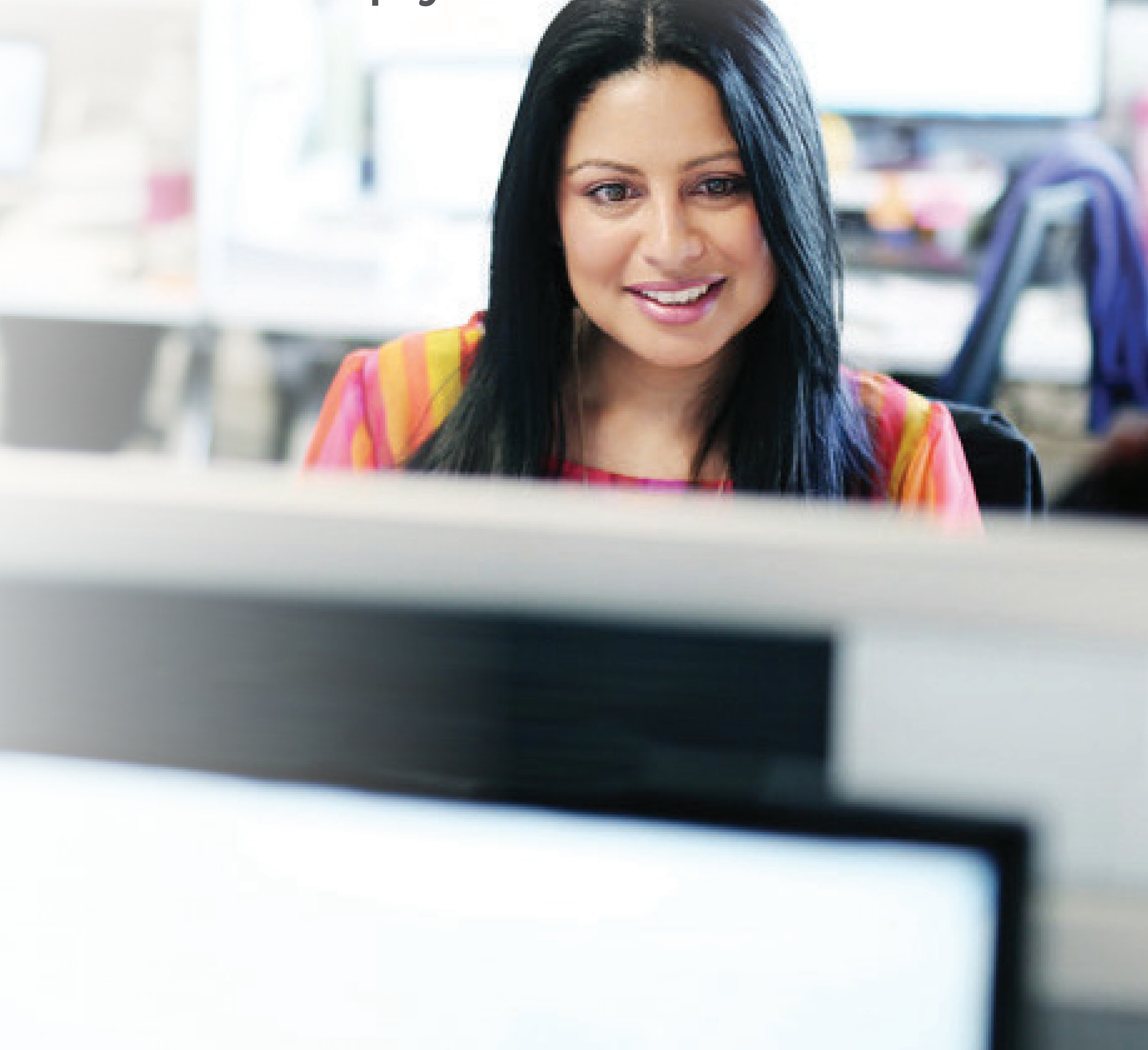
ACA Comply

Steps to consider before getting started with the ACA compliance dashboard available with ACA Comply



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The Affordable Care Act (ACA) is complicated and has many levels of potential liabilities and compliance issues that can significantly impact an organization's operations and financial success. The ACA compliance dashboard available with ACA Comply is a sophisticated tool that aids an employer in implementing and documenting ACA compliance.

