

HUMAN RESOURCES MEMORANDUM 16-005		DATE ISSUED: January 27, 2016
SUBJECT: Annual Health Care Coverage Statements Required Under the Affordable Care Act		REFERENCE: PML 2015-037
TO: Personnel Officers, Personnel Transactions Managers and Supervisors, Personnel Transactions Staff, Personnel Liaisons and Attendance Clerks		SUPERSEDES:

PLEASE ENSURE THAT THIS INFORMATION IS SHARED WITH YOUR EMPLOYEES

Purpose

This memorandum provides information and a letter template for departmental human resources (HR) staff to distribute to employees by January 14, 2016, on two new health care coverage statements required under Internal Revenue Code (IRC) sections 6056 and 6055 of the federal Affordable Care Act's (ACA) Employer and Individual Shared Responsibility provisions.¹

The Affordable Care Act added section 6056 to the IRC, requiring the State of California, as a large employer, to file annual reports with the Internal Revenue Service (IRS) and furnish a statement, IRS Form 1095-C, to full-time employees with information about the health coverage offered, if any, to the employee and their dependents. Additionally, section 6055 was added to the IRC requiring health coverage providers to file annual reports with the IRS and furnish a statement, IRS Form 1095-B, to individuals with information about those who were enrolled in minimum essential health coverage (MEC) for at least one day during the preceding calendar year.

The information reporting by large employers and health coverage providers is necessary for the IRS to administer the ACA's Employer and Individual Shared Responsibility provisions.

Employer Shared Responsibility Provision

Effective January 1, 2015, the state is subject to the ACA's Employer Shared Responsibility provision (also known as employer mandate) which requires large employers to offer health coverage to at least 95 percent of its full-time employees and their dependent children to avoid a penalty assessment.² The health coverage offered must meet the ACA's affordability and minimum value standards.

¹ Refer to "Certain Employers Required to Report on Health Insurance Coverage" and "Reporting of Health Insurance Coverage" sections of IRC sections 6056 and 6055 available at:
<http://www.gpo.gov/fdsys/pkg/USCODE-2011-title26/pdf/USCODE-2011-title26-subtitleF-chap61-subchapA-partIII-subpartD-sec6055.pdf>.

² In 2015, the state is only required to offer health benefits to 70 percent of its full-time employees.

Employer Shared Responsibility Provision

- Health coverage is deemed “affordable” if the employee’s share of premium for self-only coverage, for the lowest cost plan available to the employee that provides minimum value, does not exceed 9.5 percent of the employee’s monthly salary, wages, or the annual federal poverty level, divided by twelve for single-member household (for the applicable calendar year).
- Health coverage is deemed to provide “minimum value” if the plan covers 60 percent of the total allowed costs of benefits provided under the plan. The health coverage provided by the state meets the ACA’s minimum value standards.

Failure to comply with the ACA’s Employer Shared Responsibility provision could result in significant penalties to the state if at least one full-time employee receives a premium tax credit for purchasing individual coverage through Covered California, the state’s health benefit exchange.

To demonstrate compliance with this provision, IRC 6056 was enacted requiring large employers to file annual reports with the IRS and furnish a statement, Form 1095-C, to fulltime employees with information about the health coverage offered, if any, to the employee and their dependents for each month during the preceding calendar year.

Employer-Provided Health Insurance Offer and Coverage Statement—Form 1095-C

By January 31, 2016, and annually thereafter, the state will issue a Form 1095-C, via the State Controller’s Office (SCO), to all federally qualified full-time employees with information about the health coverage offered, if any, to the employee and their dependents during the preceding calendar year. (Attachment B)

The ACA defines a full-time employee as any employee who averages 130 or more hours of service per month or during an employer’s respective measurement period of between three to twelve months.³ The state is using a 6-month measurement period to average an employee’s hours of service to determine their full-time status for ACA reporting purposes.

Generally, a Form 1095-C will be issued to employees who, for any month during the preceding calendar year, were appointed to a time-base of 3/4 or more; and those who were appointed to an intermittent time base who averaged 130 or more hours of service per month during one of the state’s 6-month measurement periods, regardless of whether they were eligible for state-sponsored health coverage. New employees appointed to a time base of 3/4 or more will be treated as full-time for ACA reporting purposes beginning the first of the month following their appointment.

