ACA Impact on Contingent Labor Providers

February 2014
Executive Summary

Contingent Labor providers are approaching buyers for price augmentation due to the ACA, however these price changes may not be justified based on the supplier’s situation.

- **Implementation of Law**– Numerous delays have occurred since the bill was passed and full implementation is now expected to occur in 2016. Contracts should be reviewed to ensure that the most recent timing of the law is taken into consideration.

- **Coverage Requirements**– By 2016, all companies with 50+ FTEs must offer affordable (i.e. cost to employee must be less than 9.5% of family income) healthcare that covers at least 60% of medical costs plus 10 essential benefits to their full time employees or face penalties.

- **Penalties**– Companies will face a penalty of $2,000 per full time employee minus the first 30 full time employees if they do not offer coverage to their workers and $3,000 per full time employee that buys insurance off of an exchange, up to a maximum of $2,000 times the number of full time employees minus 30 if employees can buy coverage on an exchange at a cheaper price.

- **Potential Impact & Analysis Required**– Impact will vary by company and across the board increases in markups should not be accepted. Existing coverage, location, base wages, and employers’ projected share of premium costs need to be reviewed to determine if any markup increases are necessary.
Affordable Care Act Quick Facts

- **Companies Impacted:**
  - 0-49 FTEs: No impact
  - 50-99 FTEs: Must cover full time employees by 2016, or face penalties
  - 100+ FTEs: Must cover 70% of full time employees by 2015 and 95% of full time employees by 2016, or face penalties

- **Coverage Required:**
  - Employer healthcare must cover at least 60% of Healthcare costs for a typical population
  - Health plans must cover 10 ‘Essential Benefits’ (outpatient care, emergency services, hospitalization, maternity and newborn care, mental health and addiction treatments, prescription drugs, rehabilitative services and devices, laboratory services, preventive services, and pediatric services)
  - Employee cannot pay more than 9.5% of household income for coverage
  - Employees must be allowed to sign up for affordable insurance within 90 days of their start date
  - Companies are not required to cover employees who work less than 30 hours per week or 130 hours in a month

- **Penalties**
  - If employee refuses coverage, they will pay an individual fine
  - Companies pay non tax deductible fines of $2,000 to $3,000 per full time employee if coverage is not offered, is not adequate or is too expensive
  - Company fines will increase each year with the rate of insurance premium increases
Affordable Care Act Timeline
Numerous delays have occurred since the bill was passed in 2009.

March 2010
President Obama signs the ACA into law

October 2013
Individual exchanges open.

January 2014
Individual mandate goes into effect. Penalty is $95 per adult and $47.50 per child (up to $285 per family) or 1% of family income, whichever is greater.

January 2015
• Corporations with 100+ FTEs must offer affordable care to 70% of their full time employees
• Individual penalty increases to $325 per adult and $162.50 per child (up to $975 per family) or 2% of family income, whichever is greater

January 2016
• Companies with 50+ FTEs must offer affordable care to 95% of their full time employees
• Individual penalty increases to $695 per adult and $347.50 per child (up to $2,085 per family) or 2.5% of family income, whichever is greater

Spring 2010
Office to build insurance exchanges is created directly within the office of Health & Human Services Secretary

July 2013
The Treasury Department announces it will delay the requirement that employers of 50 FTEs or more provide insurance starting in 2014 by one year

February 2014
Administration announces that employer mandate for companies with 51-99 FTEs is delayed until 2016. Companies with 100+ FTEs only need to cover 70% of their full time employees in 2015 and 95% in 2016.

Source: Washington Post, Kaiser Family Foundation
ACA Coverage Requirements and Penalties
Various factors help determine if a company will face a penalty.

Does the Employer have at least 50 FTEs?

- Yes: Does the employer offer coverage to its workers?
  - Yes: Does the insurance pay for at least 60% of healthcare expenses for a typical population?
    - Yes: Do any employees have to pay more than 9.5% of family income for employer coverage?
      - Yes: Employees can choose to buy coverage in an Exchange and receive a premium tax credit.
        - No: Those employees can choose to buy coverage in an Exchange and receive a premium tax credit.
          - No: The employer must pay a penalty of $3,000 annually for each full time employee receiving a tax credit up to a maximum of $2,000 times the number of full time employees minus 30. The penalty is increased each year by the growth in insurance premiums.
            - No: There is no penalty payment required of the employer.
  - No: Did at least one employee receive a premium tax credit or cost sharing subsidy in an Exchange?
    - Yes: The employer must pay a penalty of $2,000 annually times the number of full time employees minus 30. The penalty increases each year by the growth in premiums.
      - No: Penalties do not apply.
    - No: Employees can choose to buy coverage in an Exchange and receive a premium tax credit.
      - Yes: Those employees can choose to buy coverage in an Exchange and receive a premium tax credit.
        - No: The employer must pay a penalty of $3,000 annually for each full time employee receiving a tax credit up to a maximum of $2,000 times the number of full time employees minus 30. The penalty is increased each year by the growth in insurance premiums.
          - No: There is no penalty payment required of the employer.

Source: Internal Revenue Service, Kaiser Family Foundation
Employer Shared Responsibility Assessments

Penalties have been put in place to discourage companies from having their employees receive subsidized insurance on the marketplaces or state exchanges.

