

Office Hours

Mergers and Acquisitions: The Top Five Issues for Health and Welfare Employee Benefits Plans

Audio

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M&A for H&W EB Plans: **The Big Picture**

The ERISA World and the Corporate World Collide

Keeping an Eye on EB in an M&A Process Dominated by Transaction Concerns

- Employee benefits generally do not drive the transaction and are frequently an afterthought as the deal closes
- The corporate world is frequently caught off guard by the complexity of employee benefits law and the prominent employee relations issues caused by the transaction
- In our sphere, it's important to at least highlight the key issues for consideration and prioritize them in terms of focus, budget, and communications
- There are endless potential M&A considerations, but putting these five at the forefront will at least frame the discussion for some of the top-line items

Top Five Employee Benefits M&A Issues for H&W Plans

- 1) **Plan Design:** Keep separate plans? Combine immediately? Combine later?
- 2) **ACA Employer Mandate:** Acquiring an ALE, the A Penalty, and the LBMM (explained)
- 3) **ACA Reporting:** Reporting multiple entities (ALEMs) on the Forms 1094-C and 1095-C
- 4) **COBRA:** Understanding “M&A qualified beneficiaries” and stock vs. asset deals
- 5) **Health FSA:** Terminate seller's FSA or continue for rest of plan year? (pros and cons)

A group of five business professionals (three men and two women) are gathered around a table in a meeting room. They are looking at a laptop screen and appear to be in a collaborative discussion. The room has large windows in the background. The image is dimly lit and has a dark overlay.

#1: Plan Design Issues To Combine Plans?

Plan Design Issues: To Combine, or Not to Combine?

One of the first EB issues to address in any M&A transaction is whether the seller will join the buyer's health and welfare plans—and, if so, when?

Keeping Separate Plans: Less Common

Advantages:

- Seller can remain with benefit plans it is comfortable with and were designed with its population in mind
- Minimizes disruption to employees

Disadvantages:

- Doesn't foster corporate culture goals of uniting together as one business
- Extra administrative work
- Two sets of wrap plan documents, SPDs, SBCs, Forms 5500, communications, renewals, etc.

Combining Plans: More Common

Advantages:

- Helps make the seller's employees feel as though they are part of the new buyer's organization
- Avoids duplicative compliance requirements and administrative work
- Can be delayed until appropriate time (e.g., end of plan year after closing)

Disadvantages:

- Deductible carryovers can be hard to negotiate and administer
- Buyer's plan may not be best fit for seller's employees

Plan Design Issues: The Basic Issues

Buyer Has Complete Control

- Unless provisions in the purchase and sale agreement provide otherwise, the buyer will have total control of if/when the seller's employees will be eligible for the buyer's employee benefits plans
- Buyer could keep seller's employees on their existing plans forever, run the existing benefits through the end of the plan year, move them to the buyer's benefits as of the date of the close (or first of the month following), etc.
 - Standard new hire rules do not apply in the M&A context
 - Buyer can move seller's employees to buyer's plan whenever they see fit

What if It's a Carve-Out or Spin-Off?

- No issue with combined plans if entities remain part of the same controlled group
- Need to notify carriers, update wrap plan document/SPD, address ACA reporting
- Need to separate benefit plans if not in controlled group to avoid MEWA issues

Good Questions at the Outset to Establish the Deal Structure

- 1) Will all of the entities be part of the same controlled group?
- 2) Will the entities maintain separate EINs or be rolled into buyer's EIN?
- 3) If it's a merger or acquisition, is the transaction a stock or asset deal?

Plan Design Issues: Compliance Cleanup After Combining

Don't Forget the Final Form 5500 for Seller's Plan

- The buyer will need to ensure a final Form 5500 is filed for the seller's plan once it is terminated (and the seller's employees move to the buyer's plan)
- This is often overlooked, but Form 5500 penalties are steep!
 - Failure to timely file a Form 5500 penalty is up to \$2,097 per day that the filing is late
 - DFVCP provides a way to avoid penalties in certain situations (for a fee)

Plan Documents

- The ERISA wrap plan document and wrap SPD may include provisions addressing whether related entities are participating employers
- Make sure to review and amend/revise as necessary if seller will retain EIN
- Also confirm with all insurance carriers, stop-loss providers, and TPAs if any action needed to reflect the new participating entity or entities

The Combined Plan: Moving Forward with Multiple EINs

- Often after an M&A transaction the seller will retain its EIN
- Multiple EINs can participate in the same plan benefits, under the same Form 5500, and governed by the same wrap plan document/SPD and policies
 - Form 5500 will list the EIN and name only of the parent entity (the ERISA plan sponsor)
- Key is that all entities are in the same controlled group to avoid MEWA status
- Don't forget ACA employer mandate pay or play and ACA reporting issues for multiple EINs

The MEWA Trap:

Ensuring Controlled Group Status

All entities within an IRC §414 controlled group (regardless of how many EINs exist) may share the same health and welfare plan. Offering coverage to an entity outside the controlled group would create a MEWA—and many thorny problems you want to avoid!

Parent-Subsidiary Group: More Common

A parent-subsidiary controlled group exists when one or more chains of corporations are connected through stock ownership with a common parent corporation; and

- 80 percent of the stock of each corporation (except the common parent) is owned by one or more corporations in the group; and
- Parent Corporation must own 80 percent of at least one other corporation.

Brother-Sister Group: Less Common

A group of two or more corporations, in which five or fewer common owners own directly or indirectly a controlling interest of each group and have “effective control”.

