Affordable Care Act
Large Employer Market Inquiry

Companies weigh in on plans to navigate legislative and regulatory uncertainty

October 2017
Executive summary

After the 2016 presidential election, efforts to repeal and replace the Affordable Care Act (ACA) dominated the news cycle and the Congressional agenda. However, despite substantial efforts to pass legislation addressing key provisions of the statute, the ACA remains the law of the land. For employers, what also remains is an increased sense of uncertainty amid a tumultuous legislative and regulatory landscape.

Managing through the uncertainty, employers have charted a compliance course focused on minimizing risk, responding to employee concerns and keeping an eye on opportunities for cost containment.

In July 2017, Ernst & Young LLP (EY US) completed an Affordable Care Act Large Employer Market Inquiry of benefits, HR, tax and finance professionals overseeing employer reporting obligations under the ACA. The survey revealed that, even after multiple years of reporting experience, many employers still struggle with data accuracy and consolidation, administrative complexity and identifying vendors with strong technical expertise. These professionals also identified industry leading practices and key factors motivating changes to HR strategy as they strive to manage payroll costs while optimizing performance and preparedness.

As employers seek to make informed compliance decisions in an ambiguous legislative and regulatory environment, the Affordable Care Act Large Employer Market Inquiry highlights how companies are navigating these key challenges and preparing for their future.

“Health care has been at the center of the Congressional debate for much of the year. Even as the focus shifts, the health care debate will continue as the US grapples with the challenge of providing quality affordable health care to Americans. Employers of all sizes are already at work asking the next questions: how do we reduce cost without reducing quality? What health care cost drivers can we affect and manage?”

– Heather Meade, Principal, Washington Council Ernst & Young
Key findings

The 2016 ACA reporting and compliance process proved a challenge for many employers. According to the survey, 82% of companies relied on a third party to transmit their 1095-C and 1094-C forms to the IRS in 2016, while 66% plan to use a service provider to print and mail their 1095-C forms in 2017. Similarly, after two years of compliance efforts, many companies are still concerned with their data accuracy and consolidation of data from multiple sources. Fifty-nine percent of companies reported being concerned about the level of accuracy required for tax year 2017 in absence of a good faith standard exception from the IRS.

While working to increase compliance and reporting accuracy, many employers are also focused on cutting costs within and outside of their medical benefit plans. As the cost of health care continues to rise across all industries, employee demographics and geographic locations, employers are searching for ways to offset costs through non-disruptive changes to plan design and administration.

Read on to learn more about employer reporting and compliance experiences in 2016 and leading practices to help prepare for 2017.

1. Reassess your form preparation process for 2017
2. Hone practices for solicitation of tax identification numbers (TINs); prepare for penalties
3. Focus on improving data accuracy through stringent review and data cleanup
4. Be strategic in benefit redesign by channeling employee values
5. Get a jump start on internal control documentation; coordinate audit with HR
6. Explore options for administrative cost savings before cutting benefits
7. Leverage ACA reporting data for business analytics
Gaining support from leadership was deemed to be the least difficult aspect of 2016 ACA reporting

Thinking about your company’s ACA reporting effort for tax year 2016, rate the difficulty of each of the following aspects:

