

ACA Compliance Guide for Employers

January 30, 2024

Learn how to comply with the Affordable Care Act's employer mandate, including plan requirements, notification rules, and reporting obligations.

share



Table of Contents

1. [What is ACA?](#)
2. [ACA Employer Requirements](#)
3. [Determining Employer ACA Eligibility](#)
4. [Navigating ACA Compliance](#)
5. [ACA Noncompliance Penalties](#)
6. [ACA Compliance Assistance](#)

For many employers, researching and applying the Affordable Care Act's (ACA) complicated provisions can feel like reading a medical textbook ... in Latin. There's enough technical terminology, dense calculations, and precise exemptions to redefine the notion of bureaucratic red tape.

ACA compliance goes beyond the basic characteristics of an organization's group healthcare plan. It also includes how employers communicate the plan to both their workers and the Internal Revenue Service (IRS). Worst of all, if an employer doesn't correctly meet the ACA's conditions, they could face costly penalties until everything is remedied.

To help you decipher the ACA's intricacies, think of the following guide as your personal cheat sheet. It'll explain the basic ACA requirements for employers, elaborate on whom those requirements apply to, explore how to adhere to them, and examine how costly non compliance can be.

Key Takeaways

- The ACA established the Employer Mandate, which requires Applicable Large Employers (ALEs) to either provide affordable healthcare insurance to full-time employees or face potential tax penalties.
- To be an ALE, an employer has to have had at least 50 full-time employees, full-time equivalent (FTE) employees, or some combination of the two over the prior calendar year.
- An ALE's healthcare plan must be affordable, provide employees with at least a minimum value, and have minimal essential coverage (i.e., applies to at least 95% of the ALE's full-time employees).
- ALEs must also provide employees with information about the plan and submit annual reports to the IRS via forms 1094-C and 1095-C or face steep penalties for noncompliance.

What is ACA?

The Affordable Care Act (ACA) was a significant turning point for the U.S. healthcare industry. Passed in 2010, the ACA aimed to increase access to health insurance, improve patient protections, and lower healthcare costs overall. While its pros and cons continue to be debated, the law has undeniably had an impact on the U.S. healthcare landscape.

One of the ACA's central provisions is the creation of a health insurance marketplace that allows individuals and families without employer-provided plans to purchase coverage that meets their needs and budgets. Along with this marketplace came

premium tax credits and cost-sharing reductions to help make health coverage affordable for households of all income levels.

ACA Employer Requirements

One of the other seismic shifts the ACA implemented was a new "pay or play" [Employer Mandate](#). Also known as the Employer Shared Responsibility Provision (ESRP), the ACA requires all [Applicable Large Employers](#) (ALEs) to either offer their full-time employees affordable healthcare coverage of at least a minimum value or potentially face [employer shared responsibility payments \(opens in a new tab\)](#) to the IRS.

Regardless of whether an employer chooses to "pay or play," it's still important to comply with the Employer Mandate by picking one of those options. The ACA is, after all, still a federal law, and refusing to adhere to its provisions can bring about even more costly penalties. Moreover, there are potential benefits to offering a group health plan, like improving an organization's [employer brand](#) and helping to keep [employee turnover](#) low.

Determining Employer ACA Eligibility

Every year, the IRS determines how an organization must comply with the ACA by classifying each employer's status based on the average size of that employer's workforce from the prior year.

If an employer has at least 50 full-time employees, [full-time equivalent](#) (FTE) employees, or some combination of the two, they're considered an ALE and must adhere to the corresponding requirements. This includes the quality and affordability of any plans they offer, as well as the plan information they must annually submit to the IRS.

Full-Time Equivalent (FTE) Employees

An FTE is a unit of measurement that compares the workload of different employee types, such as full-time and part-time workers, to assess the size of an organization's workforce.

Under the ACA, one FTE employee is a combination of employees who aren't full time, but whose joint hours are the same as a full-time employee. Specifically, the IRS states the workload of one full-time employee is equal to working 130 hours a month or at least 30 hours a week. So, if an organization has three part-time employees who each work 10 hours a week, their combined hours would be the equivalent of a full-time employee.

To calculate how many FTE employees an organization has, divide the total number of hours part-time staff worked by the number of hours a full-time employee would work (i.e., 130 a month or at least 30 a week).

Want to see a few examples? Check out the [FTE calculations](#) in our HR & Payroll Glossary.

Navigating ACA Compliance

The ACA's main employer requirements center around an offered plan's characteristics, how the employer informs their workers about the plan, and how the employer reports plan information to the IRS.

ACA Plan Requirements

The Employer Mandate's core plan requirements deal with the affordability and value of an employer-sponsored plan, as well as the quantity of full-time employees it covers.

- **Affordable:** As of 2024, the relative cost of the plan's least expensive offering(s) can't exceed [8.39%](#) of an employee's total household income. In other words, if an employee has to spend more than 8.39% of their household's total income on the plan's benefits, the plan isn't affordable.
- **Valuable:** The minimum value a plan must provide to employees is at least 60% of the employee's expected medical costs for that year.
- **Widely Offered:** Employers must offer the plan to at least 95% of their full-time staff (and their dependents) for that plan to provide the minimum essential coverage the ACA requires.