- **Controlling Interest:** Generally means 80% or more of the stock of each corporation (but only if such common owner own stock in each corporation)
- **Effective Control:** Generally more than 50% of the stock of each corporation, but only to the extent such stock ownership is identical with respect to such corporation

The MEWA Trap: Why It Matters

General Overview of Controlled Group Status

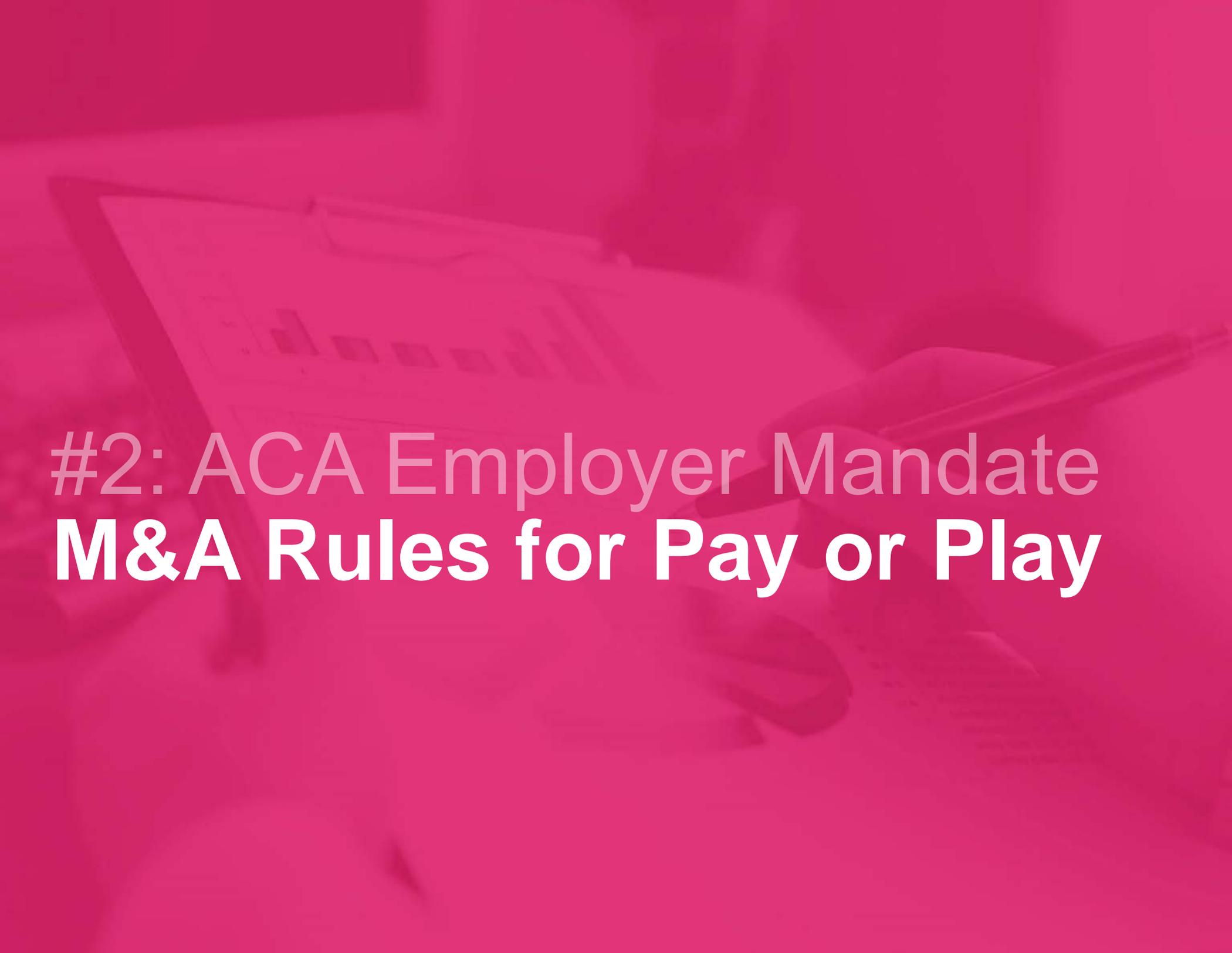
- IRS TE/GE publication provides guidance on controlled and affiliated service groups: <https://www.irs.gov/pub/irs-tege/epchd704.pdf>

MEWAs Subject to Additional Filing Requirements

- MEWAs generally are required to file a Form M-1 with the DOL within 30 days of origination and annually by March 1 of each year
- Plans that fail to file may be subject to penalties of up to \$1,558 per day!
 - Unlike Forms 5500, there is no DFVCP equivalent for late filers of the Form M-1
 - Forms M-1 filings are publicly available here: <https://www.askebsa.dol.gov/epds/>

California (and Other States) Prohibit Self-Insured MEWAs

- MEWAs do not enjoy ERISA preemption from state insurance law
 - Therefore, unlike non-MEWA ERISA group health plans that are self-insured, state insurance law can regulate self-insured MEWAs
- California state insurance law has prohibited the creation of any new self-insured MEWA since 1995
 - See California Insurance Code §742.24(h)

A person's hands are shown holding a pen over a laptop. The laptop screen displays a bar chart with several bars of varying heights. The background is a solid red color.

#2: ACA Employer Mandate **M&A Rules for Pay or Play**

Employer Mandate “Pay or Play”

Applicable Large Employer Status

An employer is an applicable large employer (ALE) in the current year if it employed **(along with all members of its controlled group)** an average of at least 50 full-time employees (including full-time equivalent employees) on business days during the preceding calendar year. For purposes of determining whether an employer is an ALE, the employer must convert part-time employees into full-time equivalents. (Note: Special rules apply for seasonal workers and certain veterans.)

