Affordable Care Act:
Glossary of Terminology

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$2,000 Penalty: Nondeductible tax penalty imposed yearly (but calculated monthly) if an Applicable Large Employer fails to provide Minimum Essential Coverage to at least 95% of its full-time employees (and their children up to age 26) and at least one full-time employees receive a Premium Credit for Exchange coverage. The only criterion is to provide coverage. To avoid this penalty, only the offer of coverage is required—neither an employer contribution nor a specific plan design is required. The company will owe $2,000 per full-time employee in 2015, less the first 80 full-time employees, and less the first 30 full-time employees in 2016 and later, if one full-time employee earns a Premium Credit. Employers with 50 to 99 full-time employees and full-time equivalent employees will not be subject to penalties in 2015 (and months in 2016 in the 2015 plan year) if they do not reorganize their workforce or alter their health insurance in 2014–2015. In 2015 (and certain months in 2016 in the 2015 plan year), transition relief is in effect for employers with 100 or more full-time employees and full-time equivalent employees. Under this provision, the employer will not be charged the $2,000 penalty if it provides coverage to at least 70% of its full-time employees in 2015.

$3,000 Penalty: If an Applicable Large Employer offers Minimum Essential Coverage to at least 95% of its full-time employees (and their children up to age 26), but the offered coverage is either not affordable or does not provide minimum value, and at least one full-time employee receives a Premium Credit for Exchange coverage, there will be a nondeductible tax penalty assessed annually (but calculated on a monthly basis). If one full-time employee receives a Premium Credit, the employer will be responsible for paying the smaller of the following amounts: (a) $3,000 per full-time employee who receives a Premium Credit; or (b) $2,000 per full-time employee less the first 80 full-time employees in 2015 and less the first 30 full-time employees in 2016 and later. Employers with 50 to 99 full-time employees and full-time equivalent employees will not be subject to penalties in 2015 (and months in 2016 in the 2015 plan year) if they do not reorganize their workforce or alter their health insurance in 2014–2015.

Administrative Period: An employer may conduct administrative tasks, such as enrolling eligible employees in coverage, during the Administrative Period, which is a 90-day window between the Measurement Period and the corresponding Stability Period (and before the initial Measurement Period begins for new employees). The initial Measurement Period and an Administrative Period cannot collectively last past the last day of the first calendar month starting on or after the first anniversary of the employee's start date, according to certain limits.

Affordable/Affordability: If an employee's single premium under the employer's lowest-cost plan that offers Minimum Value does not exceed 9.5% of the employee's household income, coverage is considered reasonable. Employers may base their decision on "W-2 Wages," the "Federal Poverty Level," or an employee's "Rate of Pay" using a "safe harbor."

Affordable Care Act (ACA): The acronym "Affordable Care Act" refers to the group of laws that make up the country's health care reform. The U.S. health care system has undergone significant changes because of the ACA, which was signed into law on March 23, 2010.

Applicable Large Employer (for purposes of the Shared Responsibility provision): An employer who, over the previous calendar year, employed, on average, 50 or more full-time employees, including full-time equivalent employees.

Automatic Enrollment: When a full-time employee becomes eligible for coverage under the employer's group health plan, employers with more than 200 employees are required to enroll them all automatically.

Employees must be made aware of the automatic enrollment process by their employer, and they must be given the chance to opt out.

Cadillac Tax: See Excise Tax.

Community Rating: Individual and small group policies may only adjust premiums in accordance with the ACA's strict criteria regarding age, cigarette usage, single or family status, and geographic area. Health status and gender, which have historically been employed as premium-determining factors, are no longer acceptable. Under community rating, rates often increase for young, healthy people and drop for those with poor health.

Controlled Groups: The employees of all entities may need to be added together to determine if any one company, store, or franchise is an Applicable Large Employer if the owner has ownership interests in other businesses, stores, or franchises (or even unrelated entities). In general, 80% shared ownership across entities is sufficient to establish controlled group status, though the precise determination should be established with the help of counsel. If the same five (5) people or fewer collectively own at least 80% of each entity and effectively control more than 50% of it (taking into consideration each person's ownership only to the degree that each person's ownership interest is identical with respect to each other), that is also considered to be a controlled group.

CO-OP Exchange: A not-for-profit, consumer-governed health insurance scheme is known as a consumer operated and oriented plan (CO-OP) program. In other words, this insurance company is nonprofit and not run by the government. In an Exchange, CO-OPs may offer eligible health insurance for sale.

