Health Care Reform
**Bulletin**

# Pay or Play—Penalties for Failing to Offer Dependent Coverage

Provided by VistaNational Insurance Group, Inc.

**Quick Facts**

An applicable large employer may owe a penalty if:

- The employer does not offer health coverage to all full-time employees (and dependents); and
- At least one full-time employee receives a subsidy for purchasing coverage through an Exchange.

Whether a full-time employee's dependent enrolls through an Exchange and receives a subsidy does not affect an employer's liability for penalties.

Transition relief for offering dependent coverage in 2014 also applies.

On May 13, 2014, the IRS released FAQs addressing the consequences under the employer shared responsibility rules for applicable large employers that do not offer dependent coverage.

Beginning in 2015, the Affordable Care Act (ACA) generally requires applicable large employers to offer affordable, minimum value health coverage to their full-time employees (and dependents) or pay a penalty. These employer mandate penalties are also known as "shared responsibility" or "pay or play" penalties.

On May 13, 2014, the Internal Revenue Service (IRS) released **FAQs** addressing consequences under the employer shared responsibility rules for applicable large employers that offer health insurance coverage to all full-time employees, but do not offer dependent coverage.

In general, an employer will potentially be liable for an employer shared responsibility penalty only if a **full-time employee**:

- Enrolls in coverage through an Exchange; and
- Receives a subsidy to help pay for the Exchange coverage.

Whether or not one or more of its full-time employees' dependents enrolls through an Exchange and receives a subsidy does not affect an employer's liability.

**Liability for Employer Shared Responsibility Penalties**

Under the employer shared responsibility provisions, an applicable large employer may owe a penalty if:

- The employer does not offer health coverage to the dependents of its full-time employees (as well as to those full-time employees themselves); and
- At least one of its full-time employees receives a subsidy for purchasing individual coverage through an Exchange.

An applicable large employer will not be subject to an employer shared responsibility penalty solely because one, some or all of the dependents of its full-time employees receive health insurance coverage through an Exchange and receive a subsidy. Whether or not one or more of its full-time employees' dependents enrolls through an Exchange and receives a subsidy does not affect an employer's liability.

An employer will potentially be liable for a penalty only if a **full-time employee** enrolls in coverage through an Exchange and receives a subsidy. **If no full-time employee receives a**

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**subsidy, the employer will not be subject to an employer shared responsibility penalty.**

If an employer offers health coverage to its full-time employees and their dependents and that coverage is affordable and provides minimum value with respect to the full-time employees, those employees (and their dependents) generally will not be eligible for a subsidy.

**Transition Relief for Offering Dependent Coverage in 2014**

In addition, under transition relief provided in the employer shared responsibility final regulations, an employer that **takes steps during its 2014 and 2015 plan years toward offering dependent coverage** will not be subject to an employer shared responsibility penalty for failing to offer dependent coverage for that plan year. This transition relief applies to employers for plans under which:

- Dependent coverage is not offered;
- Dependent coverage that does not constitute minimum essential coverage is offered; or
- Dependent coverage is offered for some, but not all, dependents.

The transition relief is not available to the extent that the employer had offered dependent coverage during either the 2013 or 2014 plan year and subsequently dropped that offer of coverage.

The transition relief applies for the 2015 plan year only for dependents who were without an offer of coverage from the employer in both the 2013 and 2014 plan years, and only if the employer takes steps during the 2014 or 2015 plan year (or both) to extend coverage to dependents not offered coverage during the 2013 or 2014 plan year (or both).

For 2015 and in later years, an employer may be liable for an employer shared responsibility penalty only if one or more of its full-time employees enrolls in coverage through an Exchange and receives a subsidy. Whether or not one or more of its full-time employees' dependents enrolls through an Exchange and receives a subsidy does not affect an employer's liability.

**More Information**

Please contact VistaNational Insurance Group, Inc. for more information on the ACA's employer shared responsibility rules.

*Source: Internal Revenue Service*