate Health Care Reform – and help turn this new regulation to your advantage.

• **Integrate Human Capital Management:** One effective way to help manage potential issues is by integrating all areas of Human Capital Management (HCM), automating payroll, time and labor management, HR, benefits and talent management. This level of integration will not only help you to stay compliant, but it will help you better control healthcare costs. By integrating HCM across your enterprise, you can more quickly, easily and effectively:
  - Manage assigned hours to reduce exposure to additional healthcare costs and/or federal penalties
  - Accurately calculate employee eligibility for healthcare coverage to control cost and avoid penalties
  - Notify employees of eligibility as the law prescribes
  - Calculate benefit premiums as a percent of W-2 earnings
  - Enable managers, practitioners and employees easy access to information
  - Optimize staff time tied to administrative tasks and improve business processes
  - Improve workforce productivity and engagement

• **Choose a best practices partner:** As you manage the change required by Health Care Reform, you don’t have to go it alone. Partnering with a company that has proven service experience, best practices and compliance support is integral to complying, reporting and efficiently administering plans under the ACA. As you consider potential partners, consider the following selection criteria:
  - **Integrated, cloud-based system:** the ability to integrate the entire suite of Human Capital Management solutions
  - **Comprehensive offering:** the breadth and depth of services to help manage the entire employee life cycle, from recruitment to retirement
  - **Configurable and scalable:** solutions that are flexible/scalable enough to address the unique and evolving needs of businesses
  - **HR & compliance expertise:** delivers HR industry best practices and innovation to drive business outcomes
  - **Demonstrated results:** brings a proven record and reputation for customer satisfaction
The Affordable Care Act: Important Dates for 2013/Early 2014

<table>
<thead>
<tr>
<th>January 1, 2013</th>
<th>January 31, 2013</th>
<th>October 1, 2013</th>
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<tbody>
<tr>
<td><strong>Flexible Spending Account (FSA)</strong></td>
<td><strong>Forms W-2 Reporting for Tax Year 2012</strong></td>
<td><strong>Employee Notice of Exchange</strong></td>
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<td><strong>Annual Limit</strong></td>
<td><strong>Employers must include the cost of group health coverage provided to employees on Forms W-2, beginning with the 2012 tax year. Requirement does not apply to employers who issued fewer than 250 Forms W-2 in preceding calendar year.</strong></td>
<td><strong>Employers must provide current employees with notice describing availability of exchange coverage. Notice must be provided upon hire for employees hired after 10/1/2013.</strong></td>
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<td>For plan years beginning on or after January 1, 2013, a $2,500 limit applies to pretax employee contributions to a healthcare FSA.</td>
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<td><strong>Medicare Tax Increase</strong></td>
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<td>Medicare wage tax increases by 0.9%. These taxes apply to high-income earners only (i.e., those earning $200,000 if filing single, $250,000 if married filing jointly, and $125,000 if married filing separately).</td>
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<tr>
<td><strong>Retiree Prescription Drug Expenses</strong></td>
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<tr>
<td>No deductions allowed for employers that receive government subsidies for retiree prescription drug expenses</td>
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<tr>
<td><strong>Forms W-2 Reporting for Tax Year 2012</strong></td>
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<td><strong>HIPAA Certification</strong></td>
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<td>Employer group health plans must certify that the plan’s data and information systems are in compliance with HHS rules for certain electronic transactions.</td>
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<td><strong>Comparative Clinical Effectiveness Research Fees</strong></td>
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<td>Fee payments are due for self-insured group health plans and insurers and are calculated per covered life. For plan years ending on or after October 1, 2012, fee is $1 per covered life. For plan years ending on or after October 1, 2013 and before October 1, 2019, fee is $2 per covered life.</td>
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<tr>
<td><strong>December 31, 2013</strong></td>
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<tr>
<td><strong>Annual Dollar Limits and Waiting Periods/Pre-Existing Condition Exclusions</strong></td>
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<tr>
<td>For plan years beginning on or after January 1, 2014, employer group health plans may not impose annual dollar limits on essential health benefits, impose waiting periods of longer than 90 days, or impose pre-existing condition exclusions.</td>
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<tr>
<td><strong>Employer Shared Responsibility</strong></td>
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<td>Starting in 2015 employers (with 50 or more FTEs) must offer affordable, minimum value coverage or be subject to tax penalties.</td>
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<tr>
<td><strong>Individual Mandate</strong></td>
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<td>Most individual taxpayers must have minimum essential coverage or be subject to tax penalties.</td>
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<tr>
<td><strong>Wellness Incentives</strong></td>
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<tr>
<td>For plan years beginning on or after January 1, 2014, permitted wellness incentive increases from 20% of the cost of coverage to 30%.</td>
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To request a timeline that extends into 2014 and beyond, email the ADP Research Institute at adpri@adp.com
ACA Full-Time Employee Coverage Requirements

Beginning in 2015, employers with 50 or more full-time employees and/or equivalents must meet the Shared Responsibility requirements described below, or potentially be subject to a penalty:

- Offer full-time employees the opportunity to enroll in minimum essential coverage under an employer plan.

- This minimum essential coverage, among other things, must be “adequate” and “affordable.”
  - Coverage is considered “inadequate” if it covers less than 60% of the total allowed costs of benefits.
  - Coverage is considered “unaffordable” if the employee’s share of the premium for self-only coverage is more than 9.5% of the employee’s household income.

- If an employer fails to do the above, AND the employee purchases coverage through a public exchange, AND the employee is eligible for and receives a federal tax credit in order to subsidize the cost of their coverage, THEN the employer will be subject to a penalty.

The law defines full-time employees as those who work an average of at least 30 hours of service per week or 130 hours per month. The intent is to enable the Internal Revenue Service (IRS) to determine the amount of a business’ Shared Responsibility Assessment, if any, based on the law’s requirement that all full-time employees be offered health coverage.

- The assessment starts at $2,000 annually per full-time employee (not counting the first 30 employees) for companies that offer no health coverage, if one or more employee receives subsidized coverage from a state or federal health Exchange.

- For companies that offer health coverage, but it is “inadequate” or “unaffordable”, the assessment is $3,000 annually per employee actually receiving subsidized coverage from a state or federal health Exchange.
About ADP Research Institute

The ADP Research Institute, a specialized group within ADP, provides insights to leaders in both the private and public sectors concerning issues in human capital management, employment trends, and workforce strategy. Learn more at www.adp.com/research

About ADP

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Sources

1 The IRS announced recently that the penalty and reporting requirements of the Shared Responsibility provisions have been delayed until 2015. This effectively delays the requirement to offer coverage to employees who work an average of at least 30 hours of service per week.

2, 4 HR Compliance: Are Employers Ready for Health Care Reform?, ADP Research Institute, May 2012

3 ADP internal data