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# How Health Care Reform Will Affect You and Your Business

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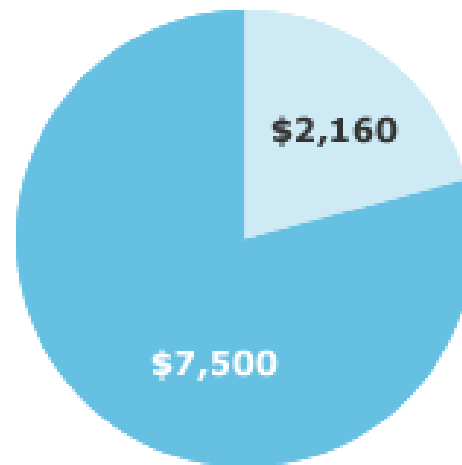
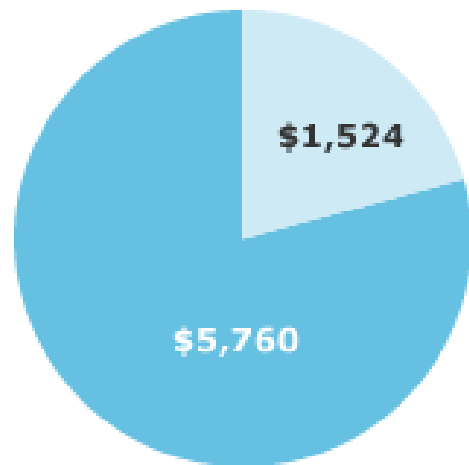
# What Does Healthcare Cost?

## EXHIBIT 1

Total employee/employer health care costs: 2004 vs. 2009  
(All plan types)

2004 Total Cost = \$7,284

2009 Total Cost = \$9,660



■ Employee  
■ Employer

Source: Towers Perrin 2009 Health Care Cost Survey.

# Healthcare Reform – 3 Key Parts

1. Individual Mandate
2. Employer Pay or Play
3. SHOP (Small Business Health Options Programs) Exchanges

# Individual Mandate

- Minimum Essential Coverage
- Federal Subsidies
- Penalty
- Exceptions

# Employer Play or Pay

- “Large” Employers (>50 FTE) Play
- Or They Pay
- Is your plan grandfathered?

# Grandfathered Plans

- If an individual was enrolled in a group health plan on March 22, 2010 the plan is “grandfathered”
- Grandfathering continues until the plan’s status is terminated
- Grandfathered plans must have a disclaimer on plan docs to participants
- Certain “changes” trigger non-grandfathered status

# SHOP Exchanges Part 1

- Small Business Health Options Programs
- State run by 2014
- Small businesses: 100 FTE. Companies that grow can be grandfathered. Before 2016 States can limit to companies with less than 50 FTE
- After 2017 state exchanges will expand to >100 FTE

# SHOP Exchanges Part 2

- Pools to purchase insurance
- Private Insurance Plans
- Multi State Health Plans (min 2 are required)
- Consumer Operated and Oriented Plans (Co-Ops)

# SHOP Exchanges Part 3

- Plans must offer essential health benefits
- Simple cafeteria plans available

# 2011

- Higher Premiums
- Dependent Care
- Pre-Existing Conditions (Age 19)
- No lifetime caps
- Cannot rescind
- Unreasonable Rate Hikes
- Preventative Care Coverage
- Wellness Program Grants
- HSA Changes
- W-2 Reporting

# Reporting Requirements

- W-2 (2011)
- 1099 (2012)
- Employers to report monthly to Treasury regarding who is covered and when (2014).  
There is a \$2/person fee!

2014



# Your Incentives

- 1-10 Employees – You get a tax credit
- 11-25 Employees – You get (a lesser) tax credit
- 25-50 Employees – No tax credit, but no healthcare insurance requirement
- 50+ Employees – Health insurance coverage required or you pay a penalty

# Employers With <25 FTE

- **Providing health care coverage**
- Firm size
- Average annual wage
- Amount of Credit
- Phase-out

# Providing Health Care Coverage

- A qualifying employer must cover at least 50 percent of the cost of health care coverage for some of its workers based on the single rate.

# Employers With <25 FTE

- Providing health care coverage
- **Firm size**
- Average annual wage
- Amount of Credit
- Phase-out

# Firm Size

Determine the total number of your employees (not counting owners or family members)

Full-time employees: (enter the number of employees who work at least 30 hours per week)

+

Full-time equivalent of part-time employees: (Calculate the number of full-time equivalents by dividing the total annual hours of part-time employees by 2080.)

=

Total employees - Is it 25 or fewer?