Before setting up the dashboard, there are a number of foundational issues that an employer should evaluate and a number of decisions to make. To get the most out of the ACA dashboard, an organization is encouraged to outline its ACA compliance strategy and plan. Additionally, as with all compliance situations, documentation of the plan and ongoing compliance is important.

The information below is not intended as benefit, legal, financial, or tax advice. Employers should consult with their Legal and/or financial trusted advisor to determine the best plan for their organization.

To get the most out of the ACA dashboard, an organization is encouraged to outline its ACA compliance strategy and plan.

Evaluation steps

1. **Applicable Large Employer status**
2. **Collect and calculate the average Full-Time Equivalent employees (FTEs)**
3. **Full-Time employees**
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5. **Establishing measurement, administrative, and stability periods**
6. **Data**

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Step one—Applicable Large Employer status

The Affordable Care Act (ACA) requires many employers to offer affordable health insurance to their Full-Time employees (and their dependents) or be subject to fines. This is referred to as the Employer Shared Responsibility Tax or the "Pay or Play" Tax. An employer's obligations and tax liabilities, along with deadlines for meeting the requirements of the new law, are determined by a company's status as an Applicable Large Employer. An employer's Applicable Large Employer status is based upon its average number of FTE employees employed in the prior year. If an employer employed 50 or more FTE employees in the prior year, it is considered an Applicable Large Employer.

> *If IRS aggregation testing concludes that the companies are a controlled group, affiliated group, or an associated group, then your Full-Time Equivalent employee count may include multiple companies.*

An employer's obligations and tax liabilities, along with deadlines for meeting the requirements of the new law, are determined by a company's status as an Applicable Large Employer.

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Step two—Collect and calculate the average Full-Time Equivalents (FTEs)

To determine Applicable Large Employer status, an employer must provide employee data for the entire 2014 calendar year. However, for the 2014 calendar year only, an employer is also permitted to a use a six-month consecutive period average of employee data to determine Applicable Large Employer status. In subsequent years the average must be for the entire calendar year. For the first time there are clear definitions of Full-Time employees. Current regulations indicate that if an employee is expected to work 30 or more hours per week then the employee is considered Full-Time. The steps below outline the process for calculating FTEs on a monthly basis.

Obviously many employers know their status as an Applicable Large Employer; therefore, the calculation below may not be of significant value. This is information that will be reported by Applicable Large Employers.

The purpose of this exercise is to calculate FTEs.

1. **For each month you are required to track, determine and document the number of Full-Time employees for the month.** (Full-Time employees are any employee that works 30 or more hours per week including hourly, salaried, and exempt employees.)

> Example:
>
> **Month One (A) ___________ Full-Time employees**

2. **For each month you are required to track, determine and document the number of hours worked by Non-Full-Time employees.**

> Example:
>
> **Month One ___________ hours worked by Non-Full-Time employees**

Remember all paid hours of Non-Full-Time labor must be accounted for. The common law definition of an employee under IRS regulations applies here.

3. **Take the hours worked by Non-Full-Time employees and divide by 120.**

> Example:
>
> **Month One ___________ /120 = (B)**

4. **Add (A) + (B) = FTEs for the month**

> Example:
>
> **Month One (A) ___________ + (B) ___________ = ___________ FTEs for the month**

5. **Average all the months that are counted for the year to determine your FTEs for the year.**

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Step three—Full-Time

It is imperative that positions are classified (Full-Time or Non-Full-Time) correctly, as tax liabilities can apply if employees are not classified correctly. First, all current positions must be evaluated to ensure that the positions meet the current regulations. If current positions or employees have or are expected to average 30 or more hours per week then these positions are now considered Full-Time by regulation. For new positions, if it is believed that the position will average 30 or more hours a week then the position is to be considered Full-Time. There are some facts that an employer can use in determining if a positions is Full-Time.

- Was the employee replacing an employee who was (or was not) a Full-Time employee?
- The extent to which hours of service of ongoing employees in the same or comparable positions have varied above and below an average of 30 hours of service per week during recent measurement periods
- Whether the job was advertised or otherwise communicated to the new hire or documented as requiring hours of service that would average 30 (or more) hours per week

All employers should validate that all of their systems (payroll, HR, and so on) reflect the correct classification of positions. If positions and employees are not classified correctly then it will impact an employer's ACA compliance and make documentation exceedingly difficult.

