Maine Municipal Employees Health Trust
60 COMMUNITY DRIVE, AUGUSTA, MAINE 04330-9486
(207) 621-2645 www.mmeht.org

To: Health Trust Participating Employers
From: Anne Wright, Assistant Director, MMEHT
Date: August 30, 2013
Re: The Affordable Care Act and Health Care Reform – What Is Affordable Coverage

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Please note: Copies of these Health Care Reform updates may be found on the Health Trust website, at www.mmeht.org. Click on the link for Health Care Reform. Updates are at the bottom of the page; simply click on the link for the update you wish to read.

All of the health plans offered by the Maine Municipal Employees Health Trust meet the minimum value standard required by the Affordable Care Act. Whether or not the coverage is affordable based on employee wages, however, depends on how much the employee is required to pay for his or her health insurance coverage. Under the terms of the ACA, coverage is affordable if the employee's premium contribution for self-only coverage, for the least expensive minimum value plan offered by the employer, does not exceed 9.5% of income.

Please note that affordability is calculated based on the employee's contribution for **self-only** coverage. This is true regardless of whether the employee is enrolled in family coverage, employee plus children, etc. You only need to determine what the employee would be required to pay if he or she were enrolled in self-only (single) coverage.

The same holds true when considering which plan on which to base affordability. Affordability is determined based on the **lowest cost** minimum value plan offered by the employer, for which that employee is eligible. So, for example, if you offer your employees the choice between the Health Trust's POS-C and PPO 500 plans, affordability will be determined based on the contribution required for the PPO 500 (the less expensive plan), even if the employee chooses to enroll in the POS-C plan.

Income is calculated using one of three "safe harbors" defined by the IRS: the Federal Poverty Level, Rate of Pay, or W-2 safe harbor. The following paragraphs will provide more details on these three safe harbors. You should use the same safe harbor method for determining if coverage is affordable for all of your employees. Please note, though, that as long as the same premium contribution practices apply to all employees, you will only need to calculate affordability for your lowest paid employee(s). If coverage is affordable for your lowest paid employee, it will be affordable for all other employees that earn more.

1. **Federal Poverty Level.** This is determined by looking at the Federal Poverty Level (FPL) for a single individual. In order to be considered "affordable", the employee's contribution for self-only coverage, for the lowest cost minimum value plan offered by the employer, cannot exceed

9.5% of the Federal Poverty Level. In 2013, the Federal Poverty Level for a single person is $11,490. 9.5% of $11,490 is $1,091.55. This means that, using the Federal Poverty Level safe harbor, an employee's premium contribution for self-only coverage, for the lowest cost minimum value plan offered by the employer, cannot exceed $1,091.55 per year, or $90.96 per month.

2. **Rate of Pay.** This may be used for hourly employees. First, determine the employee's hourly rate of pay. Then multiply that by 130. The reason 130 is used here is because the Affordable care Act defines a full-time employee as working 30 or more hours per week. An employee working 30 hours per week equates to one working 130 hours per month.

   So, multiply the employee's hourly rate of pay by 130. This will give you the employee's monthly rate of pay. Next, determine whether the employee's premium contribution for self-only coverage, for the lowest cost minimum value plan offered by the employer, exceeds 9.5% of the monthly rate of pay. If it is less than 9.5%, the coverage is considered affordable for that employee.

   If you use the Rate of Pay safe harbor method for determining affordability, you may calculate affordability for your salaried employees by simply using their monthly rate of pay (annual salary divided by 12).

3. **W-2**. In order to use the W-2 safe harbor, you will need to determine the employee's annual wages for the current year, as reported on Box 1 of Form W-2 (the modified adjusted gross income). Box 1 reduces wages by elective deductions such as contributions to a 401(k) plan, pre-tax health insurance premiums, etc. Coverage will be considered affordable if the employee's annual contribution for self-only coverage, for the lowest cost minimum value plan offered by the employer, does not exceed 9.5% of the annual wages as shown in Box 1 of the employee's Form W-2.

Please note that the Maine Municipal Association and the Maine Municipal Employees Health Trust are sharing this information to assist you with your compliance planning. We recommend that you contact your legal counsel or tax consultant with specific questions relating to this law.