



THE Contractors Plan

 Powered by
Fringe Benefit Group



Healthcare Reform (“PPACA”) &
The Government Contractor
Now what?

What we will cover

- PPACA is here to stay – the time to act is now
- Who is subject to the healthcare mandate?
- Impact of providing or not providing coverage on contractors and their employees
- Important things to consider in building a long term benefits strategy
- Business growth and continuity considerations for contractors
- Tools to support contractors with PPACA



Healthcare Reform (“PPACA”)

- Many parts are popular and already implemented
- Creates additional and complex compliance requirements and potentially higher costs
- Impacts all employers and individuals
- Key elements are still undefined or awaiting guidance
- Requires employers to build a benefits strategy and consider long ranging impact on their business
- Is this the “new normal”?

Check out link below to PPACA implementation timeline:

<http://healthreform.kff.org/timeline.aspx?source=QL>



Who is subject to the mandate?

- Employers with 50 or more “full time equivalent” employees
 - Determine the average number of full time employees (30+ hours per week) over the past 12 months.
 - Aggregate hours worked by part timers and divide by 120
 - Add together to determine large or small employer status
 - Determine if seasonal exception might apply
 - Factor in control group considerations
- All Individuals
 - All individuals are required to have coverage
 - Subsidies provided for those who make up to 400% of FPL
- Tax penalties for non-compliance!



What constitutes acceptable coverage?

1. Employer plan design pays 60% of costs i.e. the “minimum value” standard **AND**...
2. Employee contribution (for lowest plan offered) does not exceed 9.5% of household (or W-2) income i.e. the “affordable coverage” standard

If coverage does not meet both of these standards, the employer pays a non-deductible penalty equaling lesser of:

- \$3,000 annually for each FTE receiving subsidy
- \$2,000 per FTE minus the first 30

Waiting periods cannot exceed 90 days. Waiting period begins after 1,200 hours for part time workforce.



Impact of Not Offering Coverage

- Compromises recruiting and retaining top talent
- Bid cost considerations – grossing up wages & increasing payroll burden
- Competition is even tougher for jobs and talent
- Field workers often represent better risk & a healthy workforce is more productive
- Lose tax deduction
- Tax penalties for not offering are steep and are not deductible (and can't be paid for with fringe)
- Penalties go to the government and not your employees!



Impact of Not Offering Coverage

- More government agencies may begin to require coverage
- Employee objection to fringe benefits mitigated i.e. employers can point to PPACA (opening door for additional benefits e.g. specialty, retirement & HRA)
- Paying fringe as wages is already expensive; PPACA adds another \$2000-3000 per employee not covered
- Living & responsible wage ordinances are increasingly requiring it (see appendix for examples)
- Tax credits for small business (use fringe and get them!)
- Business growth, continuity and reputation at risk
- Employer and individual accountability

More Detail on Employer Penalties and How They Work

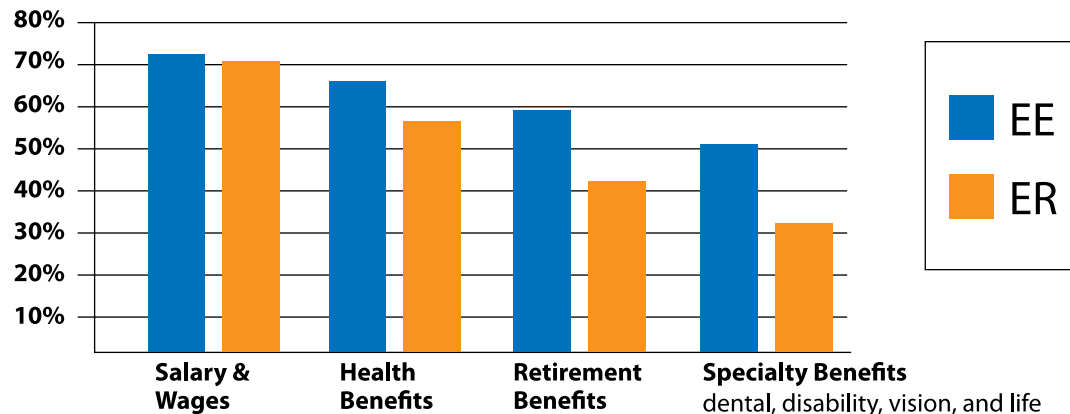


Check out the link below for detailed explanation:

<http://healthreform.kff.org/the-basics/employer-penalty-flowchart.aspx>

Employee Retention Studies

- Employers consistently underestimate employee perceptions of value:



- Employees who are very satisfied with benefits are nearly 3x as likely to say they are satisfied with their jobs and less likely to plan to leave.

