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INC.



Health Care Reform

What You Need to Know

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Today's Discussion

Health Care Reform has been enacted. How does it affect your business?

- What it is
- Who it affects
- What you need to know now
- When provisions are effective
(when to take action)
- How Paychex can help



Presenters

Kelee Delaney, Esq.

Insurance Compliance Manager
Paychex, Inc.

Jessica Barber

Sales Trainer, Licensed Agent
Paychex Insurance Agency





It's the Law

- Health care reform – the new law
 - Senate bill, signed into law by President Obama on March 23, 2010
 - Reconciliation bill, signed into law by the President on March 30, 2010.
- Some provisions effective for plan years that begin six months following the enactment date or as soon as September 23, 2010
- Most provisions not effective until 2014



Who is Affected

- Small businesses – 25 employees and fewer
- Mid-sized businesses
- Large businesses – 200+ full-time employees
- Individuals with dependents up to age 26
- Individuals with FSA, HSA, or HRA
- Tax-exempt businesses



Key Provisions

- Tax credits for employers
- Reporting value of insurance plans on employee W2s
- Grandfathered plans
- Coverage for dependents up to age 26
- Non-discrimination
- CLASS Act
- Other provisions
 - FSA
 - HSA
 - HRA



Tax Credits

What You Need to Know Now

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Tax Credits

Effective Immediately

- 2010 tax credits for businesses that provide health insurance and that add on dental and vision coverage any time in 2010
- Tax credits are calculated based on premiums, employer contributions, and tax liability
- Not every employer will qualify and not all that qualify will be eligible for the full credit
- Credits taken on employer's 2010 tax returns
- Keep records of your 2010 premium payments
- See your tax advisor for any needed tax advice



Tax Credits

Who is eligible for maximum credit?

Businesses that meet the following requirements may qualify for the full credit of up to 35% of the employer-paid premiums.

Requirements include:

- 10 or fewer employees
- average annual wages of \$25,000 or less, and
- employer contribution is at least 50% of the total premium cost for each enrolled employee



Tax Credits

Who is also eligible?

Businesses that meet the following requirements may qualify for credit, but the amount of credit is dependent on employee count and average annual wages.

Requirements include:

- fewer than 25 employees
- average annual wages of less than \$50,000, and
- employer contribution is at least 50% of the total premium cost for each enrolled employee

Employers with 25 or more full-time equivalent employees are not eligible for the credit

Tax Credits

Full Time Equivalent (FTE) Definition

Refers to either a full-time employee or part-time employees as fractions of a single full-time employee.





Tax Credits - Qualification

1. Determine the number of full-time equivalent employees.
2. Determine how much on average you pay them.
3. Determine whether you pay at least 50% of everyone's insurance premiums.

3 SIMPLE STEPS

If you are a small employer (business or tax-exempt) that provides health insurance coverage to your employees, determine if you may qualify for the **Small Business Health Care Tax Credit** by following these three simple steps:

1 Determine the total number of your employees (not counting owners or family members): Full-time employees: _____ (enter the number of employees who work at least 40 hours per week) + Full-time equivalent of part-time employees: _____ (Calculate the number of full-time equivalents by dividing the total annual hours of part-time employees by 2080.) = _____ total employees If the total number of employees is fewer than 25 GO TO STEP 2	2 Calculate the average annual wages of employees (not counting owners or family members): Take the total annual wages paid to employees: _____ + Divide it by the number of employees from STEP 1: _____ (total wages + number of employees) = _____ average wages If the result is less than \$50,000, AND
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3 You pay at least half of the insurance premiums for your employees at the single (employee-only) coverage rate, then

» you may be able to claim the **Small Business Health Care Tax Credit**.
Find out more information at IRS.gov

*Courtesy of IRS.gov



Tax Credits - Example

Client Information¹

- 9 FTE paid \$23,000 each
- Company offers single and family coverage
- Company pays 50% of premium
- Single coverage premium is \$4,000/year
- Family coverage premium is \$10,000/year
- 4 employees with single coverage
- 5 employees with family coverage
- State average for single premium is \$5,000/year
- State average for family premium is \$12,000/year

$\$4,000 \times 50\% = \$2,000$ Employer Paid Premium for single coverage

$\$10,000 \times 50\% = \$5,000$ Employer Paid Premium for family coverage

State average for single coverage = $\$5,000 \times 50\% = \$2,500$, which is \$500 more than the ER pays. State average for family coverage = $\$12,000 \times 50\% = \$6,000$, which is \$1000 more than the ER pays.