Dependent: Refers to an employee's children under the age of 26, which includes both biological and adoptive children, for the purposes of the Employer "Play or Pay" Mandate. The definition of dependent excludes spouses, foster children, stepchildren, and most children who are not citizens or nationals of the United States.

Employer "Play or Pay" Mandate: This is the ACA's "Employer Shared Responsibility" clause. An Applicable Large Employer must provide full-time employees and their dependent children up to age 26 with affordable, minimum value health insurance coverage, or else they will have to "Pay" a fine.

Essential Health Benefits: A list of the 10 major benefit categories that the ACA requires, such as prescription medicines, maternity and newborn care, emergency services, and hospitalization. Although group health plans and group health insurance for large employers (101 or more employees, or 51 or more in some states until 2016) are not required to provide coverage for all Essential Health Benefits, they are not allowed to place annual dollar limits on any covered Essential Health Benefits.

Essential Health Benefits Package: Beginning in 2014, all individual and small group insurance plans that are not grandfathered in and Exchange coverage options must include the Essential Health Benefits Package, which covers all essential health benefit categories. In principle, each state will decide on its own Essential Health Benefits Package.

Exchange (also known as the "Marketplace"): Every state must launch a health insurance Exchange by 2014 (or fall back on a federally supported Exchange) for the uninsured to use. The Exchange will provide fully insured contracts with several levels of coverage (platinum, gold, silver, and bronze) that offer Essential Health Benefits.

Excise Tax: This term refers to the excise tax known as the "Cadillac tax," which is a 40% excise tax on the value of health insurance benefits exceeding $10,200 for single coverage and $27,500 for family coverage (indexed to inflation), despite the fact that many taxes under the ACA are excise taxes (i.e., nondeductible penalty taxes). For qualifying retirees and "high risk" occupations, the criteria are higher ($11,850 for singles and $30,950 for families). All employer and employee health insurance costs, including pretax employee premiums and some payments to health FSAs, HRAs, and HSAs, appear to be subject to the tax. It excludes standalone dental and vision insurance.

Federal Poverty Line Safe Harbor: The cost of employee-only coverage under a plan is considered affordable if it does not cost more than 9.5% of the federal poverty level for a single person under the lowest priced plan that offers Minimum Value.

Full-Time Employee (for purposes of the Shared Responsibility provision): An employee who, with respect to a calendar month, is employed and may be expected to work full-time at the time of hire, averaging at least 30 hours per week (or 130 hours per month) of service for the employer, on average during any given measurement period.

Full-Time Equivalent Employee: This idea only pertains to figuring out whether an organization qualifies as an Applicable Large organization for the Shared Responsibility provision. Divide all part-time employees (those working less than 30 hours per week)' Hours of Service for a month (up to 120 per employee) by 120 to get the number of full-time equivalents for the month. The number of full-time equivalent employees in a year is calculated by adding the figure for each month and dividing it by 12 for each year.

Hours of Service (for purposes of the Shared Responsibility provision): "Hours of Service" refers to time spent working that is compensated (or for which the employee is entitled to compensation) as well as paid time off for things like holidays, sick days, layoffs, jury duty, military service, and leave of absence. The number of hours an employee works outside the country is irrelevant if they are compensated with income from a foreign source.

Individual Mandate: Beginning in 2014, it will be necessary for all adults to maintain Minimum Essential Coverage (health insurance) for themselves and their families. There are some exclusions based on your income, immigration status, or other considerations.

Measurement Period: A period, usually between three and twelve months, during which an Applicable Large Employer will monitor employee hours to decide whether they will be regarded as full-time employees during the employer's Stability Period. While Ongoing Employees have a standard Measurement Period for Ongoing Employees, some New Employees have an initial Measurement Period based on their date of hire.

Marketplace: See Exchange.

Medical Loss Ratio (MLR) Rule: Requires insurers to give policyholders an annual rebate if the insurer does not spend at least 85% of premium money on healthcare and related services (80% in the small group or individual market).

Minimum Essential Coverage: A government-sponsored plan, a plan available in the small- or large-group market, or a self-insured group health plan issued by or on behalf of an employer that provides group health insurance coverage to employees. Contains Medicare, Medicaid, grandfathered health plans, and individual insurance coverage as well.

Minimum Value: Generally speaking, a plan is considered to have Minimum Value if it is intended to cover, on average, at least 60% of participants' covered medical expenses.

