

Health Care Reform Calculator

Completed Sample A

This group offers coverage to all of their employees, and their coverage is of minimum value (meaning it covers >60% of costs). They are incurring modest penalties because some of their employees are paying more than 9.5% of their W-2 wages for health care, and would be eligible to receive premium subsidies from the federal government because their employer-sponsored plan is prohibitively expensive. The options for this (which can be modeled in the calculator) include:

1. Accepting the \$81,000 annual penalty (this is a maximum) they are incurring for their 27 employees that pay more than 9.5% of income for health insurance and continue the status quo.
2. Lower the relatively expensive \$245.00 monthly employee contribution to the plan to make it more affordable for employees, thus incurring fewer fines.
3. Completely cut health care coverage (you can model this by putting all zeros in the enrollment column as well as coverage eligibility column). This would save the employer \$120,000 annually, but would irreparably damage recruiting and retention efforts. When modeling this function, it's important to point to the "Why Employers Will Keep Coverage" and "Pay or Play Infographic" pages to help employer groups understand why the instant bottom-line savings possibly achieved by completely cutting coverage will not translate to long-term savings for their organization.

[Begin](#)

Health Care Reform Pay or Play Calculator

Beginning in 2014, employers with more than 50 full-time equivalent employees may be subject to a penalty tax if they do not offer health care coverage to all full-time employees. These employers can also be subject to a penalty if they offer coverage to all full-time employees, but the coverage is unaffordable or does not provide minimum value. Coverage is unaffordable if it costs the employee more than 9.5% of household income and it does not provide minimum value if the plan's share of the total allowed cost of benefits is less than 60%. However, recent guidance from the IRS allows employers to calculate affordability based on the cost of single coverage and W-2 income, rather than household income. The penalty will apply if any full-time employee is certified to the employer as having purchased health insurance through an exchange and received a tax credit or cost-sharing reduction related to the coverage.

Click here for more information on when an employee will be eligible for a tax credit or cost-sharing reduction.

Use this calculator to help your clients determine what their penalties could be if they either:

- (a) Do not provide coverage to all full-time employees,
- (b) Provide coverage that is unaffordable for some or all employees, or
- (c) Provide coverage that is not of "minimum value."

To begin, please have the following data available.

Rate and census information including:*

Employer's marginal tax rate
Plan enrollment count (by coverage tier)
Plan rate (by coverage tier)
Employee cost (by coverage tier)
Employee identifier (name, ID, etc.)
Employee W2 income

Plan information including

Deductibles
Copays
Coinsurance
Out-of-pocket maximums

[Get Started](#)

This calculator is for use by large employers with 50 full-time equivalent employees.

Click here for more information on whether or not your organization will be considered a large employer.

Click here to read about situations in which this calculator might be helpful.

* For more information on any of the required rate and census information above, simply click on the text.

Disclaimer: This calculator is intended to provide estimates of possible penalties under current information available regarding the health care reform requirements. Results are dependent on entry of accurate plan and employee data and may change based on guidance issued by various regulatory agencies. Nothing in this calculator should be considered legal or tax advice.

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Sample Group A

Medical	Benefit Plan Summary	
	In NW	Out of NW
Deductible	500	1,000
Family Deductible	1,000	2,000
HSA Style Family Limit (1=yes, 0=no)	0	0
PCP & SCP Copays Apply After Deductible?	0	0
Primary Care Copay*	20	0
Specialist Copay*	40	0
All Inclusive (1) or Just O.V (0) Type Copay?	0	0
Coinsurance	80%	60%
Single Out of Pocket Max (includes Deductible)	4,000	6,000
Family Out of Pocket Max	8,000	12,000
Inpatient Copay (per stay)*	0	0
Outpatient Surgery Copay*	0	0
Emergency Room Copay*	0	0
Urgent Care Copay*	0	0
% of Total Care In NW (100% if HMO)	85%	15%

* If there is no copay, enter 0.

