



If Tennessee Does Not Expand Medicaid, It Could Cost Tennessee Businesses

The U.S. Supreme Court ruled in June that the Affordable Care Act (ACA) permits, rather than requires, states to expand Medicaid eligibility up to 138 percent of the federal poverty line (FPL). Now, Tennessee must choose whether to expand Medicaid. **If Tennessee chooses not to expand Medicaid, it will cost some Tennessee businesses hundreds of thousands of dollars in additional federal taxes after 2014.** Here's how.

- The ACA calls for the creation of a competitive health insurance marketplace (sometimes called an “exchange”) in every state by 2014. The exchange is required to have an easy-to-use website that allows consumers to make apples-to-apples comparisons when they shop for health insurance. In the exchange, certain consumers with incomes between 100 and 400 percent of the federal poverty level will be eligible for premium tax credits to help them pay their insurance premiums.
- The ACA does not require businesses to provide health insurance to their workers. Starting in 2014, however, employers with at least 50 full-time employees¹ will face tax penalties if they do not offer affordable insurance to their employees and one or more full-time employees receive a premium tax credit on the exchange.
- The ACA was designed with the expectation that employers would not face penalties for declining to offer health coverage to low-wage workers because these workers would be covered by Medicaid. The Supreme Court decision has undermined this design, allowing states to choose whether to expand their Medicaid programs. If Tennessee does not expand its Medicaid program as anticipated, it subjects employers to tax penalties if their low-wage workers must instead turn to the exchange for health insurance.
- **If Tennessee does expand Medicaid**, employees with incomes between 100 and 138 percent of the federal poverty level (around \$11,000 to \$15,400 per year) would not be eligible for premium tax credits, because they would be eligible for Medicaid. Thus, **businesses that employ low-wage employees would NOT face penalties for failing to offer affordable health insurance to those employees.**
- **If Tennessee does not expand Medicaid**, individuals with incomes between 100 and 138 percent of the federal poverty level might be eligible for premium tax credits in the exchange if their employers do not offer them affordable health coverage. If those employees received premium tax credits, **their employers would be required to pay a penalty.**
- **How much is the penalty?** The formula for calculating penalties varies according to whether the employer offers insurance and, if so, how much that insurance costs the employee. The penalty could be as much as \$3,000 per employee per year. The combined penalties for Tennessee employers could be between \$43 and \$65 million annually or between \$215 and \$325 million over five years.²
- **To find out how much it will cost your business if Tennessee chooses not to expand Medicaid**, see <http://www.shrm.org/hrdisciplines/benefits/Documents/EmployerPenalties.pdf>.

¹ “Full-time employees” are non-seasonal employees working 30 or more hours per week. The hours worked by part-time employees are included in the calculation of a large employer, on a monthly basis, by taking their total number of monthly hours worked divided by 120.

² These figures are derived by applying the penalty calculations explained by the Congressional Research Service at <http://www.shrm.org/hrdisciplines/benefits/Documents/EmployerPenalties.pdf> to Tennessee population, employment, and health insurance data reported by the U.S. Census Bureau Current Population Survey, available at <http://www.census.gov/cps/data/cpstablecreator.html>.