



U.S. Congressman Jerry F. Costello

Health Care Reform and Small Businesses

The Basics

When do employer responsibilities take effect?

January 1, 2014.

What is a full-time employee?

Any employee who works a minimum of 30 hours per week for more than 120 days per year.

What is a part-time employee?

Any employee who works less than 30 hours per week.

Do part-time employees count as “employees?”

Part-time employees count towards a “full-time equivalent” employee. To make the conversion, you divide the total number of hours per month the part-time employee worked by 120. This fraction is incorporated into the total number of full-time employees at a firm.

Example 1: an employee works 15 hours per week or 60 hours per month. The employee is the equivalent of $1/2$ a full-time employee ($60/120 = 1/2$).

Example 2: an employee works 20 hours per week or 80 hours per month. The employee is the equivalent of $2/3$ a full-time employee ($80/120 = 2/3$).

The following chart outlines how the Affordable Care Act will impact employers based on the type and number of employees at the firm.



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I employ **ONLY** full-time employees

I have fewer than 50 employees.

What am I required to provide my employees?	Nothing - if you have fewer than 50 full-time employees at your business (like 96% of all businesses) you are completely exempt from the requirements of the Affordable Care Act
What are the penalties if I do not comply?	Nothing - if you have fewer than 50 full-time employees at your business (like 96% of all businesses) you will pay no penalties
Example 1	Joe's Tax Service employs 10 tax preparers year round. Each employee works 35 hours per week. Joe chooses not to offer health insurance. Because he employs only 10 individuals, he pays no penalty for this decision.
Example 2	Steve's Plumbing employs 45 individuals year round. Each employee works between 30 and 45 hours per week. Steve opts not to offer health insurance. Because he employs only 45 individuals, he pays no penalty for this decision.



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I employ **ONLY** full-time employees

I have more than 50 full-time employees.

What am I required to provide my employees?	You are required to provide your employees comprehensive, affordable health insurance. You must also contribute to the cost of your employees' premiums.
What are the penalties if I do not comply?	<p>You may pay 1 of 2 possible fines based on your decisions about health insurance.</p> <p>Fine #1: If you do not offer your employees insurance, you will pay a fine of \$2,000 per employee, less 30 employees. I.e.: if you have 50 employees, you pay a fine on 20 employees.</p> <p>Fine #2: If you offer insurance, but one or more of your employees cannot afford it because the coverage costs more than 9.5% of their annual income or fails to cover at least 60% of their health care costs, you will pay the above fine or a fine of \$3,000 for each employee who buys other insurance through the state-based exchange, whichever is LESS</p>
Example 1	<p>Karl's Furniture Stores employ 51 full-time employees. He chooses not to provide health insurance. Because he has more than 50 full-time employees, he is required to pay a fine.</p> <p>TOTAL FINE: \$42,000 per year. (\$2,000*21 employees - that's 51 employees - 30 exempt employees)</p>
Example 2	<p>Blair's Garden Center employs 60 full-time employees. She offers health insurance to her employees, but it is so expensive that 10 employees cannot afford it. These 10 employees use a credit from the government to purchase private insurance elsewhere, and Blair has to pay a fine for those employees.</p> <p>TOTAL FINE: \$30,000 per year (\$3,000*10 employees, which is less that the alternate fee of \$60,000 or \$2,000 for 30 employees)</p>



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I employ BOTH full-time and part-time employees

If you have both part and full-time employees, your responsibilities and penalties will depend on the total number of full-time equivalent employees. While you are not required to provide coverage to any part-time employees, they do count to your total number of employees. To find this number, follow this formula:

Step 1: List your total number of full-time employees (those working more than 30 hours per week):

_____ Full-time employees.

Step 2: For each employee, take the total number of hours he/she works in one month and divide it by 120.

_____/120 =

Add up all these numbers for your total FTE employees.

Step 3: Add your two totals.

