# How Offers of Employer Coverage Affect Eligibility for Premium Tax Credits

Center on Budget and
Policy Priorities

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# Topics

- How an offer of coverage affects premium tax credit eligibility
- How affordability and adequacy of employer-sponsored insurance are measured for employees and families
- The effects of the Treasury notice delaying implementation of certain aspects of employer responsibility
- The employer responsibility penalty and how it is calculated

# Premium Tax Credit Eligibility & Employer Coverage

# Who Is Eligible for Premium Tax Credits?

- Individuals and families with income between 100% to 400% FPL
  - Must be US citizens or lawfully present in the US
  - Must not be eligible for other “minimum essential coverage”
- Lawfully residing immigrants with incomes below 100% FPL who are not eligible for Medicaid because of their immigration status

# Premium Tax Credits & Employer Coverage

- An individual is <u>not eligible</u> for premium tax credits if he is eligible for other minimum essential coverage (MEC)
  - Most employer-sponsored coverage is MEC
  - An <u>offer</u> of coverage – even if it's not taken – can make someone ineligible for premium tax credits
  - **Exception:** an individual may be eligible for premium tax credits if the employer plan is unaffordable or inadequate and if the employee does not enroll in it

# Small & Large Employers: Insurance Market Definitions

**Small Employer**

Average of at least **1 but not more than 100 employees** during calendar year

In 2014 and 2015, at state option **no more than 50**

**Large Employer**

Average of at least **101 employees** during calendar year

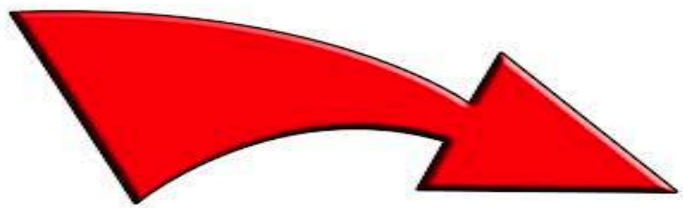
In 2014 and 2015, at state option **51**

# Requirements for Employer-Sponsored MEC

| Small-Group Market | Large-Group Market & Self-Insured |
|---|---|
| Benefits:<br>✓ Essential health benefits<br><br>Enrollee Cost Protections:<br>✓ No annual or lifetime limits<br>✓ Out-of-pocket limits<br>✓ Limits on deductibles | Benefits:<br>✓ Preventive services<br><br>Enrollee Cost Protections:<br>✓ No annual or lifetime limits<br>✓ Out-of-pocket limits |

# Jumping the "Firewall" Between Employer Coverage and Premium Tax Credits

*If unaffordable or inadequate*



**Offer of Employer Coverage**


**Premium Tax Credits**

# Jumping the Firewall: When is Employer Coverage Affordable?

- Coverage is considered affordable if employee contribution for *self-only* coverage is less than 9.5% of household income
- Employee contribution for self-only coverage is used to determine affordability for both employee and dependents

# Affordability of Employee-Only Coverage

## Example 1:

Income: **$40,000**
John's share of the premium: **$200/month**

Is the plan affordable?
Cost: **$2,400**
Share of income: **6%**

The plan **is affordable.** John cannot qualify for premium tax credits.

## John

## Example 2:

Income: **$25,000**
John's share of the premium: **$200/month**

Is the plan affordable?
Cost: **$2,400**
Share of income: **10.4%**

The plan is **not affordable.** John may qualify for premium tax credits.

