



Patient Protection and Affordable Care Act (PPACA) FTE Calculation

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Many employers, especially small employers are in the process of preparing for the continued implementation of the Patient Protection and Affordable Care Act (PPACA) in 2014.

A critical question each employer must ask and answer is: does our company meet the threshold, 50 full-time employees, requiring us to provide the “minimum standard” health care coverage to our full-time employees? This is not as simple as counting all full-time employees each employer has. The PPACA views the definition of full-time status under the law very differently than most employers do.

In an attempt to help employers determine if they are considered “large” employers with 50 or more full-time employees, the Internal Revenue Service (IRS) has published a “proposed rule”. Although this is a proposed rule with a comment period ending on March 18, 2013, employers can begin to use this rule as a guide in determining if they are a “large” employer in preparation for January, 2014.

Information regarding the calculation of full-time employees with regard to determining qualified coverage under the PPACA:

The IRS has published a “proposed rule” to give “large” employers (50 or more full-time employees, including full-time equivalents FTEs) information in order to comply with the law. Some important points:

- Individual companies that are affiliated under a “control group”, or an overall corporate entity – would require that all employees are included in all “affiliated companies” in aggregate for the calculation;
- Beginning in 2014, employers with 50 or more full-time employees (including FTEs) must offer all employees working an average of 30 hours per week or more in a month, health care coverage with "minimum value". If the employer chooses not to comply they will be assessed a penalty;
- Part-time and seasonal employees, working less than 30 hours per week, are included in calculating the threshold number of 50 workers (FTEs), which would require employers to offer affordable coverage to all full-time employees;
- FTE calculations for the current year are based on FTEs from the preceding year;
- Employers average their number of employees across the months in the preceding year to determine if they meet the threshold of 50 FTEs. The averaging can take into account fluctuations that many employers may experience in their work force across the year;

- In determining the number of FTEs for each calendar month, fractions are taken into account;
- The preceding year calculation is based on a monthly average of FTEs:
 - Calculating the aggregate number of hours of service (but not more than 120 hours of service for any employee) for all employees who were not employed an average of at least 30 hours of service per week for that month; and
 - Dividing the total hours of service above by 120. This is the number of FTEs for the calendar month.
- For example: a company has 30 employees who average 30 or more hours per week, and the balance of the employee's hours who did not average at least 30 hours per week during the month comes to 1200. The 1200 hours equate to 10 FTEs (1200/120). The total full-time equivalents for the purpose of determining coverage would equal:
 - 30 full-time; and
 - 10 part-time and seasonal;
 - Total FTEs equal 40. This employer does not meet the "large" employer definition and standard.
- Seasonal exception: if an employer's workforce exceeds 50 FTEs for 120 days or fewer during a calendar year, and the employees in excess of 50 who were employed during that period of no more than 120 days were seasonal workers, the employer is not an applicable large employer.

The calculation steps:

- Calculate the number of full-time employees (30 hours or more), including seasonal employees for each calendar month during the preceding year;
- Calculate FTEs (those not already classified as full-time in the above step), including seasonal employees for each calendar month during the preceding year;
- Add the two calculations for each of the 12 months of the preceding calendar year;
- Add up all of the 12 month calculations in the above step, and divide by 12. This is the average number of full-time employees for the preceding calendar year;
- If the number of full-time employees in the above step is less than 50, the employer is not an applicable "large" employer for the current calendar year;
- If the number of FT employees in the previous step is 50 or more, determine whether the seasonal employee exception applies. If the seasonal employee exception applies, the employer is not an applicable "large" employer for the current calendar year. If the seasonal exception does not apply, the employer is an applicable "large" employer for the current calendar year.

As new information is released, this white paper will be updated for our clients.