<table>
<thead>
<tr>
<th>Aspect</th>
<th>1 Not difficult at all</th>
<th>2 Not very difficult at all</th>
<th>3 Somewhat difficult</th>
<th>4 Very difficult</th>
<th>5 Extremely difficult</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidating data from multiple sources</td>
<td>4%</td>
<td>15%</td>
<td>34%</td>
<td>22%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Finding available internal resources</td>
<td>7%</td>
<td>28%</td>
<td>35%</td>
<td>16%</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>Achieving accurate data from external services</td>
<td>7%</td>
<td>20%</td>
<td>39%</td>
<td>14%</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>Determining the appropriate codes for Part II of the Form 1095-C</td>
<td>10%</td>
<td>29%</td>
<td>38%</td>
<td>10%</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>Finding available data from external services</td>
<td>6%</td>
<td>30%</td>
<td>37%</td>
<td>10%</td>
<td>7%</td>
<td>11%</td>
</tr>
<tr>
<td>Communicating ACA to employees</td>
<td>8%</td>
<td>37%</td>
<td>38%</td>
<td>8%</td>
<td>7%</td>
<td>1%</td>
</tr>
<tr>
<td>Achieving accurate data from internal systems</td>
<td>7%</td>
<td>32%</td>
<td>34%</td>
<td>19%</td>
<td>7%</td>
<td>1%</td>
</tr>
<tr>
<td>Transmitting to the IRS (for employers filing electronically)</td>
<td>19%</td>
<td>50%</td>
<td>13%</td>
<td>4%</td>
<td>4%</td>
<td>10%</td>
</tr>
<tr>
<td>Finding available data from internal systems</td>
<td>8%</td>
<td>38%</td>
<td>36%</td>
<td>12%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Making full-time determinations</td>
<td>18%</td>
<td>47%</td>
<td>19%</td>
<td>10%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Gaining support from leadership</td>
<td>34%</td>
<td>47%</td>
<td>7%</td>
<td>5%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Responding to employee questions</td>
<td>15%</td>
<td>53%</td>
<td>19%</td>
<td>8%</td>
<td>5%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Ranked in descending order by “Extremely difficult – 5.” Numbers may not sum horizontally due to rounding.
While 92% of companies would like to see improvements to form preparation, most of them do not plan to change their preparation process.

Based on your company’s experience in tax year 2016, please indicate all of the areas where you’d like to see improvement in tax year 2017.

- Increasing data accuracy
- Better coordination in processing data from multiple sources
- Increasing knowledge of ACA legal and technical background, related regulations and related HR issues (or access to a consultant with the knowledge)
- Increasing accuracy of Line 14 and Line 16 codes
- Reduce effort to transmit Forms 1094-C and 1095-C to the IRS
- Reduce effort to deliver Forms 1095-C to employees
- Automate the calculation of full-time status
- More dedicated resources
- More accurate determination of full-time status
- Improve call center/employee inquiry support for Forms 1095-C and related ACA issues

Other: 8%
None of the above: 8%

Will your company be changing its process for the preparation of tax year 2017 forms?

- Increasing data accuracy and having better coordination in processing data from multiple sources were reported to be the most desired areas of improvement for 2017.
- Despite the large majority of companies wanting to see improvements in the tax form preparation process based on prior experience, 90% say they will not change the process in 2017.
Reporting

Leading practice: Reassess your form preparation process for 2017

Employers’ biggest concern – data: Whether looking back to concerns encountered in 2016 or looking ahead to 2017, data accuracy and the consolidation of data from multiple sources appears to be a major source of concern and focus of improvement. Many large employers continue to struggle with aggregating data from multiple, uncoordinated systems. In addition, the need to report information not previously collected, from disparate systems, coincides with data accuracy concerns. For example, employers must now report the employee contribution level for the lowest-cost employee-only coverage option providing minimum value each month. Historically, the employers’ payroll systems only captured the employee contribution for the benefit option selected.

Despite these concerns, most employers do not plan to change their form preparation process for 2017. This is perhaps not surprising given the uncertainty surrounding the future of the ACA and the effort needed to switch service providers, but as employers become more confident, they may revisit improvements to this process.

“In our experience, employers with well-integrated teams have the best and most efficient ACA compliance and reporting process. Accurate reporting continues to require data that aligns with the complex technical requirements of the law. In this environment, we have found that strong cross-functional teams with a process and focus on benefits, tax, legal, technology and employee communications, lead to better compliance and reporting.”

— Ann Bradshaw, Partner, Ernst & Young LLP – Indirect Tax Services
“Obamacare is the law of the land. ... We’re going to be living with Obamacare for the foreseeable future.”

– House Speaker Paul Ryan
March 24, 2017
The most prevalent errors involved mismatches of names/Social Security numbers or TINs

If your company received errors, how prevalent were each of the following types of errors?