# Employers With <25 FTE

- Providing health care coverage
- Firm size
- **Average annual wage**
- Amount of Credit
- Phase-out

# Average Annual Wage

Calculate the average annual wages of employees (not counting owners or family members):

Take the total annual wages paid to employees:

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Divide it by the number of employees

(total wages ÷ number of employees)

= Average Wages - is the result less than \$25,000?  
\$50,000?

# Employers with <25 FTE Example

## 1-10 Employees

	2011	2014
Number of FTE	9	9
Annual average wages	\$24,000	\$24,000
Percent covered	100%	100%
Cost to provide health insurance	\$45,000	\$45,000
Tax credit	(\$15,750) – 35%	(\$22,500) – 50%
Net cost for health insurance	\$29,250	\$22,500

# Employers with 11-25 FTE

- The phase out begins
- Earn less than \$50,000 average per year
- Partial tax credit when SHOP purchased
- Max credit only if employer contributes >50% of the premium cost

# Employers with <25 FTE Example

## 11-25 Employees

	2011	2014
Number of FTE	12	12
Annual average wages	\$30,000	\$30,000
Percent covered	100%	100%
Cost to provide health insurance	\$96,000	\$100,000
35% Tax credit	\$33,600 – 35%	\$50,000 – 50%
FTE credit reduction	(\$4,480)	(\$4,480)
Wage credit reduction	(\$6,720)	(\$6,720)
<b>ACTUAL CREDIT</b>	<b>\$22,400 – 23.3%</b>	<b>\$38,800 – 38.8%</b>

# Employers with >50 FTE – Part 1

Scenario 1: You offer: must cover >60% of the costs

Scenario 2: You offer BUT some employees get SHOP insurance and they are below 400% of poverty level: Voucher

Scenario 3: You don't offer AND 1 employee gets a health subsidy: you are penalized either \$2K or \$3K

- The 'full time employee' strategy

# Employers with >50 FTE – Part 2

- If no coverage offered than pay a penalty of \$750 per employee, rising to \$2,000 per employee by 2019.
- Could even be \$3,000!
- First 30 FTEs are exempt
- Fines are not deductible

# Employers with >50 FTE Example

	2014	2019
Number of FTE	55	55
Health care premiums	\$495,000	\$495,000
Percent covered	60%	60%
Cost to provide health insurance	\$297,000	\$297,000
Penalty	\$18,750	\$50,000

# Employers >200 FTE

- Required to automatically enroll new FTE in a health plan with the lowest employee premium (unless they opt out)
- Must cover >72.5% of cheapest individual health plan or >65% for family plans
- If no health coverage is provided penalty is 8% of average wages paid or a lower percentage if annual payroll is less than \$400,000

# Funding – Medicare Tax

- Effective in 2013 Medicare tax increases from 1.45% to 2.35% for wages in excess of \$200k (individual) or \$250k (family).
- How do you find out family wages?

# Funding – FICA Tax

- New FICA tax on investment income (first time medicare tax on unearned income)
- Effective 2013, FICA taxes will include a new 3.8% tax on the lesser of
  - Net investment income
  - The excess of AGI over 200K (250K family)

# FICA Tax Example

Individual's Wage Income	\$190,000
Investment Income	\$60,000
Assumed modified AGI is	\$250,000

- No wage tax
- 3.8% tax on \$50,000 (excess of AGI over \$200,000)

# Other Funding Sources

- Penalties on businesses and individuals
- Unreimbursed med expense deduction threshold raised from 7.5% to 10% of AGI
- Cadillac Plans Tax (2018)
- Taxes/Fees on Insurance Industry

# Benefits of Health Care Reform

- Exchanges result in drop in premiums, rise in coverage!!
- Business opportunities
- Easier for workers to move from jobs
- Easier to budget
- Potential less admin for small companies

# Costs of Health Care Reform

- New coverage mandates=increased plan costs
- New reporting requirements=increased admin costs
- New Taxes and Penalties=increased costs
- New Federal and State agencies=increased costs
- Uncertain benefits landscape=increased costs

# Questions To Be Answered

- Pay the penalty or pay for insurance?
- Will state exchanges lower premiums?
- Is the \$938B projected 10 year cost for real?

# Great Resources

- Blue Cross Tax Calculator -  
<http://www.bluekctaxcredit.com/taxcalculator.aspx>
- Department of Health and Human Services –  
[www.hhs.gov](http://www.hhs.gov)
- Healthcare Reform Site –  
[www.healthcare.gov](http://www.healthcare.gov)
- White House Site –  
[www.whitehouse.gov/issues/health-care](http://www.whitehouse.gov/issues/health-care)

# Thank You

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