Number from Step 1: _____

+

Number from Step 2: _____

= _____ Your total number of employees.

Example 1: You have 60 employees total. Of these 60, 20 work full time and 40 work part-time at 20 hours per week or 80 hours per month.

Step 1: List your total number of full-time employees (those working more than 30 hours per week):

20 Full-time employees

Step 2: Calculate how many full-time equivalent (FTE) employees each of your part-time employees represents.



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Each part-time employee works the same number of hours per month, so the formula is easy:

$$\underline{80} / 120 = 2/3$$

So each part-time employee counts as 2/3 of a full-time employee. That means your 40 part-time employees count as 26.7 FTE employees ($2/3 \times 40 = 26.7$).

Step 3: Add them all together:

Number from Step 1: 20

+

Number from Step 2: 26.7

= 46.7 Your total number of employees.

Result: You do not have to provide health insurance to your employees.

Example 2: You have 100 employees. Of these 100 employees, 10 work full time and 90 work part-time, with 50 working 20 hours per week and 40 working 15 hours per week.

Step 1: 10 Full-time employees

Step 2: Your employees break into two groups based on the number of hours they work.

For 50 of your employees: 80 / 120 = $2/3 * 50 = 33$

For 40 of your employees: 60 / 120 = $1/2 * 40 = 20$

Total FTE Employees: = 53

Step 3:

Number from Step 1: 10

+

Number from Step 2: 53

= 63 Your total number of employees.

Result: You have to provide health insurance to your full-time employees only.



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I employ BOTH full-time and part-time employees

After calculating, I have fewer than 50 total employees.

What am I required to provide my employees?	Nothing - if you have fewer than 50 full-time employees at your business (like 96% of all businesses) you are completely exempt from the requirements of the Affordable Care Act
What are the penalties if I do not comply?	Nothing - if you have fewer than 50 full-time employees at your business (like 96% of all businesses) you will pay no penalties
Example 1	Alex's Café employs 51 people. 5 managers work full-time and 46 servers work 20 each week. Based on the formula, he has 35 total employees. He decides not to offer insurance. Because he employs the equivalent of 35 people, he pays no penalty for this decision.
Example 2	Louis' Cleaning Services employees 48 people. 10 employees work full-time and 38 employees work 10 hours per week. Based on the formula, he has 23 total employees. Louis decides to offer a high-cost insurance plan. His 10 full-time employees take the insurance and his 38 part-time employees buy insurance elsewhere. Because he has fewer than 50 employees and he is not required to provide insurance for his part-time employees, Louis pays no penalties.



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I employ BOTH full-time and part-time employees

After calculating, I have more than 50 total employees.

What am I required to provide my employees?	You are required to provide your employees comprehensive, affordable health insurance only to your full-time employees. You are <u>not required to provide insurance to your part-time employees.</u>
What are the penalties if I do not comply?	<p>You pay no penalties for any of your part-time employees. For your full-time employees, you may pay 1 of 2 possible fees based on your decisions about health insurance.</p> <p>Fine #1: If you do not offer your employees insurance, you will pay a fine of \$2,000 per employee, less 30 employees. I.e.: if you have 50 employees, you pay a fine on 20 employees.</p> <p>Fine #2: If you offer insurance, but one or more of your employees cannot afford it because the coverage costs more than 9.5% of their annual income or fails to cover at least 60% of their health care costs, you will pay the above fine or a fine of \$3,000 for each employee who buys other insurance through the state-based exchange, whichever is LESS.</p>
Example 1	<p>Katie's Construction Company employs 100 individuals. 20 of them work full-time and 80 work 20 hours each week, which gives her 60 total employees. Katie chooses not to provide insurance and should pay a fine.</p> <p>TOTAL FINE: \$0. Katie should face a fine for not offering her 20 full-time employees insurance. However, 30 employees are automatically exempt from this fine. Because Katie has fewer than 30 full-time employees, she faces no penalty.</p>
Example 2	<p>Sylvia employs 62 workers at her garden center. 40 employees are full-time and 22 work 15 hours per week, which gives her 51 employees. Sylvia offers a very expensive insurance plan. All 22 of her part-time employees and 5 of her full-time employees purchase insurance elsewhere.</p> <p>TOTAL FINE: \$15,000 (\$3,000*5 employees, which is less than the alternate fee of \$20,000, or \$2,000 for 10 employees). Note: Sylvia pays no fines for her part-time employees.</p>