ALE CALCULATION

- **Step 1:** Calculate the number of full-time employees for each calendar month in the preceding calendar year. For purposes of this calculation only, full-time employee means those who worked at least 120 hours of service in a month. (Note that for all other purposes under the pay or play rules, full-time is 130 hours of service per month.)
- **Step 2:** Calculate the number of full-time equivalents for each calendar month in the preceding calendar year as follows:
 - *Step A:* Calculate the aggregate hours of service in a month for employees who are not full-time employees for that month (i.e., did not work at least 120 hours of service in that month).
 - *Step B:* Divide the total hours of service from Step A by 120. The result is the number of full-time equivalent employees for the month.
- **Step 3:** Add the number of full-time employees and full-time equivalents obtained in Steps 1 and 2 for each month of the preceding calendar year.
- **Step 4:** Add up the 12 monthly numbers from Step 3 and divide the sum by 12. This is the average number of full-time employees (including full-time equivalents) for the preceding calendar year.
- **Step 5:** If the number obtained in Step 4 is less than 50, then the employer is not an ALE for the current calendar year. If the number obtained in Step 4 is 50 or more, the employer is an ALE for the current calendar year.

EXAMPLES

- **Example 1:** Employer’s controlled group averaged 43 full-time employees (including full-time equivalents) in 2017.
- **Result 1:** Employer is not an ALE in 2018.
- **What Does Result 1 Mean?:**
 - Employer is not subject to pay or play (no potential §4980H penalties) in 2018
 - Employer is not subject to ACA reporting (§6055/ §6056 via Forms 1094-C and 1095-C) for the 2018 calendar year that is reported at the beginning of 2019. (Note: §6055 reporting via Forms 1094-B and 1095-B will apply if the employer offered a self-insured medical plan.)
- **Example 2:** Employer’s controlled group averaged 55 full-time employees (including full-time equivalents) in 2017.
- **Result 2:** Employer is an ALE in 2018.
- **What Does Result 2 Mean?:**
 - Employer is subject to potential pay or play penalties (under §4980H) in 2018
 - Employer is subject to ACA reporting (§6055/ §6056 via Forms 1094-C and 1095-C) for the 2018 calendar year that is reported at the beginning of 2019.

ACA Employer Mandate: Acquiring a Non-ALE

Overview

- Employers averaging at least 50 full-time employees (including full-time equivalents) **in the entire controlled group (all members!)** over the prior calendar year are an Applicable Large Employer (ALE)
- Means all entities within the employer's controlled group are subject to the ACA employer mandate pay or play rules and the ACA reporting requirements

Subsidiaries and Related Entities

- Subsidiaries and related entities in an ALEs controlled group are referred to as ALE Members (ALEM)
- The controlled group is referred to as an Aggregated ALE Group
 - **Summary: An ALE with multiple EINs in the controlled group is an Aggregated ALE Group consisting of multiple Applicable Large Employer Members**

ALE Acquires Non-ALE Mid-Year

- The seller becomes an ALEM as of close (arguably first of month following close)
- **This means that even if seller maintains its separate EIN, the seller is subject to:**
 - 1) **Potential ACA employer mandate pay or play penalties; and**
 - 2) **ACA reporting for the seller's employees.**

The ACA's Employer Mandate "Pay or Play" §4980H Penalties

§4980H(a)—The "A Penalty"

Aka: The "Sledge Hammer Penalty"

- **Each member's failure to offer MEC to at least 95% of that member's full-time employees (and their children to age 26) in 2016 and beyond**
- The A Penalty is triggered by at least one such full-time employee who is not offered MEC enrolling in subsidized exchange coverage
- **2018 A Penalty liability is \$2,320 annualized (\$193.33/month) multiplied by all full-time employees**
 - 30 full-time employee reduction from multiplier in 2016 and beyond
 - **Reduction is based on the member's allocable share of 30 on basis of its number of full-time employees**

§4980H(b)—The "B Penalty"

Aka: The "Tack Hammer Penalty"

- Applies where the employer is not subject to the A penalty
- **Failure to:**
 - 1) Offer coverage that's affordable**
 - 2) Offer coverage that provides MV**
 - 3) Offer MEC to a full-time employee (where the employer has still offered at a sufficient percentage to avoid A Penalty liability)**
- The B Penalty is triggered by any such full-time employee enrolling in subsidized exchange coverage
- **2018 B Penalty liability is \$3,480 annualized (\$290/month) multiplied by each such full-time employee who enrolls in subsidized exchange coverage**
 - Note that although the B Penalty amount is higher (\$3,480 vs. \$2,320), the multiplier is generally much lower
 - The multiplier is only those full-time employees not offered affordable/minimum value coverage who enroll in subsidized exchange coverage—not all full-time employees

ACA Employer Mandate: The A Penalty with Multiple Entities

Treas. Reg. §54.4980H-4(a):

- **(a) In general.** If an **applicable large employer member** fails to offer to its full-time employees (and their dependents) the opportunity to enroll in minimum essential coverage under an eligible employer-sponsored plan for any calendar month, and the applicable large employer member has received a Section 1411 Certification with respect to at least one full-time employee, an assessable payment is imposed. ... For purposes of this paragraph (a), **an applicable large employer member** is treated as offering such coverage to its full-time employees (and their dependents) for a calendar month if, for that month, it offers such coverage to all but five percent (or, if greater, five) of its full-time employees...

Treas. Reg. §54.4980H-4(e):

- **(e) Allocated reduction of 30 full-time employees.** For purposes of the liability calculation under paragraph (a) of this section, with respect to each calendar month, **an applicable large employer member's number of full-time employees is reduced by that member's allocable share of 30.** The applicable large employer member's allocation is equal to 30 allocated ratably among all members of the applicable large employer on the basis of the number of full-time employees employed by each applicable large employer member during the calendar month ... If an applicable large employer member's total allocation is not a whole number, the allocation is rounded to the next highest whole number. This rounding rule may result in the aggregate reduction for the entire group of applicable large employer members exceeding 30.

ACA Employer Mandate: The A Penalty with Multiple Entities

What Does it Mean?

