

Key Considerations to Reduce Organizational Risk With ACA Compliance Management





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ACA Compliance Management

Similar to other tax and reporting requirements, the Affordable Care Act (ACA) requires much from employers — from understanding and identifying who their full-time employees are and offering timely and affordable benefits, to documenting offers of health insurance coverage, costs and completing reporting requirements for both the IRS and applicable states based on differing requirements, rules, timelines and technology specifications.

The employer-shared responsibility provision of the ACA established by the IRS, also called the employer mandate, applies to employers with an average of at least 50 full-time employees or full-time equivalents during the prior year. This provision penalizes employers who don't offer health insurance coverage, or who don't offer coverage that meets certain standards, to eligible individuals. Employers with fewer than 50 full-time employees (or full-time equivalents) are not required under the ACA to offer health insurance to their employees, but if they do, the plan has to meet Minimum Essential Coverage (MEC) standards outlined by the ACA.

Employers who fail to comply on time, or fail to properly document compliance, may face substantial financial penalties. There are two different penalties – the 4980H(a) penalty and the 4980H(b) penalty.

For 2022, the 4980H(a) monthly penalty of \$2,750 divided by 12 for each employee is imposed on employers who:



Fail to offer **affordable Minimum Essential Coverage (MEC)**

to 95% of their full-time employees (FTEs) and their dependents (minus the first 30 FTEs),



Have at least one FTE who is **receiving a Premium Tax Credit (PTC)**

for obtaining coverage through the Marketplace.

If an employer fails to offer coverage that is affordable (the premium amount/employee contribution exceeds the ACA affordability threshold of 9.61%) and meets the ACA Minimum Value (MV) requirements, and even one employee receives a PTC from a state or federal exchange, the 4980H(b) monthly penalty for 2022 is equal to \$4,120 divided by 12 for each employee who is receiving the PTC. An employer can receive only the 4980H(a) penalty or the 4980H(b) penalty each month, not both for the same month.

Employers that do not file correct ACA information returns by the required deadlines can receive a failure to file penalty of \$280 for each return. If the failure to file is intentional, the penalty increases to \$570 for each return.¹

The ACA is complicated, and penalties can be quite high for companies that are not able to meet the mandates and reporting requirements. Efficiently meeting the demands of the employer mandate as well as federal and state health coverage reporting requirements is essential to avoid potential steep ACA compliance-related penalties.

Compounding the complexity are new and evolving requirements, focused on the employee's residence rather than place of work, with deadlines, formats and other state employer health care compliance requirements, which vary from state to state.



During the initial year of ACA IRS penalty notices, the **IRS issued 50,000 penalty notices with a value of \$4.5B**. It is expected that penalties will continue to increase based on the established IRS penalty schedule.²

This Buyer's Guide provides a closer look at the processes associated with managing ACA compliance and discusses how the ADP SmartCompliance® Health Compliance solution can help you to reduce risk, increase visibility and reduce the burden on your organization.

¹What are the employer shared responsibility penalties under the Patient Protection and Affordable Care Act (PPACA)?, SHRM, September 7, 2021

²Based on 2015 IRS statistics for ACA penalties IRS industry calls

ACA Compliance Challenges

At first glance, ACA compliance may seem straightforward, albeit tedious — large employers have to provide quality, affordable coverage for full-time employees, and they have to let the IRS know whether they offered coverage and whether employees accepted that coverage.

But managing ACA compliance is quite complicated, and there are five major challenges:



1 Determining employee eligibility

Employers with an average of at least 50 full-time employees or full-time equivalents in the prior year must offer timely, affordable coverage that meets MEC and MV requirements to at least 95% of full-time employees and their dependents. But you have to implement a method for determining which employees are full-time. You also have to keep track of coverage offers — and whether each employee accepted or declined — so you can accurately report that information.

