



# UNDERSTANDING ACA COMPLIANCE

REDUCING ORGANIZATIONAL RISK





# ACA Compliance Management

Under the Affordable Care Act (ACA), employers bear significant responsibilities, which range from identifying their full-time workforce to providing affordable and timely benefits. They must also document their health insurance coverage offers, costs, and comply with varying reporting requirements as dictated by states and the IRS, each with unique rules, schedules, and technical specifics.

The Employer Shared Responsibility Provision, known as the employer mandate, is a component of the ACA enforced by the IRS. This applies to companies who employed an average of 50 or more full-time workers or equivalents during the preceding year. This provision imposes penalties on employers who fail to offer health insurance coverage or those whose coverage doesn't meet prescribed standards for eligible individuals.

Businesses with less than 50 full-time employees (or equivalents) are not mandated under the ACA to provide health insurance. However, if they opt to do so, their plan must comply with the ACA's Minimum Essential Coverage (MEC) guidelines.

**Substantial financial penalties may be faced by employers who either fail to meet the compliance deadlines or do not correctly document their compliance. There are two distinct types of penalties— the 4980H(a) and the 4980H(b) penalties.**

**For 2022, the 4980H(a) monthly penalty of \$2,750 divided by 12 for each employee is imposed on employers who:**



**Fail to offer affordable Minimum Essential Coverage (MEC)...**

...to 95% of their full-time employees (FTEs) and their dependents (minus the first 30 FTEs),

**And**



**Have at least one FTE who is receiving a Premium Tax Credit (PTC)...**

...for obtaining coverage through the Marketplace.

Employers risk incurring the 4980H(b) penalty if they fail to offer coverage that is affordable (where the premium cost or employee contribution surpasses the 9.61% ACA affordability threshold) and fulfills the ACA Minimum Value standards. If even one employee receives a Premium Tax Credit (PTC) from a federal or state exchange, this monthly penalty in 2022 would be \$4,120 divided by 12 for each such employee. An employer only risks being penalized with either 4980H(a) or 4980H(b) each month but not both simultaneously.

Employers can also incur penalties if they fail to correctly file their ACA information returns within the stipulated timeframes—a failure-to-file fine of \$280 per return. Should the failure to file be deliberate, this penalty is increased to \$570 per return. The complexity of the ACA means that non-compliant companies could face substantial penalties. It's crucial for these companies to efficiently navigate both federal and state health coverage reporting requirements as well as the employer mandate to prevent any potential significant penalties related to ACA compliance.

Adding to this complexity are new and ever-changing obligations that concentrate on an employee's place of residence rather than their workplace. State-specific stipulations regarding health care compliance for employers - including deadlines, formats, and additional requirements - add further layers of complexity.



During the first year of ACA IRS penalty notices, the IRS distributed 50,000 penalty notifications amounting to \$4.5B. It's anticipated that penalties will keep rising as per the existing IRS penalty schedule.



## ACA Compliance Challenges

Initially, complying with the ACA might appear to be relatively simple, albeit a bit monotonous—Applicable Large Employers (ALEs) must offer affordable, high-quality coverage for their full-time employees. Additionally, they're required to notify the IRS regarding whether they extended this coverage and whether their employees accepted it.

**However, overseeing ACA compliance isn't as simple as it seems, and there are five major hurdles to overcome:**



- 1 Determining employee eligibility**

Employers having an average of 50 or more full-time workers or equivalent in the prior year are obliged to offer affordable, timely coverage that fulfills Minimal Essential Coverage (MEC) and Minimum Value (MV) requirements to a minimum of 95% of full-time staff and their dependents. However, this requirement involves developing an effective strategy to identify full-time employees. Additionally, employers must record insurance coverage offers, noting whether each employee accepted or rejected the offer, to accurately report this information later.
- 2 Providing Affordable Coverage to Identified Eligible Full-Time Employees**

IRS regulations require large employers to provide coverage that costs full-time workers no more than 9.61% (for 2022) of their household income for employee-only coverage. Also, employers must consider factors like the impact of wellness programs and incentives on affordability. Rather than relying on household income, the ACA provides employers with three conventional "safe harbor" methods to certify coverage affordability. Additional "safe harbors" are also provided for Individual Coverage Health Reimbursement (ICHRA) plans.

  - a) W-2 wages**

This can be utilized when an employer has full-time employees (FTEs) working a 40-hour week.
  - b) Rate of pay**

This method is used when a company has hourly workers categorized as full-time. This approach is centered around the lowest-paid employee and applies the same premium threshold across all employees.

### c) Federal poverty level

Although this method is the easiest, it typically results in the lowest premium threshold. You take the current federal poverty level and divide it by 12. If the premiums don't exceed 9.61% (the rate for 2022), then the coverage is deemed affordable.

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#### **Thorough and precise documentation, from determining eligibility to extending offers**

Although your organisational practices may yield ACA eligibility measurement outcomes and prompt health insurance coverage offers, does your data (and the system that records it) supply accurate, comprehensive, and error-free information?