- ALE status is an aggregated count among all members of the controlled group, but “A Penalty” calculations are siloed to each specific member (ALEM)
- If you acquire a new entity and preserve its separate entity status (generally its separate EIN) within the controlled group, the A Penalty will apply separately to that entity (ALEM)
- Means the 95% test for the A Penalty applies to each ALEM independently
- If any ALEM fails to offer coverage to at least 95% of that ALEM’s full-time employees, the A Penalty applies to that ALEM
- The A Penalty calculation is based only on the full-time employees of that ALEM
- The 30-employee reduction will be a proportional amount based on ALEM size

Example

- ALE Big Co. (1,000 EEs) acquires non-ALE Lil’ Co. (40 EEs)
- Big Co. and Lil’ Co. keep separate EINs and separate corporate entities

Result

- Lil’ Co. becomes an ALEM subject to employer mandate as of the close
- If Lil’ Co. fails to offer coverage to at least 95% of Lil Co.’s full-time employees in any subsequent month, Lil’ Co. will be subject the an A Penalty based only on the number of Lil’ Co.’s full-time employees (Big Co.’s full-time employees are not part of calculation)
- 30 employee reduction will be a small proportional amount (in relation to overall controlled group number of employees, which is dominated by Big Co.)

Look-Back Measurement Method

M&A Complications:



THERE ARE TWO DIFFERENT MEASUREMENT METHODS!

- ALEs subject to the ACA pay or play rules generally may apply either measurement method to determine employees' full-time status:
 - The Monthly Measurement Method (MMM); or
 - The Look-Back Measurement Method (LBMM)
- These slides primarily address the LBMM because of the complications
- However, you may utilize the MMM and avoid much of this!
- See here for full details on the pros/cons of each measurement method depending on your situation: <http://www.theabdteam.com/blog/the-dark-side-of-the-aca-health-information-reporting-industry/>

Look-Back Measurement Method: M&A Complications

IRS Notice 2014-49 Provides Transitional Guidance

- <https://www.irs.gov/pub/irs-drop/n-14-49.pdf>
- IRS says we can rely on the notice “until further guidance is issued”

The Problem: Different Measurement Periods

- Big Co.’s plan year is July 1, and Medium’ Co.’s plan is calendar year
- When Big Co. acquires Medium Co., what measurement and stability periods apply for Medium Co.’s employees?
 - Medium Co. was an ALE with 150 employees prior to the deal, and therefore it already had its own measurement, administrative, and stability periods established

Seller’s Ongoing Employees in a Stability Period

- The employee’s status as full-time or part-time remains in effect until the end of that stability period
- At the end of the seller’s stability period, the buyer’s stability period applies
 - You include hours of service from the employee’s time with the seller prior to the deal

Seller’s New Employees NOT in a Stability Period

- Employee’s status as a full-time or part time employee is determined solely under the buyer’s measurement and stability periods
 - Would apply to new variable, seasonal, or part-time employees in an initial measurement period

Look-Back Measurement Method: M&A Complications

Ongoing Employees Example

- Big Co.'s plan year (and stability period) is July 1, and Medium' Co.'s plan is calendar year
- Both Big Co. and Medium Co. use the look-back measurement method
- Medium Co. has 100+ ongoing full-time employees (those who have completed a full standard measurement period and are currently in the stability period as full-time)
- **Big. Co acquires Medium Co as of August 15, 2018**

The Issue: Moving to Big Co.'s Measurement/Stability Period

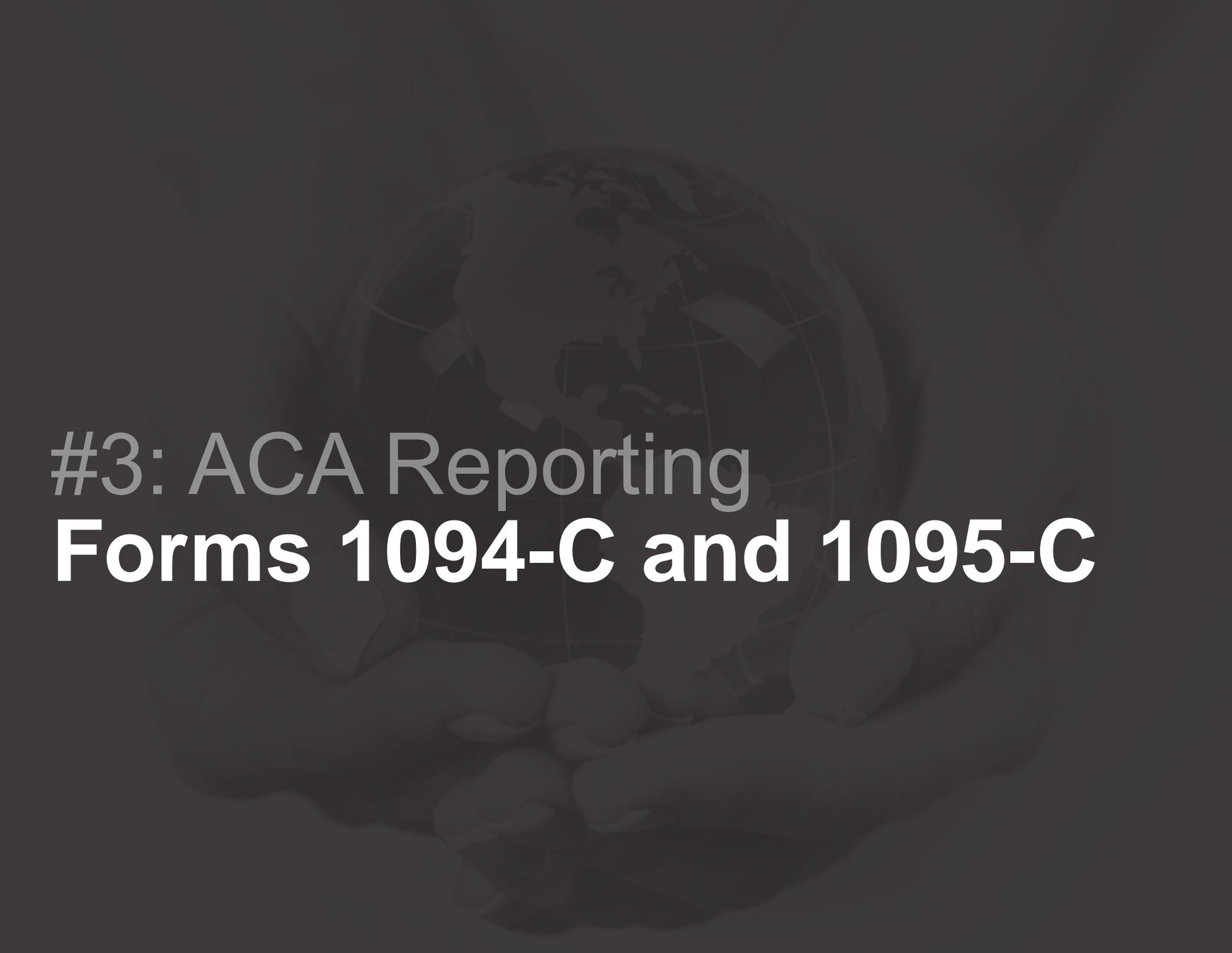
- Medium Co.'s stability period runs from January 1, 2018 through December 31, 2018
- Big Co. just started a stability period from July 1, 2018 through June 30, 2019