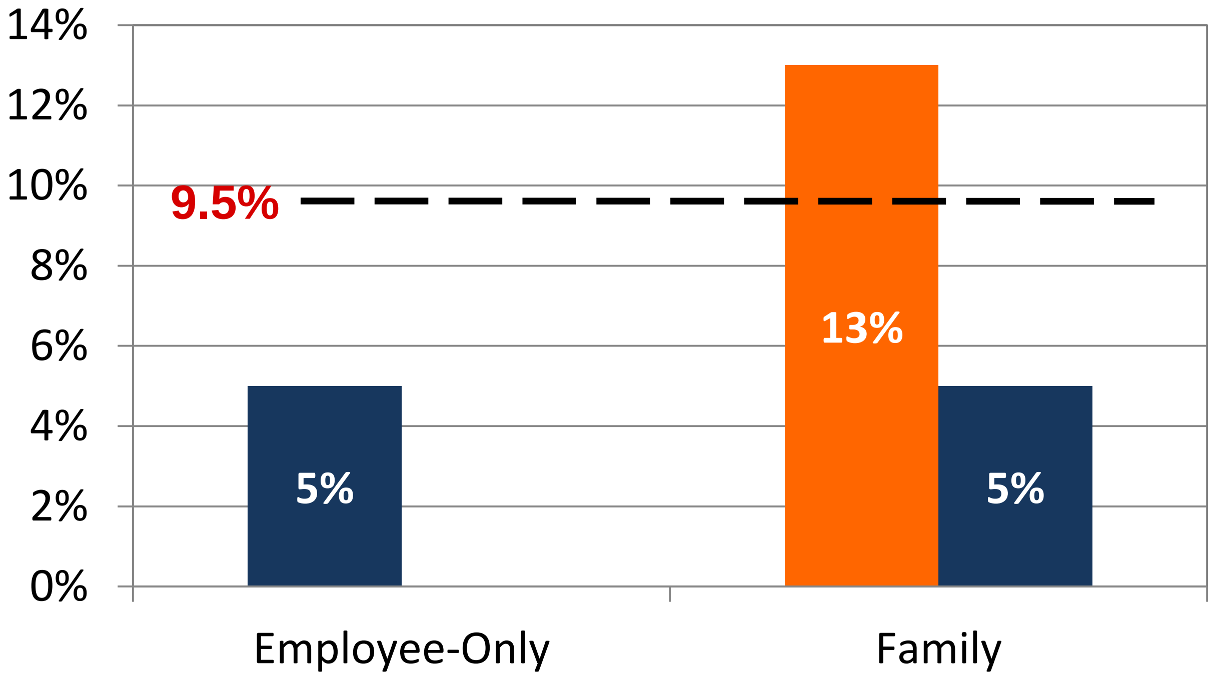
# Affordability of Family Coverage (Reyes Family)

Mom works at Acme. She earns $35,000. Dad is an entrepreneur and earns about $12,000.

**Family Income:** $47,000

**Premium Cost to Employee for Employee-Only Plan:** $196/mo ($2,350/yr) *5% of income*

**Premium Cost to Employee for Family Plan:** $509/mo ($6,110/yr) *13% of income*




**Bottom Line:**

No one is eligible for premium tax credits because family coverage is considered affordable.

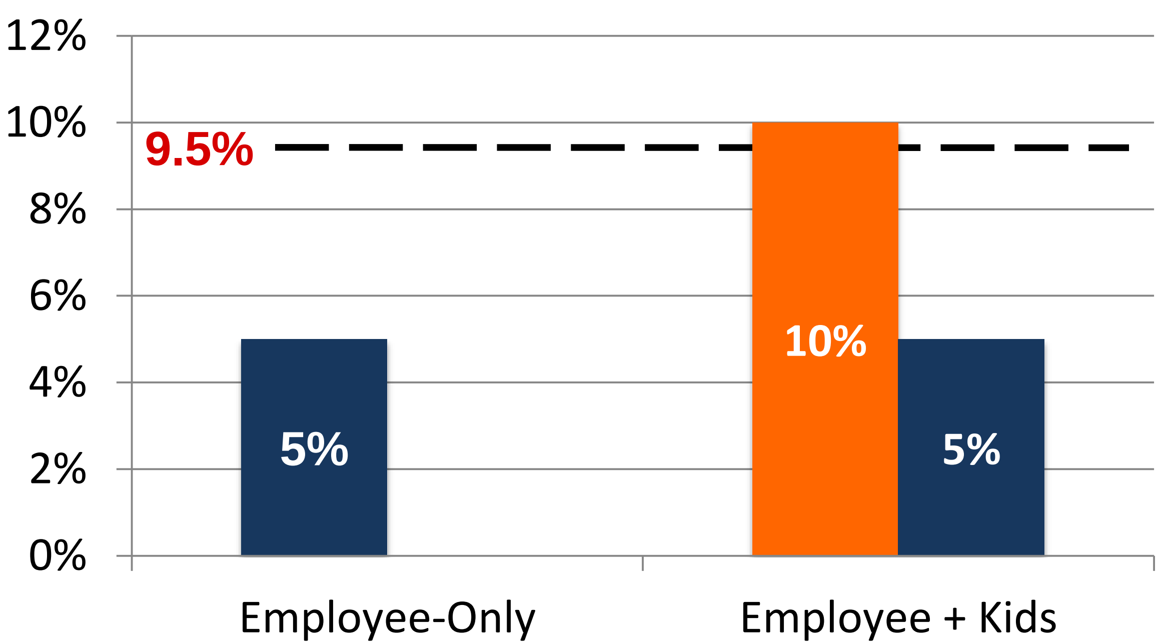
# Affordability of Coverage (Reyes Family)

**Family Income:** $47,000

**Premium Cost to Employee for Employee-Only Plan:**
$196/mo ($2,350/yr) *5% of income*

**Premium Cost to Employee for Employee + Kids Plan:**
$392/mo ($4,700/yr) *10% of income*

Family coverage is not offered.