Directions

Medical Plan, Box 1:

Enter in- and out-of-network plan information into the appropriate boxes. Follow the specific directions next to each item, as **some boxes require you to enter 1 for yes, or 0 for no.**

Prescription Drug Plan, Box 2:

Enter generic and brand name drug costs into the appropriate boxes. Follow the specific directions next to each item, as **some boxes require you to enter 1 for yes, or 0 for no.**

[Back](#)

[Next Section](#)

Prescription Drug	Generic	Brand
Separate Rx Card? (1=yes, 0=no)		1
Rx Copays Apply After Medical Deductible?		0
(Only copays apply, no ded or coins.)		
Deductible	0	0
Coinsurance	100%	100%
Coinsurance Minimum (input 0 if no min)	0	0
Coinsurance Maximum (input 999 if no max)	999	999
Copay	15	30
Copay for Brand When Generic Available	NA	30
Non-formulary Copay	NA	60
Mail Order Rx Copays (1x, 2x, 2.5x, 3x retail)		2.00
Mail Order Rx Medicine Supply (30, 60, 90 days)		90

No Issues Detected

Percent of Expenses Covered by Plan

72%

Plan Information

Group Name	Sample Group A
Effective Date	8/22/12
Employer's Marginal Tax Rate	30.0%

Tier	Count	Total Rate	Employee Contribution	Employer Net Cost
Single	91	517.00	245.00	272.00
Ee/Sp	16	962.00	659.00	303.00
Ee/Ch	4	1,132.00	792.00	340.00
Ee/Ch(ren)	0	0.00	0.00	0.00
Ee+1	0	0.00	0.00	0.00
Family	39	1,572.00	1,186.00	386.00
Waivers	0	0.00	0.00	0.00

Directions

Plan Information, Box 1:

If information is not available, or does not exist, simply enter 0 into a given box. **Entering this information is necessary to determine the employer's costs of providing coverage.** Enter the total number of employees enrolled in each coverage tier (Count), along with the total cost of coverage per employee or family for each tier (Rate) and the employee's share of the premium cost (Employee Contributions). The employer's cost per employee / family will be automatically calculated (Net Cost).

Employee Information, Box 2:

In this section, you will need to enter information for each full-time employee (those who work an average of at least 30 hours/week), whether or not the employee is eligible for health coverage. Information for part-time employees should not be entered. Part-time workers are not included in penalty calculations, even though they are included in the determination of whether an employer is a large employer. An employer will not pay a penalty for any part-time worker, even if that part-time worker receives a premium credit.

For eligible full-time employees, you must also enter their W-2 income. For all full-time employees, indicate whether they are eligible for coverage or not by entering a "1" if eligible and a "0" if ineligible. **Entering this information is necessary to determine the employer's potential penalties for either not providing coverage to all full-time employees or providing coverage that is unaffordable.**

Although the health care reform statute indicates that the affordability determination will be made using household income, the IRS has recognized that employers may not have access to household income for their employees. Accordingly, the IRS plans to issue a safe harbor, or exemption from liability, for employers to use in determining whether their health coverage is affordable. The potential safe harbor would let the employer measure the affordability of its coverage by using the employee's W-2 wages from the employer, rather than household income.

[Back](#)

[See Results](#)

Employee Information

Coverage Eligibility Key	Eligible for Coverage	Ineligible for Coverage
	1	0

Employee Identifier	Employee W2 Income	Coverage Eligible
1	58590	1
2	34999	1
3	38928	1
4	34059	1
5	47835	1
6	50148	1
7	38102	1
8	27849	1
9	23706	1
10	47966	1
11	62931	1
12	66340	1
13	48182	1
14	42592	1
15	29447	1
16	59446	1
17	63835	1
18	71366	1
19	78261	1
20	41047	1
21	68238	1
22	58292	1
23	79108	1
24	44096	1
25	25591	1
26	60634	1
27	25408	1
28	54351	1
29	56484	1
30	40287	1
31	74057	1
32	49087	1
33	30370	1
34	41304	1
35	71647	1
36	79948	1
37	77015	1
38	72287	1
39	38475	1
40	29771	1
41	48178	1
42	24200	1
43	66635	1
44	53017	1
45	56341	1
46	26970	1
47	39938	1
48	53746	1
49	60716	1
50	62277	1
51	37844	1
52	78307	1
53	47811	1
54	60836	1
55	66483	1
56	48408	1
57	26793	1
58	35280	1
59	26664	1
60	73666	1
61	23258	1
62	69496	1
63	53525	1
64	78527	1
65	25656	1
66	29939	1
67	54543	1
68	35130	1
69	68806	1
70	34941	1
71	50359	1
72	28911	1
73	77310	1