Result Through End of 2018 (End of Medium Co.'s Stability Period as of Deal Closing)

- For the period of August 15, 2018 through December 31, 2018, Medium Co.'s 100+ ongoing full-time employees retain their status as full-time (i.e., they remain locked into full-time status through end of Medium Co.'s existing stability period at the time of the close)
- Medium Co.'s part-time employees will also remain part-time through December 31, 2018

Result in 2019 (After Medium Co.'s Stability Period Ends)

- Medium Co.'s employees' full-time status is determined under the Big Co. measurement period
- Big Co.'s most recently completed measurement period ran May 1, 2017 through April 30, 2018
- Medium Co.'s employees who worked full-time for that Big Co. measurement period are full-time for the remainder of the Big Co. stability period (January, 1 2019 through June 30, 2019)
- After June 30, 2019, Medium Co.'s employees are fully transitioned to Big Co.'s measurement period



#3: ACA Reporting
Forms 1094-C and 1095-C

ACA Reporting: Multiple Entities

Separate Forms 1094-C for Each ALEM

- Where an M&A transaction results in the ALE having multiple corporate entities in the controlled group, it creates an Aggregated ALE Group
- Each Applicable Large Employer Member (ALEM) in that group (generally each subsidiary or related entity in the controlled group that maintains a separate EIN) must file a separate Form 1094-C
- Required because each ALEM is separately subject to the “A Penalty” analysis

Required Entries for Each ALEM on the Form 1094-C

- **Part II, Line 21:** Answer “Yes” to question “Is ALE Member a member of an Aggregated ALE Group?”
- **Part III, Column D:** For each month in which the controlled group existed, the “Aggregated Group Indicator” box will be checked
- **Part IV:** This section will be completed listing the names of the other related entities in the controlled group (the other ALEMs) and their EINs

Forms 1095-C Tied to Each ALEM

- Employees of each ALEM must receive a Form 1095-C with that ALEM’s name/EIN (cannot simply use the parent EIN for all Forms 1095-C)
- If an employee works for more than one ALEM in any month, the ALEM for whom the employee worked the most hours of service will report as the employer

ACA Reporting: Multiple Entities

Form 1094-C		Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns		<input type="checkbox"/> CORRECTED	OMB No. 1545-2251
Department of the Treasury Internal Revenue Service		▶ Go to www.irs.gov/Form1094C for instructions and the latest information.		2017	
Part I Applicable Large Employer Member (ALE Member)					
1 Name of ALE Member (Employer)			2 Employer identification number (EIN)		
3 Street address (including room or suite no.)					
4 City or town		5 State or province		6 Country and ZIP or foreign postal code	
7 Name of person to contact			8 Contact telephone number		
9 Name of Designated Government Entity (only if applicable)			10 Employer identification number (EIN)		
11 Street address (including room or suite no.)					
12 City or town		13 State or province		14 Country and ZIP or foreign postal code	
15 Name of person to contact			16 Contact telephone number		
17 Reserved <input type="checkbox"/>					
18 Total number of Forms 1095-C submitted with this transmittal ▶					
19 Is this the authoritative transmittal for this ALE Member? If "Yes," check the box and continue. If "No," see instructions <input type="checkbox"/>					
Part II ALE Member Information					
20 Total number of Forms 1095-C filed by and/or on behalf of ALE Member ▶					
21 Is ALE Member a member of an Aggregated ALE Group? <input type="checkbox"/> Yes <input type="checkbox"/> No					
If "No," do not complete Part IV.					
22 Certifications of Eligibility (select all that apply):					
<input type="checkbox"/> A. Qualifying Offer Method		<input type="checkbox"/> B. Reserved		<input type="checkbox"/> C. Reserved	
<input type="checkbox"/> D. 98% Offer Method					
Under penalties of perjury, I declare that I have examined this return and accompanying documents, and to the best of my knowledge and belief, they are true, correct, and complete.					
Signature		Title		Date	
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.		Cat. No. 61571A		Form 1094-C (2017)	

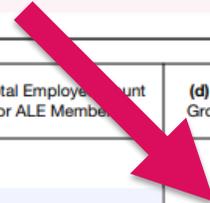


ACA Reporting: Multiple Entities

Form 1094-C (2017)

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		(a) Minimum Essential Coverage Offer Indicator		(b) Section 4980H Full-Time Employee Count for ALE Member	(c) Total Employee Count for ALE Member	(d) Aggregated Group Indicator	(e) Reserved
		Yes	No				
23	All 12 Months	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
24	Jan	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
25	Feb	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
26	Mar	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
27	Apr	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
28	May	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
29	June	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
30	July	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
31	Aug	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
32	Sept	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
33	Oct	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
34	Nov	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
35	Dec	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	



Form **1094-C** (2017)

ACA Reporting: Multiple Entities

Form 1094-C (2017)

Page **3**

Part IV Other ALE Members of Aggregated ALE Group

Enter the names and EINs of Other ALE Members of the Aggregated ALE Group (who were members at any time during the calendar year).