Source: 10th Annual MetLife [*Study of Employee Benefit Trends*](#)



Not Going to Offer Coverage? Your Employees Will Pay for it.

- Will “figure out” the exchanges for themselves
- Individual coverage can be more expensive particularly without a subsidy
- It is unclear how community rating will work for the sick or with needs
- Employee could have fringe paying for coverage with FICA and income tax free dollars
- Many will not qualify for a subsidy
- Employer pre-tax programs will not be available



Not Going to Offer Coverage? Your Employees Will Pay for it.

- HRA, Section 125 and FSA need an employer to sponsor!
- Penalties start for individuals in 2014 and increase through 2016
- Many will want or be forced to find employers that provide it

Which employees will qualify for a subsidy?

- Individuals that have coverage via their employer that meets both the affordability & minimum value criteria are not eligible
- Qualify when income level is between 100% and 400% of the Federal Poverty Level (“FPL”)
- Anyone making over the FPL, bears full cost of coverage via the exchange i.e. no subsidy
- “Marriage penalty” e.g. two singles can qualify at \$33,510 each, but not as a married couple

Check out the link below for a calculator:

<http://healthreform.kff.org/subsidycalculator.aspx>



Federal Poverty Levels & Subsidies

2012 Poverty Levels	100% of FPL	400% of FPL
Single	\$11,170	\$44,680
Two Person	\$15,130	\$60,520
Family of Four	\$23,050	\$92,200



Annual employee tax impact

Pay Fringe in Paycheck

Base wage:	\$35,000
Fringe:	\$7,750
Gross Compensation:	\$42,750
Federal Withholding:	\$6,173

Total Compensation

\$36,577 – 25% Tax bracket

Pay Fringe to “Bona Fide” Plan

Base Wage:	\$35,000
Gross Compensation:	\$35,000
Federal Withholding:	\$4,500
Net Compensation:	\$30,500
Fringe Benefits:	\$7,750

Total Compensation & Benefits

\$38,250 – 15% Tax bracket

An increase of nearly 5% or \$1,700/year

Source: <http://www.irs.gov/pub/irs-pdf/p15.pdf>



If your employee does NOT obtain coverage..... Penalty Taxes!

- If income is less than \$110,000 the tax penalty for not having coverage will be:
 - 2014 = the higher of \$95 or 1% of taxable income not to exceed \$285
 - 2015 = the higher of \$325 or 2% of taxable income not to exceed \$975
 - 2016 = the higher of \$695 or 2.5% of taxable income not to exceed \$2085
- If income is over \$110,00, the penalty will be the cost of the bronze level plan in the exchange

Challenges with Exchanges

- Many states are resisting and are falling behind in implementation – federal government can install “one size fits all” program
- Coverage is not free and many will not qualify for subsidies
- Only way an individual can get subsidy is to enroll in the exchange
- Unclear how and when subsidies will be provided and what the plans will cost
- “Bronze, Silver Gold and Platinum” plans cover 60-90% of costs
- Rating issues – 3:1 premium differential for age and no apparent differential for healthy lifestyle

Check out the link below for further details on the process:

<http://healthreform.kff.org/the-basics/access-to-coverage-flowchart.aspx>

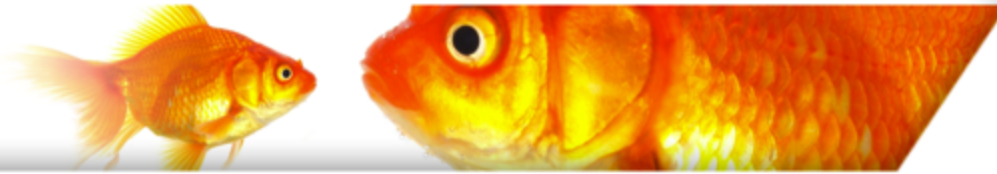
Benefits Strategy – Long Term Considerations

- Leverage the PW/DBA/SCA fringe dollars for health benefits
- Cost Reduction Strategies
 - Track premium dollars by the hour and not monthly
 - Leverage consumer driven plans – HDHP' s
 - Prevailing Wage compliant HRA
- Build inventory i.e. bid and win more while increasing profits
- Must get covered and credible – virgin or groups on limited medical present underwriting challenges
- Process for covering and onboarding new employees, for newly awarded contracts that take you above 50 FTE' s?
- How to contain costs and stabilize or reduce rates? Does the inclusion of your field workers lower your risk profile?
- How to remain in compliance?
- Do I partner with a generalist or a specialist?



