

How PPACA will impact small employers

Most news surrounding the implementation of the Patient Protection and Affordable Care Act (PPACA) pertains to the employer penalties for noncompliance with the large employers' shared responsibility provision that begins with the 2014 plan year. However, how does PPACA apply if an employer has fewer than 50 full-time equivalent employees?

"This has been a subject of great confusion among business owners," says Chuck Whitford, client advisor, JRG Advisors, the management arm of ChamberChoice.

Smart Business spoke with Whitford about how smaller business owners need to be counting employees carefully and preparing for PPACA provisions.

How is employer size defined?

A large employer is defined as having 50 or more full-time equivalent employees during a testing period that can be from six to 12 months. Full time is defined by the government as 30 hours per week. The term equivalent is used to account for those who work less than 30 hours per week. For example, if an employer has 30 full-time employees working 30 hours each week and three part-time employees working 20 hours each week, it has 32 full-time equivalent employees. The part-time hours per month are added, then divided by 130 to determine additional full-time equivalent employees.

There is some relief for seasonal workers.

How does PPACA apply to small employers?

The employer penalties are just one piece. All employers are subject to certain rules if providing a health insurance plan, such as:

- Waiting periods for eligibility cannot exceed 90 days, beginning in 2014.
- Continuing to cover dependents of employees until age 26, in most cases.
- Providing a Summary of Benefits and Coverage to each employee at specific events, such as open enrollment.
- Supplying 60-day notification for any plan changes, except at renewal.

What are some other considerations?

If a plan is not grandfathered — hasn't changed since the law went into effect in 2010 — then it must continue to waive all cost sharing for preventive care services, which includes women's preventive care for plans renewing on or after Aug. 1, 2012.

Employers also must offer employees information on the public insurance exchange whether providing health coverage or not. The law requires this notice be distributed each March; however, it has been delayed in 2013, pending Department of Labor guidance.

In 2014, all non-grandfathered small group plans will have limits on the deductibles charged in-network. The maximum deductible will be \$2,000 per individual and \$4,000 per family. There also will be out-of-pocket limits that apply to all non-grandfathered plans. These limits are the same as those for high deductible health plans, which this year is \$6,250 for an individual and \$12,500 for a family.

How will the pricing methodology change?

The biggest change for small employers will be the pricing methodology applied to group insurance plans. Insurance companies will be unable to use gender, industry, group size or medical history, and therefore are limited to family size, geography, tobacco use and age. The companies can charge the oldest ages no more than three times what they charge the youngest ages. Many insurance companies use a ratio of 7:1 or higher, so this should result in higher rates for younger, healthier groups and better rates for older, less healthy groups. In addition, there will be new taxes and fees passed through to the employer in 2014.

Where do small employers have flexibility?

A small employer, with fewer than 50 full-time employees, has more flexibility in determining how many hours an employee must work to be benefits-eligible. For example, a small employer can establish 37.5 hours as the minimum to be eligible for the company health plan, so employees regularly working less than 37.5 hours aren't eligible. Those employees most likely are eligible for a subsidy to purchase coverage in the public insurance exchange. But, as a small employer not subject to the employer penalties, there are no financial consequences.

Because of the complexities, employers are encouraged to review their employee count and other pending health care reform legislation with a qualified advisor.