Sample Group A

Summary of Results: Pay or Play Analysis

Potential Penalties

Full-time employees	155
Penalty (Cost) for not offering coverage to all full-time employees	0
Employees paying more than 9.5% of income for single coverage	27
Does the plan pay for at least 60% of covered expenses for a typical population? (See Benefit Plan Input page for percentage)	YES
Penalty for employees paying more than 9.5%	81,000
Total Potential Penalties Accrued	81,000

Cost of Providing Coverage

Annual cost of current plan	1,539,300
Employee contributions	(987,132)
Value of Federal Tax Deduction	(165,650)
Employer's net cost of current plan	386,518

The Future of Employer Coverage

The following articles discuss the choices that employers across the country are making, and why they're making them. Click the links below to find out what the future holds for employer-sponsored benefits.

Why Employers Will Keep Coverage

Some politicians and pundits have been predicting that employers will drop their group health plans in favor of simply paying the penalties. This article discusses why employers will likely maintain their coverage.

[More](#)

The Pay or Play Infographic

Across the country, employers are weighing up the decision to pay or play. This infographic looks at who will be dropping coverage, who will be maintaining coverage, and how much it will cost both employers and employees.

[More](#)

How Penalties are Calculated

To learn more about how pay or play penalties are calculated, simply click "More".

[More](#)

Definitions

Employer's Marginal Tax Rate

Entering the employer's marginal tax rate will provide a clearer picture of the employer's ultimate health plan costs by calculating the deduction available for providing the coverage.

Plan Information by Coverage Tier

To accurately determine the cost of your plan, you will need to know how many employees are enrolled in each level of coverage, what the total cost of coverage is for each employee at each level (employee + employer portion) and what portion of the cost is paid by the employee. The employer's net cost will be calculated using that information and will then be used to show the overall cost of providing coverage.

Employee Identifier

The identifier can be any label that you use to track the information that is being entered for each employee. It is intended to help you make sure that all employee information is entered accurately. Using the identifier is most helpful when entering information for employees who are eligible for coverage. A specific identifier is not necessary when entering information for ineligible employees.

Premium Credit Eligibility

Beginning in 2014, individuals who are not offered employer-sponsored coverage and who are not eligible for Medicaid or other programs may be eligible for premium credits for coverage through an exchange. These individuals will generally have income between 100 percent and 400 percent of the federal poverty level (FPL).

Individuals who are offered employer-sponsored coverage can only obtain premium credits for exchange coverage if, in addition to the other criteria above, they also are not enrolled in their employer's coverage, and their employer's coverage meets either of the following criteria: the individual's required contribution toward the plan premium for self-only coverage exceeds 9.5 percent of his or her household income OR the plan pays for less than 60 percent, on average, of covered health care expenses.

Other health care reform provisions will also affect whether full-time employees obtain premium credits for exchange coverage. For example, the employee may not be able to be claimed as a dependent on another taxpayer's return and married taxpayers must file a joint return. Also, exchanges are required to have "screen and enroll" procedures in place for all individuals who apply for premium credits. This means that individuals who apply for premium credits must be screened for Medicaid and the state Children's Health Insurance Program (CHIP), and, if found eligible, are to be enrolled in those programs. Exchange premium credits will not be an option. This could affect whether any of an employer's full-time employees obtain premium credits in an exchange, and if so, how many.

Family Income

Income information is necessary to help determine whether the employer's coverage is affordable.

