Chapter 3: Affordable Care Act Update

The Affordable Care Act (ACA) includes an individual mandate that imposes requirements on individuals for the maintenance of qualifying health insurance coverage. Effective January 1, 2014, unless an individual is exempt from the individual mandate, the individual must maintain minimum essential coverage (MEC) for themselves and their dependents or pay a penalty.1 The penalty is assessed on a monthly basis, but an individual is deemed to have MEC for the month if that individual has MEC in place for at least one day of that month.2

Observation. Generally, there are three government agencies responsible for the administration of the individual mandate: the IRS, the Department of Health and Human Services (HHS), and the Department of Labor (DOL). Each agency administers their own respective parts of the individual mandate.

---

1. IRC §5000A(b)(1).
MINIMUM ESSENTIAL COVERAGE

Generally, health insurance coverage must be comprehensive in order to qualify as MEC. Limited-benefit or limited-purpose coverage does not qualify. MEC includes comprehensive group coverage and certain government plans.

Group coverage that qualifies as MEC includes the following.

- Employer-sponsored group plan coverage provided to employees
- Government plans established for federal or state employees (including employees of federal or state political subdivisions)
- Grandfathered plans

Note. A grandfathered plan is an employer-sponsored plan that was in place on the date the ACA was enacted (March 23, 2010). It may be offered by the employer as MEC as long as certain recordkeeping and other requirements are met. A grandfathered plan can enroll new employees and still maintain its grandfathered status.

Employer-sponsored plans include group coverage obtained from the Marketplace and self-insured plans offered by the employer to its employees. Marketplace is the IRS designation encompassing all state and federal health insurance exchanges and is used in this chapter when referring to all state and federal health insurance exchanges.

Government plans that qualify as MEC include the following.

- Medicare
- The Children’s Health Insurance Program (CHIP)
- Medicaid

Note. Certain optional programs under Medicaid do not qualify as MEC, such as the optional coverage for family planning services, pregnancy services, or emergency medical services under Medicaid. However, transitional relief is provided for individuals enrolled under these limited optional programs who do not have any other coverage. Under transitional relief, such individuals are not subject to any penalty for failure to maintain MEC for 2014.

- Medical coverage provided to members of the armed forces, including TRICARE coverage, and continuation coverage offered to employees and their dependents after separation from service

Note. Under proposed regulations, there are limited-benefit programs under TRICARE that do not qualify as MEC. For individuals who obtained limited-benefit TRICARE coverage that does not qualify as MEC during the 2014 open enrollment period, the IRS provided transitional relief from any penalties for any month during 2014 in which the individual had such coverage.

- Medical coverage for veterans
- The Peace Corps volunteer health plan

5. IRC §5000A(f)(1)(A).
Certain individual plans that are not part of a group plan also qualify as MEC. A plan obtained through a state exchange (other than a short-term, limited duration plan) qualifies as MEC.

Note. Further details about qualifying coverage may be found in Treas. Reg. §1.5000A-2. For further information on transitional relief provisions for 2014, see the notice of proposed rulemaking, REG-141036-13, contained in IRB 2014-7 on page 516 and the related corrections, RIN 1545-BL91, published on June 3, 2014, in the Federal Register, Volume 79, Number 106, page 31893.

EXEMPTIONS FROM THE INDIVIDUAL MANDATE

Under the ACA, there are a total of nine exemptions from the individual mandate. These are administered by the state exchanges, by the IRS, and some are administered by either the state exchange or the IRS.9 The nine exemptions are summarized in the following table.

<table>
<thead>
<tr>
<th>Exemption</th>
<th>Code Reference</th>
<th>Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable coverage unavailable</td>
<td>IRC §5000A(e)(1)</td>
<td>X</td>
</tr>
<tr>
<td>Income below filing threshold</td>
<td>IRC §5000A(e)(2)</td>
<td>X</td>
</tr>
<tr>
<td>Indian tribe members</td>
<td>IRC §5000A(e)(3)</td>
<td>X X</td>
</tr>
<tr>
<td>Short-coverage gap period</td>
<td>IRC §5000A(e)(4)</td>
<td>X</td>
</tr>
<tr>
<td>Hardship</td>
<td>IRC §5000A(e)(5)</td>
<td>a a</td>
</tr>
<tr>
<td>Religious objection</td>
<td>IRC §5000A(d)(2)(A)</td>
<td>X</td>
</tr>
<tr>
<td>Health care sharing ministry</td>
<td>IRC §5000A(d)(2)(B)</td>
<td>X X</td>
</tr>
<tr>
<td>Nonresident alien, undocumented alien residents</td>
<td>IRC §5000A(d)(3)</td>
<td>X</td>
</tr>
<tr>
<td>Incarcerated individuals</td>
<td>IRC §5000A(d)(4)</td>
<td>X X</td>
</tr>
</tbody>
</table>

* Depends on grounds.

The following section provides details about four of the nine exemptions.

1. Affordable coverage unavailable
2. Income below filing threshold
3. Hardship
4. Short-coverage gap period

Note. Details about the other exemptions may be found in the 2012 University of Illinois Federal Tax Workbook, Volume A, Chapter 7: Healthcare Reform Act. This can be found at [www.taxschool.illinois.edu/taxbookarchive](http://www.taxschool.illinois.edu/taxbookarchive). Details can also be found in the 2013 University of Illinois Federal Tax Workbook, Volume A, Chapter 2: Affordable Care Act Update. In addition, final rules regarding the exemptions may be found in Treas. Reg. §1.5000A-3 and 45 CFR §155.605.

---

8. IRC §5000A(f)(1)(C); and Treas. Reg. §1.5000A-2(d).