

September 30, 2014

REPORT #: 2015-05

Matt Doyle, Director
Human Resources

Re: Affordable Care Act Implementation Status

Dear Matt,

The purpose of this memo is to provide a status report on the implementation of the Patient Protection and Affordable Care Act, commonly called the Affordable Care Act (ACA). The City of Glendale (City) has established an implementation team which includes Internal Audit, Human Resources, Finance, and Information Services departments. The team has researched and participated in trainings for implementation and compliance of various aspects of the Act. The team has also created a project timeline and is tracking the progress of the implementation. This memo identifies the progress on implementation of the requirements, developments, and execution of various components of the Act.

The ACA was signed into law on March 23, 2010, effective January 1, 2015 for employers that have more than 100 full-time equivalent employees. Several components of the ACA which were effective prior to 2015 have already been completed. The following is a list of such components.

- Notice of Covered California was provided to all employees on October 1, 2013 and will continue to be provided to new employees within 14 days of hire.
- Effective January 1, 2013 the Medicare tax was increased by 0.9% for individuals whose compensation exceeds \$200,000.
- Required language changes were made in plan documents.
- Health insurance carriers will pay the Patient-Centered Outcomes Research Fee (PCOR) and the Transitional Reinsurance Program contributions on behalf of the City.

One component of the ACA includes the requirement that an Applicable Large Employer (ALE) must offer its full-time employees Minimum Essential Coverage (MEC) that provides Minimum Value (MV) and is affordable. These terms are defined as:

- Applicable Large Employer (ALE): an employer with more than 50 full-time equivalent employees.
- Minimum Essential Coverage (MEC): basic health coverage and includes group health coverage provided by an employer to its employees; it excludes stand-alone dental and vision policies.

- Minimum Value (MV): the plan offered must cover more than 60% of benefit costs.

There is a minimum value calculator, safe harbor checklists, or actuarial certification that an employer can obtain to ensure that the group plan offered meets the MV test. Affordability is determined based on three safe harbor methods which the employer can use as tests.

The City has received confirmation from Keenan & Associates, the City's insurance broker, that the actuarial valuation of the group health coverage offered to employees meets the MV test. The City has chosen to test for affordability using the rate of pay safe harbor method.

Eligibility

For hourly employees, the employee contribution must not exceed 9.5% of lowest hourly rate, multiplied by 130 hours in one month. Hence, with the California minimum wage at \$9 per hour, the monthly employee contribution for the lowest cost plan must not exceed \$111.15 [(\$9/hr x 130 hrs/month) x 9.5%]. The City has established a new Kaiser Low Option HMO plan which meets these standards and will be offered to hourly employees who are eligible to receive health benefits.

A special open enrollment period will be conducted during November 2014 to allow current eligible hourly employees receiving health benefits an opportunity to enroll in this plan. Management will determine whether to have the special open enrollment period be available to all employees. The new Kaiser plan will be available to all employees during the City's regular open enrollment in May 2015. Since the City has stand-alone dental and vision policies, eligible hourly employees will only be offered group health coverage.

The City currently offers health benefits to all salary employees as well as ambulance operators who work in an hourly capacity. The ACA requires that employers offer MEC to 95% of full-time equivalent employees and their dependents (70% for 2015). According to the ACA, a full-time equivalent employee is employed on average of 30 hours or more per week or 130 hours or more per month.

There are two types of hourly employees, those that are hired to work equal to or greater than 30 hours per week or 130 hours per month, and those that are variable hour employees with hours that cannot be reasonably estimated at the time of hire. The ACA requires that employers offer health benefits to employees who are reasonably expected to be full-time equivalent employees within four months of the first day of employment. However, the State of California requires that benefits be offered within 60 days of the first day of employment, hence the City will offer health benefits following California rules. For hourly employees who are considered variable hour employees, the ACA allows for a look-back measurement method as an option to adopt for determining eligibility of health benefits for each hourly employee.

