

# How Changes in Employee Part-Time and Full-Time Status Impact Health Coverage

Ensuring that an employee's healthcare benefits are properly maintained under the Affordable Care Act (ACA) can be very confusing, particularly when employees move from a full-time role to a part-time role and vice-versa. This article explains the rules that an employer should follow based on particular changes in status that employees may experience.

## **What are the rules for a new employee that changes from part-time to full-time during the Initial Measurement Period?**

If an employee moves from a part-time position to a full-time position during their Initial Measurement Period, the employer must offer coverage to that employee no later than the first day of the 4<sup>th</sup> full month following the date that the change in status occurs.

If the employee averaged at least 30 hours per week during the Initial Measurement Period, the employee must be offered coverage by the beginning of the corresponding stability period if that date is earlier than the first day of the 4<sup>th</sup> full month following the date of the change in status.

Note: The employer's standard waiting period may be shorter and the employer may be required to offer coverage sooner than what is required under ACA.

## **What coverage do I have to provide for an *ongoing* employee that changes from part-time to full-time?**

In the case where an employee is an ongoing employee and moves from a part-time position to a full-time position, the change in status will not affect the employee's status as a part-time employee for the remainder of the stability period.

Therefore, the employer is not required to offer coverage to the employee immediately at the time the employee moves to the full-time position. Coverage will be offered to the employee for the stability period that follows the measurement period where the employee worked an average of 30 hours per week.

Employers can elect to be more generous than the laws require and can offer healthcare to an employee moving from part-time to full-time sooner. If the employer would like to be more generous in such situations, it is important that the plan provisions clearly state the eligibility requirements that will be followed in such situations.

## **What if an ongoing employee changes from full-time to part-time?**

Healthcare benefits for an employee who has a change in status from full-time to part-time will remain qualified for the remaining portion of the current stability period. Benefits should not be cancelled in this situation until the end of the stability period in which the employee moves into the part-time position.

Additionally, if the employee averages at least 30 hours per week during the measurement period in which the change in status occurs, coverage will also be required in the following stability period. There is an exception in this case. The employer is allowed to switch to the monthly measurement method for an employee moving to part-time starting with the first day of the 4<sup>th</sup> full month after the employee moves to a part-time position. This is allowed only if Minimum Value coverage has been offered to this employee since employment began (or within 3 full months) and through the month in which the employee moves to part-time and if the employee averaged less than 30 hours per week for each of the 3 full months after the move to a part-time position. This can be done even if the look-back measurement method is used for all other employees in the same category. Since this exception only applies if the two provisions above occur and since moving to a monthly measurement method requires additional administrative effort, the employer can always elect to follow the general rule in such situations.

Under the ACA, there are affordability concerns that must be taken in to consideration when determining how to properly deal with an employee's change in status from full-time to part-time. Employers can be assessed penalties under the ACA if employees are required to pay more than 9.66% (in 2016) of their income toward the lowest cost single premium plan. Remember that when an employee moves to a part-time position income will decrease, therefore, coverage may no longer be considered affordable under the ACA.

Even if an employee remains eligible for coverage under this rule, the employee may elect to drop coverage due to a change in status from full-time to part-time per IRS Notice 2014-55.

#### **What if a new hire changes from full-time to part-time?**

The ACA requires that if a newly hired employee is reasonably expected, as of the day employment begins, to work full-time, the employee will generally have full-time status determined under the monthly measurement method until the employee completes one full standard measurement period.

Because of this requirement, coverage for a new employee could be terminated under the monthly measurement period if the new employee does not average at least 30 hours per week during a month as the employer had expected.

#### **What are the rules for rehired employees?**

If an employee who is rehired by a company has 0 hours of service for AT LEAST 13 consecutive weeks (26 weeks for educational organizations) the rehired employee or an employee who returns from a leave of absence will be treated as a **new hire** for purposes of an offer of coverage. When the employee will be offered coverage in this situation will be dependent upon whether they are rehired into a full-time or part-time position. An employee rehired into a variable hour, seasonal or part-time position will be put into a new look-back measurement period and the employer will track hours to determine if full-time and whether an offer of benefits is required. If the employee is rehired into a full-time position, coverage should be offered within three months or within the normal waiting period established by the plan.

If a rehired employee has 0 hours of service for LESS THAN 13 consecutive weeks (26 weeks for educational organizations) the rehired employee or an employee who returns from a leave absence will be treated as a **continuing employee**. In this case the employee will retain the status they had as either a full-time or part-time employee for the remainder of the stability period that was observed prior to the employee's departure. If the employee was covered under the employer's plan, the employee, once they return, should be offered coverage by the 1<sup>st</sup> day of the month following the date they are rehired. In cases where the employee had waived coverage for the stability period, it is not required that the employee receive a new offer of coverage when the employee is rehired or returns from a leave of absence. The employer will resume counting hours for the remaining months in the measurement period and count 0 hours for the period in which the employee was absent due to termination of employment or leave of absence, unless the employee was on a special unpaid leave, for example FMLA, or if considered an employment break (absence of at least 4 consecutive weeks for employees of educational organizations).

An employer can also consider using the Rule of Parity. Rule of Parity allows the employer to choose a period of at least 4 consecutive weeks. If the employer has an employee whose break in service exceeds the greater of 4 weeks (or greater if the employer elects a greater number of consecutive weeks) or the employee's prior term of employment, the employee may be treated as a new employee.

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