³ An hour of service includes any hour for which an employee is paid or entitled to payment during a period in which no duties are performed (e.g., vacation, sick, holiday, jury duty).

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Coverage
Statement—
Form 1095-C**

To see how the state will apply the 6-month measurement periods to determine an employee's full-time status for ACA reporting purposes, please refer to the *Standard Measurement Periods for Ongoing Employees* and *Initial Measurement Period for "New" Intermittent and Part-Time Employees* documents available in the HR Net section of the California Department of Human Resources (CalHR) website at: <http://www.dpa.ca.gov/pie/main.htm>.

Form 1095-C will report the following information:

- Part I—Employee and Applicable Large Employer Member (Lines 1-13)—Information about the state's full-time employees and the state employer contact information will be reported in Part I of the form.
- Part II—Employee Offer and Coverage (Lines 14-16)—Information about the state employer's offer of health coverage, if any, to full-time employees and their dependents is reported for each month during the preceding calendar year in Part II of the form. This information will help the IRS determine if the state is complying with the ACA's Employer Shared Responsibility provision or subject to a penalty. Additionally, the IRS may use the information reported to determine if an individual is eligible for a premium tax credit if they purchase individual coverage through Covered California, if they were
 - not offered state-sponsored health coverage or if the health coverage offered did not meet the ACA's affordability or minimum value standards.⁴
 - Line 14—The codes reported on Line 14 reflect the type of health coverage offered, if any, to the employee, their spouse, and dependent children for each month during the preceding calendar year. The state will report codes 1E or 1H on Line 14 of the form.
 - 1E—Indicates that MEC providing minimum value was offered to employee, their spouse and dependent children (if applicable). This code will be used to reflect the period in which the employee was eligible for state-sponsored health or coverage through the Consolidated Omnibus Budget Reconciliation Act (COBRA), regardless of whether the employee enrolled in coverage.⁵
 - 1H—Indicates that the employee was not offered an opportunity to enroll in state-sponsored health coverage because the employee was not appointed to a position eligible for health benefits (e.g., Temporary/Intermittent) or was not eligible for COBRA coverage.

The SCO will use the health benefit status codes that departments entered in the Affordable Care Act System (ACAS) database to report whether an employee was offered/not offered health coverage.

⁴ Employees who are offered minimum essential coverage that is affordable and provides minimum value are not eligible to receive a premium tax credit for purchasing individual coverage through Covered California.

⁵ The state will report an offer of COBRA coverage on Form 1095-C beginning with the 2016 reporting year. The SCO must first establish a health benefit status code for departments to enter the offer of COBRA coverage in the ACAS database.

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Form 1095-C**

- Line 15—The dollar amounts reported on Line 15 reflect the employee’s share of the lowest cost monthly premium for self-only coverage offered by the state (health premium minus the employee’s respective health/CoBen contribution for self-only coverage). This amount may not reflect the amount the employee paid for their health coverage if the employee chose to enroll in more expensive coverage, such as a different plan, 2-party or family coverage.

Line 15 may also report the full premium for self-only COBRA coverage for the month(s) in which an active employee was offered/eligible for COBRA coverage, or the full premium for self-only coverage for the month(s) in which an employee was eligible for or enrolled in health coverage but was not receiving any employer contribution towards the cost of coverage, for example, if an employee was on Direct Pay.

The IRS will use this information to determine if the health coverage offered by the state meets the ACA’s affordability standards.

- Line 16—The codes reported on Line 16, if any, provide information to the IRS to administer the ACA’s Employer Shared Responsibility provision and determine if the state is in compliance with this provision or subject to a penalty. The state will report any one of the following codes on Line 16 of the form:
 - 2A—Indicates that the employee was not employed during the month.
 - 2B—Indicates that the employee was not a full-time employee and was not enrolled in state-sponsored health coverage during the month.
 - 2C—Indicates that the employee was enrolled in state-sponsored health coverage during the month.
 - 2D—Indicates that the employee was in a limited non-assessment period for the month. This code will be used to indicate when an employee was in an initial measurement period, ongoing measurement period, or administrative period.
 - 2F–2H—Indicates that the health coverage offered to the employee met one of the ACA’s affordability standards.