New Employees (for purposes of the Shared Responsibility provision): For the purposes of the shared responsibility clause, new employees include: Employees with variable hours, seasonal employees, or part-time employees may have "initial" Measurement and Stability Periods depending on their date of hiring until they become Ongoing Employees if they have not yet worked for their employer for one full standard Measurement Period.

Nondiscrimination Provisions: ACA regulations intended to stop businesses from giving highly paid employees preferential treatment when it comes to eligibility or benefits under a non-grandfathered plan

Ongoing Employees (for purposes of the Shared Responsibility provision): Employees who have worked for their employer for at least one full standard Measurement Period are considered ongoing employees for the purposes of the Shared Responsibility provision.

Premium Credits: Federal income-based incentives to assist people in purchasing insurance through an Exchange. Available to anyone without access to Medicaid or affordable, minimum value employer coverage who have a household income below 400% of the federal poverty line. These are direct payments made by the federal government to the insurance firms that are advanceable and refundable.

Private Exchange: Online Web portals, private exchanges were present before the Affordable Care Act and let customers choose from a variety of health insurance plans.

Rate-of-Pay Safe Harbor: Coverage is affordable for the month if the employee-only portion of the lowest-cost plan that offers Minimum Value does not cost more than 9.5% of the employee's hourly rate of pay for 130 hours. For non-hourly employees, the choice is typically made depending on salary.

Regional Exchange: A regional Exchange is one that was established by states as a substitute for or addition to a state Exchange.

Seasonal Employee: An employee recruited for a role where the typical yearly employment is six months or less. The job period should start in the same season every year, such as the summer or winter. If an employee's job tenure lasts longer than it usually does due to extraordinary conditions, such as a prolonged snow season, they may still be regarded as seasonal employees.

Seasonal Worker: These include retail employees who are only employed during the holiday seasons as well as other workers who provide labor or services on a seasonal basis as defined by the DOL. Employers may define the phrase reasonably and in good faith and apply current U.S. Department of Labor regulations to seasonal workers. The employer is not regarded as employing more than 50 full-time employees and full-time equivalent employees and is not an Applicable Large Employer for the current year if the total number of full-time employees and full-time equivalent employees employed by the employer during the preceding calendar year exceeded 50 for 120 days or less and the employees above 50 who were employed for that period of no more than 120 days were seasonal workers.

Shared Responsibility Provision: The "Play or Pay" employer obligation under the Affordable Care Act. This part of the ACA imposes fines on certain employers who fail to provide group health insurance to at least 95% of their full-time employees and their dependents (70% for 2015), or who do so but only at a price that is deemed unaffordable or does not provide minimum value, and who have at least one full-time employee who uses Premium Credits to buy health insurance on an Exchange.

SHOP Exchange: For businesses with 100 or less employees, SHOP is the Small Business Health Options Program (states may set the cap at 50 employees until 2016). If it is obtained through an employer's cafeteria plan, employees who purchase coverage through a SHOP may be able to pay the Exchange premiums on a pretax basis.

Small Business Tax Credit: A credit made available by the ACA to encourage small businesses to start offering health insurance or continue their current coverage. The maximum tax credit is 50% of the premiums paid by qualified small firms who take part in a SHOP Exchange as of 2014. Smaller businesses that employ 10 or less full-time equivalent employees and pay annual average wages of $25,000 or less are eligible for the maximum credit. At 25 employees and $50,000 in average yearly pay, the tax benefit fades off. Employers may take advantage of the credit for a maximum of two consecutive tax years.

Stability Period: A period chosen by an Applicable Large Employer (including any administrative periods) that immediately follows and corresponds with a first or standard measurement period. The Stability Period must be at least six (6) months long and cannot be less than the associated Measurement Period (or, if an employee's position is not full-time, cannot be longer than the corresponding Measurement Period). Based on the Measurement Period, an employee's full-time (or part-time) status is fixed for the duration of the Stability Period if they continue to work for the company. Employers may adopt a transition measurement period for Stability Periods beginning in 2015 that is less than 12 consecutive months but at least 6 consecutive months long, starts no later than July 1, 2014, and ends no earlier than 90 days before the first day of the plan year beginning on or after January 1, 2015, while still using a Stability Period of up to 12 months.

Variable Hour Employee: An employee whose start date makes it uncertain if they can be expected to put in at least 30 hours per week on average throughout the first measurement period.

W-2 Safe Harbor: Coverage under a plan is affordable for the year if the employee-only portion of the employer's lowest-priced plan that offers Minimum Value does not cost more than 9.5% of the employee's Form W-2 salary, as reported in Box 1 for that year.