An employer's coverage is considered affordable if the employee's required contribution to the plan does not exceed 9.5 percent of the employee's household income for the taxable year. "Household income" means the modified adjusted gross income of the employee and any members of the employee's family, including a spouse and dependents.

When employers are unaware of the income levels of their employees' family members, it may be difficult to assess whether the coverage they offer would be considered affordable. To address this issue, the IRS plans to issue a safe harbor, or exemption from liability, for employers to use in determining whether their health coverage is affordable. The potential safe harbor would let the employer measure the affordability of its coverage by using the employee's W-2 wages from the employer, rather than household income.

An employer will be eligible for the safe harbor if:

- The employer offers its full-time employees (and their dependents) the opportunity to enroll in minimum essential coverage under an employer-sponsored plan; and
- The employee portion of the self-only premium for the employer's lowest cost coverage that provides minimum value (the employee contribution) does not exceed 9.5 percent of the employee's W-2 wages.

The downside of using the IRS safe harbor is that it will be harder to tell whether an employee and his or her family will meet the FPL requirements for cost sharing or premium subsidies. However, an employer that meets these requirements will not be subject to a penalty for providing unaffordable coverage for an employee, even if the employee receives a premium tax credit or cost sharing reduction to purchase coverage through a health insurance exchange.

How to Determine if You are a Large Employer

Only large employers may be subject to penalties regarding employer-sponsored health insurance. An employer will be a “large employer” for a particular calendar year if it had an average of more than 50 full-time equivalent employees on business days in the prior calendar year. Business aggregation rules apply when determining employer size, so companies under common control are considered a single employer. To determine whether your company had more than 50 full-time equivalent employees, you will need to count full and full-time equivalent employees.

- Full-time employees are those who work an average of at least 30 hours per week.
- To get the number of full-time equivalent employees: add together all the hours worked by part-time employees in a month then divide that number by 120.

There is a special rule for seasonal employees. Under this rule, the employer is not a large employer if: it has more than 50 full-time employees for 120 days (or fewer) during the calendar year and the employees in excess of 50 who were employed during that period were seasonal workers.

A seasonal worker is one who performs labor or services on a seasonal basis as defined by the DOL, including certain agricultural workers covered and retail workers employed only during holiday seasons. The DOL has previously defined labor performed on a seasonal basis as employment that ordinarily pertains to or is exclusively performed at certain seasons or periods of the year and may not be continuous or carried on throughout the year. Agricultural workers who move from one seasonal activity to another are employed on a seasonal basis even if they continue to be employed during a major portion of the year.

Note that part-time employees only matter for determining whether you are a large employer. Once that calculation is complete, the penalties and coverage requirements are for full-time employees only.

[Back](#)

Case Study 1

ABC Company offers health coverage to all of its full-time employees (and their dependents) and plans to continue its health coverage beyond 2014. However, ABC Company is concerned about rising health care costs and wants to look at options for increasing the employee's share of the health insurance premiums. However, if the employee's share becomes too large, the coverage will be considered unaffordable. If that happens, the employee can obtain coverage through an exchange and potentially receive a premium tax credit or cost-sharing reduction, triggering the \$3,000 annual penalty per employee receiving a credit or reduction. If ABC Company's coverage is unaffordable for too many employees, the penalties can add up quickly. This calculator can help ABC Company in assessing whether its coverage will be considered affordable.

Case Study 2

XYZ Corp. employs both hourly and salaried full-time employees. Salaried full-time employees (and their dependents) are eligible for health coverage, while hourly employees are not. If any of XYZ Corp.'s hourly employees obtains health coverage through an exchange, and receives a premium tax credit or cost-sharing reduction, XYZ Corp. will be subject to a penalty for not providing coverage to all full-time employees. XYZ Corp. wants to continue to provide health coverage to its salaried employees, so it would be responsible for the cost of that coverage along with a penalty based on all of its full-time employees (minus the first 30). This calculator can assist the company in determining whether it would be more cost-effective to also offer coverage to hourly employees or to simply pay the penalty.