**Mom and Kids**

- Employee + kids plan is considered **affordable** because employee-only plan is affordable.
- Mom and kids are **not eligible** for premium tax credits.

**Dad**

- Dad has **no offer** of coverage.
- He may be **eligible** for premium tax credits.

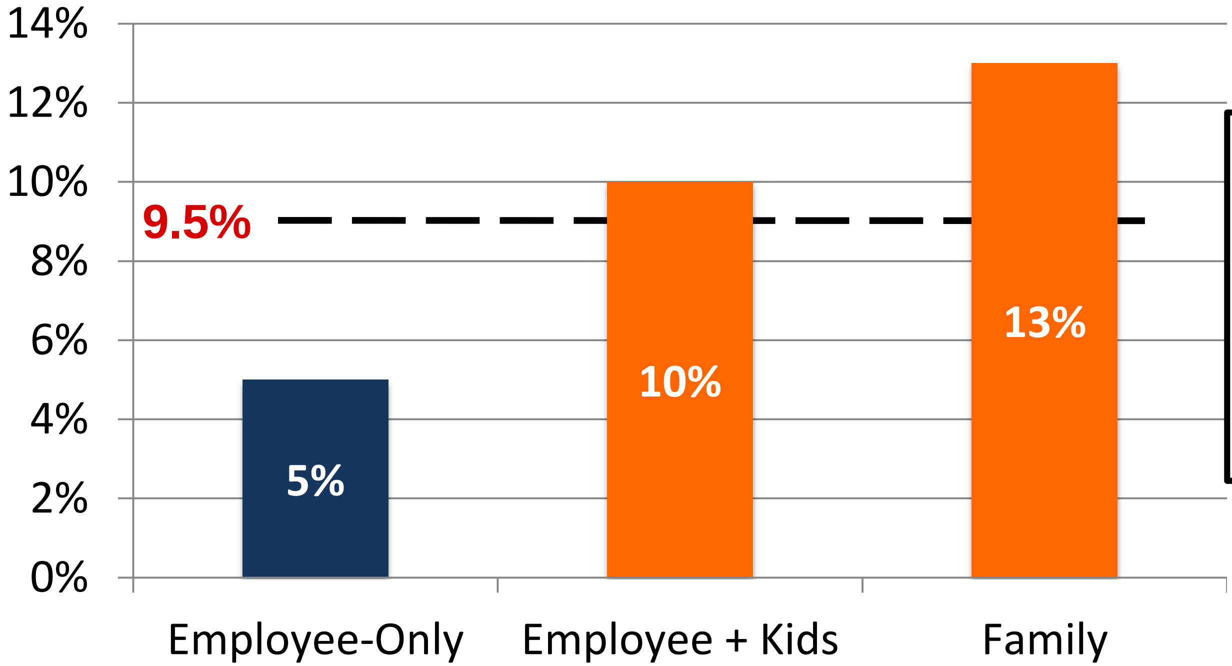
# Affordability of Coverage (Reyes Family)

**Family Income:** $47,000

**Employee-Only Plan:** $196/mo ($2,350/yr) *5% of income*

**Employee + Kids Plan:** $392/mo ($4,700/yr) *10% of income*

**Family Plan:** $509/mo ($6,110/yr) *13% of income*




*Any of these plans would be considered affordable because the cost of self-only coverage is <9.5% of income.*

# Jumping the Firewall: When is Coverage Adequate?

- Coverage is adequate if it has a minimum value (MV) of 60%
  - This generally means that the plan pays at least 60% of spending for coverage of essential health benefits for a typical population, after accounting for cost-sharing charges required under the plan

# Jumping the Firewall: When is Coverage Adequate?

- In 2014, small group coverage will generally meet MV
- Large employers may or may not meet this standard
  - Often self-insured
  - Coverage isn't required to fit into metal tiers

# Is the Offer Affordable and Minimum Value?

**Income:** $47,000

| Plan A: Employee-Only | Plan A: Family | Plan B: Family |
|---|---|---|
| Cost: $196/mo | Cost: $509/mo | Cost: $235/mo |
| *5% of income* | *13% of income* | *6% of income* |
| MV: 65% | MV: 65% | MV: 30% |

**Is employee-only plan affordable?**
Yes, cost <9.5%

**Is employee-only plan adequate?**
Yes, MV >60%

Plan A is affordable and meets MV for the employee; therefore, no one in the family is eligible for subsidized Marketplace coverage.