Future Business Growth & Continuity

- You have 50 or fewer FTE' s - what happens when you win the next contract?
- Stability your field can bring to health rates
- 50+ employers can be declined for coverage
- Limited medical does not comply with PPACA after 1/1/2014
- Taking good care of key employees – reputation? Union pressures? Message GC' s can send to subs?
- Competition – large & small employers – what will they do to compete?
- Bidding 2-3 years out – assuming what costs?
- Discrimination rules limit coverage disparities & carve outs
- What will become the “new normal”?



Small Business Considerations

- Winning work vs. larger contractors that have a mandate for coverage and have lower payroll burden because they use fringe to pay for it
- Attracting and retaining talent
- Fighting pressure to unionize
- Long term growth – win next contract, now what?
- Check out a PPACA tax credit calculator!
 - Credits can be used retro and prospectively
 - If you have fringe to pay.....why not use it for health and collect credit??



Total Potential Impact

Over a 1 year Contract w/
 50 Employees =
\$105,444

Over a 1 year Contract w/
 250 Employees =
\$799,956

Over a 1 year Contract w/
 500 Employees =
\$1,587,456

	Fringe Paid In Wages	Fringe Paid in Benefits
Cash Wages	\$21.71 per hour paid	\$18.00 per hour paid
Fringe Contributed to H&W Benefit	\$0.00	\$3.71 per hour paid
Payroll Burden (assumed 17%) FICA, FUTA, SUTA, WC	\$3.69 per hour paid	\$3.06 per hour paid
Hourly PPACA Penalty when Major Medical Not Offered	\$0.96 per hour paid	\$0.00
Total Bid Cost Per Hour Paid	\$26.36	\$24.77
Savings Per Hour Per Employee	\$0.00	\$1.59
Annual Savings Per Employee (2080 hrs paid each)	\$0.00	\$3,307.20

Example of hourly base wage \$18.00 + fringe benefit \$3.71 = \$21.71



Employee Communications

- Employee objection to employer providing benefits over wages largely mitigated
- Employer has the following messaging and talking points:
 - The federal government and healthcare reform law is requiring it.
 - Contracting agencies are beginning to require or may look closer for it in the bid process
 - The fringe is an employer contribution, not “the employees’ money”
 - Competitors that offer bona fide benefits it will have lower bids
 - Lowest bidder wins on government work
 - Prevailing wages are higher than wages on private work
 - Employees greatly reduce their tax burden

Tools to Support Contractors

- Single source administrators
- Benefit trusts
- Hour banking
- Compliance partners
- “Total Fringe” – spend it all in one place
- Health plan management portals for employers & employees
- Wellness programs



Single Source Administration

- One partner to administer and manage a complete benefits array
- Major medical, dental, vision, life, disability, HRA, retirement, etc.
- Holistic employee communications
- Prevailing wage, PPACA & ERISA compliance over all programs
- Detailed reporting in one place
- Opportunity to offer employees the best array without all the extra work



Benefits of Utilizing a Trust

- Satisfies one of the key bona fide benefit criteria for government contractors
- Fully insured benefits
- Advantages of larger pool in underwriting process
- Can obtain coverage for virgin groups or those on limited medical
- Stabilizes cash flow and lowers renewal risk
- 3rd party trustee provides fiduciary risk protection



Compliance

- PPACA – not fully implemented until 2018 – who is going to stay on top of it for you?
- Davis Bacon Act (federal & state), Service Contract Act, Living / Responsible Wage Ordinances
- Legal assistance is expensive
- Consultants and CPA's are expensive
- Asking DOL could bring unwanted scrutiny
- Work with benefits partners that offer this value as part of their standard solution

SCA Total Fringe Hourly Breakdown

Fringe Rate	\$3.71
Medical single	\$2.43
Dental	\$0.20
Vision	\$0.05
Life	\$0.08
Disability	\$0.12
Retirement/HRA	\$0.83
Total	\$3.71