2 Offering affordable coverage to determined eligible full-time employees

According to the IRS, large employers must offer coverage that costs full-time employees no more than 9.61% (in 2022) of their household income, for employee-only coverage. Additionally, employers have to take into account multiple other considerations, such as how wellness programs and incentives can affect affordability. Instead of using household income, the ACA allows employers three traditional safe harbor methods to ensure coverage is affordable (as well as additional safe harbors to address Individual Coverage Health Reimbursement (ICHRA) plans, if offered).

a) W-2 wages

Can be used when an employer has FTEs working a 40-hour week.

b) Rate of pay

Often used when an employer has a lot of hourly employees who are considered full-time. This method is based on the lowest-paid worker and then applies the same premium threshold to all employees.

c) Federal poverty level

While easiest, this method tends to give the lowest premium threshold. Using the current federal poverty level, divide the total by 12 and if premiums aren't more than 9.61% (for 2022), the coverage is affordable.

3 Complete and accurate documentation, from eligibility to offer

While your business practices can provide ACA eligibility measurement results and timely offers of health insurance coverage, does your data (and system of record) provide the right information, that's complete and accurate, and free from errors?

4 On-time and accurate reporting to the IRS and applicable states

This can be one of the top challenges due to the volume of data involved and the fact that it is often spread across various departments, including HR, payroll and benefits. These departments may use different systems that don't necessarily talk to one another, creating data silos and making reporting difficult and cumbersome.

5 Research, document and respond to ACA IRS penalty notices, marketplace notices and potential state agency notices

Each marketplace can send notices to employers to confirm eligibility and offers for employees, and if an employer fails to comply with the applicable ACA requirements, the IRS can send multiple notices that may result in penalties to be paid. An employer's best strategy is not only to align business practices to support their ACA strategies, but to continually update data and business practices, offer timely and affordable coverage, and be prepared to provide proof and documentation in response to any and all notices received, regardless of the originating agency.

The complexity and effort required to respond to a penalty/exchange notice requires someone in your organization who has the expertise to respond, along with access to multiple data points, and time to research and respond.

If you have multi-state employees (residence and work locations), multiple commonly owned companies or employees working hours across multiple companies, reporting can be even more difficult to do correctly, as can monitoring and tracking ever-evolving legislation. The IRS and individual states enforce different guidelines, penalties, deadlines, transmission and filing requirements, so the risks and burden for employers are real.

How ADP Health Compliance Helps to Address These Challenges

ADP Health Compliance is a comprehensive, robust solution that goes beyond simply preparing and filing ACA-required forms for year-end reporting cycles. ADP Health Compliance technology and associates are focused on helping employers to manage their end-to-end ACA strategy, and they are dedicated to helping clients proactively avoid penalties. Supported by intelligent technology and unmatched data visibility, resulting in a seamless year-end reporting experience, ADP Health Compliance is platform-agnostic, with automated data integration from your HR, payroll, benefits and leave of absence systems.

The ADP Health Compliance solution delivers a preemptive approach to help clients identify and resolve ACA compliance issues each month, long before potential penalty notices are sent out.

In addition, ADP Health Compliance helps you with:



Proactive ACA penalty avoidance

This is the core value of ADP Health Compliance, which enables your understanding of where you stand with your ACA strategy and supports your organization with intelligent technology and assigned Account Management with deep ACA expertise. This combination helps you to proactively avoid penalties by giving you insight into your compliance status by employee, by month and by FEIN each step of the way throughout the year. This addresses challenges ranging from ACA Eligibility and Affordability to both IRS and state Health Coverage Reporting.

The screenshot displays the ADP Health Compliance dashboard for 'ABC TOWING 000000000'. The top navigation bar includes 'ONBOARDING', 'HOME', 'INSIGHTS', 'CONFIGURATION', 'RESOURCES', 'ANALYTICS', and 'SETUP'. A search bar for 'Employee Profile' is located on the right. The main content area is divided into several sections:

- Health Compliance Overview:** Shows 4,788 Total Employees, 3,448 ACA Full-Time, 604 ACA Part-Time, and 736 Pending.
- POTENTIAL PENALTY SCENARIOS:** Displays 'Employees to Review' as 12 (with a 'REVIEW' button) and 'Maximum Potential Penalty' as \$27K. It also shows 'YEAR-TO-DATE' data 'Current as of Sep 30, 2021'.
- ADDITIONAL EMPLOYEES NEED ATTENTION:** Lists 'Form Issues' (14), 'Data Issues' (0), and 'ACA Eligibility' (8), each with a 'VIEW ALL' link and 'Current as of' dates.
- TASK TRACKER:** Includes sections for 'ACT ON EMPLOYEES' (Employees Needing Attention: 25, Review with ADP: 0), 'TRACK EMPLOYEES TO COMPLETION' (Waiting for Your Updates to Source System: 4, Edit Form 1095-C at Year End: 8), and 'COMPLETED' (Completed).
- HEALTH COMPLIANCE ACTIVITY:** Lists 'Latest Imports & Calculations' and 'MEC Summary'.