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I employ ONLY part-time employees

You are not required to provide insurance to part-time employees, nor will you pay any penalties for not providing them coverage.

However, you should still calculate your total number of employees using the formula. If you have more than 50 total employees based on that calculation, you will be required to comply with the law if even one of your employees works more than 30 hours per week.

Additional Questions about the Affordable Care Act

If I have more than 50 full-time employees and have to pay a penalty for not providing insurance, can I deduct it from my taxes?

No. If you have more than 50 full-time employees and have to pay either penalty, you cannot deduct it from your taxes. You can always deduct the cost of your employee's premiums from your taxes if you do provide insurance.

Beyond these requirements and responsibilities, what are the benefits of the bill for small businesses?

At the end of this document you will find several detailed explanations of the benefits of the Affordable Care Act. Some highlights:

- \$40 billion in tax credits for small businesses that provide health insurance including:
 - Tax credit to cover 35% of the cost of providing insurance to your employees for 2010-2013
 - Tax credit to cover 50% of the cost of providing insurance to your employees for 2014 and beyond
- Ability to pool buying power with other small businesses to shop for insurance like a larger firm
- Exchanges to offer low-cost insurance to self-employed individuals
- Exemption for income actively earned running your own business from any changes to Medicare taxes (for example, shares in an S corporation)



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- Grants to provide health and wellness programs similar to large companies that lower overall health insurance costs for all employees

What about premiums? I have heard they are rising because of the Affordable Care Act?

Premiums increased between 2010 and 2011 as they have every year for the past two decades because health care costs are continuing to rise. Studies by the U.S. Department of Health and Human Services, non-profits, and the insurance industry itself indicate that the changes already enacted by health care reform have only impacted premiums by between 1% and 2.5%, and by 2019 employer sponsored plans will cost 9.2% less than they would without the law.

As the attached letter from Secretary Sebelius points out, these increase are moderated by the reduction in out-of-pocket expenses that take effect in 2011. Further, starting this year, under the new law states will have expanded authority to monitor and investigate rapid premium increases in employer sponsored health insurance plans.

The law also requires insurance companies to demonstrate that at least 80% of their premium costs go to covering health care and no more than 20% goes to administrative cost. This so-called “medical loss ratio” will ensure insurers do not merely increase their premium costs to pad their profits from year to year.

Why did 30 large companies, including McDonalds, receive a waiver for not complying with the Affordable Care Act?

In August, the U.S. Department of Health and Human Services (HHS) provided an exemption to 30 large and small companies, including McDonalds, from two requirements of the health care law as they apply to their limited benefits plans: 1) an end to annual limits on coverage and 2) a phase-out of lifetime limits on coverage. These exemptions are in place only until 2014. At that time, these companies, like every other employer with more than 50 employees, will have to provide comprehensive coverage to all employees or pay penalties as described above.



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HHS decided to temporarily exempt these employers for two reasons:

1. These limited benefits plans are offered to part-time, low-wage workers and provide low-cost coverage for basic medical care. Requiring the employers to remove these limits now, when no other affordable options are available, would have canceled coverage for approximately 1 million workers. The goal of the law, to provide affordable insurance coverage to every individual, would not have been met by these employees losing their coverage.
2. The exemption is only temporary and applies only to these two provisions. Starting in 2014, these part-time employees will be able to enroll in private health insurance through the state-based insurance exchanges. If they earn less than \$88,000 a year they will receive a credit to lower the cost of their premiums and out-of-pocket expenses. The insurance plan they buy on the exchange will be comprehensive with no limits.