If the family can't afford Plan A, Plan B is less costly but covers much less care.

# Coverage Choices for Young Adults

John is **24 years old.** He holds two part-time jobs. One of the jobs offers coverage. **Income:** $17,000

**Part-Time Job**
Cost: $85/month
*6% of income*
MV: 40%

John could accept this offer. BUT because the plan has MV under 60%, the offer doesn't preclude premium tax credit eligibility.

**Marketplace**
~150% FPL
Cost: $57/month after premium tax credit
AV: 94% after cost-sharing reduction

John can apply for premium tax credits & cost-sharing reductions

**Dad's Plan**
Cost: $0 to John (Dad pays for family coverage)

John can join his Dad's family plan because he is under age 26. Offer does not make him ineligible for a premium tax credit.

# How Will an Employee Know if his Offer is Affordable or Adequate?

- Application has an appendix to be completed by the applicant (with help from his employer) to indicate value and cost of the plan

Tell us about the **health plan** offered by this employer.

14. Does the employer offer a health plan that meets the minimum value standard*? ☐ Yes ☐ No

15. For the lowest-cost plan that meets the minimum value standard* offered **only to the employee** (don't include family plans): If the employer has wellness programs, provide the premium that the employee would pay if he/ she received the maximum discount for any tobacco cessation programs, and did not receive any other discounts based on wellness programs.

    a. How much would the employee have to pay in premiums for this plan? **$** ____________

    b. How often? ☐ Weekly ☐ Every 2 weeks ☐ Twice a month ☐ Once a month ☐ Quarterly ☐ Yearly

# Verification of Employer Offer

- Final rules issued 7/5
- In most cases marketplaces will rely on information presented in the application
  - Federally facilitated marketplace (FFM) will check a sample of cases by contacting employers
  - State marketplaces can rely on information provided in the application until 2015

# Employer Responsibility

# New Treasury Guidance

- **Delays until 2015**
  - The requirement that employers report whether health coverage has been offered to their full-time employees
  - The shared responsibility penalty
- **Does not delay**
  - The ability of individuals to receive premium tax credits

# Employer Responsibility

- Large employers that do not offer coverage to full-time workers (and their dependents) pay a penalty if their workers get premium tax credits.
  - Who is a large employer?
  - Who is a full-time worker?
  - What is an offer of coverage?
  - Who is a dependent?
  - What is the penalty and which employers pay it?

# Small and Large Employer Definitions Differ

## Insurance Reforms

**Large Employer**

Average of at least **101 employees** during calendar year. In 2014 and 2015, at state option **51**.

**Small Employer**

Average of at least **1 but not more than 100** during calendar year. In 2014 and 2015, at state option **no more than 50**.

## Employer Responsibility

**Large Employer**

Average of at least **50 full-time equivalent** employees during preceding calendar year. Special rule for seasonal employees.

**Small Employer**

Less than 50-full time equivalent employees during preceding calendar year

# Defining Types of Workers

- **Full-time** = 30 hours per week
- **Part-time** = less than 30 hours per week
- **Full-time equivalent (FTE)** = combined hours of part-time workers that add up to the equivalent of a full-time worker
  - <u>Example</u>: Restaurant with 35 part-time employees who each work 96 hrs/mo.
    - FTE = 35 * 96 = 3360 / 120 = 28
    - 35 part-time employees are the equivalent of 28 full-time workers in a calendar month

# Defining Large Employers

- **Large employers** have an average of at least 50 *full-time equivalent* (FTE) employees during the preceding calendar year
  - Part-time employees: Included in FTE calculation
  - Seasonal workers: Included in FTE calculation
    - Exception: An employer is <u>not</u> large if FTEs exceed 50 for 120 days or less due to employment of seasonal workers