<table>
<thead>
<tr>
<th>Error Description</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mismatch of name and Social Security number or taxpayer identification number</td>
<td>7%</td>
<td>19%</td>
<td>16%</td>
<td>56%</td>
<td>2%</td>
</tr>
<tr>
<td>Mismatch of business name and employer identification number</td>
<td>64%</td>
<td>14%</td>
<td>19%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>1095-C Part II errors</td>
<td>50%</td>
<td>29%</td>
<td>19%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Date of birth either more than 120 years old or born after 2016</td>
<td>76%</td>
<td>17%</td>
<td>7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other 1094-C errors</td>
<td>62%</td>
<td>21%</td>
<td>12%</td>
<td>2%</td>
<td></td>
</tr>
</tbody>
</table>

Ranked in descending order by “Extremely Prevalent – 5.” Numbers may not sum horizontally due to rounding.

Most respondents do not plan to change their TIN solicitation requirements

As a result of the proposed regulations revising the TIN solicitation rules required to obtain reasonable cause relief, is your company planning to make any changes to its TIN solicitation efforts?

- Most respondents (60%) do not plan to make any changes to their TIN solicitation requirements.
- Of the companies that do plan to make changes, the breakdown of how they plan to do so is detailed in the bar chart above. For example, 38% plan to solicit TIN and name from employees whose Form 1095-C were rejected by the IRS for TIN/name mismatch immediately following receipt of the IRS Acknowledgement report, with no proof of TIN/name required.

Multiple responses allowed
Leading practice: Hone practices for solicitation of TINs and prepare for penalties

TIN name matching: The mismatch of names and TINs, primarily Social Security numbers, continues to be the error most troubling for employers transmitting 1095-C forms. The ACA newly required employers to solicit and maintain TINs for dependents enrolled in self-insured health plans, and 72% of respondents noted the TIN/name matching error was Very or Extremely Prevalent. Despite the prevalence, the majority of respondents also indicated they have no plan to make changes to TIN solicitation practices.

The IRS has been fairly aggressive in assessing accuracy penalties for name/TIN mismatches for other returns (e.g., Form 1099 series); however, it is yet to be seen how aggressive it will be with respect to penalty assessments on employer ACA 1095-C forms. Moreover, filings for both 2015 and 2016 were couched under the IRS's promise to not assess penalties where forms were submitted in a timely manner with a “good faith” effort to comply with the IRS's rules. Employers should take additional steps to verify the accuracy of TINs in the event the IRS ever steps up penalty assessments in this area.
More than half of respondents reported having accuracy concerns given the absence of a good faith exception

What are your company’s biggest ACA compliance and reporting concerns related to risk in 2017?

- Level of accuracy required for tax year 2017 in anticipation of the absence of a good faith exception: 59%
- Tin solicitation requirements for name/TIN mismatch errors: 38%
- Level of resource investment focused on “duty to correct” standards: 25%
- Ability to reply to notification of potential shared responsibility payments for calendar years 2015 and 2016: 22%
- Furnishing Forms 1095-C promptly in absence of deadline extension: 22%
- Transmitting to the IRS by the deadline in absence of a deadline extension: 21%
- Other: 2%
- None of the above: 19%

Leading practice: Focus on improving data accuracy through stringent review and data cleanup

Six out of ten respondents indicated their concern about data accuracy on forms filed with the IRS in 2017, when the good faith effort expires. The ACA rules added a level of complexity not anticipated when human resources information system (HRIS) and payroll systems were originally designed, including rules around controlled groups, union plans, leaves of absence, breaks in service, commissions, on-call hours, etc.

Assuming the reporting rules remain unchanged for 2017 and the accuracy penalties will be enforced, many companies will need to improve their data accuracy through stringent reviews and data cleanup exercises.
Cost savings was reported as the primary motivator for making HR strategy changes

As your company considers changes, what is its primary motivation for making changes?

- Cost savings: 40%
- Offering leading-class benefits for recruiting and retention: 11%
- Simplicity in administering benefits: 11%
- Flexibility: 2%
- Not making changes: 38%

Numbers may not sum due to rounding.

The top primary motivation for making changes is cost savings.

11% of respondents are primarily motivated by offering leading-class benefits for recruiting and retention.

Another 11% of respondents are primarily motivated by the simplification of the benefits administration process.

