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AFFORDING THE PATIENT PROTECTION AND AFFORDABLE CARE ACT IN 2014 AND BEYOND

Introduction

As we all know, in 2010 Congress passed The Patient Protection and Affordable Care Act as one of the most sweeping pieces of legislation regarding healthcare in this country. Contained within the PPACA are dozens of provisions including healthcare exchanges, mandates, credits, and rules, rules, rules galore. Of the more well known provisions are the healthcare mandates for both the employer and the employee. Unfortunately, nothing else in the entire rest of the ACA sparks such controversy and fear as the mandates. It doesn't have to be that way for employees or employers. The following will explain the mandates.

Individual Mandate

With the new law comes an obligation for all individuals to be insured. Those individuals who refuse to get coverage will face a fine of up to $695 per year to a maximum of $2,085 per family per year or 2.5% of the household income over the amount subject to income tax, whichever is greater. The penalty is being phased in as follows: 2014 - $95 or 1%, 2015 - $325 or 2%, 2016 - $695 or 2.5%. The penalty then increases after 2016 based on a cost of living adjustment. For some individuals, it may be less expensive to pay the fine as opposed to purchasing health insurance. However, be aware that the $695 penalty is a penalty by means of The Internal Revenue Code. In other words, the penalty must be paid or such individuals will face the IRS for collection.

Government Tax Credits

In order to pay for the individual mandate for insurance, the federal government is offering tax credits to individuals who are not eligible for Medicare, Medicaid, or are not covered by their employers for health insurance. The tax credits do not become effective until 2014 and are available for individuals and families making between 100% and 400% of the federal poverty guidelines. The current federal poverty level for a family of four is $23,550, therefore 400% of the federal poverty level is $94,200.

In the simplest of terms, this credit works as follows:

1) the individual purchases insurance from an insurance exchange.

2) The individual tells the insurance exchange what his/her income is,

3) The IRS issues a credit and pays the insurance exchange a fee; and, finally 4) the individual pays the insurance exchange the difference.

The Employer Mandate

In the new law, there is a mandate or requirement that employers provide/offer insurance to employees. There is a dichotomy between employers employing 50 employees or more and those employers employing 49 employees or less. Those employing 50 or more face penalties if their employees elect the government credits for their health insurance purchases. Small businesses employing 49 employees or less are under no such penalties.

Within the law, there are two classes of employers: small and large. Companies such as General Motors, Wal-Mart, and Sears quite easily fall into the large employer designation. Other companies, such as small law firms, dental offices, and medical offices will easily be in the below 50 category. Then, there are companies such as restaurants owned by franchisees that tend to fall between the cracks. These are the firms that face the most confusion and risks.

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