

Health Care Reform Update Mass DOR Puts in Its Two Cents

No Massachusetts Imputed Income for Self-Funded Medical Plans

More on imputed income...this topic just keeps coming back! A few weeks ago, EBS Capstone issued a Compliance Alert regarding a new exclusion from imputed income at the state level for coverage provided to older dependents under the new extended dependent coverage rules mandated by Massachusetts health care reform law.

Briefly, an employee can't use pre-tax dollars to pay for coverage of an individual who isn't a dependent as defined under federal rules. Federal rules limit the age for child dependents to 19 or 24 (if a student). However, Massachusetts health care reform laws expanded coverage for dependents to two years past the age of federal dependency. So, when a medical plan covers a child during this two year period, the cost for the child's coverage must be paid with post-tax dollars, and when the employer contributes to the cost for such child, the employer contribution for the child's coverage must be imputed to the employee.

In late November, a technical corrections bill created a special exclusion from Massachusetts gross income for income imputed to an employee resulting from the provision of health coverage to a person (read: non-federally defined dependent) "to the extent the coverage is mandated by Massachusetts state law."

When the new exclusion was issued, most practitioners interpreted the exclusion to apply to coverage provided under fully insured plans, but not self-funded plans. This was because self funded plans are not obligated by law to provide extended coverage to dependents while the new imputed income exclusion regulation incorporated the phrase "to the extent such coverage is mandated by law."

However, last week, the Massachusetts Department of Revenue issued a clarification on the question of whether the exclusion from imputed income applies to self-funded plans as well as fully insured plans. It does. The DOR Technical Release states that "the exclusion from Massachusetts gross income ... also applies to employees with coverage under self-funded or self-insured employer-provided health plans adopting dependent health coverage otherwise required for insured plans under the applicable Massachusetts insurance statutes."

So there it is -- no imputed income at the state level for fully insured OR self-funded plans. And, as indicated in the prior Compliance Alert, the effective date is retroactive to January 1, 2007. If your company imputed income to an employee due to enrollment of a child past the federal age of dependency, you will want to reverse the imputed income at the Massachusetts state level (but remember to keep it at the federal level).

2008 Individual Mandate Penalties Capped at \$912/individual

The Massachusetts Department of Revenue also issued guidelines for tax penalties for failing to have health insurance for 2008. Individuals with incomes up to 150% of the Federal Poverty Level are not subject to any penalty for failure to purchase health insurance.

Penalties for individuals with incomes from 150% to 300% of the Federal Poverty Level will be half of the lowest priced Commonwealth Care enrollee premiums for which an individual would have qualified, depending on his or her income.

Penalties for individuals with incomes more than 300% of the Federal Poverty Level will be half of the lowest priced Commonwealth Choice Young Adult Plan premium (without prescription drug coverage) for individuals up to age 26 and half the lowest priced Commonwealth Choice Bronze premium (without prescription drug coverage) for those age 27 and above.

2008 Penalties

Individual Income Category	Penalty
150-200% FPL	\$17.50/month (\$210/year)
200-250% FPL	\$35/month (\$420/year)
250-300% FPL	\$52.50/month (\$630/year)
Above 300% FPL, Age 18-26	\$56/month (\$672/year)
Above 300% FPL, Age 27+	\$76/month (\$912/year)

Compare individual's annual family household income to chart below to determine applicable Federal Poverty Level (FPL)

Federal Poverty Level – Annual Income Standards

Family Size	150% FPL	200% FPL	250% FPL	300% FPL
1	\$15,324	\$20,424	\$25,536	\$30,636
2	\$20,544	\$27,384	\$34,236	\$41,076
3	\$25,764	\$34,344	\$42,936	\$51,516
4	\$30,984	\$41,304	\$51,636	\$61,956
5	\$36,204	\$48,264	\$60,336	\$72,396
6	\$41,424	\$55,224	\$69,036	\$82,836
7	\$46,644	\$62,184	\$77,736	\$93,276
8	\$51,864	\$69,144	\$86,436	\$103,716
For each additional person add	+\$5,220	+\$6,960	+\$8,700	+10,440

Penalties for married couples without health insurance (with or without children) will equal the sum of individual penalties for each spouse. This Schedule will be adjusted when the federal government updates the Federal Poverty Level standards in early 2008.

If you have any questions, please feel free to contact your EBS representative.

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