

Agenda Report

December 8, 2014

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Human Resources

SUBJECT: AFFORDABLE CARE ACT (ACA) COMPLIANCE REQUIREMENTS

RECOMMENDATION:

It is recommended that City Council:

1. Authorize City staff to offer minimal essential health coverage under the CalPERS Health Benefits Program that is affordable and provides minimum value to eligible Hourly employees (including City Service Workers and City Temporary Workers) who regularly work at least 30 hours a week and are considered full-time according to the Affordable Care Act as well as to their eligible dependents effective January 1, 2015; and
2. Authorize City staff to provide a monthly premium contribution to each Hourly employee (including City Service Worker and City Temporary Worker) who meets eligibility requirements and elects to enroll in health benefits. This monthly premium contribution will ensure that eligible employees will pay no more than 9.5% of the Federal Poverty Level for a single household for the employee-only premium of the lowest cost health plan that is offered by the City.

BACKGROUND:

Currently, at-will Hourly employees including City Temporary Workers and City Service Workers are not eligible for City provided health benefits.

The Patient Protection and Affordable Care Act (now simply known as the Affordable Care Act (ACA)) was passed by Congress on March 23, 2010 and was upheld by the Supreme Court in June of 2012.

Beginning January 1, 2015, the Affordable Care Act (ACA) requires that all large employers, including the City of Pasadena, offer "minimum essential coverage" to at

least 70% of all full-time employees who work at least 30 hours a week, and all new employees who are reasonably expected to work at least 30 hours a week, and their eligible dependents. In 2016, this offer of coverage must be extended to at least 95% of the City's full-time employees and their eligible dependents. This coverage must be "affordable" and provide "minimum value" as outlined in the ACA.

"Minimum Essential Coverage" is a type of coverage individuals must have to avoid penalties under the ACA. It includes individual market policies, employer-based coverage, government-provided coverage (Medicare, Medicaid, etc.) and certain other coverage.

"Minimum Value" means that the plan must cover at least 60% of total allowed costs (i.e., what the plan pays versus what the customers pays due to deductibles, copays and coinsurance). The City contracts with CalPERS for health benefits and the CalPERS health plans exceed the required 60% and have been determined to be 80% in terms of actuarial value.

"Affordable" means that the employee's cost toward employee-only coverage for the lowest cost plan offered amounts to no more than 9.5% of household income. As it is administratively difficult to determine an employee's household income, the City can use one of three safe harbor methods to determine affordability of the health plan including (1) the federal poverty level for a single household, (2) rate of pay or (3) W-2 method.

Staff is recommending that we use the federal poverty level as it provides the highest contribution from the employer but allows for a standard contribution level for all employees which will result in greater administrative controls. The rate of pay method results in varying deductions from employees, but ensures that higher-paid employees pay their "fair share" of the premium and minimizes the City's contribution toward health benefits. The W-2 method is not recommended for consideration as an employee's W-2 earnings are typically adjusted by pre-tax deductions and the final earnings are unknown until the end of the calendar year, thus complicating the administrative management of compliance with ACA.

The City's requirement under the ACA is to offer enrollment in an ACA qualifying plan. Employees can choose to enroll or they can decline. The City will maintain records of those who decline to protect the organization from penalties if the individual does not obtain coverage through another source and is in violation of the individual mandate to have health insurance. The City's requirement is to offer enrollment in a qualified plan as defined under the law. Individuals may be eligible for insurance through coverage under their parents, via their spouse's employment, or other options. It is not a requirement that an eligible employee accept the coverage we offer, only that they have coverage or pay the penalty for failing to comply with the individual mandate that they have medical insurance.

PENALTIES

If the City does not offer health benefits that meet the ACA's requirements and an ACA eligible "full-time" employee (even just one eligible employee) enrolls in a state-sponsored health exchange plan (such as Covered California) and receives a subsidy/premium reduction, the City shall be subject to an annual penalty that is equal to \$2,000 for each full-time employee (less the first 80 employees). A failure to comply with the ACA that results in a penalty could cost the City over three million dollars per year. In 2016, the penalty increases.

If the City offers coverage but it is neither affordable nor does it meet minimum value requirements under the law, the annual penalty is \$3000 per full-time employee that enrolls in exchange coverage and receives a subsidy/premium reduction.

The City shall also not be subject to penalties if an employee is eligible for and enrolls in Medicaid, also known as Medi-Cal in California, instead of the plan that is offered by the City.

ELIGIBILITY REVIEW PROCESS:

City staff will offer health benefits to new full-time Hourly employees (including City Temporary Workers and City Service Workers) who work or are expected to work at least 30 hours per week as outlined in employment offer letters and human resources staff requests.

If the work schedule for a new employee is unknown or the employee is expected to work variable hours, City staff will offer health benefits upon review of hours worked by the variable hour employee after a 12-month initial measurement period. In addition, City staff will continue to review hours worked by all variable-hour employees during City's annual standard measurement period.

COUNCIL POLICY CONSIDERATION:

The approval of staff's recommendation for ACA Compliance supports the City Council's strategic goal of maintaining fiscal responsibility and stability.

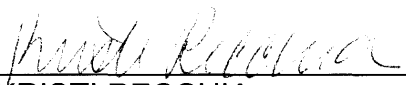
FISCAL IMPACT:

Due the Affordable Care Act's expansion of health coverage, we anticipate a maximum of 50 employees will be newly eligible for benefits in calendar year 2015.

Using the 9.5% of the Federal Poverty Level as its affordability measure (as recommended by City staff), the City will pay \$338.32 per month or \$4,059.87 per year for each eligible Hourly employee (including City Temporary or City Service Worker) that elects to enroll in medical benefits. This estimate is based on current Federal Poverty Level of \$11,670 per year and the fact that the lowest employee-only premium of all plans offered by the City is \$430.71 per month.

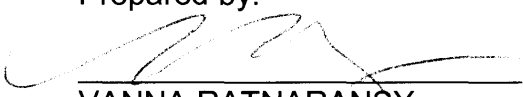
Anticipated enrollment figures are unknown until such time as the coverage is offered and accepted by eligible employees. The education process for eligible employees began this month. The fiscal impact, assuming all potentially eligible individuals elect to enroll in medical coverage, is a maximum of \$202,993 from the Benefit Fund for calendar year 2015. In future years, the amount will be adjusted based on the federal poverty level and the medical plan premiums, as rates for the lowest cost health plan are determined annually. For the remainder of FY 15, the cost impact will be charged to the department budget where eligible employees are currently funded. In future fiscal years, these anticipated costs will be included in the budget approval process.

Respectfully submitted:



KRISTI RECCHIA
Director of Human Resources

Prepared by:



VANNA RATNARANSY
Management Analyst IV – Human Resources

Approved by:



MICHAEL J. BECK
City Manager