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Affordable Care Act:

Glossary of Terminology

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Administrative Period: An employer may conduct administrative tasks, such as enrolling eligible employees in coverage, during the Administrative Period, which is a 90-day window between the Measurement Period and the corresponding Stability Period (and before the initial Measurement Period begins for new employees). The initial Measurement Period and an Administrative Period cannot collectively last past the last day of the first calendar month starting on or after the first anniversary of the employee's start date, according to certain limits.

Affordable/Affordability: If an employee's single premium under the employer's lowest-cost plan that offers Minimum Value does not exceed 9.5% of the employee's household income, coverage is considered reasonable. Employers may base their decision on "W-2 Wages," the "Federal Poverty Level," or an employee's "Rate of Pay" using a "safe harbor."

Affordable Care Act (ACA): The acronym "Affordable Care Act" refers to the group of laws that make up the country's health care reform. The U.S. health care system has undergone significant changes because of the ACA, which was signed into law on March 23, 2010.

Applicable Large Employer (for purposes of the Shared Responsibility provision): An employer who, over the previous calendar year, employed, on average, 50 or more full-time employees, including full-time equivalent employees.

Automatic Enrollment: When a full-time employee becomes eligible for coverage under the employer's group health plan, employers with more than 200 employees are required to enroll them all automatically. Employees must be made aware of the automatic enrollment process by their employer, and they must be given the chance to opt out.

Cadillac Tax: See Excise Tax.

Community Rating: Individual and small group policies may only adjust premiums in accordance with the ACA's strict criteria regarding age, cigarette usage, single or family status, and geographic area. Health status and gender, which have historically been employed as premium-determining factors, are no longer acceptable. Under community rating, rates often increase for young, healthy people and drop for those with poor health.

Controlled Groups: The employees of all entities may need to be added together to determine if any one company, store, or franchise is an Applicable Large Employer if the owner has ownership interests in other businesses, stores, or franchises (or even unrelated entities). In general, 80% shared ownership across entities is sufficient to establish controlled group status, though the precise determination should be established with the help of counsel. If the same five (5) people or fewer collectively own at least 80% of each entity and effectively control more than 50% of it (taking into consideration each person's ownership only to the degree that each person's ownership interest is identical with respect to each other), that is also considered to be a controlled group.

CO-OP Exchange: A not-for-profit, consumer-governed health insurance scheme is known as a consumer operated and oriented plan (CO-OP) program. In other words, this insurance company is nonprofit and not run by the government. In an Exchange, CO-OPs may offer eligible health insurance for sale.

Dependent: Refers to an employee's children under the age of 26, which includes both biological and adoptive children, for the purposes of the Employer "Play or Pay" Mandate. The definition of dependent excludes spouses, foster children, stepchildren, and most children who are not citizens or nationals of the United States.

Employer "Play or Pay" Mandate: This is the ACA's "Employer Shared Responsibility" clause. An Applicable Large Employer must provide full-time employees and their dependent children up to age 26 with affordable, minimum value health insurance coverage, or else they will have to "Pay" a fine.

Essential Health Benefits: The ACA requires coverage in 10 major benefit categories, including: Ambulatory patient services, emergency services, hospitalization, maternity and newborn care, mental health, and substance use disorder services, prescription drugs, rehabilitative services, laboratory services, preventive and wellness services, and pediatric services. While group health plans for large employers (101 or more employees, or 51 or more in some states until 2016) are not mandated to cover all Essential Health Benefits, they cannot impose annual dollar limits on any covered Essential Health Benefits.

Essential Health Benefits Package: Beginning in 2014, all individual and small group insurance plans that are not grandfathered and Exchange coverage options must include the Essential Health Benefits (EHB) Package, which covers all essential health benefit categories. Each state continues to determine its own EHB Package, with states having the option to update their EHB-benchmark plans to include additional benefits, such as routine non-pediatric dental services. This flexibility allows states to tailor their EHB offerings to better meet the needs of their residents while ensuring comprehensive coverage across essential health categories.

Exchange (also known as the "Marketplace"): Every state must launch a health insurance Exchange by 2014 (or fall back on a federally supported Exchange) for the uninsured to use. The Exchange will provide fully insured contracts with several levels of coverage (platinum, gold, silver, and bronze) that offer Essential Health Benefits.

