Health Care Reform's New Measurement, Administrative, and Stability Periods Design

Background

Health Care Reform, or PPACA, requires employers with 50 or more Full Time Equivalents (FTEs) to offer "affordable" "essential health coverage "to full time employees regularly scheduled to work 30 or more hours per week. For employees who are "regularly scheduled" to work 30 or more hours per week, the determination to offer coverage is pretty straightforward. For current employees who work "variable hours", or new employees whose expected hours per week are unknown or variable, the calculation becomes a bit more complicated.

Here we will examine the process by which an employer will determine who needs to be offered coverage, or in other words, who is a full time employee.

To do this, we establish three periods (defined with guidance in IRS Notice 2012-58): the Measurement Period, the Administrative Period, and the Stability Period. Put simply, the Measurement Period is when we record the actual hours worked of a variable hour employee. The Administrative Period is when we calculate the average hours worked over the Measurement Period, and the Stability Period is the time during which they become and remain eligible for benefits (*i.e.* considered full time).

Measurement Period

The regulations define the Measurement Period as not less than three but not more than 12 consecutive calendar months, as chosen by the employer. This describes the ongoing Measurement Period. We'll discuss the initial Measurement Period for new hires later in this document.

Ongoing Measurement Period

We believe that most employers will choose an ongoing Measurement Period of 12 months, and will coordinate it with their annual benefit plan year. This provides a relatively straightforward administration process for the employer, and provides an accurate picture of hours worked over a longer period of time. The longer Measurement Period also provides an employer with the flexibility to avoid providing coverage to variable hour employees who may leave the employer within the year.

While most employers will utilize a 12 month Measurement Period, because the requirement to offer coverage to full time employees begins for plan years beginning on or after January 1, 2014, it will be difficult for many employers to capture a full year's worth of data prior to that date. There is transition relief that allows an employer to choose a 12 month Measurement Period for future years, but a one-time six month Measurement Period from July 1, 2013 through December 31, 2013. This will be particularly handy for plans utilizing a calendar year.

Initial Measurement Period for New Variable Hour Employees

The process we've just gone through is considered to be used for an ongoing variable hour employee. That is, it is repeated year after year following the same Measurement, Administrative, and Stability Periods.

New employees who work variable hours are also subject to a Measurement Period, Administrative Period, and Stability Period, but the initial periods are based on their date of hire before transitioning to the standard periods.

New Hire Example:

Bob works for Jungle Corp., which has a calendar year benefit plan. Their standard Measurement and Stability Periods are based on that 12 month calendar (and plan) year.

Bob is hired on May 23, 2014.

Bob's initial Measurement Period is 12 months from his date of hire. His hours during that period are recorded.

On May 22, 2015, 12 months of Bob's Measurement Period expires, and Bob's hours are averaged, and on May 23, 2015 Bob's Administrative Period begins. Bob is determined to have worked 30 or more hours per week during the initial Measurement Period.

Bob now begins the 90 calendar day eligibility period, and on August 20, 2015, Bob becomes eligible for benefits. He remains eligible for benefits for the remainder of Jungle's' Stability Period –until the end of 2015.

If Bob had been not to have worked 30 or more hours per week during the initial Measurement Period, he would enter the standard Measurement Period, counting the hours going back to January 1, 2015.

Once a new employee has completed an initial Measurement Period, the employee must be tested for full-time status under the ongoing employee rules for the employer's standard Measurement Period, regardless of whether the employee was full-time during the initial Measurement Period.

During the Measurement Periods, an employer would capture and record the actual hours worked by each variable hour employee. This can be accomplished through timesheets, time and attendance systems, or a payroll system, or in the case of salaried employees, choosing a standard number of hours for each day worked.

Administrative Period

Now that the actual hours worked have been captured and recorded during the Measurement Period, the Administrative Period allows an employer up to 90 days to calculate the average hours worked over the Measurement Period to determine whether an employee averaged 30 or more hours per week during the Measurement Period.

While the regulations allow up to 90 days to perform the calculation, we believe that for most employers this period will be anywhere from one day to one week. It will likely be coordinated with the employer's open enrollment period as well.

For those employees who have been determined to be full time (averaged 30 or more hours per week during the Measurement Period), the standard eligibility period begins. After the eligibility period, the employee is eligible for coverage for the remainder of the Stability Period.

If the employee was determined not to be full time during the Measurement Period, then the process begins again. See below for more details on Initial and Ongoing Variable Hour Employees.

Stability Period

The Stability Period is the period in which those employees determined to be full time must remain eligible for health coverage. This period can be not less than 6 and no more than 12 months (and not longer than the Measurement Period, except in this first year).

For many employers the Stability Period will be the standard annual benefit plan year. In practice, this means that an employer will measure hours in one plan year (MP), calculate the hours (AP) to determine full time eligibility during open enrollment, and then offer coverage during the next plan year (SP). There will be a myriad of variations on the balance of these periods, but we think that for administrative ease, many employers will choose this combination.

Summary

The exact design and balance of Measurement Period, Administrative Period, and Stability Period will vary for each employer. As with all areas of HR, benefits design must be integrated into the total rewards strategy, which in turn links to its other HR strategies involving talent acquisition, management, and engagement, and must align with the organization's strategic goals and objectives in order to optimize the organization's effectiveness.

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