POP QUIZ:
Are you handling measurement periods correctly?

We're through the first year of Affordable Care Act (ACA) reporting, and most employers should have a basic grasp of measurement periods and how to determine eligibility for full-time employees. Want to test how savvy you are? It's probably a great idea, considering that the IRS will be fining employers on a per-employee per-month basis if they discover your employee requested a subsidy for lack of affordable coverage.

Let's start with very basic definitions:

Look-back Period

For organizations just starting ACA compliance activities, we recommend that you review employee data over the previous 12 months to determine eligibility. This means back-tracking to determine hours for employees.

Measurement Period

If you've been complying with the ACA, you shouldn't have to worry about the look-back period, you should be considering measurement periods for new hires. This is defined as the 12 months (starting on the first of the month following an employee's hire date) during which newly hired employees' hours are tracked and measured for eligibility. If an employee measures 30 hours per week or more across the entire measurement period, they should be offered coverage during a Stability Period. For new employees, this initial Measurement Period may also be referred to as a New Hire Measurement Period.

Stability Period

After the Measurement Period, there is a Stability Period. This is the timeframe during which coverage offered to an eligible employee must remain effective if the eligible employee has elected to enroll. The Stability Period must be at least the same length of time as the Measurement Period. The IRS allows for 12, 6 and 3 month Measurement Periods.

Administrative Period

The time used by employers to evaluate their population's Measurement Period, offer coverage to eligible employees, and process all of the applicable benefits paperwork.

Now that you know the basic definitions, let's test your knowledge of how to best use these different periods.

Q: Why would an employer choose a 6 or 12-month Measurement Period rather than just determining eligibility on a monthly basis?

A: It's tempting to think of monthly measurement as more "simple" than a longer measurement period. You'd think that you could just review a single month, see that the employee worked 30 hours or more for that month, and offer benefits. The drawback to this solution is that the employee is no longer eligible if they do not reach full-time status in the following month. Using this methodology could lead to a situation in which you must offer coverage to a different set of employees every month — an enormous challenge in terms of paperwork and record-keeping.

By setting a measurement period of 6 or 12 months, you can review hours worked by employees over time and establish who should be offered coverage based on full-time status. While the IRS allows for Measurement Periods at the three, six and 12-month timeframes, Tango recommends the use of the 12-month period. Using the 6-month Measurement Period requires the employer to make offers of benefits to eligible employees twice a year, resulting in two Administrative Periods and double the complexity. And if the 6-month period results in that level of upheaval, just imagine the stress a 3-month period would cause on an already over-burdened HR team.

Q: Should you measure all employees, or just variable hour populations?

A: Many employers feel that if they're measuring the variable hour employees, they're taking care of the challenging part of their population, and they don't bother with the full-time population, but we recommend measuring all employees. Why all employees? Because even if you consider an employee definitely full-time, if that employee requests a subsidy from a marketplace exchange, the IRS will be looking to you to provide indisputable proof about hours worked, benefits offered, etc. So we recommend tracking every employee for the purpose of accountability for audit purposes.

Q: What triggers the Employer Shared Responsibility Payment?

A: This is a very important penalty to be aware of, and it is triggered when an employee requests a subsidy from the marketplace exchange. When that happens, the employer will be sent a Subsidy Notice from the Department of Health and Human Services (HHS) and if you do not appeal and provide certification, the IRS will initiate fines that are measured per employee (total number of employees in the organization, minus 30) per month, based on whether or not your organization has offered coverage to 95%, or "substantially all" of your population. Don't assume that a subsidy notice just means a fine for not providing coverage to that employee — it means that the IRS has been alerted to do a much more comprehensive investigation into how you're offering benefits, and the resulting fines can quickly escalate to numbers that will make your CFO cringe.

Q: How are dependents and spouses defined for purposes of measurement?

A: Dependents are defined as children up to the age of 26 — but not spouses, who are not included in the definition. Therefore, employers are not required to offer coverage to spouses.

So, how did you do on the quiz? No one is checking your work here, but if you struggled to answer any of these questions, you might be hearing from HHS or the IRS. To avoid that, be sure that your organization fully understands all of the processes around measurement periods as we approach the next round of filing dates.

If you didn't know the answers or if you are still concerned, Tango can help. To learn more about how your organization can be ready, compliant, and prepared, visit TangoHealth.com or call 1-855-GO-TANGO.

TANGO®