

COMPLIANCE CHRONICLE

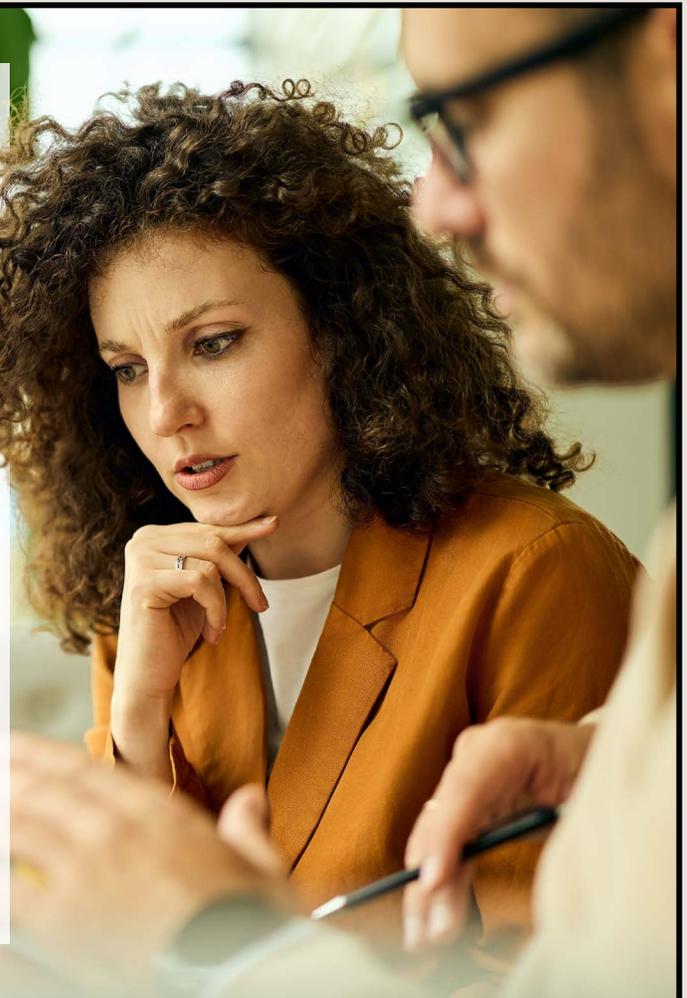
REGULATIONS | POLICIES | STANDARDS | REQUIREMENTS | LAWS

Navigating the ever-evolving landscape of compliance can be challenging and time-consuming. Warner Pacific is happy to share monthly updates to help your organization stay informed about new requirements and minimize compliance risks. Let us handle the complexities, so you can focus on what matters most – your business.

Initial Measurement Periods and Stability Periods

Understanding initial measurement periods and stability periods is essential for advising employers on ACA compliance. The initial measurement period allows employers to track hours worked by new variable-hour, seasonal, or part-time employees before determining whether they must be offered health coverage.

Once eligibility is established, the stability period locks in that status, meaning the employee must be treated as full time or not, for the entire period, regardless of fluctuations in hours. This structure protects employers from having to constantly adjust coverage and helps them plan predictable benefits costs.



The chart below shows how the **initial measurement period** and **stability period** work for a variable-hour employee hired in February.