The credit is calculated by:

$(4 \times \$2,000) + (5 \times \$5,000) = \$33,000$ (\$8,000 + \$25,000)

Maximum credit is equal to 35% of \$33,000 or \$11,500 for this employer.





Tax Credits

2010 and Beyond

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Tax Credits

Phase 1: 2010 – 2013

- Claimed on employer's annual income tax return
- Cannot be used to offset payroll taxes

Tax-exempt Small Businesses

- Full credit = 25% of employer's contribution to health insurance

Non Tax-exempt Small Businesses

- Full credit = 35% of employer's contribution to health insurance

Tax Credits

Phase 2: 2014 and later

- Purchase of qualified insurance through health insurance exchanges, which will be created
- Credit limited to two consecutive years

Tax-exempt Small Businesses

- Full credit = 35% of employer's contribution to health insurance

Non Tax-exempt Small Businesses

- Full credit = 50% of employer's contribution to health insurance



Reporting Insurance Value on W2s


What You Need to Know Now

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W2 Reporting

Effective January 1, 2011

Employers required to report aggregate value of the benefits they provide for all health coverage, excluding salary reduction contributions to medical FSAs, on employees' Forms W-2.

Employee's social security number		Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile.			
b Employer identification number (EIN)		1 Wages, tips, other compensation	2 Federal income tax withheld		
c Employer's name, address, and ZIP code		3 Social security wages	4 Social security tax withheld		
		5 Medicare wages and tips	6 Medicare tax withheld		
		7 Social security tips	8 Allocated tips		
d Control number	9 Advance EIC payment		10 Dependent care benefits		
e Employer's first name and initial Last name Suffix		11 Nonqualified plans	12a See instructions for box 12		
		13 Health, dental, vision, life insurance, long-term care	12b		
f Employer's address and ZIP code		14 Other	12c		
			12d		
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locally witheld

Form **W-2** Wage and Tax Statement **2009** Department of the Treasury—Internal Revenue Service
Copy B—To Be Filed With Employer's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.



Reporting Insurance Value on W2s 2010 and Beyond

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W2 Reporting

Effective January 1, 2018

Plan administrators or insurers will be charged a 40% excise tax if the total value of the employer-sponsored health coverage* is above \$10,200 for single coverage or \$27,500 for family coverage.



*Dental and Vision Plans Excluded

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Grandfathered Plans

What You Need to Know Now

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Grandfathered Plans

Definition

A plan is grandfathered if it provided coverage to participants on or prior to March 23, 2010.



Effective Now

Grandfathered plans are exempt from certain Health Care Reform requirements.



Grandfathered Plans

Regulations Released June 14, 2010

How to maintain your plans grandfathered status:

- **Include a statement, in any plan materials provided to participants or beneficiaries, describing benefits provided that the plan or health insurance coverage believes that it is a grandfathered health plan, and**
- **Provide contact information for questions and complaints.**
 - **Model language is provided in these interim final regulations that can be used to satisfy this disclosure requirement.**



Grandfathered Plans

Regulations Released June 14, 2010

What can cause your plan to lose grandfathered status:

- change in insurance carriers,
- eliminate benefits to diagnose or treat particular condition,
- increase percentage cost-sharing requirement,
- increase certain fixed-amount cost-sharing and co-payments,
- decrease employer contributions by more than 5% below their contribution rates on March 23, 2010, and
- changes annual limits.