It is imperative that positions are classified (Full-Time or Non-Full-Time) correctly, as tax liabilities can apply if employees are not classified correctly.

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Step four—Non-Full-Time

After determining which employees are Full-Time by definition and ensuring positions are classified correctly, an Applicable Large Employer then implements a process for monitoring and tracking its Non-Full-Time employees. Basically there are two options provided.

The first is the **Monthly Measurement Method**. In this method an employer determines each employee's Full-Time or Non-Full-Time status each month. This method causes many practical difficulties, as an employee's status could literally change each month, and an employer would have the administrative task of figuring the employee status out each month. Therefore an alternative option for categorizing employees was introduced by the IRS.

The other option is utilizing the **Look Back Measurement Method**. In this method employers choose a period of time to track, average and analyze the hours a Non-Full-Time employee works. The period of time that an employee is tracked is called a Measurement Period and is between 3 and 12 months as selected by the employer.

The employees tracked during the Measurement Period fall into two categories, which are Ongoing employees and New Variable Hour employees. Ongoing employees have worked for the organization the length of at least one Standard Measurement Period. New Variable Hour employees have not worked for the organization the length of one Measurement Period. Because New Variable Hour employees have a recently been hired, they have a unique start date to their Initial Measurement Period.

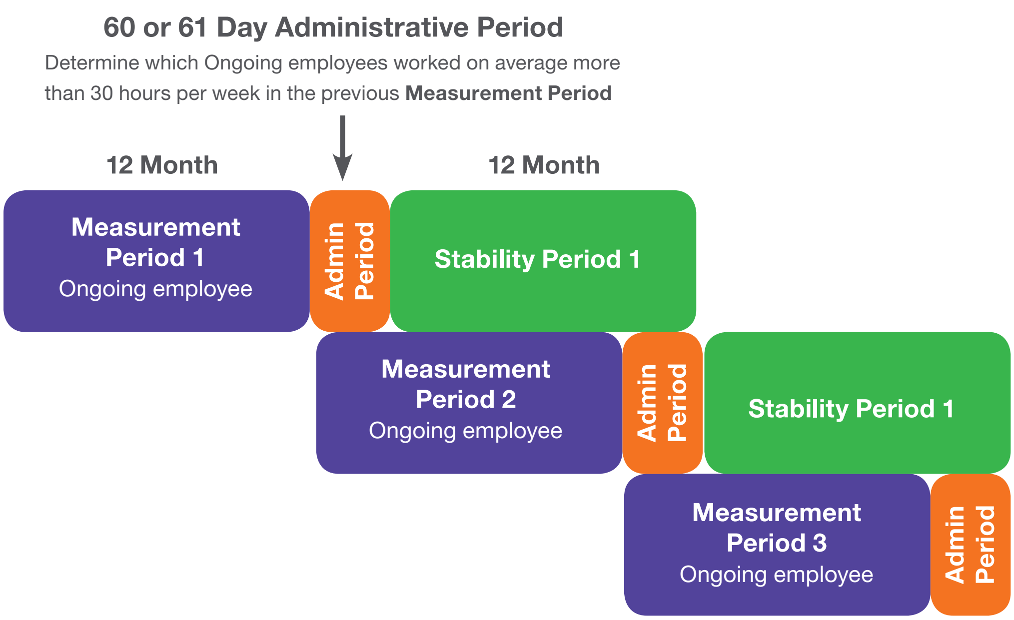
After determining which employees are Full-Time by definition and ensuring positions are classified correctly, an Applicable Large Employer then implements a process for monitoring and tracking its Non-Full-Time employees.

Subsequent to the Measurement Period is an Administrative Period, which is between 0 and 90 days in length, as determined by the employer. During the Administrative Period the employer will complete a number of administrative tasks, such as document the hours each employee worked and offer any benefits an Ongoing or New Variable Hour employee may be eligible for.

The Stability Period immediately follows the Administrative Period. During the Stability Period an employee's status as Full-Time or Non-Full-Time (based on the average weekly hours of service that were worked during the Measurement Period) is locked in for the entire Stability Period regardless of how many hours averaged during the Stability Period. Therefore any employee who averages 30 or more hours during a Measurement Period would be considered full-time for the length of the Stability Period, and an employee who worked less than 30 hours on average during a Measurement Period would considered non-full-time for the length of the Stability Period. The Stability Period is automatically set at the greater of six months or the length of the Measurement Period.