Why Employers Will Keep Coverage

Since the Patient Protection and Affordable Care Act (PPACA) was signed into law in 2010, politicians and pundits have speculated that employers will find it most efficient to simply drop coverage and pay the associated fines. However, according to a recent survey of over 7,800 employers conducted by Zywave, Inc., only 5% of all employers have dropped or plan to eliminate their group health plan. A new study conducted by Truven Health AnalyticsSM (Truven) shows why keeping coverage may be the best option.

The Cost is Always Incurred

If an organization decides to drop its group health coverage, the organization or its employees will have to pay when they seek coverage from a health insurance exchange.

If an organization drops coverage but wishes to keep employees at the same level of compensation, the employer will need to subsidize employee participation in an exchange. Because of the predicted inefficiencies of the exchanges, if an organization wishes to keep employee contributions at the same level after dropping coverage, the Truven report shows that the employer will end up paying more than \$17,000 per employee, per year (PEPY) in 2014. This would cost an employer more than double the expected price of maintaining its existing group health plan—\$8,483 PEPY in 2014. Due to the greatly increased cost to the employer, it is highly unlikely that any organization will adopt this strategy.

Alternatively, an employer may elect to partially subsidize exchange coverage, either keeping its contribution cost the same, or decreasing the amount of the contribution. Truven used a 20% reduction as an example of a cost reduction goal. An employer could also choose to eliminate its contribution entirely, leaving its employees on their own to purchase coverage. Truven found that in each of these situations employees would be faced with a radically elevated annual cost of coverage, increasing to \$10,000, \$14,000 and \$16,000, respectively.

Cost of Coverage is Not the Only Factor

While reducing or completely eliminating the cost of coverage will certainly appeal to all employers, organizations will have to consider the additional consequences of eliminating their group health plans.

In every scenario where an employer eliminates coverage to cut or maintain costs, the organization's employees are forced to bear dramatic cost increases when they obtain coverage through an exchange. Because a benefits program remains a vital portion of employee compensation, any employer who forgoes coverage will be seen as reducing employee wages. These employers would face plummeting employee relations and morale, and would likely experience recruiting and retention issues.

Consumerism is Key

While cutting costs could motivate an organization to eliminate its group health plan, the other consequences could keep most employers from doing so. Instead, it is likely that many companies will shift toward consumerism and employee education in an effort to reduce their cost of coverage. By promoting consumer-driven health care, reinforcing consumerism principles and educating employees, employers can see a significant drop in their health care costs while still satisfying employees.

Pay or Play Infographic

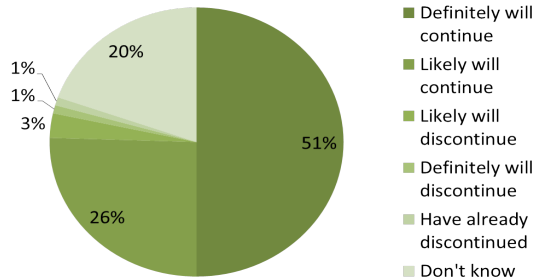
With much uncertainty still surrounding the Patient Protection and Affordable Care Act (PPACA), employers across the country are grappling with how the new reforms will affect them. In 2014, "Pay or Play", a clause that forces employers with 50 or more employees to "play" by continuing to offer group health coverage or "pay" a tax penalty, will take effect. Below are a number of telling statistics from recently released reports concerning the Pay or Play mandate.

Most Employers Will "Play"

Zywave, Inc. recently conducted a survey of over 7,800 employers from across the county, asking them questions about various aspects of health care reform.

When asked if employers will continue to offer group health coverage, 77% said that they will definitely or likely continue to offer a group health plan.

Only 5% of employers expect to eliminate their coverage, though 20% of employers are still unsure of what they will do in the future.