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#### **On-time and accurate reporting to the IRS and applicable states**

This is often considered one of the leading challenges owing to the large quantities of data required, often scattered across various departments like HR, payroll, and benefits. These departments might operate on different systems that may not necessarily communicate with each other, resulting in isolated data pockets and making the reporting process quite difficult and unwieldy.

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#### **Investigate, record, and address ACA IRS penalty notices, marketplace notices, and potential state agency notifications**

Marketplaces can issue notices to employers to verify eligibility and offers for employees, and if an employer fails to meet the relevant ACA requirements, they may receive multiple notices from the IRS resulting in penalties. The most effective strategy for employers is not only to align business operations with their ACA strategies but also to keep their data and practices up-to-date, offer coverage that is both timely and affordable, and be prepared to supply evidence and paperwork in response to any notice received regardless of the issuing agency.

The intricacy and effort involved in responding to penalty/exchange notifications necessitate a point-person in your organization with the requisite expertise, access to various data points, and the time for thoroughly researching and crafting responses.

The reporting process can become even trickier when you employ workforce across multiple states (both their residences and workplaces), have numerous commonly owned companies, or your employees work across diverse companies. Keeping track of constantly changing legislation can also be a herculean task. With the IRS and individual states enforcing disparate regulations, penalties, deadlines, transmission, and filing requirements, employers must grapple with substantial risks and responsibilities.



## How Tesseon's ACA Filing and Reporting Services Help to Address These Challenges

Tesseon's ACA Filing and Reporting service is extensive and powerful, going beyond merely preparing and filing ACA-required documentation for annual reporting cycles. The technology utilized by Tesseon is designed to assist employers in managing a comprehensive ACA strategy and is committed to allowing clients to proactively avoid penalties. Backed by smart technology and unparalleled data visibility which ensures a smooth year-end reporting experience, Tesseon's ACA Reporting and Filing when combined with Tesseon's HCM suite is automatically integration with HR, payroll, benefits and time and attendance.

The solution provided by Tesseon's ACA Filing & Reporting takes a proactive stance, aiming to help clients pinpoint and address potential ACA compliance issues each month, significantly before any potential penalty notices are dispatched.

Moreover, Tesseon's ACA Solutions assists you with:



### **Avoiding ACA penalties proactively**

Tesseon is committed to providing you with the utmost value in your ACA strategy. Our comprehensive solution leverages intelligent technology and a dedicated Account Management team with extensive ACA expertise. With our unique combination of resources, we empower you to proactively avoid penalties by ensuring complete visibility into your compliance status at every stage of the year. From ACA Eligibility and Affordability to IRS and state Health Coverage Reporting, our solution tackles a wide range of challenges. Gain valuable insights into your compliance status by employee, by month, and by FEIN, safeguarding your organization from potential penalties. Trust Tesseon's ACA Solutions to support your ACA strategy and empower your organization with unbeatable compliance assistance.



## Monthly automated compliance calculations.

Tesseon completes three defined computations utilizing your specific data, providing a clear insight into your ACA compliance tracking and monitoring. This process serves to determine your employees' eligibility for the ACA. Additionally, Tesseon closely observes data and anticipated outcomes for:

- Logic for Rehiring
- Assessments of ACA full-time status
- Evaluations of Affordability
- Pinpointing all pertinent affordability safe harbor provisions
- Monthly evaluation of MEC threshold per FEIN.
- Calculations for Time Off Work



## Management of exchange, penalties, and regulations.

Contracts competent problem-solving, rectifications, documentation, and responses; your experienced customer care representative aids you in making swift rectifications and responses to:

- Notification of Exchange
- Notices Regarding ACA IRS Penalties
- Penalty Notices for State Employer Reporting



## Monitoring and tracking of governmental and agency regulations.

Tesseon remains vigilant in tracking the dynamic landscape of the ACA and health care reform, regularly updating our reporting systems to reflect the latest changes in rules and regulations.



## Managed automation of data accuracy.

Tesseon actively highlights any data conditions or missing information that could potentially breach compliance, assisting you in creating timely and accurate reports for the IRS and relevant state bodies. Moreover, we help you address any requisite actions needed throughout the year.



## Professional and experienced support.

From the initial deployment stage to addressing penalty notifications, moving up to meeting federal and state mandates, Tesseon's team is well-equipped to offer anticipatory, expert help to employers.





### **Set-up of regular, automated integration from Tesseon's payroll, HR and benefits system.**

Starting at the implementation stage, Tesseon ensures seamless data collection and continuous monitoring for near real-time results throughout the year. This data is fundamental for all ensuing assessments, findings, and form preparations; from proposing affordable and opportune coverage, discerning eligible ACA full-time workers, to creating comprehensive and correct year-end documentation for both the IRS and the relevant states.



### **Efficient and precise end-of-year print and data transmission.**

For meeting the ACA IRS and state-specific employer reporting obligations, featuring a single approval process accommodating both IRS and the individual requirements of California, New Jersey, Rhode Island, and Washington DC.



### **Forms 1094-C/1095-C that are consistently available and pre-populated on-demand.**

Tesseon provides diligent monthly oversight and creates a seamless year-end process, effectively reducing data inconsistencies and possible sanctions at the most suitable moment.