Leading practice: Be strategic in benefit redesign by channeling employee values

While many respondents indicated they do not plan to significantly change HR strategy, cost reduction was the primary motivation for those making changes followed by recruitment and retention and simplifying administration. Given the high cost of benefits packages for most organizations and the rising cost of health care, many HR departments are being asked to tighten their belts. Employers are now looking for ways to adjust benefits plans and administration, along with other areas of HR and Payroll, to offset increased spending.

Given the competition for top talent and ever-changing employee demographics, many employers are balancing how to provide leading benefits to recruit, engage, and retain top talent while being cost-conscious. However, many respondents have difficulty understanding how each benefit in the total reward package is valued by different employee groups within their organization. In many instances, an organization will have four generations working side-by-side – each group with differing views on benefits. This, for example, has led to richer parental leave and better student loan assistance to attract Gen X employees. Employers must seek to understand what their employees value most and continue to change strategies to align their rewards spend with the maximum perceived employee value.

“While employers await guidance on the future of ACA, many are focusing on cost-reduction – with “people costs” being some of the largest in most companies.”

– Juliette Meunier, Partner, Ernst & Young LLP – People Advisory Services
Cost and risk mitigation

Respondents are most likely to consider making changes to medical benefits when seeking cost savings

If your company is seeking cost savings in the benefits area, in what areas would it consider making changes?

- Medical benefits: 54%
- Process automation: 44%
- Efficiencies in human resources systems: 39%
- All areas of human resources: 20%
- Efficiencies in payroll: 18%
- Efficiencies in procurement: 16%
- Other benefits: 28%
- N/A – not seeking cost savings: 15%

- More than half of respondents (54%) would consider making changes to medical benefits.
- Respondents also reported being willing to consider making changes to process automation and to making changes with regard to efficiencies in human resources systems.

Leading practice: Explore options for administrative cost-savings before cutting benefits

It isn’t surprising that a majority of respondents indicated they would consider changes to medical benefits to achieve cost savings, as health care carries the highest benefit cost for employers. However, these changes can often be disruptive to the workforce, and it is questionable whether changes to plan design or steep increases in employee payroll deduction are worth the cost savings. In lieu of less generous medical benefits or increased financial burden on the employee, employers are first exploring less disruptive medical benefit changes such as better vendor management, benefit delivery mechanisms, funding sources, health care delivery, wellness programs and managing high claim costs.

Outside of benefit plan changes, the majority of respondents also considered efficiencies in HR, payroll and procurement, including process automation. Many employers have begun to automate more of the transactional HR and payroll processes, such as onboarding, recruiting, relocation, and time and attendance. Automation allows employers to eliminate material human effort, accelerate activities, reduce costly errors and improve quality, while enabling employees to dedicate efforts to more strategic activities.

“To reduce costs and keep employees happy, employers have a keen focus on areas of non-disruptive cost savings – including efficiencies through robotics process automation, innovative plan designs and benefit delivery.”

- Juliette Meunier, Partner, Ernst & Young LLP – People Advisory Services
Companies are focusing on documenting internal controls for tax year 2017

For tax year 2017, is your company preparing for any of the following activities?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Have completed</th>
<th>In process</th>
<th>Not started but planning to complete</th>
<th>Not started and not planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documenting internal controls to verify completeness and accuracy of information needed to determine whether there is a potential tax liability</td>
<td>26%</td>
<td>34%</td>
<td>14%</td>
<td>26%</td>
</tr>
<tr>
<td>Analysis of liability for financial statements related to the 4980H(a) or (b) penalty tax (ASC 450)</td>
<td>17%</td>
<td>21%</td>
<td>23%</td>
<td>40%</td>
</tr>
<tr>
<td>Preparation for responses to IRS penalty notices</td>
<td>16%</td>
<td>18%</td>
<td>23%</td>
<td>43%</td>
</tr>
</tbody>
</table>

*Ranked in descending order by “Have completed.” Numbers may not sum horizontally due to rounding.*

Leading practice: Get a jump start on internal control documentation, coordinate audit with HR

For tax year 2017, 48% of respondents indicated they are planning to document internal controls to confirm information completeness and accuracy needed to determine potential tax liabilities, but have yet to complete this activity. Similarly, 44% of respondents indicate they are planning to perform a financial statement analysis under Accounting Standards Codification (ASC) 450, *Contingencies*, to determine requirements for liability accruals on financial statements, but have not yet done so.

