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Employer Shared Responsibility Provision

It's important to understand the key compliance provisions of the Affordable Care Act (ACA), including its employer shared responsibility provisions. These state that an applicable large employer (ALE) must offer affordable health coverage that provides minimum value to its full-time employees. If one or more of its full-time employees receive a premium tax credit for qualified health coverage through the Health Insurance Marketplace, the company must make an employer shared responsibility payment to the Internal Revenue Service (IRS).

In this case, the IRS determines the payment amount based on the employer's number of full-time employees, who are identified by their credited hours of service. Under the employer shared responsibility provisions, employees are considered full-time if they average at least 30 hours per week, or 130 hours per month.

Look-Back Measurement Method

How is the look-back measurement method applied?

IRS regulations allow employers to use an optional look-back measurement method to determine the full-time status of variable hour, part-time, and seasonal employees. Employees are considered "variable hour" if their employer can't determine whether they'll average at least 30 hours per week because their hours are variable or otherwise uncertain. Employees are considered "seasonal" if they were hired into a position that's typically filled for six months of the year (or less). Please note that the look-back measurement method for identifying full-time employees can't be used to determine an employer's status as an ALE.

Nor does the look-back measurement method replace the established benefits waiting period for full-time employees. An employer must offer benefits coverage (subject to the standard waiting period) to any newly hired employees who are expected to work an average of at least 30 hours per week. Employers can't determine these employees' initial benefits eligibility under the look-back measurement method.

The following types of employees are not considered variable hour or seasonal employees: per diem employees working full-time hours; interns working full-time hours who would not otherwise be considered seasonal employees; employees hired on a project basis who are working full-time hours; and employees in high turnover positions who are working full-time hours. These types of employees are subject to the employer's established benefits waiting period for full-time new hires.

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How does the look-back measurement method work?

The look-back measurement method allows an employer to determine the full-time status of an employee during a future period (referred to as the stability period), based on the employee's hours of service in a prior period (referred to as the measurement period). If an employee was full-time during the measurement period, the employee is considered full-time during the stability period and is eligible for coverage. Employers may also implement an administrative period no longer than 90 days between the measurement period and the stability period. During this time, the employer can calculate the hours credited to each employee during the measurement period, and provide an opportunity for their full-time employees to elect and enroll in coverage.

The measurement period for a newly hired employee is referred to as an initial measurement period, and the measurement period for an ongoing employee is referred to as a standard measurement period. Employees are considered "ongoing" when they've been employed for at least one standard measurement period. Only newly hired variable hour and seasonal employees are included in an initial measurement period. Newly hired full-time employees (those who are expected to work an average of 30 or more hours per week from their start date) have no initial measurement period. Employers must offer these employees coverage subject to the employer's established waiting period (no more than 90 days from hire date).

Could I benefit from using the look- back method?

You may wish to use the look-back measurement method if your employees have unpredictable work schedules, work varying hours from month-to-month, or are seasonal employees who work less than six months per year. For example, a ski lodge that hires employees to work during the snowy winter months may benefit from using the look-back measurement method.

You may not wish to use the look-back measurement method if your workforce consists mostly of employees who work 30 or more hours per week with steady work schedules. For example, a software development company that is largely comprised of exempt (salaried) employees who are all offered employer health insurance might not benefit from using the look-back measurement method.

Recommendations for the look-back measurement method

Employers aren't required to use the look-back measurement method. However, ADP TotalSource® recommends that you use this method to determine full-time employees if you have a highly variable workforce, many part-time employees, or seasonal employees. We recommend electing a 12-month standard and initial measurement period with a corresponding 12-month stability period. We will use an administrative period of no less than 60 days.

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Why does ADP TotalSource recommend the use of a longer measurement period?

A longer measurement period allows you to better manage the work schedules of your variable hour and part-time employees over a period of time. It gives you time to monitor the average hours your part-time employees have worked and make schedule adjustments to maintain an average of less than 30 hours per week—allowing you to minimize your exposure to potential assessable payments. A longer measurement period also benefits employers that hire seasonal employees for up to the maximum six-month timeframe.

Look-Back Measurement Method			
Initial Measurement Period	Standard Measurement Period	Stability Period	Administrative Period
Time frame when newly hired variable hour, part-time, and seasonal employees are measured to determine full-time status	Time frame when ongoing employees (employees who have been employed at for at least one full Standard Measurement Period) are measured to determine fulltime status	Duration of the employee's benefits eligibility period, which follows the Initial or Standard Measurement Period and any Administrative Period	Time frame used to determine which employees are eligible for coverage, among other administrative purposes
Lasts 6-12 consecutive calendar months	Lasts 6-12 consecutive calendar months	Same duration as the Measurement Period, but no shorter than 6 months and no longer than 12 months	No more than 90 days between the end of the Standard Measurement Period and the start of the Stability Period
Employee will transition to the Standard Measurement Period once the employee is considered "ongoing"			Regulations prohibit an Initial Measurement Period and Administrative Period to extend beyond the 1st day of the 14th full calendar month following a new variable and/or seasonal employee's hire date

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