



Health Care Reform Update

What employers should be doing now.

Although many of the provisions of the Patient Protection and Affordable Care Act (PPACA) were already in effect, the pace of change has quickened since the Supreme Court upheld the law in June of 2012. The law is composed of a series of provisions that have different effective dates. Here are some of the important provisions that employers should be focusing on now.

Medicare Tax Increase. In 2013, an additional 0.9 percent Medicare Hospital Insurance tax applies to an employee's wages in excess of a certain threshold (\$250,000 for married taxpayers filing jointly, \$125,000 if filing separately, and \$200,000 for all other taxpayers). The additional tax applies only to employees, but employers are required to withhold the additional tax to the extent the individual's wages exceed \$200,000. Because the tax and the withholding rules are not synchronized, individuals may be entitled to a refund or be required to pay additional taxes when they file their tax returns. The IRS has published guidance in question-and-answer format at irs.gov/Businesses/Small-Businesses-&Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax.

Keeping up with all the health care reform changes will require diligence and hard work in 2013 and the years that follow.

State Exchange Notice. In 2014, individuals and small businesses will be able to purchase health insurance through American Health Benefit Exchanges. In 2013, employers are required to provide existing employees with a notice informing them of their right to purchase health care coverage offered through the Exchanges. New employees will receive the notice when they are hired. The notice must inform employees that:

- The Exchanges exist and include contact information and a description of the services provided.
- They may be eligible for a premium tax credit and cost-sharing reduction if they purchase health coverage through the Exchange and the employer's share of the total costs of benefits under the employer plan is less than 60 percent.

- They may forfeit any employer contribution to the employer's health benefit plan if they purchase coverage through the Exchange, and those contributions may have been excludable for federal income tax purposes.

The Department of Labor estimates that distribution of notices will be required in the late summer or the fall of 2013. Employers should begin to collect relevant information and prepare the notice now. Information about the Washington Health Benefit Exchange is available at hca.wa.gov/hbe.

Employer Shared Responsibility. Employers should also start working on the new employer shared responsibility ("pay or play") provisions that take effect in 2014 and apply to large employers (50 full-time employees or equivalent). Significant penalties apply for failure to comply.

- If the employer fails to offer health coverage to at least 95 percent of its full-time employees and at least one employee enrolls in another qualified health plan and receives a premium tax credit or cost-sharing reduction, the annual penalty could be \$2,000 times the total number of full-time employees (minus 30).

- If the employer offers coverage to employees that is "unaffordable" (employee cost is greater than 9.5 percent of household income) or does not provide "minimum value" (employer covers at least 60 percent of the plan cost), the annual penalty could be \$3,000 times the number of employees who receive a tax credit for coverage on an Exchange (subject to a cap).

Proposed regulations and guidance have been issued, with complex rules for determining which employees are full-time, and although not effective until 2014, employers have many design options to consider and data to collect in 2013.

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