Tracking

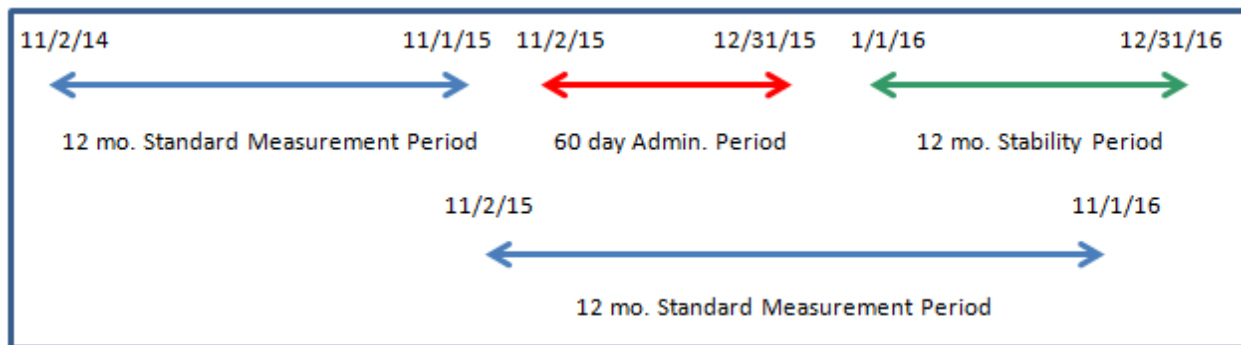
The City has chosen to implement the look-back measurement method to determine full-time status for variable hour employees. With this method, the average number of hours

worked per month within a specified 12 month period will be measured and will be used to determine whether the employee is eligible to receive health benefits. The 12 month period will be designated as the standard measurement period.

Immediately following the 12 month period will be a 60 day administrative period which will be used to perform administrative duties such as determining eligibility and offering benefits to eligible employees. Those who are offered and enroll in benefits will have coverage for 12 months following the end of the 60-day administrative period. This time period is known as the stability period. The measurement of average number of hours will be continuous in order to determine full-time equivalent status. If a covered hourly employee becomes ineligible, COBRA coverage will be offered.

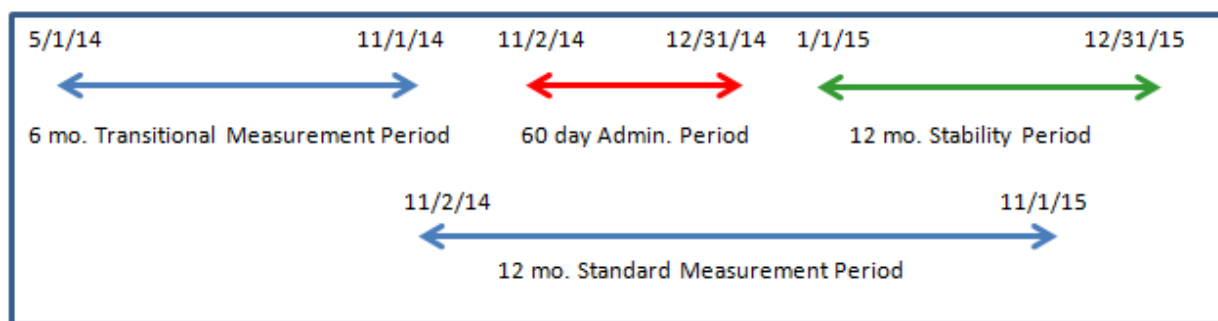
The City has adopted a standard measurement period from November 2 through November 1, an administrative period from November 2 through December 31, and a stability period from January 1 through December 31.

Standard Measurement Period Diagram



To implement the look-back measurement method that will provide health coverage to full-time employees effective January 1, 2015, the ACA allows for employers to adopt a transitional standard measurement period that is between 6-12 months in 2014. The City has the option to implement this transitional measurement period and use the measurement period of May 1, 2014 to November 1, 2014. This will allow for an administrative period from November 2, 2014 to December 31, 2014 and a stability period of January 1, 2015 to December 31, 2015. If this option is adopted, the transition from the transitional measurement period to the standard measurement period is identified in the diagram on the following page.

Transitional Measurement Period Diagram



During the administrative period, time and attendance data captured in the Glendale Employee Management System (GEMS) will be used to accumulate the number of hours worked for eligibility determination. The ACA requires that time off for jury duty, FMLA, and USERRA (military leave) be captured for hourly employees and be included in the calculation for number of hours worked. The City currently does not capture this data and will implement procedures to do so during the next implementation phase.