<table>
<thead>
<tr>
<th>Situation</th>
<th>Penalty</th>
<th>No Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company does not offer healthcare to its employees and their dependents. At least one employee buys coverage from the marketplace and receives a tax credit.</td>
<td>X¹</td>
<td></td>
</tr>
<tr>
<td>50 – 99 FTEs during 2015</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>50 – 99 FTEs during 2016</td>
<td>X¹</td>
<td></td>
</tr>
<tr>
<td>100+ FTEs during 2015 (&lt; 70% covered)</td>
<td>X¹</td>
<td></td>
</tr>
<tr>
<td>100+ FTEs during 2016 (&lt; 95% covered)</td>
<td>X¹</td>
<td></td>
</tr>
<tr>
<td>Employees sign up for Medicare or Medicaid</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Company does not offer affordable healthcare to its employees and their dependents. No employees buy insurance on the exchanges and receive tax credits.</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Company offers healthcare but it is not affordable or does not meet minimum coverage requirements</td>
<td>X²</td>
<td></td>
</tr>
<tr>
<td>Company offers affordable healthcare to its employees but…</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee refuses to sign up for insurance</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Employee buys coverage for themselves and/ or their dependents from marketplace and does not receive tax credit</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Employee’s spouse buys from marketplace and receives a tax credit</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Employees sign up for Medicare or Medicaid</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

Source: Internal Revenue Service

Note 1: Penalty is $2,000 per full time employee minus 30

Note 2: Penalty is $3,000 per employee that receives a tax credit up to a maximum of $2,000 times the number of full time employees minus 30.
Medicaid Expansion

In 26 states, companies that employ workers who earn ~$8.00 per hour can place those employees on Medicaid and not face penalties.

Medicaid Coverage

• When the ACA was passed, it included a provision to expand Medicaid eligibility to low income adults
• The Supreme Court struck down this provision in 2012 and 24 states have since refused to expand Medicaid
• Medicaid has been expanded allowing childless adults to gain coverage in 26 states if they earn at least 138% of the Federal Poverty Level (FPL)
  • In 2014, 138% of the FPL is $16,105 or $8.05 per hour
  • Minnesota and DC allow Medicaid for individuals earning $23,924 ($11.96 / hr) and $25,091 ($12.55 / hr) respectively
• Employers are not penalized under the ACA for employees that enroll in Medicaid

Source: Kaiser Family Foundation, Department of Health & Human Services, Cost & Capital Analysis
2016 Impact by State if Employees Pay Max\(^1\)
In 2016, companies with more than 50 FTEs will need to provide affordable insurance to 95% of their full time employees or face penalties.

### Markup Impact of Bronze Level Plan by State
(Employee Pays up to 9.5% of family income)

- Cheaper to pay penalty

Source: Kaiser Family Foundation, Cost & Capital Analysis
Note 1: Low wage employees in CA, NY, OH, MI, IL and MN may be able to enroll in Medicaid
2016 Impact by State if Employer Pays Half

In 2016, companies with more than 50 FTEs will need to provide affordable insurance to 95% of their full time employees or face penalties.

Markup Impact of Bronze Level Plan by State
(Employer pays at least 50% of Monthly Cost)

Cheaper to pay penalty

Source: Kaiser Family Foundation, Cost & Capital Analysis
Note 1: Low wage employees in CA, NY, OH, MI, IL and MN may be able to enroll in Medicaid
2016 Impact by Monthly Healthcare Cost

In 2016, companies with more than 50 FTEs will need to provide affordable insurance to 95% of their full time employees or face penalties.

Markup Impact by Wage Level by Monthly Healthcare Cost
(_employee pays up to 9.5% of family income)

Source: Cost & Capital Analysis
Note 1: Low wage employees in 26 states may be able to sign up for Medicaid
2016 Impact by Monthly Healthcare Cost

In 2016, companies with more than 50 FTEs will need to provide affordable insurance to 95% of their full time employees or face penalties.

Source: Cost & Capital Analysis
Note 1: Low wage employees 26 states may be able to sign up for Medicaid
Action Required
A review of ACA impact on contingent labor suppliers should include a detailed benchmark study of existing rates.

Current Situation
• Collect contracts
• Identify current level of healthcare coverage
• Identify gaps in coverage
• Identify portion of temporary population that may cause supplier’s costs to increase (e.g. tenure of more than 90 days, not Medicaid/ Medicare eligible, not currently offered affordable healthcare that meets minimum coverage requirements)
• Determine cost increase per employee, if any

Markup Review
• Gather markup rates by supplier, role and location
• Identify site attributes (location, wage, tenure, screening, workers’ comp, benefits, new costs healthcare, taxes)
• Develop cost model by site

Prioritize Opportunities
• Identify savings opportunity by supplier and site
• Determine contract end dates
• Set negotiations/ RFP schedule
• Assign responsibilities
• Define tracking method

Execute Opportunities
• RFP, if necessary
• Supplier negotiations
• Develop new contracts
• Execute new contracts
For more information contact:

Tom Bokowy, Partner
(208) 610-0032
Cost & Capital Partners LLC
tbokowy@costandcapital.com