Excise Tax: This term refers to the excise tax known as the "Cadillac tax," which is a 40% excise tax on the value of health insurance benefits exceeding **$11,200** for single coverage and **$30,150** for family coverage in 2025 (indexed to inflation). It's important to note that the Cadillac tax was fully repealed in late 2019 and will not take effect. Despite this, many taxes under the ACA remain as excise taxes (i.e., nondeductible penalty taxes).

Federal Poverty Line Safe Harbor: The cost of employee-only coverage under a plan is considered affordable if it does not exceed **9.02%** of the federal poverty level for a single person. For 2025, this means that the monthly employee contribution for the lowest-priced plan offering Minimum Value cannot be more than **$113.20**. This is calculated based on the 2025 federal poverty level of **$15,060**, divided by 12.

Full-Time Employee (for purposes of the Shared Responsibility provision): An employee who, with respect to a calendar month, is employed and may be expected to work full-time at the time of hire, averaging at least 30 hours per week (or 130 hours per month) of service for the employer, on average during any given measurement period.

Full-Time Equivalent Employee: a **full-time equivalent (FTE) employee** is used to determine employer size for compliance purposes. An employee is considered full-time if they work an average of **30 hours per week** or **130 hours per month**.

To calculate FTEs, part-time employees' hours are combined: the total number of hours worked by all part-time employees in a month is divided by 120. This calculation helps employers assess their total number of full-time equivalent employees, which is crucial for determining if they meet the threshold of 50 FTEs to be classified as an Applicable Large Employer (ALE) under the ACA.

Hours of Service: Refers to the time an employee spends working that is compensated or for which they are entitled to compensation. This includes paid time off for holidays, sick days, layoffs, jury duty, military service, and leaves of absence. Additionally, hours worked by an employee outside the country do not count if they are compensated with income from a foreign source.

Individual Mandate: A requirement that most Americans must have health insurance or pay a tax penalty unless they qualify for an exemption. The goal of this mandate is to encourage individuals to obtain health coverage, which helps spread the cost of healthcare among a larger pool of people, including those who are healthier. While the mandate itself remains in place, the penalty for not having insurance was eliminated starting in 2019. This means that while individuals are still technically required to maintain minimum essential coverage, there is no financial penalty for failing to do so. Exemptions may apply to certain groups, such as members of specific religious organizations or those facing financial hardships.

Measurement Period: A time frame, usually lasting between three and twelve months, during which an Applicable Large Employer tracks employee hours to determine if they qualify as full-time employees for the employer's Stability Period. For Ongoing Employees, there is a standard Measurement Period. However, New Employees have an initial Measurement Period that starts from their hire date.

Marketplace: See Exchange.

Medical Loss Ratio (MLR) Rule: the **Medical Loss Ratio (MLR)** rule under the Affordable Care Act (ACA) requires health insurers to spend a minimum percentage of premium income on medical care and quality improvement activities. Specifically:

- **Individual and Small Group Markets**: Insurers must spend at least **80%** of premium dollars on healthcare claims and quality improvement efforts, leaving no more than **20%** for administrative costs and profits.
- **Large Group Markets**: Insurers are required to spend at least **85%** of premium income on medical claims and quality improvement.

If insurers fail to meet these MLR thresholds, they are obligated to issue rebates to policyholders. This rule aims to ensure that consumers receive value for their premiums by limiting the amount that can be spent on overhead and profit.

Minimum Essential Coverage (MEC): A government-sponsored plan, a plan available in the small- or large-group market, or a self-insured group health plan issued by or on behalf of an employer that provides group health insurance coverage to employees. Contains Medicare, Medicaid, grandfathered health plans, and individual insurance coverage as well.

Minimum Value: Generally speaking, a plan is considered to have Minimum Value if it is intended to cover, on average, at least 60% of participants' covered medical expenses.

New Employees (for purposes of the Shared Responsibility provision): For the purposes of the shared responsibility clause, new employees include: Employees with variable hours, seasonal employees, or part-time employees may have "initial" Measurement and Stability Periods depending on their date of hiring until they become Ongoing Employees if they have not yet worked for their employer for one full standard Measurement Period.

Nondiscrimination Provisions: ACA regulations intended to stop businesses from giving highly paid employees preferential treatment when it comes to eligibility or benefits under a non-grandfathered plan

Ongoing Employees (for purposes of the Shared Responsibility provision): Employees who have worked for their employer for at least one full standard Measurement Period are considered ongoing employees for the purposes of the Shared Responsibility provision.

