

IAA Legislative Ledger



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Don't Give Up Your Employer Sponsored Health Plan Just Yet.

Are You Thinking about Abandoning your Group Health Plan and Sending Your Employees Off To the Exchanges?

You may want to do a little math before you make the change. Other considerations such as employee retention, moral, competition only make the change more painful.

IAA has developed a breakeven program for our clients that are considering terminating their current health plan and allowing their employees to enroll in ACA Exchanges (Assuming the exchanges will be ready for the January 1, 2014 start date).

The following is a cocktail napkin review of the cost of terminating a plan. Keep in mind state income taxes and unemployment insurance varies by state. This is just one example to give you an idea of the cost of cancelling your Plan.

	Rate	Gross Dollars	Unit Cost
Total Full Time Employees (FTE)	1100		
Currently Enrolled (FTE)	586		
Current Annual Employee Cost Share	30%	\$ 1,800,000.00	\$ 3,071.67
Current Annual Employer Cost Share	70%	\$ 4,200,000.00	\$ 7,167.24
Total Current Plan Cost	100%	\$ 6,000,000.00	\$ 10,238.91
ACA Fees (1/1/14)	\$ 64.00	\$ 93,760.00	\$ 160.00
Total Plan Cost		\$ 6,093,760.00	\$ 10,398.91
Financial Impact to Employer not Offering Benefits			
FICA Taxes	7.65%	\$ 137,700.00	\$ 234.98
State Unemployment Tax	4.10%	\$ 73,800.00	\$ 125.94
Workers Compensation	1%	\$ 18,000.00	\$ 30.72
Probable Adjustment To Current Salaries	15%	\$ 1,919,736.00	\$ 3,276.00
Additional Employer Taxes related to Pay Increase	8%	\$ 153,578.88	\$ 262.08
Federal Corporate Tax Impact	40.00%	\$ 1,570,674.05	\$ 2,680.33
State Corporate Income Tax	7.90%	\$ 310,208.12	\$ 529.37
<i>Less ACA Fees (Estimate)</i>			
Transitional Reinsurance Fee Per Member	\$ 63.00	\$ (92,295.00)	\$ (157.50)

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Patient Research Outcome Fee Per Member	\$ 1.00	\$ (1,465.00)	\$ (1.33)
Total Employer Tax Impact		\$ 4,089,937.05	
Non Tax Deductible Penalty (\$2,000 x FTE)		\$ 2,140,000.00	
Estimated Financial Impact to Employer		\$ 6,229,937.05	
Current Employer Cost of Providing Health Insurance (Including ACA Taxes)		\$ (4,293,760.00)	
Cost Change To Employer		\$ 1,936,177.00	\$ 3,464.06
<i>Sidebar: Revenue Needed to Cover Cost of Penalty</i>		\$ 5,350,000.00	
Impact to Employee's Income			
FICA Tax	7.65%	\$ 284,559.80	\$ 485.60
Federal Income Tax	18.00%	\$ 669,552.48	\$ 1,142.58
State Income Tax	5.00%	\$ 185,986.80	\$ 317.38
Average Tax Increase Per Employee			\$ 1,945.56

The other question and consideration as part of the analysis is: What if an employer does not want to provide "Affordable Coverage"? (9.5% of Employees family income) The Penalty is based on the number of employees that are eligible for subsidies and enroll in an Exchange Plan. In my above example the "assessment" (using the government issued euphemism) is \$825,000.

Not so financially pretty for Employers or Employees once you add in the payroll taxes, additional Federal and State Income taxes, and loss of pre-tax purchase of insurance.

Two important points to remember:

1. Employees purchasing insurance from the exchange is not with pre-tax dollars.
2. Employer ACA penalty is not considered a normal business expense so it is not tax deductible.

No matter how many times we do the math we keep coming to the same conclusion: Keep your Employer Sponsored Health Plan, but modify it to offer an alternative low cost option that meets the affordability criteria under ACA.

IAA offers several solutions under its Affordable Care Solution program. We also can personalize the above analysis for you. If you are interested please contact your IAA Broker/Client Advocate or send me an e-mail with your questions or concerns.

Enjoy the rest of your day and stay healthy!

*Thank you,
Paul Kelly, President*