



2010

UltiPro[®]

is Ready for Health Care Reform.

Are You?

© 2010 Ultimate Software Group, Inc. All rights reserved.

The information contained in this document is proprietary and confidential to The Ultimate Software Group, Inc.

The information in this document is intended as an overview of some of the issues employers face in connection with the Patient Protection and Affordable Care Act (PPACA) of 2010. All information, suggestions, and descriptions of the law work included in this document are intended as informative summaries, and do not constitute legal advice to any current, past, or prospective client of the author or customer or prospective customer of Ultimate Software on any particular issue. Any and all consequences, legal or otherwise, of any action taken by any person or entity based on the information contained herein is solely the responsibility of the decision maker, and the author expressly disclaims an attorney-client relationship with any such decision maker, and denies any responsibility whatsoever for any such consequences. Any action taken or contemplated in connection with any benefits tracking or employer legislative requirements issue should be discussed in advance with legal counsel of your choosing.

No part of this document may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying and recording, for any purpose without the express written permission of The Ultimate Software Group, Inc. No part of this document may be extracted and/or used out of the context of the full published document for any reason.

This document is for informational purposes only and is subject to change without notice. Ultimate Software makes no warranties, express or implied, with respect to this document or any statements contained therein and specifically disclaims any warranties including but not limited to those for a particular purpose.

This document contains or may contain statements of future direction concerning possible functionality for Ultimate Software's products and technology. Ultimate Software disclaims any express or implied commitment to deliver functionality or software unless or until actual shipment of the functionality or software occurs.

UltiPro is a registered trademark of The Ultimate Software Group, Inc. All other trademarks referenced are the property of their respective owners.



2000 Ultimate Way

Introduction

Preparing for the Impact of Health Care Reform

The rules governing America's health care are changing fast—and organizations need to adjust with them quickly in order to comply with new legislation and avoid fines and penalties. The Patient Protection and Affordable Care Act (PPACA) was signed into law in March 2010, but the job of implementing the law at a corporate level has just begun.

Because provisions of the new health care reform bill will roll out in scheduled stages over a period of eight years, every company must make both immediate and long-term plans for the impact on benefits, payroll, taxes, and compliance reporting, *while remaining alert for possible further revisions to the law.*

Preparation and implementation must start today. Even though two big provisions—the individual mandate and the employer pay or play—don't go into effect until 2014, others are in force now. And several near-term changes include:

- Ban on insurers placing lifetime dollar limits and annual limits on coverage
- Extension of health care coverage for adult children of employees through age 26
- Requirement to report the total cost of health care coverage on Form W-2
- Exclusion of cost for over-the-counter drugs for reimbursement through a health reimbursement account (HRA) or flexible spending account (FSA)

Additionally, just days before the PPACA became law, the Hiring Incentives to Restore Employment (HIRE) Act, a jobs bill with its own tax and payroll implications, was signed into law. To meet the resulting compound business demands of new laws, organizations need a human capital management (HCM) solution for HR, payroll, and talent management that can ensure compliance with the new legislation. Ultimate Software has designed UltiPro®—*the leading unified end-to-end HCM SaaS solution in North America*—for rapid upgrades to accommodate the tax rules, benefits management, payroll, and reporting requirements the new bills invoke.

Ultimate's business is HCM. It's all we do, and we allocate 100 percent of our resources to our human capital management solution. Since we interact globally all day long with HR and payroll professionals, we receive constant inquiries and feedback about what matters most to them. This paper cites some of the most pressing aspects of health care reform HR professionals have been asking about and how UltiPro will address them.

The health care reform bill may bring changes to employer-sponsored benefits, but the Act will also change tax reporting and payroll administration. UltiPro will make you ready as phases of the new legislation roll out.

2010

Two key provisions of the greatest concern to HR, benefits, and payroll administrators in 2010 are:

- The adoption assistance limit change from \$12,170 to \$13,170
- Effective on September 23, 2010 and after, health plans must cover dependents to age 26

Adoption Assistance Limit

The adoption assistance change was effective immediately following the executive endorsement of the PPACA. The law stipulates an increase in the amount an employee may receive as a tax-exempt reimbursement benefit for adoption expenses. UltiPro already enables paying that additional \$1,000, with defaults and tax calculations changing to reflect the new rule.

Dependent Coverage to Age 26

The PPACA will make keeping track of dependents and their health care coverage eligibility a greater challenge for employers because there are exceptions to the requirement. Fundamentally, if a group health care plan offers dependent coverage, it will have to make dependent coverage available until the 26th birthday of the dependent. Since young adults in their twenties account for a majority of the uninsured, employers should probably expect employees to take advantage of the extended dependent coverage, especially if their adult children have struggled to find employment.

Some Important Exceptions:

- In order to prevent lapse of coverage, some insurance providers may voluntarily elect to continue coverage for adult children who turn 26 before the end of the calendar year
- Some insurers are electing to enact the adult children coverage before the September 23, 2010 effective date
- The policy applies both to married and unmarried children
- The cost of health care coverage for adult children who have not reached age 27 by the end of a taxable year will not be included in an employee's gross income, and that sum is tax-free
- Insurers can deny coverage if an adult child has access to another employer-sponsored health plan

The complexities of the dependent coverage provision of the Act and the variations from one insurer to another will make it tricky to update and track adult dependents, make benefits changes, apply payroll deductions, plus comply with new tax rules and required reporting. UltiPro simplifies the requirements of this segment of the PPACA. Employers won't have to scramble to update dependent information. Through employee self-service, employees can make those updates themselves online. Because UltiPro tracks and reports across all areas of HR, payroll, and talent management, and because new rules will be created in UltiPro to meet the new tax and reporting demands, UltiPro customers can rest assured that they will be ready for the provision deadlines and be in compliance.