The SCO will use the health benefit status codes that departments entered in the ACAS database to report whether an employee was enrolled in health coverage or if another code applies, for example, if the employee was offered health coverage but did not enroll.

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Form 1095-C**

- Part III—Covered Individuals (Lines 17-22)—Employers that provide self-insured health coverage will use Form 1095-C to report information to the IRS and employees about the individuals who are covered by MEC. This section of the form will be blank because the state does not provide self-insured health coverage. Instead, employees will receive a Form 1095-B from their health coverage provider, if applicable, with information about the individuals who were enrolled in MEC for at least one day during the preceding calendar year.
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**Individual
Shared
Responsibility
Provision**

Effective January 1, 2014, most individuals are subject to the Individual Shared Responsibility provision of the ACA which requires them to maintain MEC (e.g., employer sponsored health coverage, individual coverage, or coverage through a government program) for themselves and their dependent children, or they may be subject to a penalty assessment.

To demonstrate compliance with this provision, IRC 6055 was enacted requiring health coverage providers and providers of self-insured plans that provide MEC to file annual reports with the IRS and to furnish a statement, Form 1095-B, to all individuals with information about those who had MEC for at least one day during the preceding calendar year.

**Health
Coverage
Statement—
IRS Form
1095-B**

By January 2016, and annually thereafter, the state's health coverage providers will issue a Form 1095-B to employees who were enrolled in MEC for at least one day during the preceding calendar year. (Attachment C)

The IRS will use the information reported by the state's health coverage providers to ensure that individuals are complying with the individual mandate and therefore not subject to a penalty assessment.

Employees will use the information reported on this form to indicate on their income tax return that he/she, their spouse and dependent children (if applicable) had MEC or determine whether they are subject to a penalty.

Form 1095-B will report the following information:

- Part I—Responsible Individual (Lines 1-9)—Includes information about the primary insured individual.
- Part II—Employer Sponsored Coverage (Lines 10-15)—Includes information about the employer (e.g., state department) sponsoring the health coverage for individuals enrolled in the state's Health Maintenance Organization (HMO) health plans or left blank for individuals enrolled in the state's Preferred Provider Organization (PPO) health plans.

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Statement–
IRS Form
1095-B**

- Part III–Issuer of Other Coverage Provider (Lines 23-40)—Includes information about the health coverage provider for individuals enrolled in the state’s HMO or PPO health plans.
 - Part IV–Covered Individuals (Lines 23-40)—Includes information about the individuals who were enrolled in state-sponsored health or COBRA coverage for a least one day during the preceding calendar year.
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**Employee
Notice**

Attached to this HR memorandum is a DGS memorandum with information about the new annual health coverage statements for employees (Attachment A). Departments should provide a copy of the memorandum and sample IRS forms that employees may receive from their health coverage provider (Attachment B) and the state (Attachment C) to all existing employees no later than January 14, 2016.

An editable version of the Employee Notice and sample IRS forms are available in the HR Net section of CalHR’s website at:

<http://www.dpa.ca.gov/pie/main.htm>.

**Questions
and
Assistance**

Frequently Asked Questions (FAQs) and a glossary of commonly used terms regarding these forms were developed for employees and departmental HR staff. The FAQs for employees and glossary are available on CalHR’s website at www.calhr.ca.gov (under “Employees” tab) and FAQs for departmental HR staff can be found in the HR Net section of CalHR’s website at: <http://www.dpa.ca.gov/pie/main.htm>.

If you have questions about the forms or notice information is reported incorrectly, please use the below contacts:

For form 1095-C – Susan Wong, Personnel Transactions Manager
(916) 376-5433

For form 1095-B – Your health coverage provider

ANGIE BOLDRINI, Personnel Officer
Office of Human Resources

AB: jhr