FIVE POINTS
MEC PLAN

EMPLOYER MANDATE FACT SHEET

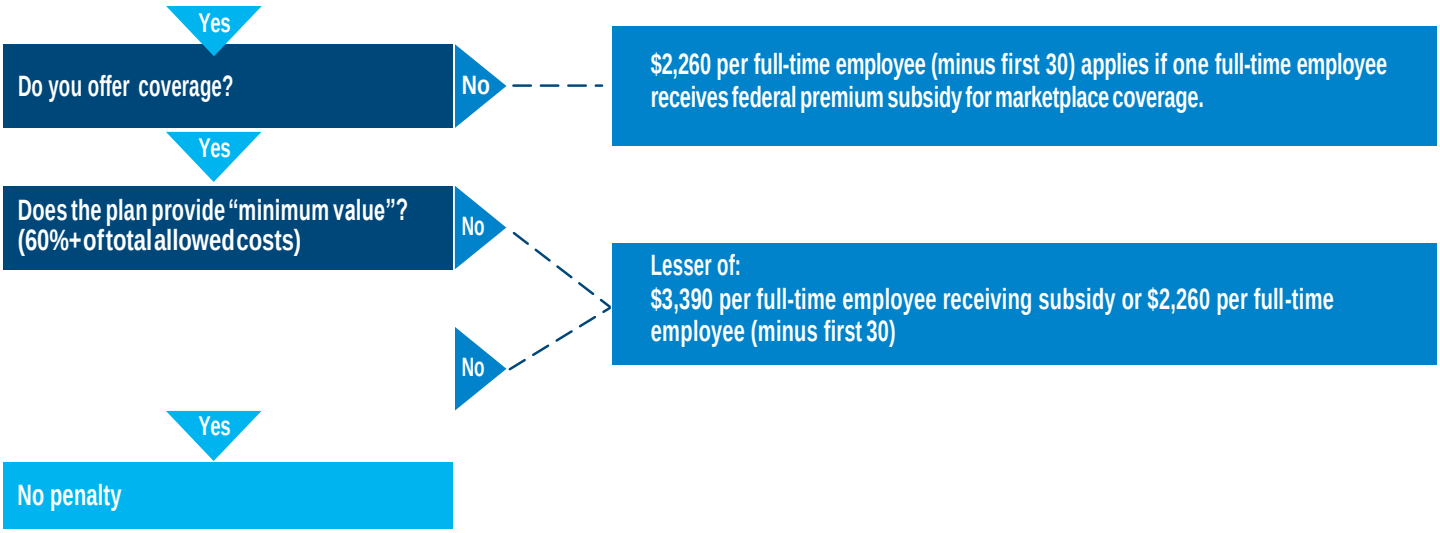
INFORMED ON REFORM

Overview

Employers must ofer health insurance that is affordable and provides minimum value to 95% of their full-time employees and their children up to age 26, or be subject to penalties. This is known as the employer mandate. It applies to employers with 50* or more full-time employees, and/or full-time equivalents (FTEs). Employees who work 30 or more hours per week are considered full-time.

The employer mandate and employer penalties

Employers subject to the employer mandate are required to ofer coverage that provides "minimum value" and is "affordable," or be subject to penalties. The chart below explains these requirements and the penalties that apply if they are not met.



Frequently asked questions

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A Coverage is considered "affordable" if employee contributions for employee-only coverage do not exceed a certain percentage of an employee's household income (9.69% in 2017, 9.56% in 2018). Based on IRS safe harbors, coverage is affordable if the cost of self-only coverage is less than the indexed threshold of the following:

- Employee's W-2 wages (reduced for any salary reductions under a 401(k) plan or cafeteria plan)
- Employee's monthly wages (hourly rate x 130 hours per month)
- Federal Poverty Level for a single individual

In applying wellness incentives to the employee contributions used to determine affordability, assume that each employee earns all wellness incentives related to tobacco use, but no other wellness incentives.

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A Employers with 50 or more full-time and/or FTE employees must offer affordable/minimum value medical coverage to their full-time employees and their dependents to age 26, or may be subject to penalties. The amount of the penalty depends on whether or not the employer offers coverage to at least 95% of its full-time employees and their dependents. Employers who fail to offers coverage to at least 95% of full-time employees and dependents may be subject to a penalty of $2,260 per full-time employee minus the first 30. Employers who offer coverage may still be subject to a penalty if the coverage is not affordable or does not provide minimum value. This penalty is the lesser of either $3,390 per full-time employee receiving a federal subsidy for coverage purchased on an exchange, or $2,260 per full-time employee minus the first 30.

Employers must treat all employees who average 30 hours a week as full-time employees.

Q **When were the penalties effective?**

A The penalties were phased in beginning in 2015, and based on employer size.
As of January 1, 2016, the employer mandate is effective for all employers with 50 or more full-time and/or FTE employees.

Q **How will an employer know if a penalty is due?**

A If an employee receives subsidized coverage, the employer will be notified by the Health Insurance Marketplace. The employer will then be provided an opportunity to respond and appeal if the employee was offered coverage that meets the minimum value and affordability standards. The employer will not be contacted by the IRS about penalties for any given year until after individual tax returns and employer information reports on coverage are due, i.e., after tax-filing and reporting dates in any given calendar year.

Q How do penalties apply to companies with a common owner?

A Companies that have a common owner are combined for purposes of determining whether they are subject to the mandate. However, any penalties would be the responsibility of each individual company.

Q How will the federal government know an employer is complying with the employer mandate?

A IRS Code 6056 requires all applicable large employers to lie an annual report that ensures compliance with the employer mandate. The reporting will include information on all employees who were offered and accepted coverage, and the cost of that coverage on a month-by-month basis..

Examples of employer penalties

The employer does not offer coverage to full-time employees

The penalty is $2,260 per full-time employee, excluding the irst 30 employees. This example shows how the penalty would be calculated.

EMPLOYER	TRIGGER	PENALTY
500 full-time employees **No coverage offered**	One employee purchases coverage on the marketplace and is eligible for a federal premium subsidy	$2,260 per full-time employee, minus the first 30 employees 500 – 30 = 470 employees **470 x $2,260 = $1,062,200 penalty**

The employer offers coverage that does not meet the minimum value and affordability requirements

The penalty is the lesser of the two results, as shown in this example.

EMPLOYER	TRIGGER	PENALTY
1,200 full-time employees **Employer offers coverage, but coverage is not affordable and/or doesn't provide minimum value**	The penalty is triggered if one employee purchases coverage on the marketplace and receives a federal premium subsidy 250 employees purchase coverage on the marketplace and are eligible for a subsidy	Lesser of $2,260 per full-time employee, minus the first 30 employees, OR $3,390 per full-time employee receiving a federal premium subsidy 1,170 x $2,260 = $2,644,200 penalty **250 x $3,390 = $847,500 penalty (lesser penalty applies)**

Determining how many full-time employees you have

The regulations allow various calculation methods for determining full-time equivalent status. Because these calculations can be complex, employers should consult with their legal counsel.

- **Full-time** employees work an average of 30 hours per week or 130 hours per calendar month, including vacation and paid leaves of absence.
- **Part-time** employees' hours are used to determine the number of full-time equivalent employees for purposes of determining whether the employer mandate applies.
- **FTE** employees are determined by taking the number of hours worked in a month by part-time employees, or those working fewer than 30 hours per week, and dividing by 120.