As companies gather documentation to support their financial statement position, they also assess risk tolerance as it relates to potential excise taxes. This includes consideration of whether they have regular company IRS audits, how comfortable they are with the accuracy of the data on the IRS forms filed, whether they have a significant contingent workforce and the controls in place to determine full-time common law-employees. As companies are developing and documenting internal controls, they must maintain coordination across functions to leverage Internal Audit and HR expertise.
A third of companies reported having used their ACA reporting data to audit HR and benefits data

With the consolidation of data required for ACA reporting, has your company used or is your company considering using the data for other purposes?

<table>
<thead>
<tr>
<th>Category</th>
<th>Have used</th>
<th>Considering using</th>
<th>Have not used and not considering using</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit HR and benefits data</td>
<td>33%</td>
<td>25%</td>
<td>42%</td>
</tr>
<tr>
<td>Audit benefit enrollment records between health plans and benefits administration systems</td>
<td>30%</td>
<td>18%</td>
<td>53%</td>
</tr>
<tr>
<td>Improve HR processes to improve quality of data (e.g., name changes, address changes, TIN validations corrections, dates of birth validations)</td>
<td>29%</td>
<td>30%</td>
<td>57%</td>
</tr>
<tr>
<td>Rehire statistics</td>
<td>18%</td>
<td>18%</td>
<td>64%</td>
</tr>
<tr>
<td>Turnover statistics</td>
<td>18%</td>
<td>20%</td>
<td>63%</td>
</tr>
<tr>
<td>Transfer activity between FEINs (if applicable)</td>
<td>15%</td>
<td>7%</td>
<td>78%</td>
</tr>
<tr>
<td>Audit scheduled hours vs. actual hours</td>
<td>11%</td>
<td>32%</td>
<td>58%</td>
</tr>
</tbody>
</table>

Ranked in descending order by “Have used.” Numbers may not sum horizontally due to rounding.

Leading practice: Leverage ACA reporting data for business analytics

A leading practice we are seeing among employers is leveraging ACA reporting data for other business operations. This is the first time many employers have had this data in one location – pulled from HRIS, Payroll, Time and Attendance, Benefits Administration, Leave Administration and more. Some employers are already benefiting from the collection of this data by using it to inform decision-making regarding employee retention, telework policies and even preliminary analyses in equal pay compliance. Forward-thinking employers are thinking creatively about how to leverage this new source of data to inform other areas of their businesses.

“Data analytics provide a great opportunity to transform compliance requirements into a value-add endeavor for the overall business.”

— Juliette Meunier, Partner, Ernst & Young LLP – People Advisory Services
Companies weigh in on plans to navigate legislative and regulatory uncertainty.
**Conclusion**

Despite continuing feelings of uncertainty around the ACA, a path forward for employers is becoming clearer. As seen in this publication, industry leading practices can provide guidance for employers previously plagued by growing pains and ambiguity.

Professionals across the industry view efforts to increase data accuracy, streamline plan administration and cultivate technical expertise as worth the continuing investment, providing a foundation for future success in this complex environment. In addition to ongoing compliance needs, professionals remain focused on the need to manage and contain costs, while optimizing performance and preparedness.

Building these proficiencies for ACA compliance provides a solid foundation for employers as they walk the tightrope between cost containment and employee satisfaction. As you continue on your compliance evolution, EY US can serve as that foundational advisor.

**EY US offerings:**

- Legislative and Regulatory Advisory Services
- ACA Compliance and Reporting Services
- ACA Controversy Services
- People Advisory Services

The ACA Large Employer Market Inquiry was designed and conducted by Ernst & Young LLP. The data was collected between May 22, 2017 and July 3, 2017. Individuals responding to the survey represented a wide array of industries. Respondents included benefits administration and human resources professionals from the following industry sectors:

- Consumer products and retail
- Health
- Banking and capital markets
- Automotive and transportation
- Technology
- Oil and gas
- Power and utilities
- Media and entertainment
- Insurance
- Government and public sector
- Engineering
- Wholesale trade and distribution
- Law
- Education
- Food service
- Business services

All survey responses were confidential. Therefore, comments and quotes used in this report have not been attributed.
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