

Health Care Reform: Full-Time Equivalent Employees

Overview

Also known as the **Employer Mandate** and Employer **Pay-or-Play**, the **Employer Shared Responsibility** provision of Health Care Reform requires large employers to pay a penalty if they don't provide minimum essential coverage to full-time employees and their dependents. Children, but not spouses, are considered dependents under the Employer Shared Responsibility rule. The information below reflects federal guidance as of August 2013. More details will be published by the IRS, HHS, and DOL.

Who's affected?

Employers with 50 or more full-time equivalent (FTE) employees may be subject to the penalty.

When does Employer Shared Responsibility take effect?

The IRS announced in July that the penalties will be delayed by one year. The first Employer Shared Responsibility penalties will now be assessed in 2015.

How do I calculate the number of full-time equivalent employees?

Employers should consult with their legal counsel to determine the best way to count full-time employees. The following formula can be used as a general guideline:

Step One:

For each month, count the number of full-time employees. Employees who work 30 or more hours per week are considered full-time, as are employees who work a total of 130 hours or more during the month.

Step Two:

For each month, determine the number of FTEs by counting the total number of hours worked by part-time and seasonal employees and dividing the sum by 120. Fractions are taken into account for the next steps.

Step Three:

Add the number of full-time and full-time equivalent employees (calculated in Steps 1 and 2) for each month in the preceding calendar year.

Step Four:

Add up the monthly totals from Step 4 and divide by 12. At this point, any fractions are rounded down. An organization with an average of 50 or more FTEs will need to offer health insurance coverage to full-time employees. Employers who are close to 50 FTEs and employ a lot of seasonal employees may be able to apply the **seasonal employee exemption**.

$$\left(\begin{array}{l} \textbf{Full-time Employees} \\ \text{Count \# of employees who} \\ \text{work an average of 30 hours} \\ \text{or more per week} \end{array} \right) + \left(\begin{array}{l} \textbf{Full-time Equivalent} \\ \textbf{Employees (FTEs)} \\ \text{Count the total \# of hours} \\ \text{worked by non-full time} \\ \text{employees and divide \# by} \\ 120 \end{array} \right)$$

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Transition Relief for non-calendar plan years

Initial federal guidance included transition relief for employers who offer a plan that does not follow a calendar year. It is not clear how the delay will affect transition relief, but it is anticipated that all groups must be compliant as of 1/1/15, regardless of renewal date. We will keep you updated as more information becomes available.

Common Ownership

What if two businesses are owned by the same company?

If the total number of FTEs within any one company under a common owner is 50 or more, that company may be subject to the employer responsibility penalty if health insurance coverage is not offered to full-time employees.

If the total number of FTEs within **all companies** under a common owner is 50 or more, **each company** will be subject to the employer responsibility provision, but each company will be assessed any penalties on its own. For example, if Employer A and Employer B are owned by Corporation Y and the total number of employees under Corporation Y is 75, each organization will be subject to the employer responsibility provision. If Employer A offers health insurance coverage that meets federal requirements but Employer B does not, only Employer B will be subject to the penalty.

When calculating the penalty, the reduction of the first 30 FTEs will be allocated pro-rata between all companies under common ownership that do not offer health insurance coverage.

For more details on Employer Responsibility, see our flyers on Employer Responsibility Penalties and Seasonal/Variable Hour Employees.

Visit excellusbcb.com/healthreform for more information!