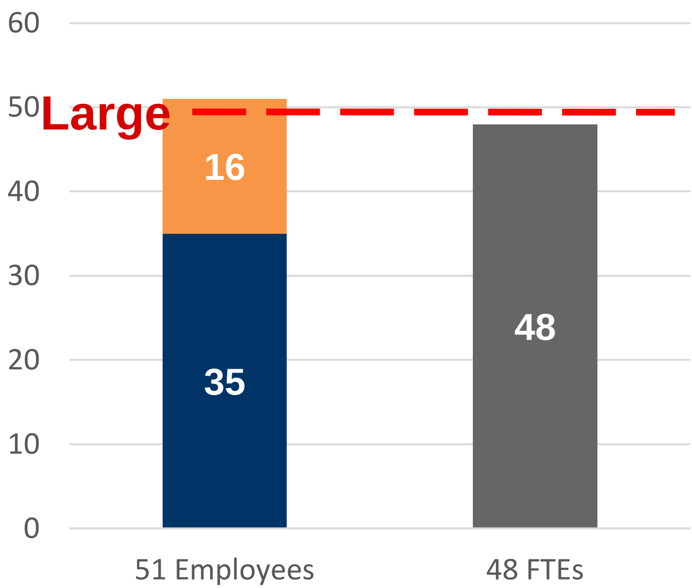
# Example: Calculation of FTEs


Inez owns a floral & garden center

**Full-time:** 35 full-time employees

**Part-time:** 16 part-time employees, each working 100 hrs/mo.

**Is Inez a large employer?** Calculate her FTEs.




**Calculate PT hrs.**

(16 PT employees x 100 hrs/mo) / 120 hrs = 13.33 = 13 (round down)

**Add FT and PT.**

35 FT + 13 PT = 48 FTEs

Inez is not a large employer.

# Employer Penalties

| No Offer ("A" Penalty) | Unaffordable or Inadequate Offer ("B" Penalty) |
|---|---|
| $2,000 per full-time employee (minus the first 30) if any full-time employee receives a premium tax credit | $3,000 per full-time employee who receives a premium tax credit |

# What are the Requirements of an Employer's Offer of Coverage?

To determine whether or not an employer will incur the "A" penalty:

- An offer is:
  - An opportunity to enroll in a plan that is minimum essential coverage (MEC)
  - In the employer market, MEC can be <u>any</u> small- or large-group insured plan or <u>any</u> self-insured plans
- An "offer" is <u>not</u>:
  - Required to be affordable or minimum value

# What are the Requirements of an Employer's Offer of Coverage?

- An "offer" must be extended to full-time employees (and their dependents)
  - Full-time defined as average of at least 30 hours a week
  - Special rules for variable hour and seasonal employees
- "Dependent" includes children to age 26
- "Dependent" does not include spouse

# Large Employer with Offer

John works for Acme, a large employer.

Income**:** $35,000

**Employee Plan:**
Premium cost to John: $200/month
MV: 65%

**Is coverage affordable?**
Yes, $2,400 / $35,000 = 6.9% of income (<9.5%)
**Is coverage adequate?**
Yes, MV of >60%

**John:**
Not eligible for premium tax credits

**Acme:**
**No "A" penalty** because it's an offer.
**No "B" penalty** for John because he doesn't go into the Marketplace

# Large Employer with Offer of Less Than MV

Income**:** $35,000

**Employee Plan:**
Cost: $100/mo
MV: 45%

**Is coverage affordable?**
Yes, $1,200 / $35,000 = 3.4% of income (<9.5%)
**Is coverage adequate?**
No, <60%

**John:**
Eligible for premium tax credits if he chooses to buy insurance in the Marketplace **OR** he could accept the offer

**Acme:**
**No "A" penalty** because it's an offer.
**"B" penalty of $3,000** for John applies **only if** John chooses premium tax credits.

# Wellness Programs Affect Affordability and Minimum Value Determinations

- Wellness programs reward or penalize people for meeting certain health goals
- Non-tobacco wellness rewards/penalties
  - Up to 30% of total premium cost
  - Measure affordability and MV as if the reward has not been earned (highest premium and cost-sharing)
- Tobacco-related wellness rewards/penalties
  - Up to 50% of total premium cost
  - Measure affordability and MV as if the reward has been earned (lowest premium and cost-sharing)

# Example: Wellness Rewards

**Income:** $30,000

Acme is considering two wellness programs. If an employee fails to meet the goal, Acme will apply the largest premium surcharge allowable by law.

(1) BMI < 26 (2) Tobacco cessation

| | Failure to achieve BMI < 26 | Failure to end tobacco use |
|---|---|---|
| **Total Premium** | $6,000/yr | $6,000/yr |
| ***Employee Share*** | $2,400/yr cost to employee | $2,400/yr cost to employee |
| **Penalty (max)** | **30% surcharge**<br>30% of $6,000 = $1,800 | **50% surcharge**<br>50% of $6,000 = $3,000 |
| **Maximum employee premium** | $2,400 + $1,800 = $4,200<br>*14% of income* | $2,400 + $3,000 = $5,400<br>*18% of income* |
| **Premium for determining plan affordability** | **$4,200 (premium including non-tobacco wellness surcharge)**<br>*14% of income* | **$2,400 (premium assuming tobacco-related wellness rewards are met)**<br>*8% of income* |
| | **Unaffordable.** $4,200 > 9.5% of income. | **Affordable.** $2,400 < 9.5% of income (though *actual* employee premium is 18% of income) |

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