In 2010, Ultimate will also provide the following functionality in UltiPro to support other provisions of the new legislation:

- **HIRE Act**
In UltiPro, employee records will include an indicator you can turn on to track employees as new hires qualifying the company for a reduction in employer social security tax.

Functionality will also be available for retroactive calculation of the social security reduction, as well as changes to Form 941 reporting and exporting of tax data

- **COBRA**
Ultimate is providing extended support for COBRA continuation and the related reporting

2011

In 2011 under the PPACA, employers will be required to report the total cost of employees' health care coverage.

Reporting Total Cost of Health Care Coverage

W-2 tax forms issued to employees in January 2012, covering the 2011 tax year, must include the total value of health-related benefits paid by the employer—plus any portion the employee pays.

By the fourth quarter of 2010, UltiPro will allow administrators to flag health care benefits as taxable. In January 2012, the total costs of health care will be available in UltiPro for inclusion on W-2s and for compliance reporting. Details about how the law will be implemented that are unclear today will be settled by the time this functionality is added to our solution. Ultimate's training and support groups will provide tips for employers who have not previously tracked the employer-paid portion of these benefits in UltiPro and will need to begin doing so.

Another concern for 2011 is the HIRE Act. Currently, the HIRE Act incentive program is set to expire at the end of 2010. If it is not extended beyond 2010, UltiPro will remove the reduction in social security tax for employees who had been flagged as eligible without requiring user intervention.

2012

The two provisions slated for 2012—benefits summary requirement and quality-of-care reporting—are not mandates that will require functionality changes in UltiPro.

2013

In 2013, the focus will shift to two measures designed to help pay for health care reform, one that increases Medicare tax for highly compensated employees and another that restricts the Flexible Savings Account (FSA) tax shelter.

Medicare Tax

The most critical change three years into implementing health care reform will be the increase in Medicare tax. Effective after December 31, 2012, the Medicare tax rate will increase by 0.9 percent on single filers' earnings over \$200,000 and joint filers' earnings over \$250,000. The tax increase applies to only wages earned over those amounts (increasing the existing tax rate of 1.45 percent on those amounts to 2.3 percent).

Note that this is an increase on the tax rate for the employee—employers are not required to match the additional amount collected.

UltiPro will be updated to let you flag employee records that should be subject to this tax. For single filers, UltiPro can take out the extra 0.9 percent for wages over \$200,000 automatically. For joint filers, you will not necessarily know the combined wages of the employee and the employee's spouse unless he or she tells you. But in this case, you are essentially providing tax withholding as a service to the employee—

who will ultimately be responsible for making up the difference at tax time. An employer's responsibility should be limited, as long as an employer encourages employees to fill out the forms correctly and makes a good faith effort to collect the proper withholding amount.

FSA Contribution Limit

Another adjustment for employers in 2013 will be the new limit for health care spending accounts. The amount of money employees can shelter in a FSA will be restricted to \$2,500. Currently, no statutory ceiling exists, although individual plans impose their own restrictions. Many large employers have been letting employees allocate \$5,000 or more.

2014

In 2014, two major provisions will go into effect and impact both the employer and the employee:

- Individual Mandate
- Employer Play or Pay

Individual Mandate

Beginning January 1, 2014, all U.S. citizens and legal residents must have qualifying health care coverage or pay an annual financial penalty. There are some exceptions based on hardship and religious opposition.

Employer Play or Pay

The employer mandate dictates that applicable organizations employing more than 50 full-time employees must provide minimum-coverage health care insurance or pay a penalty. There are exceptions to the law, but if an employer fits the criterion under the "play or play" mandate, fines of \$2,000 per month per employee could add up to a hefty sum.

Looking at these two mandates alone, one thing is certain, compliance reporting is going to be more important than ever before. Ultimate Software can outpace other HCM providers with UltiPro's fast, up-to-date reporting capability across all areas of HCM. UltiPro's unified HR, payroll, and talent management solution makes reporting as efficient and easy as possible. When 2014 rolls around, UltiPro users will be ahead of the game with their ability to produce custom and out-of-the-box reports to remain compliant.

Conclusion

As we get further into implementing the law, the details get a little sketchier. There is also a likelihood of revisions to the law that will alter current expectations. A 40 percent excise tax on so-called "Cadillac" health care plans is scheduled to go into effect in 2018. As further details of this provision emerge, Ultimate Software will immediately move to adapt UltiPro to any aspects that may impact UltiPro or HCM.

As always, Ultimate will remain ahead of the curve and continue to upgrade its UltiPro solutions for any new developments in health care regulations—or any legislation or changes to the HCM landscape. Translation of laws into agency regulations and policies can be unpredictable. The laws themselves could be changed by lawmakers who believe they go too far, or not far enough. That is all the more reason you need your HCM partner to deliver a solution that is flexible and a service organization that is highly responsive. Ultimate Software is that partner for you.