Automated monthly compliance calculations

ADP makes these calculations using your data to complete three distinct calculations, which ensures visibility into your ACA compliance tracking and monitoring and determines *your employees' ACA Eligibility*. ADP also tracks data and expected results for:

- ACA full-time measurements
- Rehire logic
- Affordability measurements
- Identification of all relevant affordability safe harbors
- MEC threshold measured monthly per FEIN
- Leaves of Absence calculations



Exchange, penalty and regulatory management

Addresses *necessary research, corrections, documentation and responses*; your trained and tenured ADP Service associates assist you with timely corrections and responses to:

- Exchange Notices
- ACA IRS Penalty Notices
- State Employer Reporting Penalty Notices



Government and agency regulatory monitoring and tracking

ADP continuously monitors evolving legislation and the regulatory and legal environment of the ACA and health care reform, updating reporting systems as rules and regulations change.



Automated data integrity management

ADP proactively serves up data conditions and missing data that could cause compliance exposure, helping you to generate on-time and accurate reporting to the IRS and applicable states, as well as address any actions required throughout the year.



Trained and tenured support

From implementation through penalty notices, to federal and state requirements, ADP's team can provide proactive, knowledgeable support to employers. 80% of ADP associates have successfully guided clients through six (6) ACA IRS reporting cycles.



Established, automated and recurring integration from any payroll, HR or benefits system

ADP addresses integration at the point of implementation and monitors data feeds so that your results are as close to real-time as possible throughout the year. This data drives all calculations, results and forms from offering timely and affordable coverage to determining eligible ACA full-time employees, as well as generating complete and accurate reporting for year-end forms for the IRS and applicable states.



Simplified and accurate year-end print and transmission

For ACA IRS and state employer reporting requirements, including one approval process to serve the IRS, California, New Jersey, Rhode Island and Washington DC requirements.



On-demand, always-available and populated Forms 1094-C/1095-C

ADP helps to manage monthly work and provides a streamlined year-end experience, which minimizes data discrepancies and potential penalties at the right point in time.



Why Should I Purchase the ADP Health Compliance Solution?

All ADP SmartCompliance solutions are designed to help simplify and unify your HCM compliance processes, improve your HCM compliance processes with technology, and shield your HCM compliance processes from disruption.

The ACA requires employers to compile various forms of organizational data monthly — benefits, HR, payroll, multiemployer, leaves — and use that data to run calculations to determine who is a full-time employee as defined by the ACA. The need to combine and run calculations using data from many disparate sources means a potential risk of data conflict because this data may not have previously been used in this manner, and inaccurate data can lead to penalties.

ADP can provide full-service expertise, which may include assistance with matters ranging from calculating and tracking ACA eligibility and affordability based on regulatory safe harbors, providing forms to employees and other required individuals, and transmitting data to the IRS and applicable state agencies. ADP can also assist employers in decoding complex IRS penalty notices, drafting responses to the IRS and proposing alternative codes based on the employer's data.

ADP's robust combination of technology, analytics and focused ACA experts assists our clients with ACA employer-shared responsibility requirements. We help you stay ahead of the ACA and employer-reporting changes and obligations with up-to-date news and information.





“ Proactive monthly compliance insights and reviews allow our company to have a proactive monitoring tool. The tool allows us to ensure we apply a timely and compliant approach to offering affordable insurance coverage to our employees. Any employees who pop up for review can be quickly addressed and corrected right away. ”

Pandora D. Yniguez, Associate Director of Payroll, BioMarin Pharmaceuticals, Inc.