Grace Period:

- For plans and policies that made changes – in good faith – immediately following health care reform enactment, based on their interpretation of the statutes.



Grandfathered Plans

2010 and Beyond

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Grandfathered Plans

Effective January 1, 2011

Most plans must be amended to:

- prohibit annual and lifetime benefit caps on essential health benefits
- prohibit cancellation of insurance coverage unless intentional misrepresentation
- prohibit pre-existing condition exclusions for participants under 19
- not allow reimbursements from FSA, HSA, and HRA for non-prescribed OTC medications
- increase the penalty on HSA distributions for non-medical expenses from 10% to 20%



Age 26 Adult Dependents

What You Need to Know Now

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Age 26 Adult Dependents

Effective September 23, 2010

Insurance coverage for dependent children up to age 26 required under group policies that already provide coverage for dependent children

Who is eligible?

- Children up to age 26
- Dependent need not live with parent, attend school, or be a dependent for tax purposes
- Dependent can be married (spouse not covered)

Grandfathered plans are not required to provide coverage to dependents who have access to an employer-provided health care plan until after January 1, 2014.



Age 26 Adult Dependents

2010 and Beyond

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Age 26 Adult Dependents

Effective January 1, 2011

Policy holders with dependents will generally see an across-the-board increase.

	2010	2011	2012	2013
Premium Increase	0.0	0.7	1.0	1.0

This is in addition to regular annual insurance rate increases.



Non-discrimination

What You Need to Know Now

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Non-discrimination

Effective September 23, 2010

Health plans are prohibited from:

- dropping individuals from coverage because they get sick
- denying coverage to children under age 19 with pre-existing conditions
- imposing lifetime limits on essential health benefits; tight restrictions on new plans' use of annual limits
- discriminating in favor of a company's highly compensated employees (HCEs)

Non-discrimination

Highly Compensated Employee Definition

Highly compensated employees are:

- One of the 5 highest paid officers of the company
- Shareholders of more than 10% of the company's stock (attribution rules apply)
- One of the highest paid 25% of the company's employees





Non-discrimination

2010 and Beyond

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Non-discrimination

Effective January 1, 2011

Simple Cafeteria Plan regulations provide for a “safe harbor” from the nondiscrimination testing requirements for small employers’ cafeteria plans that contribute certain amounts to plan participants

Simple Cafeteria Plan Safe Harbor Eligible Employers:

- Employ an average of 100 or fewer employees on business days during either of the two preceding years and will remain eligible for the simple cafeteria plan for each subsequent year until they exceed an average of 200 or more employees for the prior year.
 - For new businesses, the eligibility is based on the number of employees the business reasonably expects to employ for the current year.

Non-discrimination

Effective 2014

Health plans are prohibited from:

- denying coverage to individuals of all ages with pre-existing conditions.

An exception for a difference in treatment of covered individuals is a reward-system for participation in a wellness program.

Reward can be up to 30% of the cost for employee only coverage.



CLASS Act

What You Need to Know Now and Beyond

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CLASS ACT

Effective January 1, 2011

Community Living Assistance Services and Supports Act (CLASS Act)

- Helps provide long-term care for the elderly and sick
- Funded by premiums
- Pays enrollees a minimum of \$50 per day
- Cash benefits could be applied to nursing-home care
- Cash benefits could be used for wheelchair ramps and wages for home health care aides in an effort to keep enrollees in their own homes



Other Provisions

- Individual and group health plans prohibited from placing lifetime limits on the dollar value of coverage
- Qualified health plans required to provide at a minimum coverage without cost-sharing for preventive services
- Medical FSA contributions capped at lesser of company's plan maximum or \$2,500, effective January 1, 2013
- Mandates, subsidies taxes, reporting requirements, and other provisions to be implemented through 2018.
- Auto enrolling new full-time employees in a health plan to affect employers with more than 200 full-time employees and to mandate continuation of existing employees year-to-year (effective date TBD)



Impact of Health Care Reform

- Health care reform is the most sweeping change to our health care system since Medicare in the 1960s.
- It will impact businesses and individuals on many levels.
- While the federal provisions are daunting, it may take several years to see the full effect as states enact their own provisions.
- The support of a trusted health care advisor is more vital now than ever before.



