Raineri: Penalty cheaper than ACA, but not worth it

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Whether small-business owners like it or not, Jan. 1, 2014, is coming. The Affordable Care Act (ACA, or otherwise known as Obamacare) is set to fully take effect on that date, ushering in big changes for small businesses via several health care mandates.

The ACA is riddled with more than 900 pages of new requirements aimed at moving more individuals from the ranks of the uninsured to the insured. But the new law means some businesses may have to change how they operate, so many have turned to experts for guidance to make sure they’re compliant by next year.

J.W. Terrell, a benefits consultancy, has seen business dramatically increase thanks to the confusion surrounding the health care reform law, according to Lynda Bars, executive vice president at J.W. Terrell. The company’s clients have been transformed into pseudo teachers who educate their clients on looming deadlines and penalties that are set to go into effect come Jan. 1.

“We’re spending an awful lot of time one-on-one with the executives of our clients on education, teaching them the kind of intricacies of the law and the timeline of when something is going to have to be addressed within their organization,” Bars said.

The most significant changes for businesses depends on how many full-time equivalent employees are on the payroll.

If employers have 50 or more full-time equivalent employees, they must offer health coverage or face a $2,000 penalty for each employee after the first 30 workers. A full-time employee is defined as working 30 or more hours a week, or two part-time employees working 15 hours each week — the equivalent of a full-time worker. Second, employers who offer coverage must have health plans that are affordable and provide basic or “minimum essential coverage” as defined by the law. Plans must pay for at least 60 percent of an employee’s health care expenses and the employee can’t pay more than 9.5 percent of his or her annual income on coverage. Failing to offer these basics means they’ll incur a $3,000 penalty per employee beyond the first 30.

Businesses on the bubble with nearly 50 full-time employees will experience the most pressure from the law because they will face a mandate to offer health insurance, said Ron Present, principal with Brown Smith Wallace.

“Some of the ones that we have talked to have indicated that they are thinking about changing the business model to not grow in order to stabilize or to potentially sell,” Present said.

Raineri Construction is one of the businesses near the employee threshold, but despite the health care law, it’s business as usual, according to Ashley Raineri, co-owner and director of finance. The construction company employs 55 employees and already offers insurance, which costs Raineri about $10,000 each month. That figure is set to increase 5 percent come June 1, when Raineri renews the policy. If Raineri dropped coverage and elected to take the $2,000 annual penalty for not offering insurance, it could save the construction company money, but Raineri said that decision was never an option.

“Our employees do really value the health insurance, and I think it would cause a lot of commotion in the company and they would be pretty upset with us if we took that route,” Raineri said. Raineri Construction had $36 million in 2012 revenue. But for even smaller businesses, it can mean greater access to more affordable coverage via the health insurance exchanges, a one-stop shop for individuals and employers to pick and compare.

**ASHLEY RAINERI**
Costs $10,000 each month to cover the company’s 55 employees

Exchange with the federal government, like the state of Illinois. Exchanges are set to open for shopping Oct. 1.

But being compliant is not all businesses will have to worry about. Bars said there’s an overall higher cost of doing business because of other regulations, taxes and fees incorporated into the law. For example, Bars said, one of the first ACA provisions to go into effect allowed dependents to stay on their parents insurance up until age 26. Plus, health plans now have to cover preventive services. While these rules may provide better coverage, Bars said the cost of these benefit changes are reflected in higher costs somewhere.

“They’re great benefits to try to get more people covered, but you got to pay for it somehow, and that is again why employers need to know how the cost of this whole law is going to impact them,” Bars said.

According to Theresa Ruzicka, a partner in RubinBrown’s entrepreneurial services group, young males could be the hardest hit by health care reform.

“According to some reports, young males could see an increase of more than 100 percent of their premiums,” she said. “The education isn’t there, and it is not clear to the younger population on how (the ACA) is going to work.”

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**ACA PENALTIES TO WATCH OUT FOR**

Employers with 50 or more full-time employees (defined as employees who work more than 30 hours a week or two part-time employees that work the equivalent of 30 or more hours each week) who fail to offer health coverage will face a $2,000 penalty for each employee. The penalty kicks in after the first 30 employees. So if a company has 150 employees, only 120 would be subject to a penalty that would total $240,000.

*While it’s $2,000 today, there’s nothing in the legislation that says it won’t go up. I think there is a lot of talk that that’s not substantial enough of a penalty. It’s possible that it could increase to either $5,000 or $10,000,” said Lynda Bars, executive vice president of J.W. Terrell.

Employers with 50 or more employees who fail to offer affordable coverage will face a penalty of $3,950 annually for each full-time employee who seeks coverage through the exchange.

The U.S. Department of Labor has already started enforcing the law by performing random audits. The law also calls for hiring additional government employees to enforce the law, and tax filers will also go to ensure employers are in compliance, according to Bars.