Fringe Rate	\$3.71
Medical family	\$6.96
Dental	\$0.69
Vision	\$0.11
Life	\$0.08
Disability	\$0.12
Retirement/HRA	\$0.00
Total	\$7.94*

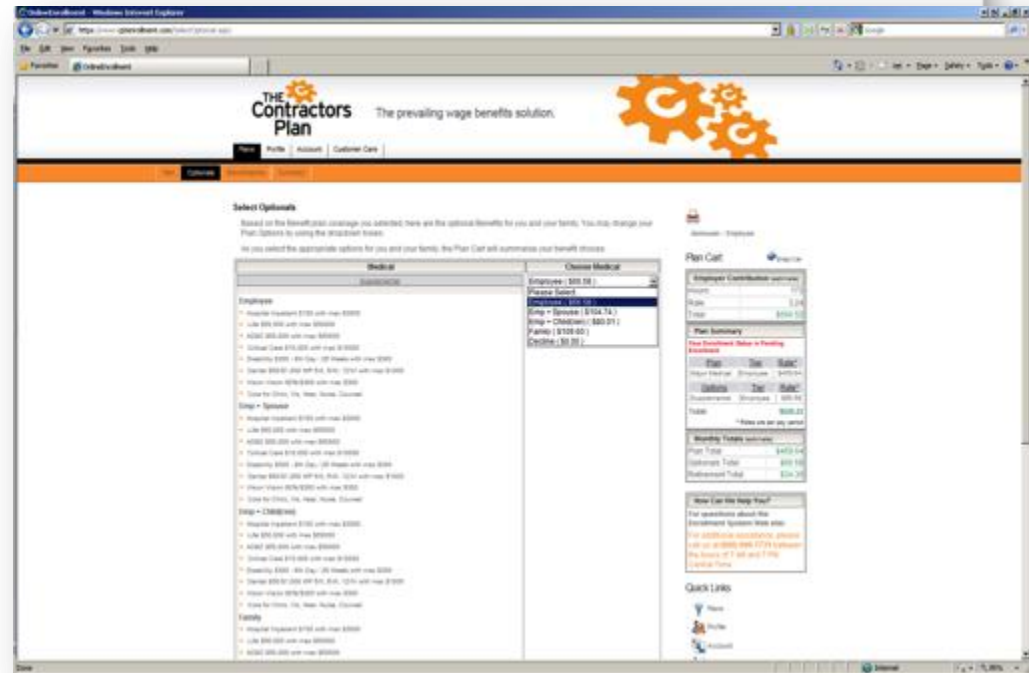
*Payroll deduction of \$4.23
to cover dependents

- Keep it simple and efficient
- Remaining fringe dollars can be funneled to retirement or HRA
- HRA can be instrumental in health plan design & cost structure
- This type of approach can be set up & managed entirely online



MyContractorsPlan: Employee-Focused Tools

- Dynamic Plan Cart™ tool enables participants to create different “what if” scenarios to allocate benefit dollars based on their specific needs
- As participants make their elections, the Plan Cart™ automatically adjusts, estimating their monthly contributions towards health, ancillary and retirement options
- Contractors and their employees can see all contributions in a simple view - providing complete transparency throughout the benefit election process





MyContractorsPlan: Employer-Focused Tools

- Simplify your enrollment process
- Distribute information consistently to all employees
- View, update, and upload plan information in real-time
- Add or terminate employees from your plan
- Upload census and payment files
- Track enrollment numbers and statistics
- Pay missed premiums
- Access coverage information and enrollment history





Wellness

- PPACA provides grant money for programs
- Preventive care is required & cost free in plan design
- Carrier websites – loaded with free tools
- Create culture of and competition for wellness
- 3rd party wellness services e.g. Virgin HealthMiles
- Employer sponsored contests
- Biometric screens
- Evaluate claims reports (large groups)
- One key way to control current & future costs



Get Covered!





Accountability

- Who makes up the “private sector” as it relates to healthcare?
 - Carriers, providers, TPA’ s, pharmaceutical companies, etc.
 - AND employer contractors!
- We all play a role in keeping our healthcare system in the private sector!
- It starts with everyone of us
- Government contractors already have a fringe requirement and dollars to spend towards it
- Set a positive example and lead
- Provide effective coverage and retirement savings