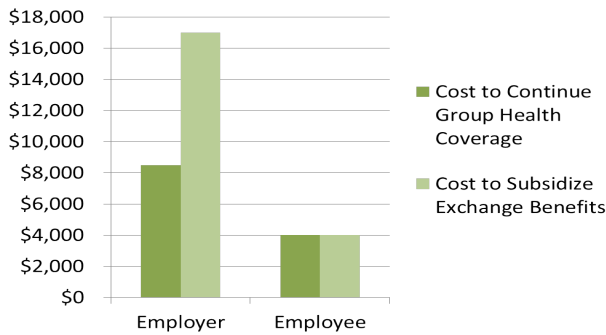


Eliminating Coverage Not a Favorable Option

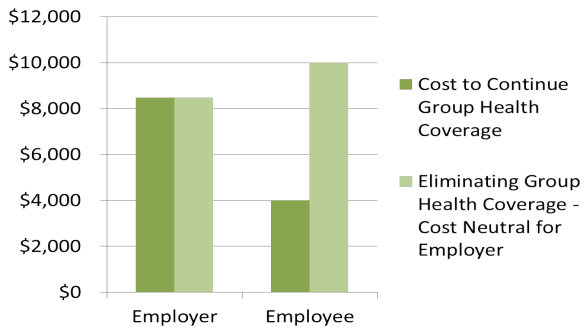
Truven Health AnalyticsSM (Truven) recently released a study that identified and modeled four scenarios in which businesses may consider eliminating their group health coverage. These scenarios were then tested for 33 large organizations across a number of industries. The results of these tests led Truven to conclude that, because employers must provide competitive compensation to retain workers, eliminating coverage and shifting the expense burden to employees would not be a favorable option for any of the sample organizations.

Each of the following four graphs compares the cost—for both the employer and employee—of continuing to offer group health coverage against the cost of eliminating coverage and employing a different cost containment strategy. All cost is in terms of per employee, per year (PEPY) for 2014.

SITUATION 1 sees the employer completely subsidize employee participation in a health insurance exchange.



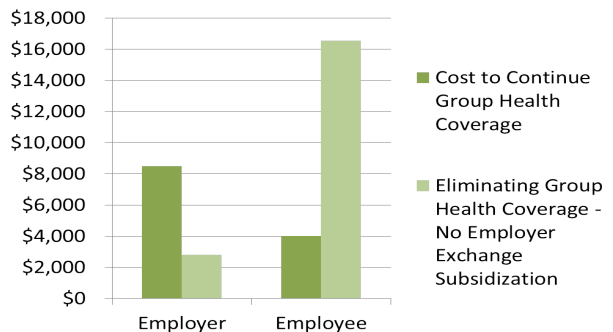
In **SITUATION 2**, the employer has opted to eliminate coverage and subsidize employee participation in an exchange up to the limit of what continued coverage would have cost.



SITUATION 3 models the result of an employer eliminating its group coverage and subsidizing employee exchange participation up to 80% (an example of a cost reduction goal) of its previous cost of coverage.



For **SITUATION 4**, the employer has decided to eliminate its entire cost of coverage (except for the assessed penalty) by not subsidizing any employee exchange participation.



How Penalties are Calculated

Penalty for Not Offering Coverage to All Full-Time Employees

Beginning in 2014, a large employer will be subject to a penalty if any of its full-time employees receive a premium credit toward their exchange plan. In 2014, the annual penalty assessed on employers that do not offer coverage will be equal to the total number of full-time employees (minus 30) multiplied by \$2,000. After 2014, the penalty amount will be indexed by the premium adjustment percentage for the calendar year.

Penalty for Offering Unaffordable Coverage or Coverage not of Minimum Value

Employers that do offer coverage may still be subject to penalties if at least one full-time employee obtains a premium credit in an exchange plan because the employer's coverage is unaffordable or not of minimum value. For an employee to be eligible to receive a premium credit, the employee's required contribution for self-only coverage must exceed 9.5 percent of the employee's household income (W-2 income under the potential safe harbor), or the employer's plan must pay for less than 60 percent of covered expenses. In 2014, the annual penalty assessed on an employer for each full-time employee who receives a premium credit will be \$3,000. However, the total annual penalty for an employer would be limited to the total number of the company's full-time employees (minus 30), multiplied by \$2,000. After 2014, the penalty amounts would be indexed by the premium adjustment percentage for the calendar year.