Name	EIN	Name	EIN
36		51	
37		52	
38		53	
39		54	
40		55	
41		56	
42		57	
43		58	
44		59	
45		60	
46		61	
47		62	
48		63	
49		64	
50		65	

Form **1094-C** (2017)

ACA Reporting: Multiple Entities

Form 1095-C
Department of the Treasury
Internal Revenue Service

Employer-Provided Health Insurance Offer and Coverage
Do not attach to your tax return. Keep for your records.
Go to www.irs.gov/Form1095C for instructions and the latest information.

VOID
 CORRECTED

OMB No. 1545-2251
2017

Part I Employee **Applicable Large Employer Member (Employer)**

1 Name of employee		2 Social security number (SSN)		7 Name of employer		8 Employer identification number (EIN)					
3 Street address (including apartment no.)				9 Street address (including room or suite no.)				10 Contact telephone number			
4 City or town		5 State or province		6 Country and ZIP or foreign postal code		11 City or town		12 State or province		13 Country and ZIP or foreign postal code	

Part II Employee Offer of Coverage **Plan Start Month (Enter 2-digit number):**

	All 12 Months	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
14 Offer of Coverage (enter required code)													
15 Employee Required Contribution (see instructions)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
16 Section 4980H Safe Harbor and Other Relief (enter code, if applicable)													

Part III Covered Individuals
If Employer provided self-insured coverage, check the box and enter the information for each individual enrolled in coverage, including the employee.

(a) Name of covered individual(s)	(b) SSN or other TIN	(c) DOB (If SSN or other TIN is not available)	(d) Covered all 12 months	(e) Months of Coverage											
				Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
17			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 60705M Form **1095-C** (2017)



#4: COBRA

M&A Qualified Beneficiaries

COBRA M&A Qualified Beneficiaries: Stock Deal

General Rule

- If the selling group ceases to provide any group health plan to any employee (and the termination of the seller's plan was in connection with the sale), the buyer's group health plan is liable for the COBRA coverage
- The buyer's group health plan has the obligation to make COBRA continuation coverage available to all M&A qualified beneficiaries with respect to that stock sale

Definition of a Stock Deal

- "A stock sale is a transfer of stock in a corporation that causes the corporation to become a different employer or a member of a different employer."
- Continuing employees do not terminate from employment in a stock deal

M&A Qualified Beneficiaries

- Any COBRA participant whose qualifying event occurred prior to or in connection with the sale (and whose last employment was with the seller)

M&A Qualified Beneficiaries Include:

- COBRA participants already receiving COBRA coverage with seller's plan before the deal (i.e., existing COBRA qualified beneficiaries); and
- Individuals who lose coverage under the seller's plan in connection with the deal (i.e., seller's employees who do not continue employment upon the acquisition by the buyer)

COBRA M&A Qualified Beneficiaries: Stock Deal

Buyer's Obligation to Offer COBRA If Seller Terminates Plan

- The buyer's plan has the obligation to offer COBRA to all of the M&A qualified beneficiaries as of the later of:
 - 1) The date the seller group ceases to provide a group health plan; or
 - 2) The date of the stock sale

Example (Easy)

- Big Co. (1,000 EEs) acquires Medium Co. (150 EEs) as of July 1, 2018
- Medium Co.'s group health plan terminates as of the close
- At the time of the sale, Medium Co. has 14 COBRA qualified beneficiaries (whose qualifying event occurred with Medium Co.)
- Big Co. terminates 25 of Medium Co.'s employees in connection with the sale

Result

- The 14 existing COBRA participants under the Medium Co. plan are M&A qualified beneficiaries **with the right to continue the remainder of their COBRA maximum coverage period under the Big Co. group health plan as of July 1**
- The 25 Medium Co. employees who terminate employment in connection with the sale are also M&A qualified beneficiaries **with the right to the full 18-month maximum coverage period under the Big Co. group health plan**
- The Medium Co. employees who continue employment are not M&A qualified beneficiaries (they have no COBRA qualifying event)

COBRA M&A Qualified Beneficiaries: Stock Deal

Example (Hard)

- Medium Co. is part of a controlled group with Other Co.
- Medium Co. and Other Co. both sponsor separate group health plans
- Big Co. acquires Medium Co. (but not Other Co.) as of July 1, 2018
- Medium Co.'s group health plan continues after the close
- At the time of the sale, Medium Co. has 14 COBRA qualified beneficiaries (whose qualifying event occurred with Medium Co.)
- Big Co. terminates 25 of Medium Co.'s employees in connection with the sale

Result

- The 39 M&A qualified beneficiaries (14 existing and 25 terminated upon close) have the right to COBRA under Other Co.'s group health plan
- Even though Medium Co. still maintains its plan, and even though Medium Co.'s employees were never eligible for Other Co.'s plan
- Reason is that Other Co. is part of the seller group and continues to maintain its plan
- Very weird result!

