

AN INTRODUCTION TO THE ACA EMPLOYER SHARED RESPONSIBILITY PAYMENT

Applicable Large Employers

For the purposes of the ACA, you are an **applicable large employer (ALE)** if you employ 50 or more full-time employees or full-time equivalents. Keep in mind, you may have more full-time staff in the eyes of the ACA than you officially recognize as your full-time employees. In short: part-time employee work hours will matter when determining if you are an applicable large employer.

- The ACA definition of a **full-time employee** is one who averages 130+ work hours per month (fewer than your business may require).
- The ACA accounts for all **full-time equivalents**. Equivalents are determined by adding monthly work hours for all part-time employees and dividing by 120.

Calculating Your Full-time Workforce

- 1** Tally your total full-time employees for each month. (Full-time = 30+ hours/week)
- 2** Calculate your total full-time equivalents* for each month. (Equivalent = 120 hours/month)

*To calculate full-time equivalents add up the total work hours of all part-time employees (those averaging fewer than 30 hours/week) and divide the monthly total by 120.

Example: 62 part time employees working 3,600 hours per month equals 30 full-time equivalents.

$$3,600 \div 120 = 30$$
- 3** For each month, add the two group totals to arrive at your workforce size for that month.
- 4** Add up the monthly totals and divide by 12. This is your average full-time workforce for the year (round down to nearest whole number).

Month	1 Full-Time	2 Equivalent	3 Monthly Total
Jan	14	30	44
Feb	16	28	44
Mar	20	32	52
Apr	22	36	58
May	20	34	54
June	22	34	56
July	22	32	54
Aug	22	36	58
Sep	24	36	60
Oct	22	36	58
Nov	24	34	58
Dec	24	36	60
4 Yearly	21	33.67	54.67

Full-Time Employees vs. Equivalents

If your businesses has a combined total of 50 or more full-time employees and equivalents, you are subject to the ACA employer mandate. However, the **employer mandate** requires that you offer affordable qualifying healthcare coverage to your full-time employees only.

- Calculating equivalents only matters when determining if you are an ALE.
- Your number of equivalents will not factor into calculating any potential employer shared responsibility payments.

GLOSSARY

ALE

An applicable large employer (ALE) employs 50 or more full-time, or full-time equivalent, employees.

Full-time Employee

An individual who averages 130 work hours, or more, per month.

Full-time Equivalent

A unit resulting from combining part-time employee work hours for a month and dividing by 120. (Part-time employees average fewer than 30 hours per week).

Employer Mandate

An ACA requirement that applicable large employers (ALEs) offer 95% of their full-time workforce affordable MEC health plans that meet ACA minimum value standards.

Qualifying Coverage

Any health insurance coverage that meets ACA requirements for patient rights and protections.

For a list of plans that qualify, visit healthcare.gov.

MEC

Minimum essential coverage (MEC) adheres to ACA patient rights requirements and counts as qualifying coverage.

Affordable

An affordable health plan costs less than 9.96% of your household income to cover you and any dependents.

Example:

Monthly household income: \$5,000

9.96% of \$5,000 = \$498

Affordable premium max: \$498

MV / MVP

A minimum value (MV) health plan, or MVP, pays for at least 60% of the total medical costs for a standard population and includes substantial coverage for inpatient services.

Employer Shared Responsibility Penalty Part A & B

The ACA employer mandate requires all ALEs to offer affordable, **qualifying coverage** to 95% of their full-time employees. If you fail to do so, you will be at risk for either Part A or B of the employer shared responsibility payment (Section 4980H).

- You will never be subject to both penalties.
- You will not be penalized more for Part B than the maximum possible penalty for Part A.

Penalty Part A: Failure to offer coverage

You are at risk for ESRP Part A if you do not offer **minimum essential coverage (MEC)** to your full-time employees.

All ALEs are required to report to the IRS whether or not they offered minimum essential coverage to their full-time employees during the previous tax year.

This part of the penalty

- is triggered when you file your taxes.
- is calculated based on your full-time employee population for the previous tax year.
- is paid in one lump sum or even monthly installments calculated from the penalty total.

Penalty Part B: Coverage is substandard

In general, your risk for Part B is much lower than Part A.

However, you may be penalized if you are an ALE and the health plan you offer is not **affordable** or does not meet the ACA's **minimum value (MV)** standards. If you do not offer a plan that meets these requirements and one of your employees receives a premium tax credit, you are much more likely to be penalized.

This part of the penalty

- is triggered when you file your taxes.
- is calculated on a case-by-case basis, not on your entire full-time employee population.
- is owed only for the months one of your full-time employees receives a tax credit.

SECTION 4980H: EMPLOYER SHARED RESPONSIBILITY PAYMENT 2026

Part A

Qualifying MEC coverage not offered

\$278.33
month

Per full-time employee minus the first 30

Part B

Benefits not affordable or MV

\$417.50
month

Per full-time employee who obtains a premium tax credit

Example: 100 Full-time Employees

100 Full-time employees*

$100 - 30 = 70$

$70 \times \$278.33 = \$19,483.10$

Penalty A Total:
\$19,483.10
month

5 Full-time employees* receive a tax credit

$5 \times \$417.50 = \$2,087.50$

Penalty B Total:
\$2,087.50
month

*According to the ACA, your full-time employees are those who work an average of 30 or more hours per week, or 130 hours per month.

How Planstin Helps Businesses Like Yours Avoid 4980H

Planstin keeps businesses safe from both parts of the Section 4980H penalty with innovative solutions.

Solution 1: MVP options such as the Care+ plan suite

Care+ health plans meet all ACA requirements and help employers avoid both parts of the 4980H penalty.

Solution 2: MEC options such as the Preventive plan suite

By offering a competitive benefits package along with a MEC plan, employers can greatly reduce their risk of any penalty.

Want to learn more?

- irs.gov/affordable-care-act/employers/information-reporting-by-providers-of-minimum-essential-coverage
- healthinsurance.org/glossary/employer-shared-responsibility-provision
- healthcare.gov/glossary/qualifying-health-coverage

Have questions about a unique situation?

Contact Planstin: 888-920-7526 member@planstin.com

This is not legal advice. For questions regarding your specific situation, please consult an attorney.