Premium Credits: Federal income-based incentives to assist people in purchasing insurance through an Exchange. Available to anyone without access to Medicaid or affordable, minimum value employer coverage who have a household income below 400% of the federal poverty line. These are direct payments made by the federal government to the insurance firms that are advanceable and refundable.

Private Exchange: Online Web portals, private exchanges were present before the Affordable Care Act and let customers choose from a variety of health insurance plans.

Rate-of-Pay Safe Harbor: Coverage is considered affordable in if the employee-only portion of the lowest-cost plan that offers Minimum Value does not exceed **9.02%** of the employee's household income. For practical calculations, this means that the monthly premium for the lowest-cost plan must not be more than **$113.20**. For non-hourly employees, affordability is typically determined based on their salary. Employers must ensure that their health plans meet this affordability standard to comply with the ACA and avoid potential penalties.

Regional Exchange: A regional Exchange is one that was established by states as a substitute for or addition to a state Exchange.

Seasonal Employee: An employee recruited for a role where the typical yearly employment is six months or less. The job period should start in the same season every year, such as the summer or winter. If an employee's job tenure lasts longer than it usually does due to extraordinary conditions, such as a prolonged snow season, they may still be regarded as seasonal employees.

Seasonal Worker: Seasonal workers include retail employees hired only during the holiday season and others who work on a seasonal basis, as defined by the Department of Labor (DOL). Employers can reasonably define what a seasonal worker is and follow DOL rules. If an employer had more than 50 full-time employees and full-time equivalent employees for 120 days or less in the previous year, and those extra employees were seasonal workers, the employer is not considered an Applicable Large Employer for that year. This means they do not have to meet certain ACA requirements.

Shared Responsibility Provision: The "Play or Pay" employer obligation under the Affordable Care Act.

a requirement under the Affordable Care Act (ACA) that applies to large employers with at least 50 full-time equivalent employees. This provision mandates that these employers offer affordable health insurance that provides minimum value to all full-time employees, defined as those working at least 30 hours per week.

If an employer fails to provide this coverage and at least one full-time employee receives a premium tax credit to buy insurance through the Health Insurance Marketplace, the employer may face penalties. The penalties vary based on whether the employer does not offer coverage at all or offers coverage that is deemed unaffordable or does not meet minimum value standards.

SHOP Exchange: The **SHOP Exchange** (Small Business Health Options Program) is a marketplace where small businesses can buy health insurance for their employees. It was created under the Affordable Care Act (ACA) to help small employers provide affordable coverage. In simple terms, the SHOP Exchange allows small businesses to compare different health insurance plans, choose the one that fits their needs, and enroll their employees. This program is designed to make it easier for small businesses to offer health benefits while potentially qualifying for tax credits to help lower costs.

Small Business Tax Credit: A credit made available by the ACA to encourage small businesses to start offering health insurance or continue their current coverage. The maximum tax credit is 50% of the premiums paid by qualified small firms who take part in a SHOP Exchange. Smaller businesses that employ 10 or less full-time equivalent employees and pay annual average wages of $27,000 or less are eligible for the maximum credit. At 25 employees and $56,000 in average yearly pay, the tax benefit fades off. Employers may take advantage of the credit for a maximum of two consecutive tax years.

Stability Period: A time set by an Applicable Large Employer that comes right after a Measurement Period. This period must last at least **six months** and cannot be shorter than the Measurement Period. If an employee's job is not full-time, the Stability Period cannot be longer than the Measurement Period. During the Stability Period, an employee's status as full-time or part-time is fixed based on what was determined in the Measurement Period, as long as they stay with the company.

Variable Hour Employee: Someone whose work hours can change from week to week, making it hard for employers to predict if they will work an average of at least 30 hours per week. This uncertainty means that when the employee is hired, the employer cannot determine if they will be considered full-time for health insurance purposes.

To figure out if a variable hour employee qualifies as full-time, employers often use one of two methods: (1) Monthly Measurement Method, or (2) Look-Back Measurement Method

W-2 Safe Harbor: Coverage under a plan is considered affordable if the employee-only portion of the employer's lowest-priced plan that offers Minimum Value does not cost more than **9.02%** of the employee's Form W-2 salary, as reported in Box 1 for that year. This means that if the monthly premium for this plan exceeds **$113.20**, it would not meet the affordability standard set by the Affordable Care Act (ACA).