In addition to the standard measurement period, the City will implement a 12 month initial measurement period for all new variable hour employees. This period is intended to allow new employees to be measured based on a 12 month period during the initial 12 months of employment and transition to the standard measurement period.

The initial measurement period will begin the first day of the month following the date of hire and will continue for 12 months. There will be a 30 day administrative period, and a subsequent 12 month stability period. A new variable hour employee will be measured twice, once during the initial measurement period and again during the standard measurement period; these periods will overlap during the stability period where the employee will transition to the standard measurement period going forward. If the employee is eligible and enrolls in health benefits after the initial measurement period, the employee will have coverage until the next administrative period that is associated with the standard measurement period. Hourly employees who are reasonably expected to be full-time equivalent at the time of hire and are offered health benefits will still be measured based on the initial and standard measurement periods.

Reporting

The ACA has an information reporting requirement to the IRS and to each employee beginning calendar year 2016 for 2015. Data collected during the measurement periods will be utilized to populate the forms that will be filed. The information that will be transmitted to the IRS will assist the IRS in ensuring that the City complies with the ACA and will help facilitate the administration of the premium tax credit and individual mandate. The City has not yet addressed the system capabilities of the reporting requirements; this will be included as part of the next phase of the implementation.

There are two penalties under Code Section 4980H-Shared responsibility for employers regarding health coverage: Penalty A and Penalty B. Penalty A is assessed for failure to offer 95% (70% in 2015 only) of full-time employees and their dependents group health

coverage that provides MEC and at least one full-time employee enrolls in an Exchange and is eligible for a federal subsidy. Penalty A is \$2,000 X [number of full-time employees less the first 30 (80 in 2015 only)]. The penalty amount will be adjusted for inflation beginning 2015.

Penalty B is assessed when an employer offers 95% of its full-time employees and their dependents MEC, however coverage does not provide MV or is unaffordable, and at least one full-time employee enrolls in an Exchange and is eligible for a federal subsidy. Penalty B is the lesser of \$3,000 X [number of full-time employees receiving federal assistance], or the amount calculated under Penalty A. The penalty amount is adjusted for inflation beginning 2015. Only one of the penalties can be assessed at one time.

Conclusion

To summarize, the project team has made good-faith efforts to identify the various components, associated requirements, and the reflective changes that must be made to operations to ensure compliance with the ACA. The team has identified the need to offer a more economical insurance plan in order to meet affordability requirements, has chosen to implement a 12 month look-back measurement period to identify hourly employees who are eligible for health benefits, and has reviewed reporting requirements. The project team is currently tracking the implementation of the various elements and is keeping abreast of future requirements.

The following is a list of steps that are to be addressed in the next phase of the implementation:

- Conduct a special open enrollment period in 2014 to allow employees the ability to enroll in the new Kaiser Low Option plan. Determine whether this special open enrollment period will be available to all active employees or only to eligible hourly employees. Ensure this plan is available to all employees during the City's regularly scheduled open enrollment period in 2015.
- Consider the costs and benefits of the transitional measurement period in 2014 and determine if it is feasible for the City to implement.
- Implement procedures to capture number of hours taken for jury duty, FMLA, and USERRA by hourly employees on a going forward basis.
- Determine how hours worked by hourly employees is going to be accumulated and tracked in GEMS.
- Identify system capabilities and modifications that are necessary to comply with reporting requirements.
- Document and report to the City Council the ACA's requirements and the City's implementation strategy.
- Document policies and procedures associated with the ACA.
- Create all necessary informative documents that are to be provided to new and current hourly employees.
- Review group health plans to determine "Cadillac" status and whether the 40% excise tax will be applicable effective 2018.

Should you have any questions, please feel free to contact Naira Akopyan or myself.

Thank you,

A handwritten signature in cursive script that reads "Michele Flynn" followed by the letters "ED" in a smaller, more formal font.

Michele Flynn,
City Auditor

Cc: Yasmin Beers, Assistant City Manager
Robert Elliot, Director of Finance
Lily Fang, Finance Administrator
Mania Hoonanian, Human Resources Administrator
Aymee Martin, Human Resources Administrator
Scott Ochoa, City Manager
City Council
Audit Committee