Begin Preparing Now For the Affordable Care Act

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Nearly three years ago, Congress passed and President Obama signed the Patient Protection and Affordable Care Act, commonly referred to as Obamacare. Now that it has survived a Supreme Court challenge and last year's Presidential election, the ACA is ensured to remain in place for the foreseeable future.

If your business has delayed preparing for Obamacare due to the uncertainty that had been surrounding the law, you should delay no longer—the time to act is now. Most of the legislation will go into effect over the next year, with the biggest potential impact on businesses—the Employer Mandate—scheduled to become effective on January 1, 2014.

Are You Subject to the Employer Mandate?

The first step: Determine if your business will be subject to the Employer Mandate and thus required to offer a qualified health insurance plan to your employees beginning in 2014. To find out, you must determine how many full-time equivalent (or FTE) employees you have.

Unfortunately, it's not as simple as just adding up how many of your employees work at least 30 hours per week, which is the law's definition of a full-time employee. You must include the total number of part-time employees as well to determine how many FTEs you have. For example, if you employ 100 part-time workers, this would be considered the same as having 50 full-time employees, and thus you would be subject to the Employer Mandate.

All businesses that are subject to the Employer Mandate must offer an affordable health insurance plan to their full-time employees or pay an annual penalty (which is referred to as the Employer Shared Responsibility) of $2,000 for each FTE after the first 30. So if you have 50 FTEs, for example, and do not offer a qualified health insurance plan, your Employer Shared Responsibility would be $40,000.

The law defines an "affordable" health insurance plan as one in which the employee's contribution does not exceed 9.5 percent of his or her income. The plan must also provide "adequate" coverage, which means it must cover at least 60 percent of the employee's expected medical costs. If you are subject to the law, you must offer coverage to your employees' children under 26 years old, but you don't have to offer coverage to your employees' spouses.

Your employees can choose to either accept or decline the health insurance plan you offer them. As long as you offer a qualified plan, you have met the requirement for the Employer Mandate—your employees do not have to accept the plan. For example, some may be covered by a spouse's health insurance plan. Or they may simply choose to pay the Obamacare penalty for not purchasing health insurance, which is relatively small:

- 1 percent of income or $95, whichever is greater, in 2014
- 2 percent of income or $325, whichever is greater, in 2015
- 2.5 percent of income or $695, whichever is greater, in 2016 and beyond

Strategies to Consider

Your FTE calculation will be based on your staff levels in 2013. If the number of FTEs you employ is near or perhaps just above the threshold, you might consider reducing some employees' work hours to get below 50 FTEs. But also think about the potential unintended consequences of this action, like increases to other employees' workloads and decreased morale as some employees might view this as just a money-saving move with no regard for employee needs.

If you determine that you will definitely be subject to the Employer Mandate and you don't currently offer your employees a qualified health insurance plan, you must decide whether to do so before the end of this year or pay the Employer Shared Responsibility. Many different variables will go into this decision beyond just the dollars and cents calculation of which option will be less expensive for your company.

The biggest variable to think about is the impact that deciding not to offer health insurance—or worse, eliminating health insurance if you currently offer it—might have on the loyalty and morale of your workforce. Health insurance has long been considered by most employees to be a key part of their employee benefits package, and many will be discouraged and perhaps even frightened if this is taken away, regardless of how you try to explain or justify the decision.

So be sure to consider non-financial factors like this as well as the bottom-line financial impact of your decisions when it comes to complying (or not complying) with the Employer Mandate.

Concluding Thoughts

Los Angeles and Southern California CEOs and CFOs should begin preparing now for the potential impact of the Affordable Care Act on their businesses. There are a number of important strategic decisions that must be made before the end of this year, so the sooner you start planning, the better. A provider of outsourced CFO services can help you crunch the numbers and think through strategies so you make the best decisions for both your company and your employees.

About CFO Edge

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