



PSA

INSURANCE & FINANCIAL SERVICES

RETIREMENT PLANS

EMPLOYEE BENEFITS

RISK MANAGEMENT

PERSONAL INSURANCE

WEALTH MANAGEMENT

SAMPLE EMPLOYEE COMMUNICATION

Transitioning from Cash-in-Lieu to Offering Benefits

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Established in 1965, the McNamara-O'Hara Service Contract Act set strict guidelines on the treatment and payment of employees working for companies that contract with the federal government. More commonly referred as to the Service Contract Act or simply SCA, this act dictates both the base wages as well as other employment-related benefits, known as fringe benefits, for employees of federal contractors. Businesses and employees that are subject to the act must, by law, provide their employees with fringe benefits that correspond with the Health and Welfare (H&W) rate and hours worked.



In the past, the law has provided some flexibility in terms of paying the rate, allowing employers to either add it to the base rate and pay it out as regular wage or to provide a benefit package of equal value. However, with the passage of the Affordable Care Act (ACA or Obamacare), those employers who had previously satisfied their fringe obligation by simply including it in employee's wages have had to rethink their approach. The Employer Shared Responsibility portion, also referred to as the Employer Mandate, requires that all large employers provide health insurance coverage to their employees. Because the current approach of paying the H&W rate as part of general wages instead of providing health insurance benefits does not satisfy the Employer Mandate, COMPANY will be taking steps to implement a compliant benefit program for all employees. The full hourly fringe rate of \$4.02 will be directed towards the cost of providing this benefit program.

To help understand what this will mean and how you may be affected, we have provided answers to some frequently asked questions below:

Why is this happening now?

The Affordable Care Act Employer Mandate requires all large employers to provide a valuable and affordable health insurance program to their employees. For most businesses this obligation begins on January 1st, 2015.

How will this affect me?

The original purpose of the SCA fringe dollars were to provide a Health & Welfare revenue stream for employers to use for benefits, medical, dental, retirement, etc. Previously, the H&W rate was being paid to you directly as part of your regular wages and subject to applicable state and federal taxes. Going forward, this money will be automatically used to pay the cost of your personal insurance benefits and no longer included in your wages. The value of these benefits is not taxable income to you in any way.

Can I opt out and continue to receive the H&W rate in my paycheck?

No. Participation in this program is mandatory for all eligible employees. The method of allocating the H&W rate has always been up to the employer, provided it meets SCA guidelines and is used solely for the benefit of the employee. Providing this H&W payment in the form of an employee insurance program or bona fide retirement plan is allowed and in fact encouraged by law.

What if I have health insurance coverage elsewhere; can I opt-out of this plan?

Yes. If you can demonstrate that you have other qualified coverage, then you can opt-out of the insurance program being offered. Your full H&W will then be automatically redirected towards a retirement account that will be setup on your behalf. Qualified coverage for the purposes of this opt-out is limited to: Medicare, TRICARE and other employer-sponsored medical plans. Any other coverage, including individual health insurance purchased directly from the insurance company or through a state exchange will not qualify. In no case will employees continue to receive their H&W in cash as part of their payroll

That being said, if you are currently carrying any or all of these insurance coverages, it may be a good time to review and evaluate whether it may be worth continuing the other coverage programs. Most health plans have their annual election period on or around January 1st, so it is a perfect time to make decisions as to whether to continue those programs.

What benefits will be included?

All eligible employees will receive medical, dental, vision, short-term disability and life insurance benefits. The cost of these programs will be paid for out of the H&W benefit and no further payroll deductions will be required on the part of the employees. Details on these programs will be provided in a separate packet.

How is this H&W rate calculated?

For every hour you work, \$4.02 is allocated towards the cost of coverage. The monthly cost of coverage assumes a standard work week, and the benefit program was designed to provide as much value as possible without going over this allotment and requiring any additional employee contributions.

What happens if I work more or less than my standard hours?

We are utilizing a Premium Reserve Accounting (PRA) arrangement, which tracks your individual fringe funds. If there are any funds that accrue because your hours exceeded the expected hours, they will be saved for your future use. These funds will be automatically used to cover any fringe shortfalls in months that your hours fall below the expected hours. In the event you were to leave the company, any money remaining in your personal PRA can be put towards the cost of continuation coverage under COBRA.

Can I add my spouse or dependent children to the plans?

Yes. You can add your spouse or dependent children to the medical, dental and vision programs by completing an election form and paying the additional premiums through a pre-tax payroll deduction. Please note, however, that the election you make is annual and cannot be changed until next year's open enrollment without a qualifying event occurring.