



ACA Compliance: Key Takeaways from the 2015 Tax Year Experience to Prep You for 2016/2017



At-A-Glance Guide *from*
Empyrean Benefit Solutions

ACA Compliance:

Key Takeaways from the 2015 Tax Year Experience to Prep You for 2016

The 2015 Affordable Care Act (ACA) reporting cycle has ended - and with it ended the IRS's leniency towards employers' "good faith efforts." Forget about deadline extensions and slap-on-the-wrist penalties – the compliance challenge only gets more difficult from here. HR leaders now face the threat of massive potential fines: **Up to \$3 million for applicable large employers¹, and more responsibility and risk than ever before.**

For some, this first compliance reporting period uncovered critical issues with internal processes, vendor partners, or both. The ACA's mandates proved to be far more complex, time-consuming, and labor-intensive than anyone had expected. Even the IRS has struggled with balancing ACA and tax responsibilities amid recent budget cuts.²

Employers may start to encounter complications related to their 2015 reporting practices, such as audits and appeals. Meanwhile, ACA requirements could continue shifting as a result of the inaugural reporting year or upcoming presidential election.

Proactive companies are bracing for next year's challenges by reviewing their strategies now. This At-a-Glance covers three key takeaways from the 2015 ACA experience, to help improve your strategy and position your organization for a smooth and successful second reporting cycle.

KEY TAKEAWAYS:

1. **ACA compliance requirements are still a moving target.**
2. **Start strong by understanding your complexity and risks.**
3. **Lay a foundation of good data.**

1 Takeaway 1: ACA compliance requirements are still a moving target

Many employers hoped ACA compliance would become easier after this first round of reporting, but some processes are still in flux while the IRS recalibrates itself to handle additional ACA duties with fewer resources.⁴ Depending on the outcome of the upcoming presidential election, the future of the ACA is uncertain and regulations could change or be dissolved completely. This means the ACA's administrative requirements may effectively become a moving target. However, even if the ACA were to be entirely repealed, most employers believe another healthcare reform bill would take its place within four years.³

The ACA now defines one of HR's biggest balancing acts, sometimes requiring the cooperation of in-house departments and (often) outside vendors to facilitate a solution. ACA complexity and confusion is likely to linger as the IRS grapples its increasing workload with a shrinking budget and workforce. The level of data coordination demanded for accurate reporting is staggering – as many employers learned while attempting to complete 2015 filings on their own. On the other hand, prepared employers who sought help from a reliable partner like Empyrean fulfilled their ACA responsibilities accurately and with full compliance.

Most employers consider reporting and disclosure issues to be their biggest ACA challenges.³ These challenges and their subsequent risks can be significantly minimized when outsourcing ACA reporting to a dedicated partner.

Takeaway 1: Still a Moving Target, cont'd

In 2015, employers faced a surprisingly more complicated and confusing process once the IRS released final ACA forms and instructions in mid-September. The final forms were significantly different than the drafts provided in July, and many employers and vendors had to react quickly to accommodate the late-notice revisions. Significant revisions are not expected this year, though employers should again prepare to meet all requirements by having a solid strategy in place, and by leaving ample time to navigate through the processes and responses required.

Adding to next year's challenges are two new codes announced for Form 1095-C, Part II. Specific guidance for the codes—used to designate conditional offers of spousal coverage—has yet to be released. Their addition will increase the total number of codes used on the form from 18 to 20. Until instructions are provided, it will not be known how these new codes will affect the over 100 valid code combinations that were possible in 2015.

For employers who choose to handle 1095-C coding on their own, the addition of even a few new codes can mean major headaches. Employers must learn each new code's guidelines and understand its application as it relates to preexisting codes.

At Empyrean, we simplify the coding process using our proprietary coding engine called Manifest. Manifest applies logic to employee data and automatically determines the correct code combinations needed to complete Form 1095-C. New regulations or codes can be programmed into the engine almost instantly, and then universally applied. During 2015 ACA reporting, Empyrean produced data for over 1,000 employers—totaling approximately three-quarters of a million forms. As a result, these employers scrambled less to catch up with short-notice ACA changes, and could focus on driving long-term business objectives instead.

At-A-Glance Guide from Empyrean Benefit Solutions

58% of employers saw an increase in ACA-related questions directed to their HR departments – most commonly regarding 1095 forms and tax filing.³ Having support from an outside partner with qualified customer service capabilities can help ease this incremental burden on HR. For example, during the 2015 reporting cycle, Empyrean's automated FAQ was able to answer 80% of all ACA-related calls without the need for a live representative. For the remaining calls that required more personalized answers, our in-house support team provided customers with one-on-one help and guidance. Look back on your own experience.

How much time and incremental effort would customer service have saved you?

2 Takeaway 2: Start strong by considering your complexity and risks

Some employers did not realize the resources ACA compliance responsibilities would require, and suffered unnecessarily as a result. As we learned in 2015, your effort will depend on several important factors, including:

- Your company size.
- The number of Employee Identification Numbers (EINs) held by your company.
- The complexity of your workforce: Are employees hourly or salaried? Are workers unionized? What are the percentages of each? Are employees centralized in a single location, or are they spread out across the US or multiple countries?
- The knowledgeable and experienced internal resources available to handle the reporting workload.

By understanding the true scope of your organization's reporting challenge, you can begin mapping out a strong strategy. Potential changes to the ACA may make its tasks difficult to master alone, but options do exist for employers who are overwhelmed by the requirements. The key is finding the right option for your company's needs.