How Paychex Can Help

We can help clients:

- Obtain information needed to apply for the small business tax credit
- Enroll age 26 adult dependents not already enrolled in Paychex Insurance Agency plans when possible
- Determine the value of all health coverage provided by Paychex Insurance Agency for client W-2s
- Identify which employees are classified as “highly compensated” and the associated penalty that employers may have to pay (for Paychex payroll and Paychex Insurance Agency clients)
- Understand how a simple cafeteria plan can be used to avoid the non-discrimination testing requirements
- Learn what you need to know to be prepared for all aspects of health care reform, including provisions yet to be finalized and subsequent state regulations



Additional Resources

Paychex Insurance Agency Website:

www.paychexinsurance.com/healthcarereform/

The U.S. Department of Health and Human Services

www.hhs.gov

IRS Website:

www.irs.gov

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Health Care Reform

SMALL BUSINESS TAX CREDITS



Thinking About Dropping Your Health Plan to Reduce Costs?
See if you qualify for tax credits first. With the tax credit, you may save enough to continue offering this benefit. Your employees will thank you.

Who Benefits the Most?
Smaller businesses with lower average wages will see the biggest tax credits.

Eligible Employers:

- Have fewer than 25 employees.
- Pay average annual wages of less than \$50,000.
- Contribute at least 50% of the total health care insurance premium cost for each enrolled employee.* (Remember to save your premium payment records.)

Do You Have 25 or More Employees?
Eligibility rules are based in part on the number of full-time equivalent (FTE) employees, not the total number of employees, so businesses that use part-time help may qualify even if they employ 25 or more individuals.

*Based on single coverage only. When an employee has family coverage, the requirement is met if the employer pays at least 50 percent of what single coverage would cost for that employee.

Health Care Reform Provides Tax Credits to Certain Small Businesses That Offer Health Insurance
New laws will provide much-needed relief to small businesses across the country through tax credits. For the 2010 tax year, health care reform provides tax credits to eligible employers who offer health insurance to their employees.

If you already offer health coverage to your employees you may apply for a credit to offset the cost of premiums. If you don't currently offer health insurance you may now be able to afford it. Either way, now is a great time to try to take advantage of these tax credits. You can qualify for credits immediately! Any credit you qualify for will be applied against taxes owed beginning with your 2010 employer's annual income tax return. Guidance is still pending on how tax-exempt and non-tax-hyphen entities will claim the credit. Small businesses can receive the credit not only for regular health insurance but also for add-on dental and vision coverage. Check with your tax advisor for the specifics on how this will affect your business.

Health Care Reform Tax Credits Are Effective in Two Phases

■ **PHASE 1: 2010-2013**

Tax-Exempt Small Businesses
Full credit equals 25% of the lesser of the employer's contribution to health insurance or the amount employer would have contributed had they given the same uniform package based on the average premium for the small-group market in each state or geographic region.

Non-Tax-Exempt Small Businesses
Full credit equals 35% of the lesser of the employer's contribution to health insurance or the amount employer would have contributed had they given the same uniform package based on the average premium for the small-group market in each state or geographic region.

■ **PHASE 2: 2014 and later (credits limited to two consecutive years)**

Tax-Exempt Small Businesses
Full credit equals 35% of employer's contribution to health insurance. Further guidance pending.

Non-Tax-Exempt Small Businesses
Full credit equals 50% of employer's contribution to health insurance. Further guidance pending.

Paychex Insurance Agency Can Help You:

- Select an insurance plan if you don't currently offer health coverage.
- Report premium amounts paid (for Paychex Insurance Agency's Insurance Payment Service [IPS] client).
- Stay up to date as laws are clarified, regulations are developed, and guidance becomes available.



Thank you.

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