ACA Safe Harbors

Even the most meticulous organizations can't know exactly how much income an entire household earns in a single year. To help employers guarantee they meet ACA requirements, the law allows for the use of specific [safe harbors](#) when calculating a plan's affordability.

Safe Harbor	Details
Form W-2 Wages	The plan's premiums can't exceed 8.39% of the wages reported in Box 1 of the employee's Form W-2 .
Federal Poverty Level (FPL)	The plan's premiums can't exceed 8.39% of the FPL for the employee's household size and geographic area.
Rate of Pay	The plan's premiums can't exceed 8.39% of either the employee's monthly salary or their lowest hourly pay rate multiplied by 130 hours.

ACA Notification Requirements

After piecing together an ACA-compliant plan, ALEs must next inform their employees about that plan, including its availability, benefits, and modifications. Generally, ALEs must provide this information to all employees within 14 days of their hiring, during annual Open Enrollment periods, and whenever an employee asks for it.

- **Summary of Benefits Coverage (SBC):** This is a general explanation of the plan's costs and benefits that must be provided to eligible employees and dependents during [Open Enrollment](#).
- **Notice of Plan Change(s):** Employers must give at least 60 days notice before making substantial changes (e.g., increases to monthly premiums or new network providers) to a plan's offerings.
- **Notice of Healthcare Marketplace:** Employers also must give information about available health insurance marketplace(s) and any corresponding premium tax credits.

ACA Reporting Requirements

To both prove their compliance and meet ACA filing obligations, ALEs must annually report information about their workforces and offered plans by submitting [Forms 1094-C and 1095-C](#). ALEs can choose to file these forms in print or electronically, though if they have 10 or more returns, they must file them electronically. The IRS also instructs ALEs to keep a copy of the forms (or be able to recreate them) for [at least three years \(opens in a new tab\)](#).

- **Form 1094-C:** Summarizes all Form 1095-C information an employer provides, as well as an employer's workforce data, whether the employer is eligible for any financial relief, etc. ALEs must submit this form to the IRS and file it [via mail by February 28, 2024, or electronically by March 31, 2024](#).
- **Form 1095-C:** Reports any employer-offered health insurance benefits an employee received each month of the prior year. ALEs must provide each employee with a copy of the form containing that employee's information by March 1, 2024. A second copy must also be submitted to the IRS along with the organization's Form 1094-C.

ACA Noncompliance Penalties

Aside from failing to meet the IRS' reporting deadlines, ALEs can also face penalties if their plans don't meet the other Employer Mandate standards. This is most noticeable if a full-time employee who's offered their ALE's plan applies for and receives a healthcare marketplace premium tax credit.

Theoretically, an ACA-compliant plan should prevent enrolled employees from qualifying for such credits. So, if a full-time employee applies for marketplace coverage

and receives a credit, it could trigger scrutiny into whether the ALE's plan meets the ACA's affordability requirements.

Violation	Details	Calculation
4980H(a)	Failing to offer coverage or doesn't offer coverage to at least 95% of their full-time staff	$\$2,970^* \times \text{Total \# of full-time employees (minus the first 30 employees)}$
4980H(b)	Failing to provide affordable coverage or successfully providing those forms but with incorrect information	<p>The lesser of the following amounts**:</p> <ul style="list-style-type: none"> ● $\\$2,970 \times \text{Total \# of full-time employees (minus the first 30 employees)}$ ● $(\\$4,460 \div 12) \times \text{\# of full-time employees who received a premium tax credit that month}$
Reporting	Failing to provide Forms 1094-C and 1095-C by their due dates or providing those forms with incorrect information	<p>Varies based on how long it takes to submit or correct the form after the deadline:</p> <ul style="list-style-type: none"> ● 0-30 Days: \$60 per form ● 31 Days-Aug. 1: \$120 per form ● After Aug. 1: \$310 per form

**For 2024 violations; this is an increase from the 2023 amount (\$2,880).*

***Calculated each month for which there's a violation.*

ACA Compliance Assistance

ACA compliance is both complex and potentially costly. So why take the risk of accidentally reporting the wrong data or forgetting to share plan information with your employees? Yes, healthcare compliance is a dry, daunting subject, but with the right tools, anyone can navigate the ACA's twists and turns.

Paylocity's [Compliance Dashboard](#) can help eliminate ACA-induced stress by keeping you up to date on the ever-changing legal landscape while giving you a bird's eye view of what you need to do to avoid penalties. In other words, that intimidating medical textbook becomes a simple, user-friendly instruction manual.

[Request a demo today](#) to see firsthand how these tools can empower you to efficiently monitor your ACA status and ensure you're always on the right track.

Learn how to comply with the Affordable Care Act's employer mandate, including plan requirements, notification rules, and reporting obligations.