Healthcare Reform in 2014 and Beyond

What individuals and employers can expect

BY KARA BACKUS

We have entered a critical year for healthcare reform, as this is the year in which many of the requirements of the Affordable Care Act ("ACA"), or "Obamacare," go into effect. Many of us are still holding our breath to see how the complex process of implementing this vast array of changes to the healthcare system will play out, and what the healthcare experiences of individuals and employers will be under the new system.

How the ACA Affects Individuals

For individual consumers of healthcare, many important changes took effect on January 1, 2014. As most readers are aware, January 1 was the first day for new coverage purchased under each state's healthcare exchange. The exchanges are intended to allow individuals to shop for policies, compare plan coverages side-by-side, and see if premium tax credits are available. Under the ACA's "individual mandate," individuals who do not have coverage through an exchange, or through another source such as an employer-provided plan, Medicare or Medicaid, by March 31, 2014, will be required to pay a penalty for 2014 equal to the greater of $95 or 1 percent of household income. These penalties will steadily increase to the greater of $695 or 2.5 percent of household income by 2016. On the positive side for individuals in 2014, coverage has improved because of the following restrictions that apply to most plans:

- Coverage may not be denied based on an individual's pre-existing condition;
- No annual limits may be imposed on any of the 10 "essential health benefits" identified by the law, including preventive care, maternity coverage, prescription drugs and mental healthcare;
- Waiting periods of more than 90 days are prohibited for individuals who have met the plan's or policy's eligibility requirements; and
- Cost-sharing limits and limits on out-of-pocket costs apply to most health plans.

How the ACA Affects Employers

For employers sponsoring health plans, the arrival of 2014 means that most plans must now comply with the coverage restrictions described above. Employers sponsoring self-insured plans may also be impacted by a reinsurance fee in 2014 that is intended to help stabilize premiums market-wide. Small employers may be eligible for an increased tax credit in 2014 of up to 50 percent (35 percent for tax-exempt employers) of the cost of premiums paid for employee health insurance offered through an exchange.

Under the ACA's "shared responsibility" regulations, "large" employers with 50 or more full-time employees (those averaging at least 30 hours per week) will be required to provide health coverage to full-time employees and their dependents as of January 1, 2015. The year 2015 feels far away, but many employers have already started tracking the full- or part-time status of employees in order to comply with the safe harbor established by the Internal Revenue Service for determining whether a particular employee will be entitled to coverage next year. Under the safe harbor, employers must calculate employee hours for the 3- to 12-month measurement period prior to the enforcement date. Particularly for employers with significant numbers of part-time employees, determining the full-time status of employees under the IRS safe harbor could be a complex process.

If a large employer fails to provide coverage to any full-time employee as of January 1, 2015, or provides coverage that is either not "affordable" or fails to cover at least 60 percent of the cost of coverage, then the employer may become subject to severe "pay or play" penalties of up to a maximum of $2,000 for each full-time employee. Employers of all sizes should be informed of the new rules that apply to them during this rapid period of change.

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