How to Avoid that Weird Result

- As part of the deal, the Medium Co. and Other Co. group could negotiate with Big Co. to have Medium Co.'s plan be responsible for COBRA for all M&A qualified beneficiaries
- This would mean that Other Co.'s plan is not required to offer COBRA to the M&A qualified beneficiaries (unless Medium Co. fails to fulfill its contractual responsibility to offer COBRA)

COBRA M&A Qualified Beneficiaries: Asset Deal

Definition of an Asset Deal

- “An asset sale is a transfer of substantial assets, such as a plant or division or substantially all the assets of a trade or business.”
- Continuing employees are terminated from employment and rehired by the buyer

Buyer Group Obligated to Provide COBRA if Successor Employer

- In an asset sale, the group health plan of the buying group is obligated to make COBRA available to M&A qualified beneficiaries if it is a “successor employer”
- Buyer is a “successor employer” if:
 - 1) The seller ceases to provide any group health plan to any employee;
 - 2) The cessation occurs in connection with the sale; and
 - 3) The buying group continues the business operations associated with the assets without interruption or substantial change

Successor Employer COBRA Timing

- The successor employer’s group health plan has the obligation to offer COBRA to all of the M&A qualified beneficiaries as of the later of:
 - 1) The date the seller group ceases to provide a group health plan; or
 - 2) The date of the asset sale

COBRA M&A Qualified Beneficiaries: Asset Deal

M&A Qualified Beneficiaries

- Any COBRA participant whose qualifying event occurred prior to or in connection with the assets being sold (and whose last employment was with the seller)

M&A Qualified Beneficiaries Include:

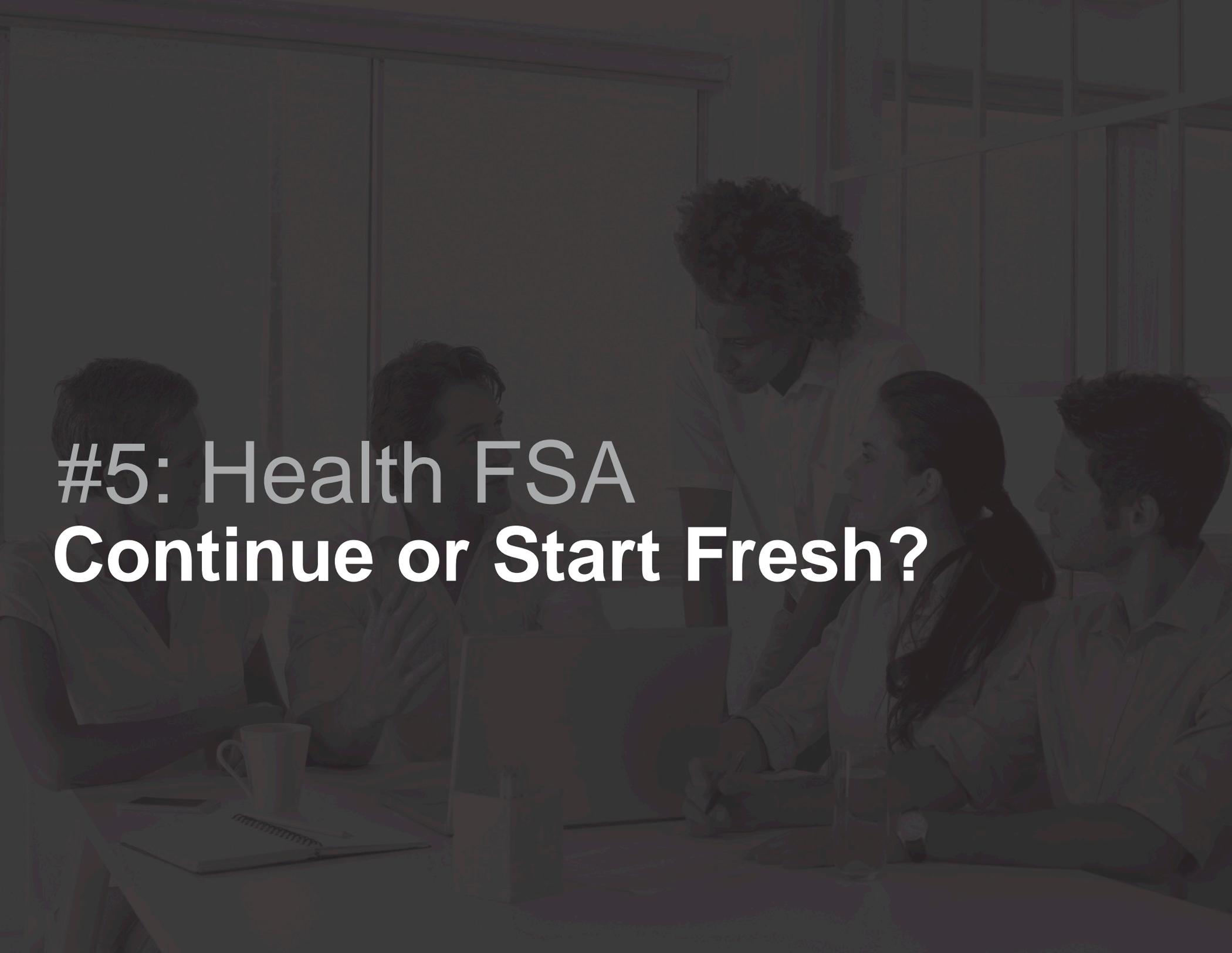
- COBRA participants already receiving COBRA coverage with seller's plan before the asset sale (i.e., existing COBRA qualified beneficiaries); and
- Individuals who lose coverage under the seller's plan in connection with the deal (i.e., seller's employees who do not continue employment upon the acquisition by the buyer)

No Qualifying Event Where Rehired By Successor Employer

- In an asset sale, continuing employees are terminated from employment with seller and rehired by the buyer
- The termination of employment is not a qualifying event if the buyer is a successor employer and the covered employee is employed by the buyer immediately after the sale