“ Having ACA Health Compliance retrieve data directly from ADP has saved a lot of time each month. With our previous vendor, we had to create several files each pay period to spec and, therefore, always a manual process. At times, it was cumbersome. ”

Sissy Reese, HR Generalist, Clinical Reference Laboratory



ADP Health Compliance was awarded the **2020 Big Innovation Award** as part of the ADP SmartCompliance Solutions.

To understand your potential cost savings when you use ADP SmartCompliance for ACA Compliance or other HCM compliance processes, visit our **[interactive calculator](#)**.

About ADP SmartCompliance Solutions

HCM systems of record typically are not designed to handle all the tasks required to stay compliant with ever-changing federal and state regulations. Additional work needs to take place outside of your HCM systems, which can mean information silos and disconnected workflows. This work is often manual and time-consuming, and it's hard to keep up with the pace of change in today's regulatory environment.

A manual, disconnected approach to managing HCM compliance can create a gap between your HCM system of record and interactions with multiple federal, state and local agencies. This gap opens you to data errors, increases the risk of penalties and interest, and places an ever-increasing burden on your staff who is responsible for ensuring the work gets done correctly and on a timely basis.

But you can close this gap by making the case to automate, optimize and integrate HCM compliance management into your systems, processes and business practices in a way that elevates performance while mitigating compliance risks.

ADP SmartCompliance® Solutions integrate with your HCM platform from ADP, Infor, Oracle, SAP, Workday and many others to extend your HCM systems with a technology-enabled service platform that helps automate key HCM compliance processes including:



- [Affordable Care Act data management, reporting and compliance](#)
- [Unemployment claims](#)
- [Payroll tax filing and remittance](#)
- [End-to-end wage garnishment management](#)
- [Distribution of wages](#)
- [Paperless pay and employee financial wellness](#)
- [Employment verification](#)
- [Tax credits and business incentives](#)

HCM compliance solutions from ADP can help your organization to:



- Reduce the risk of data errors that can result in penalties and interest
- Avoid disconnected, manually intensive processes
- Identify and execute the best opportunities for bottom-line tax savings
- Collect information in a single, intuitive platform that offers complete visibility and proactive notifications
- Track critical tasks and monitor active and resolved agency notices, amendments and exceptions
- Engage with compliance specialist teams using real-time, chat and other tools
- Employ structure and automation to improve operational efficiency
- Reduce data integrity issues with HCM vendor-approved integrations

Integrated workflows built into ADP SmartCompliance help save time, reduce steps and automatically flag inconsistencies. Artificial Intelligence (AI) and machine learning reduce or remove human intervention. With ADP SmartCompliance, you get integrated, cloud-based solutions that work easily with most leading payroll, HR and financial systems.

To learn more about how your organization can benefit from ADP SmartCompliance Health Compliance, contact your ADP Representative.

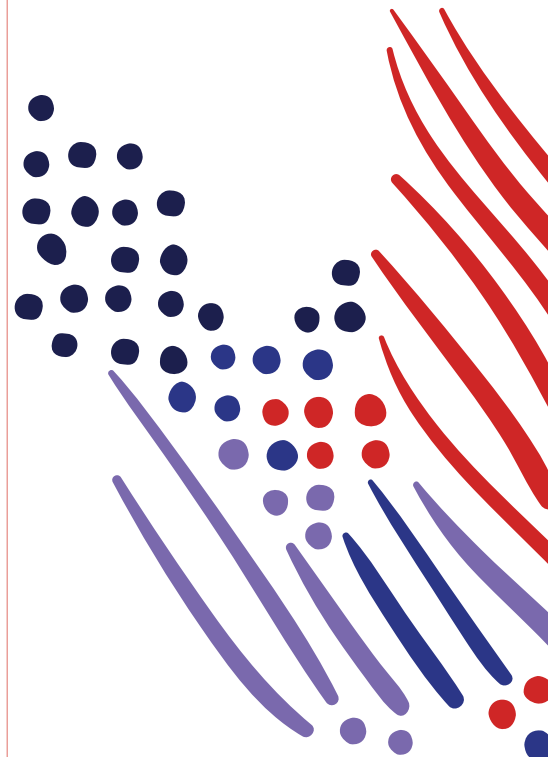
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