Rock and Roll & ACA: Guitar Amps and Making Sense of Look-Back Periods

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I learn things best by walking through a real life scenario. Reading dictionary definitions or textbooks doesn't help me as much as walking through how something works in the real world.

I'm currently building a guitar amp with my two sons as a fun summer project. We have read the instructions, but now we're in the real world of soldering, grounding wires, testing voltages, etc. Books were helpful in understanding how a guitar amplifier worked, but walking through the steps of actually building one has really pulled the pieces together and helped us make sense of everything.

Before we started this project, I couldn't explain to you at all what a "potentiometer" or "resistor" actually did to electronic signal. In the same way, in visiting with companies every day, I find people that use terms like "look-back" or "stability" or "administrative" periods because they've read them online, but don't really understand how they work. So, I'm going to try to "build an amp" for you, figuratively speaking to hopefully make a little more sense of how the Affordable Care Act is changing the management of employee eligibility.

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FULL TIME VS PART TIME

Hopefully, this is old news for you at this point, but in case it's not, the affordable care act has changed the definition of "full-time employees" as anyone that averages more than 30 hours. As a "large employer" we of course have to offer insurance to any "full time" employees or face penalties/fines. When you hire that salaried non-exempt manager that you fully expect to work more than 30 hours, you can simply classify them as "full-time" and then make them eligible for benefits using your standard company waiting period (for instance, first of the month following 30 days).

Part-time employees is where it gets a little tricky...

LOOK-BACK PERIOD

That's what brings us to the "look-back period." In an effort to prevent unfair discrimination or exclusion from insurance, the Affordable Care Act says that you can't just call a person "part-time" when they are hired and be done. Instead, you have to set up a an initial "lookback period" where you will measure the actual time worked and see if this individual averaged more than 30 hours/week for that "look-back period." Most companies choose a "look-back period" of 12 months but you can choose a look-back period of as short as 3 months.

So, let's say I was hired on June 10, 2014 as a "part-time" employee (we reasonably expected Aaron to work less than 30 hours/week) and I have chosen a 12 month look-back period. Based on that, I need to measure Aaron on June 10, 2015 and see what his average hours were to determine if he has become eligible for benefits or not.

As you can imagine, this becomes quite a bear to manage as I have to be looking at all of my part-time new hires and doing this measurement when they hit 12 months (or whatever look-back period I selected). I can't simply wait until benefits enrollment time, or the end of the year.

I'm typically going to tag an "administrative period" to the end of this which is basically a window of 30-60 days to give me time to get enrollment information to the employee and receive their elections back from them.

For our scenario, let's say our administrative period is simply "first of the month following measurement." That means that I was initially measured on June 10, 2015 and had I exceeded 30 hours, I would be eligible for benefits July 1, 2015.

But it doesn't stop there...

INITIAL STABILITY PERIOD

After that look-back period, I am then considered "stable" for a period that can't be LESS than the initial look-back period (*where the initial look-back period can range from 3-12 months, the stability period has to be between 6-12 months*). In other words, if I set a look-back period of 12 months, whatever my measurement results were (eligible or ineligible) remains valid for another 12 months.

So from our example above, on June 15, 2015, we determined that Aaron had averaged more than 30 hours a week in his first 12 months. Because of that, his eligibility started on July 1, 2015 and will continue (regardless of his average hours) through at least June 30, 2016. In other words, I am "stable" for 12 months. I may decline insurance, but for purposes of 1095-C reporting, I still must be marked "eligible" for these months.

STANDARD MEASUREMENT PERIOD

Ok, but my plan year doesn't start in July, it starts on December 1 of every year with an open enrollment beginning Nov 1. Surely I don't have to keep managing all of these employees with all of these different dates forever? No you don't - that's where the standard measurement period takes over.

Your "standard measurement" period will typically correspond with your plan year open enrollment dates. Back to our original scenario. We measured Aaron on June 15, 2015 and determined that he had averaged more than 30 hours/week, therefore making him eligible for benefits through at least June 30, 2016. However, our standard measurement period runs from Nov 1 2014 - Oct 31 2015 for existing employees.

So, on Nov 1, 2015, we will measure Aaron again (even though he just became eligible a few months ago) and see if he averaged more than 30 hours/week between Nov 1 2014 - Oct 31 2015. If he averaged MORE than 30 hours, we will not measure him again until Nov 1, 2016. If he averaged LESS than 30 hours, he is no longer eligible for benefits, but his "stability period" takes over and he will remain eligible through June 30, 2016.

Basically, the "stability period" overrides the "standard measurement" in that second year.

PUTTING IT ALL TOGETHER

- Aaron was hired on June 10, 2014
- Initially measured on June 10, 2015 and averaged more than 30 hours
- Eligible for benefits beginning July 1, 2015
- Measured again on Nov 1, 2015 and averaged less than 30 hours
- Despite averaging less than 30 hours, remained eligible through June 30, 2016
- Measured again on Nov 1, 2016 and every November thereafter

As you can see, there are a LOT of moving pieces to determining who is eligible - and this is just ONE EMPLOYEE! This is the information that has to be populated on your 1095-C form telling the IRS who was eligible each month. You can read more about the 1095-C form here.

Once we understand how this works, standard tools like calendar alerts and excel spreadsheets get a little scary. Even systems that claim "ACA Reports" can't really manage this very well. My recommendation for companies is to find a system that can truly manage eligibility for you.

HOW NETCHEX CAN HELP

Netchex is a single-source system that does Benefits Administration AND Payroll together. It is NOT two systems that are “integrated” together. We all know how well so called “integrated solutions” work right? As you can see, we need to be tracking hours worked and start dates right next to benefit plans offered, so the ONLY way to administer this without manual intervention is to find a system that handles both sides of the equation. Stand alone benefits and payroll products won’t get you where you need to be.

Our ACA Central is an all-inclusive hub for managing ACA, walking you through a simple setup process to configure your company specific parameters like look-back period and administrative windows. A straight-forward wizard equips you with handy educational tools and reports along the way.

Let’s talk. Call (877) 729-2661 or visit us online at www.netchexonline.com