Do-it-yourself options can be less costly up front, but the involvement they require can quickly strain internal resources and increase the chances that expensive mistakes will be made. In our experience, employers who found themselves overwhelmed by

Your outside ACA partner should provide several reporting options, so you can find the best fit for your company's needs. At Empyrean, we offer clients the flexibility to choose from three reporting options:

Option 1: *Full-service project management, including data translation and coding for use on ACA forms, individual employee 1095 form distribution, IRS filing coordination, and IRS audit assistance as needed.*

Option 2: *Translation of data into coded "forms-ready" files for use by your chosen tax form provider.*

Option 3: *Delivery of data for coding and use in-house or by your chosen tax form provider.*

Takeaway 2: Consider Risks & Complexities, cont'd

the ACA mandates had underestimated the time and work needed to comply, which was extensively more than their organization was prepared to dedicate. If you or your team similarly struggled, it may be time to consider outside assistance to help shoulder your administrative demands.

In 2015, employers got their first look at the ACA's lengthy and complicated reporting process. Many employers expected ACA filing to be similar to filing personal household taxes. Instead, the process was laborious, extensive, and not as easy as simply hitting "submit." Employers with over 250 employees are required to file electronically – a process which includes registering for and then later receiving an IRS Transmitter Control Code, successfully testing communication procedures, and filing via the IRS's new ACA Information Return (AIR) system. The AIR system itself added time and stress to the process as it strained to perform normally as billed, struggled to keep up with demand, and had numerous bouts of downtime due to unscheduled maintenance.

Your approach to ACA reporting must take the full effort and time demands of the reporting process into account, so your organization can meet its time-sensitive deadlines.

Despite their complexity, ACA reporting requirements, while understandably daunting to many HR leaders, can be fairly straightforward to fulfill. A proven ACA partner should be able to take your data from start to finish, handling coordination with other vendors as needed, and alleviating any anxiety and confusion. While some solutions show ornately detailed metrics and elaborate dashboards, these displays are most often unnecessary – your ACA solution should just work. With a partner that has previously demonstrated ACA proficiency with companies of similar size and complexity, employers should only need to provide their partner with accurate data to ensure ACA success.

3 Takeaway 3: Lay a foundation of good data

At its core, ACA compliance relies on clean and accurate employee data. The quality of the data you collect is directly correlated to the success of your efforts. In 2015, all applicable large employers—those with 100 or more full-time employees—were required to collect employee data for their workforce. This threshold dropped to 50 employees in 2016. And unlike the previous year, penalty relief and deadline extensions are no longer expected going forward.

After the IRS revealed the full ACA requirements for 2015, employers frantically struggled to find a system that would accurately track all of the data needed to adhere to §6055 and §6056. Initially, payroll providers were seen as the logical source for data acquisition and aggregation, but this view quickly changed with the announcement that employees' health coverage data would also need to be considered alongside hours tracking. Thus, benefits administration systems became the de facto source for applicable data.

For employers already using a payroll system to track hours, it is crucial to integrate the payroll system's information into their benefits administration platform. At Empyrean, our platform is configured to accept any payroll or HRIS hours data needed for ACA reporting. For clients without an hours tracking system in place, Empyrean provides SAFEHARBOR, our proprietary look-back hours tracking tool.

Empyrean 2015 ACA Reporting Successes:

- *All required mailings sent out on-time*
- *All filings completed ahead of the June 30th deadline*
- *100% of clients' Empyrean-derived data was accepted as compliant*

Takeaway 3: Foundation of Good Data, cont'd

By combining our SAFEHARBOR tool, Manifest coding engine, and benefits administration technologies, Empyrean provides clients with complete ACA compliance and reporting solutions.

The ACA presents unique risks that most organizations are not prepared to take lightly. To achieve success next year, HR leaders must review their approach to ensure their company is prepared for the changes ahead. Though ACA compliance requirements may seem overwhelming, the process becomes significantly easier and more manageable with the right strategy in place. With the support of a proven outside partner as part of that strategy, you can lower your risks, minimize administrative burdens, and eliminate compromises to bring HR's focus back to the initiatives that matter most to your growing business.

References

1. "Information Reporting by Applicable Large Employers." Internal Revenue Service, Washington, DC. <https://www.irs.gov/affordable-care-act/employers/information-reporting-by-applicable-large-employers> (accessed July 13, 2016).
2. Hoover, Kent. "What IRS Budget Crunch Means for Audits and Obamacare Enforcement". The Washington Business Journal, Arlington, VA, February 11, 2016.
3. 2016 Employer-Sponsored Health Care: ACA's Impact Survey Results. International Foundation of Employee Benefits Plans, Brookfield, WI, May 2016.
4. Marr, Chuck, & Murray, Cecile. "IRS Funding Cuts Compromise Taxpayer Service and Weaken Enforcement." Center on Budget and Policy Priorities, Washington, DC, April 4, 2016.

About Empyrean

Empyrean Benefit Solutions is one of the fastest-growing providers of technology and services for managing employee health benefits programs. Empyrean provides enrollment, eligibility management, ACA reporting and other plan administration services to employers, insurance brokers, and healthcare exchanges. Unlike other providers, Empyrean combines the industry's most client-adaptive and configurable benefits technology platform with expert, responsive service to deliver Hi-Touch benefits administration. Visit <http://www.GoEmpyrean.com> for more information.

**At-A-Glance Guide *from*
Empyrean Benefit Solutions**

Getting help from a knowledgeable benefits administrator such as Empyrean is increasingly beneficial to help reduce internal staff burdens, streamline your compliance responsibilities, and provide expertise in managing complex, ever-changing IRS reporting obligations.

**To learn more visit our website
at www.GoEmpyrean.com**