It is unclear to date if additional employers may apply for an exemption.

	ONLY FULL-TIME EMPLOYEES		COMBINATION FULL-TIME/PART-TIME EMPLOYEES		ONLY PART-TIME EMPLOYEES	
	Fewer than 50	50 or More	Fewer than 50	50 or More	Fewer than 50	50 or More
What am I required to provide my employees?	Nothing - if you have fewer than 50 full-time employees at your business (like 96% of all businesses) you are completely exempt from the requirements of the Affordable Care Act	You are required to provide your employees comprehensive, affordable health insurance. You must also contribute to the cost of your employees' premiums.	Nothing - if you have fewer than 50 full-time employees at your business (like 96% of all businesses) you are completely exempt from the requirements of the Affordable Care Act	You are required to provide your employees comprehensive, affordable health insurance <u>only to your full-time employees. You are not required to provide insurance to your part-time employees.</u>	Nothing - you are not required to provide insurance to part-time employees.	
What are the penalties if I do not comply?	Nothing - if you have fewer than 50 full-time employees at your business (like 96% of all businesses) you will pay no penalties	You may pay 1 of 2 possible fines based on your decisions regarding health insurance. Fine #1: If you do not offer your employees insurance, you will pay a fine of \$2,000 per employee, less 30 employees. I.e.: if you have 50 employees, you pay a fine on 20 employees. Fine #2: If you offer insurance, but one or more of your employees cannot afford it because the coverage costs more than 9.5% of their annual income or fails to cover at least 60% of their health care costs, you will pay the above fine or a fine of \$3,000 for each employee who buys other insurance through the state-based exchange, whichever is LESS	Nothing - if you have fewer than 50 full-time employees at your business (like 96% of all businesses) you will pay no penalties	You pay no penalties for any of your part-time employees. For your full-time employees, you may pay 1 of 2 possible fines based on your decisions regarding health insurance. Fine #1: If you do not offer your employees insurance, you will pay a fine of \$2,000 per employee, less 30 employees. I.e.: if you have 50 employees, you pay a fine on 20 employees. Fine #2: If you offer insurance, but one or more of your employees cannot afford it because the coverage costs more than 9.5% of their annual income or fails to cover at least 60% of their health care costs, you will pay the above fine or a fine of \$3,000 for each employee who buys other insurance through the state-based exchange, whichever is LESS.	Nothing - you pay no penalties for not providing insurance to your part-time employees.	
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Example 2	Steve's Plumbing employs 45 full-time individuals year round. Steve offers all his employees health insurance and is able to purchase low-cost plans by pooling with other small businesses in his area.	Blair's Garden Center employs 60 full-time employees. She offers health insurance to her employees, but it is so expensive that 10 employees cannot afford it. These 10 employees use a credit from the government to purchase private insurance elsewhere, and Blair has to pay a fine for those employees. TOTAL FINE: \$30,000 (\$3,000*10 employees, which is less than the alternate fee of \$60,000 or \$2,000 for 30 employees)	Louis' Cleaning Services employees 48 people. 10 employees work full-time and 38 employees work 10 hours per week. Based on the formula, he has 23 total employees. Louis decides to offer a high-cost insurance plan that 10 full-time employees buy and 38 part-time employees do not buy. Because he has fewer than 50 employees and is not required to provide insurance for part-time employees, Louis pays no penalties.	Sylvia employs 62 workers at her garden center. 40 employees are full-time and 22 work 15 hours per week, which gives her 51 employees. Sylvia offers a very expensive insurance plan. All 22 of her part-time employees and 5 of her full-time employees purchase insurance elsewhere. TOTAL FINE: \$15,000 (\$3,000*5 employees, which is less than the alternate fee of \$20,000, or \$2,000 for 10 employees). Note: Sylvia pays no fines for her part-time employees.		