

Rules to Determine Full Time Equivalent (FTE) Employees

Due to the changes being brought about within the “Affordable Care Act,” large employers will be required to provide “affordable” health insurance coverage that meets “minimum value” to employees.

The IRS has proposed regulations to clarify how employers can determine the number of full-time equivalent (FTE) employees to see if they are in compliance with the employer responsibility obligation under the health care law.

A full time employee is defined as an employee who is employed an average of at least 30 hours of per week. The proposed rule states that a FTE employee working **130 hours in a calendar month satisfies the 30 hours of work per week requirement.** The regulations prescribe three different methods to determine whether a non-hourly employee qualifies:

1. Counting actual hours of service.
2. Using a days-worked equivalency, in which eight hours of service counts as a day.
3. Using a weeks-worked equivalency, in which 40 hours of service per week counts as a week.

Companies can apply the methods to different classifications of non-hourly employees, as long as it is done consistently and does not understate their hours in service so as to disqualify them from health coverage.

For part-time employees (those working less than 30 hours a week or 130 hours a month on average) an employer must also include them into the calculation to determine whether or not they are a large employer and therefore subject to the employer mandate. This is done by:

1. Taking the total hours worked by all part-time employees in any given month
2. Dividing that total by 120.
3. The result of this equation is the number of full time equivalent employees or FTEs
4. The FTEs then must be added back to the full time employee count to determine whether or not you are defined as a large employer.

Employers then average their number of employees across the months in the year to see whether they meet the large employer threshold. The averaging can take account of fluctuations that many employers may experience in their work force across the year.

Employers will determine each year, based on their current number of employees, whether they will be considered a large employer for the next year. For more information:

<https://www.irs.gov/Affordable-Care-Act/Employers/Questions-and-Answers-on-Employer-Shared-Responsibility-Provisions-Under-the-Affordable-Care-Act>

