

Massachusetts Health Care Reform Act - What You Need to Know

Carol M. Bushnell, CPA

On April 12, 2006, Chapter 58 of the Acts of 2006 – “An Act Providing Access to Affordable, Quality, Accountable Health Care” became law. The bill requires virtually all residents of Massachusetts to obtain health insurance. To finance this expansion, individuals, employers, the insurance industry, and the government will all be affected.

To connect individuals and small employers with health insurance products, the bill created the Commonwealth Health Insurance Connector, which offers high-quality, affordable health insurance products. The Connector allows individuals to purchase health insurance with pre-tax dollars, and also provides portability of insurance.

In addition, multiple employers can contribute to an employee’s health insurance premium. The Connector also operates a new program called the Commonwealth Care Health Insurance Program, which subsidizes private insurance coverage for low-income individuals.

Insurance Market Reforms

Dependent Coverage – The Health Care Reform Act requires dependent coverage to be extended to the earlier of age 26, or two years following the loss of dependent status under the Internal Revenue Code. This provision went into effect on January 1, 2007.

Non-Discrimination Requirements – Effective July 1, 2007, employers cannot contribute more towards

the premiums for highly-compensated full-time employees than towards lower-paid full-time employees. Insurance carriers are prohibited from entering into contracts with employers who fail to comply.

Individual Responsibility

As of July 1, 2007, all residents over the age of 18 must obtain “affordable” health insurance. Individuals who fail to obtain affordable health insurance will be penalized. An “affordability scale” will be set by the Connector. To confirm their insurance coverage, residents will report it on their 2007 income tax return. This information will then be verified through a database of insurance coverage, which is maintained by a new Health Care Access Bureau.

For the 2007 tax year, the penalty for failure to obtain insurance will be the loss of the personal tax exemption. In subsequent years, the penalty will increase to no more than 50% of the cost of an affordable plan. An exemption from the penalty may be requested if failure to obtain insurance was due to religious beliefs, or if the Connector certifies that no affordable plan was available.

Employer Responsibility

Fair Share Contribution – Employers with 11 or more full-time equivalent employees will be required to pay an assessment if they do not provide health insurance, or fail to make a “fair and reasonable contribution” to the cost of a group health plan.

The annual assessment is estimated to be approximately \$295 per employee, and will be pro-rated for part-time or seasonal employees. The “fair and reasonable contribution” is determined by the Division of Health Care Finance and Policy. The fair



share contribution report is due by November 15, 2007 and, if a contribution is due, an initial payment must be made at that time.

Free Rider Surcharge – An employer with 11 or more full-time equivalent employees that does not offer health insurance, or maintain a cafeteria plan, will be assessed a “free rider surcharge” if its employees access state-paid free care five or more times per year (or one employee three or more times). The surcharge will be greater than 10%, but no more than 100%, of the costs to the state. The first \$50,000 of costs will be excluded.

Employers will not be subject to the surcharge for employees who are covered under certain collective bargaining agreements, nor for employees who participate in the Insurance Partnership Program, a state-run program which makes health insurance more affordable for certain business owners and their uninsured employees.

Health Insurance Responsibility Disclosure (HIRD) – Employers of 11 or more full-time employees are required to report the health insurance status of each of their employees to the state. Employers are required to file HIRD information on-line, together with their fair share contribution filing, to the Division of Unemployment Insurance. The filing is due November 15, 2007.

Employees who decline to participate in an employer sponsored health insurance plan or Section 125 cafeteria plan, must complete an Employee HIRD form within 30 days of the open enrollment period or by September 30, whichever is

earlier. Employees who terminate participation must sign an employee HIRD form within 30 days.

A copy of the signed form must be provided to the employee, and the employer copy of the signed forms must be retained by the employer for three years. If an employee does not return a signed form, the employer must document their efforts to obtain the form. This documentation must be retained for three years.

Mandatory Section 125 Cafeteria Plan – Effective July 1, 2007, employers with more than 10 employees must maintain a Section 125 Cafeteria Plan in order to allow employees to pay their health insurance premiums with pre-tax dollars. Employees could realize significant tax savings as the premiums would not be subject to state or federal income tax or FICA taxes.

In addition, employers will save on FICA taxes for each participating employee. Employers must file their cafeteria plan with the state by October 1, 2007. Employers that pay 100% of the cost of health insurance for their employees are not required to establish a cafeteria plan.

There are many regulations imposed by the Massachusetts Health Care Reform Act, and some are still being finalized.

If you require further information or need help with establishing a cafeteria plan, please call our office. Our team of professionals will be happy to assist you.

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Thomas G. Ambrosi, CPA, MST, CVA, PFS, ABV • Michael A. Donahue, CPA, MST • Keith N. Congdon, CPA
Karin M. Wilks, CPA, MST • Carol M. Bushnell, CPA • Robert A. Poirier, CPA
Jenny L. Wilson, CPA • Julie R. Avant, CPA
Laura A. Smith • Debra L. McNeil • Edwin R. Cassidy
Linda A. Blake - Paralegal/Financial Services • Robert W. Cleary, MBA - Payroll Services

Ambrosi Donahue Congdon & Co., P.C.

One Harris Street, Newburyport, Massachusetts 01950 USA • Phone 978.462.6674 • Fax 978.465.4756 • email cpa@adccpa.com • www.adccpa.com