ACA Initial Measurement and Stability Period Timeline for February Hire



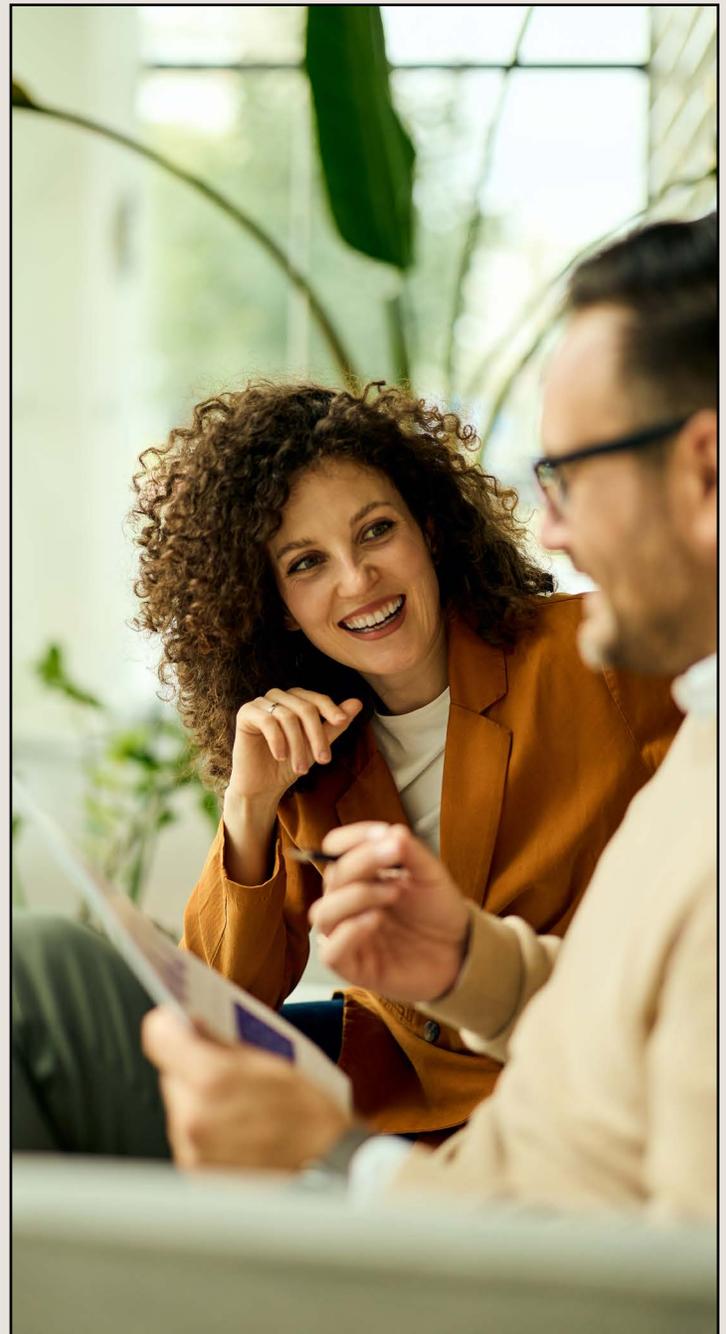
How to Read the Timeline

- **Hire Date (February):** The initial measurement period begins the month of hire.
- **Initial Measurement Period (Feb-Jan):** Employer tracks average hours worked over 12 months.
- **Determination Point (Next February):** Employer decides if the employee averaged ≥ 30 hours/week (≈ 130 hours/month).
- **Stability Period (Feb-Jan following year):** If deemed full time, coverage must be offered for the entire stability period, regardless of hours worked during that time.

Key Takeaways

- It's not about hitting 1,560 hours mid-year. The rule is based on average monthly hours during the measurement period.
- Coverage begins at the start of the stability period, not immediately when the threshold is crossed.
- This method ensures consistency. Once an employee qualifies as full time, they remain eligible for coverage throughout the stability period, even if their hours later drop.

It makes clear why coverage doesn't start mid-year when someone hits a certain total of hours, but instead follows the structured measurement/stability cycle.



Monthly Measurement Method vs. The Look-Back Measurement Method Under ACA Rules

You should also be clear on the differences between the **monthly measurement method** and the **look-back measurement method**. The monthly method is straightforward but can create unpredictable obligations when employee hours vary. The look-back method, however, offers employers more stability by basing full-time status on a defined review period.

This reduces administrative risk, prevents mid-year eligibility swings, and provides more consistent budgeting. Guiding clients to the right method, based on their workforce patterns, positions you as a strategic partner who helps minimize employer penalties and maintain ACA compliance with confidence.



Monthly Measurement Method

- Employer evaluates each calendar month separately.
- If an employee works ≥ 130 hours in a month, they are considered full time for that month.
- Coverage must be offered for that month only.
- This method can cause fluctuating eligibility and administrative complexity.

Look-Back Measurement Method

- Employer sets a measurement period (3–12 months, often 12).
- Average hours are calculated across the entire period.
- If the employee averages ≥ 30 hours/week (≈ 130 hours/month), they are deemed full time.
- Coverage must be offered for the entire stability period (often 12 months), regardless of future hours.
- Provides predictability and consistency for employer and employee.

Key Differences

- Monthly method is immediate, month-to-month determination.
- Look-back method is long-term averaging, with coverage locked in for the stability period.
- Employers often prefer the look-back method for variable-hour employees, because it avoids sudden eligibility changes and aligns better with benefit administration cycles.

For these reasons, in most situations, the look-back method is generally recommended for variable-hour or seasonal workers. It shows the stability and predictability compared to the month-to-month volatility of the monthly method.

Distributing Medical Loss Ratio (MLR) Rebates

When employers receive Medical Loss Ratio (MLR) rebates from their insurance carriers, it's not just a financial credit. It's a compliance obligation. These funds must be evaluated and distributed in accordance with ERISA and ACA rules, ensuring that any portion attributable to employees is handled properly, documented clearly, and delivered within required timelines.

These steps help ensure employers handle them compliantly in accordance with ERISA and ACA regulations.

Step 1:

Determine the Plan Asset Portion

- If employees contributed to the cost of coverage, the portion of the rebate attributable to their contributions is considered a plan asset.
- Employers must calculate the percentage of total premiums paid by employees during the MLR calculation year to determine the share of the rebate that must be returned to them.

Step 2:

Distribution Options for the Employee Share

Employers can choose from several methods to return the employee portion:

1. Premium Reduction

- Apply the rebate to reduce future premium contributions for current plan participants.
- This method is simple and benefits all current employees proportionally.

2. Cash Refunds

- Issue direct cash payments to current and/or former employees who contributed to premiums.
- This may be more complex administratively and could have tax implications.

3. Benefit Enhancements

- Use the rebate to enhance plan benefits (e.g., lower deductibles or copays).
- Must be consistent with ERISA fiduciary rules and benefit all participants fairly.

Timing Requirements

The Department of Labor expects employers to distribute the plan asset portion **within three months** of receiving the rebate to avoid triggering trust requirements.

Tax Considerations

- Cash refunds may be taxable if employees paid premiums with pre-tax dollars.
- Premium reductions typically do not have tax consequences.

Special Cases

- Self-funded plans are not subject to MLR rebate rules.
- Church and governmental plans may have different ERISA obligations.

Check out all of our compliance and legislative resources at warnerpacific.com.