



In This Issue
[ACA-A Deliberate
Plan or Unintended
Consequence?](#)

Quick Links

www.firstbenefits.net

[Employer Penalty
Flowchart](#)

[Federal Poverty
Guidelines](#)

[More About Us](#)

Authored by



Gary Hickerson

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Famous Quotes

**You do not
examine
legislation in the
light of the
benefits it will
convey if properly
administered, but
in the light of the
wrongs it would
do and the harms
it would cause if
improperly**

The Changing World of Healthcare

Dear Terry,

At First Benefits Group, Inc. we make it our responsibility to educate and inform our clients on important financial and insurance-related issues.

We hope you find the following article on the Affordable Care Act of interest. As always, if you would like further clarification about whether, and how, this may affect you and/or your business, please feel free to contact us.

A Deliberate Plan or Unintended Consequence?

The Affordable Care Act (ACA), a.k.a. Obamacare, will encourage many employers to discontinue employer sponsored health insurance coverage. This will likely help low income families. However, upper income employees may be disadvantaged.

Starting in 2014, businesses employing 50 or more full time equivalent employees must provide affordable health insurance coverage to employees and their dependent children under age 26.

- Failure to provide coverage that meets ACA benefit standards will result in an annual penalty equal to \$2,000 times the number of full time equivalent employees minus 30. However, as the following table illustrates, the cost of providing health benefits likely

administered.

Lyndon B.
Johnson

exceeds the ACA penalty.

2012 EMPLOYER SPONSORED HEALTH BENEFIT ANNUAL COST

<u>Contribution</u>	<u>Single Coverage</u>	<u>Family Coverage</u>	<u>Single % of Total</u>	<u>Family % of Total</u>
Employee	\$951	\$4,316	16.90%	27.40%
Employer	\$4,664	\$11,429	83.10%	72.60%
Total	\$5,615	\$15,745	100.00%	100.00%

Source: 2012 Annual Employer Health Benefit Survey,
Kaiser Family Foundation and Health Research & Education
Trust.

- The penalty for failure to provide affordable coverage is \$3,000 for each full time employee who obtains coverage from the insurance exchange and receives a premium tax credit (subsidy), up to a maximum of \$2,000 times the number of full-time employees minus 30.
- These penalties are not tax deductible and will be increased annually by the insurance premium growth rate.
- According to regulations issued by the IRS, an employer-sponsored plan is affordable for an employee and related individuals if the portion of the annual premium the employee must pay for self-only coverage does not exceed 9.5% of the employee's W-2 wages from the employer.
- When qualified affordable single coverage is available from one's employer, neither employee nor his or her dependents are eligible for subsidized insurance coverage offered by an insurance exchange.

Many employers do not subsidize family coverage cost. When employers do subsidize family coverage cost, the remaining employee cost is often not affordable. This will not change when the ACA is fully implemented.

When affordable employer sponsored health benefit coverage is not available, employees and their dependents may obtain subsidized health benefit coverage from the state or federally operated insurance exchange that will be established in each state. Open enrollment is scheduled to begin in October 2013. The first coverage effective date will be January 1, 2014.

Insurance premium subsidies will be based upon individual or family poverty guidelines determined using modified adjusted gross income (MAGI) and dependent information reported by the Internal Revenue Service. Individuals and families whose

MAGI is less than 400% of the federal poverty guidelines will be able to obtain health insurance coverage from the insurance exchange and pay a premium rate that does not exceed 9.5% of their MAGI.

The following table shows how much people at various income levels will be expected to pay for health insurance available through the health insurance exchange. In addition to lower premium payments, coverage will be available with relatively low out of pocket expense limits.

MAGI Percent of Federal Poverty Guidelines	Maximum Annual Premium Payment % of MAGI
Up to 133% FPG	2% of MAGI
133% up to 150% FPG	3% - 4% of MAGI
150% up to 200% FPG	4% - 6.3% of MAGI
200% up to 250% FPG	6.3% - 8.05% of MAGI
250% up to 300% FPG	8.05% - 9.5% of MAGI
300% up to 400% FPG	9.5% of MAGI

For example, assume the Smith family of 4 does not have access to affordable employer sponsored health insurance coverage. Their annual modified adjusted gross income (MAGI) is \$58,000 which is 250% of the federal poverty Guidelines (FPG). According to the table above, when the Smiths enroll in a qualified health plan offered by the insurance exchange, their monthly premium rate will not exceed $\$58,000 \times 8.05\% / 12 = \389.08 .

On the other hand, if Mr. or Mrs. Smith is offered health insurance coverage at work that meets ACA standards, and if the cost of employee only coverage does not exceed 9.5% of W-2 wages, Smith family members will be ineligible for subsidized coverage offered by the insurance exchange. Even if employer sponsored family coverage is not subsidized and costs \$1,500 per month the Smith's will be ineligible for subsidized insurance exchange coverage.

Today many employers offer health benefits because employees and dependents cannot obtain individual coverage due to cost and or underwriting requirements. In 2014 individual coverage will be available without regard to medical history or occupation. Employers that discontinue coverage, other than the Charter Plan, will likely save money and create an opportunity for families with dependents to obtain affordable family coverage. On the other hand, single employees and employees whose MAGI exceeds 400% of the federal poverty guidelines may be disadvantaged.

Finally, some costly mandates are not applicable to self insured employers and in 2014 wellness incentives and disincentives will be further increased. Employers that have used health benefits to attract and retain employees may use self insurance and wellness to enhance their benefit program, reduce costs, improve employee productivity and create a more desirable workplace.

For an evaluation of your options and opportunities please call First Benefits Group.

Sincerely,

Gary Hickerson
First Benefits Group
306 N. Rhodes Avenue
Suite 111
Sarasota, FL 34237
941-361-3057

www.firstbenefits.net



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First Benefits Group, Inc. | 306 N. Rhodes Avenue #111 | Sarasota | FL | 34237