Note that the Initial Measurement Period and Administrative Period for New Variable Hour Employees combined cannot be more than 13 months.

So once this process begins, it continues. The graphic below provides a view of how Ongoing employees would move through Measurement, Administrative, and Stability Periods.



A question that often comes up at this point is, what are other employers doing and why? While each employer should implement the best plan for its organization, there are a few common scenarios. As outlined above, many organizations are picking long Measurement Periods, specifically 12 months. This minimizes the administrative burden for the organization and limits the impact of seasonal variations in scheduling. Additionally, organizations are often aligning the start of the Stability Period for their

Ongoing employees to coincide with the start of their existing health plan year. This alleviates the need for multiple open enrollments for their Ongoing employees. For New Variable Hour employees, organizations are typically picking the first day of the calendar month after they start as the start date for their Measurement Period rather than the day that they actually start. Again this minimizes the administrative burden for the employer.

5 Step five—Establishing measurement, administrative, and stability periods

The decision tree below walks an employer through setting up Measurement, Administrative, and Stability Periods.

For Ongoing Salaried and Ongoing Hourly Employees:

1. **Choose the length of the Ongoing Salaried and Hourly Employee Measurement Period.**
   The employer can choose anywhere between a 3- and 12-month Measurement Period. During this Measurement Period the employer will keep track of the average weekly hours worked by its Ongoing salaried and hourly employees.
2. **Choose the start date for the Ongoing Salaried and Hourly Employee Measurement Period.**
3. **Choose the length of the Ongoing Salaried and Hourly Employee Administrative Period.**
   The employer can choose anywhere between a 0- and 90-day Administrative Period. During the Administrative Period the employer can take such actions as: determining average weekly hours worked during the Measurement Period, determining coverage eligibility, and beginning enrollment for eligible individuals.
4. **The length of the Stability Period is automatically assigned as the greater of six months or the length of the Measurement Period.**

For New Variable Hour Employees:

1. **Choose the length of the New Variable Hour Employee Measurement Period.**
   The employer can choose anywhere between a 3- and 12-month Measurement Period. During this Measurement Period the employer will keep track of the average weekly hours worked by its New Variable Hour Employees.
2. **Choose the start date for Initial Measurement Period.**
   Choose between the employee's start date OR the first day of the first calendar month after the employee's start date.
3. **Choose the length of the Administrative Period.**
   The employer can choose anywhere between a 0- and 90-day Administrative Period. For New Variable Hour Employees the length of the Measurement and Administrative Period cannot exceed 13 months.
4. **The length of the Stability Period is automatically assigned.**

6 Step six—Data

Once ACA compliance decisions have been outlined, it is important to ensure that current data sources such as payroll and time and attendance system have accurate information. The ACA Dashboard relies on a number of key data elements to produce the ACA compliance and associated documentation. Because of the complexity of the ACA it is essential that the data elements required are available and accurate. This also means that the ongoing data needs to be maintained. Data elements such as hire date and termination date are significant related to the ACA and therefore need to be maintained.

For the initial data upload most users upload some historical data. The number of months uploaded often depends upon the length of the tracking periods.

Most users will upload historical data into ACA Comply and the ability for customers to import data into the system is available. As a Sage Payroll customer, we will automatically import all payroll history we have processed back to October 1, 2013 to provide you the maximum measurement period window.

Compliance documentation

A key best practice in ACA compliance is documentation. Documentation of Measurement, Administrative and Stability Period length, and start dates along with an employer's Applicable Large Employer status are foundational to ACA compliance. On at least a monthly basis, ongoing compliance documentation should be maintained, which includes FTEs for the month, average hours by tracked employee, and employees in Administrative Periods. Further documentation* includes when health insurance is offered and any associated written of waived coverage. All of these elements address different potential tax liabilities.

* For more information on these topics and further information regarding the Affordable Care Act Tax Provisions, please visit: http://www.irs.gov/Affordable-Care-Act

Sage
305 Fellowship Road, Suite 300
Mt. Laurel, NJ 08054

888-591-5151

NA.Sage.com/us/Sage-Payroll-Services

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