Asset Sales in Connection with Bankruptcy Proceedings

- An employer who purchases assets in sale that occurs in connection with a bankruptcy under Title 11 can still be a successor employer required to offer COBRA to all M&A qualified beneficiaries
- Many employers don't consider this in a bankruptcy situation



**#5: Health FSA
Continue or Start Fresh?**

Health FSA in M&A: Two Options for Seller's FSA

Buyer Has Two Options to Address the Seller's FSA

- 1) Terminate the Seller's FSA; or
- 2) Continue Seller's Health FSA Coverage Through End of Plan Year

Option 1: Terminate the Seller's Health FSA

- Default approach is to terminate the seller's health FSA as of the day prior to the closing
- Then the employees who continue with buyer become eligible under buyer's health FSA as of the date of the close

Advantage

- Employee can make a new election under buyer's health FSA for the remainder of the plan year (because they lost coverage under the seller's health FSA)
- Provides employees the opportunity to elect another full \$2,650 (2018 limit) under buyer's health FSA for the remainder of the plan year

Disadvantage

- **Terminating seller's health FSA will likely result in many employees forfeiting contributions**
- Employees will have no ability to submit claims for seller's FSA that are incurred after the date of termination (generally will have a run-out period after termination)

Health FSA in M&A: Two Options for Seller's FSA

Option 2: Continue Health FSA Coverage Through End of Plan Year

- This is the alternative approach to plan termination in Option 1
- Allows the buyer to continue the seller's health FSA through the rest of the plan year in which the deal occurs

Approach #1

Coverage Under Seller's Health FSA with Salary Reductions Through Buyer:

- The parties may agree to have the seller's employees continue to participate in the seller's health FSA through the end of the plan year in which the deal closes
- Buyer is responsible for taking employee contributions after the deal closes

Approach #2

Coverage and Salary Reductions Under Buyer's Health FSA:

- Buyer may amend its health FSA cover the seller's employees under buyer's health FSA for the remainder of the plan year in which the deal closes
- Seller's existing FSA elections and balances are rolled over to the buyer's health FSA
- Seller's employees submit all claims to the buyer's FSA (even those incurred prior to the deal but not yet reimbursed)

Disadvantage

- No mid-year election change permitted under the health FSA because no eligibility loss
- Employees therefore remain subject to their existing health FSA elections

Health FSA in M&A: Summary of Options

Although we have formal IRS guidance addressing these options only in the context of an asset deal (IRS Revenue Ruling 2002-32), the IRS has informally stated that they should also apply in a stock deal. There are pros and cons to each approach.

Option 1:

Terminate Seller's Health FSA

Terminate the seller's health FSA prior to closing

- Provide a run-out period for employees to submit claims incurred prior to the termination (typically 30-90 days)
- No claims incurred after the closing are eligible for reimbursement
- Likely will result in some employee forfeitures of contributions
- Employee gets a fresh election opportunity with buyer's health FSA

Option 2:

Continue Health FSA Coverage Through the End of the Plan Year

Continue elections and balances from the seller's health FSA through the buyer

- **Through Seller's FSA:** Seller's FSA may be continued through the end of the plan year, with buyer responsible for taking contributions after the close
- **Through Buyer's FSA:** Seller's existing FSA elections and balances can be rolled over to the buyer's amended health FSA
- Employees remain subject to their health FSA election under seller
- Generally still preferred to avoid forfeitures



Wrap Up **Takeaways**

Mergers and Acquisitions: Top Five Issues for H&W Plans

Note: This presentation does not address all aspects of M&A issues for H&W plans, nor does it address the due diligence process leading up to the deal. The employer's in-house or outside counsel is typically involved in a M&A situation.

1

Plan Design Issues

- Keep plans separate or move seller's employees to buyer's plan?
- Buyer has complete control of this decision and process

Other Issues:

- *Remember the final Form 5500 if terminating seller's plan*
- *Review plan documents and SPDs to update as needed*
- *Avoid creating a MEWA!*

2

ACA Employer Mandate

- ALE status is determined by full-time employee count in entire controlled group
- Acquiring a non-ALE will trigger many new ACA requirements as of the close
- Penalties are determined on an entity-by-entity basis within controlled group
- The look-back measurement method adds higher level of complexity

3

ACA Reporting

- Each ALEM within the Aggregated ALE Group must file a Form 1094-C
- Form 1094-C needs to reflect controlled group status and list other entities
- The Forms 1095-C for full-time employees are tied to each ALEM separately

Mergers and Acquisitions: Top Five Issues for H&W Plans

Note: This presentation does not address all aspects of M&A issues for H&W plans, nor does it address the due diligence process leading up to the deal. The employer's in-house or outside counsel is typically involved in a M&A situation.

4

COBRA M&A Qualified Beneficiaries

- Rules differ slightly depending on whether the deal is a stock or asset sale
- Buyer generally has to offer COBRA to M&A qualified beneficiaries
- Includes those on COBRA prior to deal and as a result of the deal

Key Reminders:

- *Stock deals are more complex where the seller is part of controlled group*
- *Asset deal rules apply to “successor employers” (even in bankruptcy)*

5

Health FSA in M&A

- Two general approaches to handling the health FSA:
 - *Terminate the seller's health FSA; or*
 - *Continue health FSA coverage through the end of the plan year*
- Plan termination offers ability to make new elections, but comes at the expense of likely plan forfeitures from the seller's FSA (and unhappy employees)
- Continuation of the health FSA is generally the preferred approach
 - *Can be under seller's health FSA or elections/balances rolled to buyer's*
 - *IRS guidance doesn't officially address this option for stock deals, but informally they have suggested the same approach should be available*

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Mergers and Acquisitions

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Thank you!

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