EMPLOYER BENEFITS COMPLIANCE READINESS GUIDE

A practical field guide to Section 125, ACA employer responsibilities, documentation and IRS response-readiness

Prepared for employers, HR teams, payroll professionals, benefits professionals and Nexus125™ course enrollees

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A MESSAGE FROM THE FOUNDER

Compliance readiness starts before a notice arrives.

After decades of guiding small businesses and large organizations—and drawing on corporate director-level leadership in regulated insurance and healthcare—I created Nexus125™ to address an urgent concern: too many employers do not fully understand how ACA and Section 125 responsibilities can affect payroll, documentation, employee decisions and the bottom line.

Today, I serve organizations as a Fractional Employee Benefits & Compliance Executive, bringing executive-level benefits strategy and compliance-readiness leadership without requiring a full-time executive position. This guide helps employers and benefits professionals recognize the questions that should be asked, the records that should be maintained and the professional partners who may need to be involved. The goal is not fear—it is informed, organized action.

The Nexus125™ approach

Connect the plan document, payroll process, enrollment evidence, employee communications and annual review. A compliance file is strongest when these pieces agree.

Use this guide as a conversation starter, an annual review companion and a course-enrollment reference. Mark the checklists, identify open questions and assign clear ownership.

— Debbie Kaglear, M.Th.
Founder & Fractional Employee Benefits & Compliance Executive

HOW TO USE THIS GUIDE

A readiness tool—not a substitute for counsel.

This e-book is organized around the practical issues that repeatedly surface in employer benefit administration. Each section gives you a plain-language framework, questions to discuss and records to locate.

- Employers and HR teams: use the checklists during annual planning and enrollment preparation.
- Payroll professionals: use the coordination questions to identify gaps between elections, deductions and plan terms.
- Insurance and benefits professionals: use the framework to strengthen discovery and referral conversations.
- Course enrollees: use the guide to connect the curriculum to employer-facing situations.

Professional scope

Nexus125™ provides professional education, benefits strategy, compliance-readiness guidance and fractional executive support. It does not provide legal or tax advice, guarantee compliance, represent clients before the IRS, or replace qualified ERISA counsel, tax advisers, carriers, TPAs, payroll providers or other licensed professionals.

Quick navigation

ACA readiness • MEC and Minimum Value • Section 125 • employer and employee ramifications • documentation • IRS letters • annual calendar • employer checklist • adviser conversation guide

THE BUSINESS CASE

Benefits compliance is an operating system.

Compliance is not a single form completed once a year. It is the alignment of workforce data, eligibility rules, plan terms, coverage offers, employee elections, payroll deductions, notices and reporting.

Where gaps commonly occur

- The written plan document does not match actual payroll or enrollment practices.
- Waivers or declinations are incomplete, inconsistent or difficult to retrieve.
- Full-time status and employer-size calculations are not reviewed early enough.
- MEC, Minimum Value and affordability are treated as interchangeable concepts.
- The employer cannot quickly reconcile Forms 1094-C/1095-C with employee-level records.
- An IRS letter reaches the wrong person or sits unanswered while a response deadline runs.

Bottom-line urgency

A gap can create payroll corrections, employee confusion, tax consequences, reporting problems, professional fees and potential government correspondence. The cost of preparation is usually easier to manage than the cost of reconstruction.

ACA EMPLOYER RESPONSIBILITY

Start with employer size and workforce facts.

The ACA employer shared responsibility provisions generally apply to Applicable Large Employers (ALEs). ALE status is based on the prior calendar year and considers full-time employees together with full-time-equivalent employees under applicable rules.

Readiness questions

- ☐ Who owns the annual ALE-status calculation?
- ☐ Are controlled-group or common-ownership relationships reviewed with qualified counsel or tax advisers?
- ☐ How are full-time employees and variable-hour employees tracked?
- ☐ Which measurement method is used, and is it administered consistently?
- ☐ Who confirms the months in which an offer of coverage was made?
- ☐ Who reconciles payroll, enrollment and ACA reporting data before filing?

Do not wait until filing season

Employer-size, eligibility and offer-of-coverage decisions begin much earlier. Establish ownership, data sources and review dates before year-end.

THREE DISTINCT STANDARDS

MEC, Minimum Value and affordability are not the same.

STANDARD	WHAT IT ADDRESSES	WHY IT MATTERS
MEC	Whether coverage qualifies as Minimum Essential Coverage.	Relevant to offer and enrollment records, reporting and employee coverage history.
Minimum Value	Whether the plan meets the applicable plan-value standard and includes substantial inpatient and physician coverage.	A separate component in evaluating an employer's coverage strategy.
Affordability	Whether the required employee contribution meets an applicable affordability test or safe harbor.	Must be evaluated for the correct year using current thresholds and plan facts.

A common mistake

Describing a plan as "ACA compliant" without separately evaluating employer status, eligibility, offer strategy, MEC, Minimum Value, affordability, reporting and documentation.

SECTION 125 CAFETERIA PLANS

Pre-tax payroll requires a written, administered framework.

A Section 125 cafeteria plan permits eligible employees to choose between taxable compensation and qualified benefits under a written plan. Common arrangements include a Premium Only Plan (POP), health Flexible Spending Arrangement (FSA) and Dependent Care Assistance Program (DCAP).

The four-way alignment

Plan terms

The written document identifies eligibility, benefits, elections, plan year and administrative rules.

Employee elections

Enrollment and change records support the employee's authorized choice.

Payroll

Deductions, timing and tax treatment match the election and written terms.

Administration

Changes, corrections, testing and record retention follow a consistent process.

Section 125 can be a strategic employer tool, but tax-favored treatment depends on meeting applicable requirements and administering the arrangement as written.

RAMIFICATIONS

Employer and employee outcomes are connected.

For employers

- Potential exposure under employer shared responsibility provisions when applicable requirements are not met.
- Payroll and employment-tax consequences if pre-tax deductions are not supported by an eligible, properly administered arrangement.
- Operational cost when records must be reconstructed after an employee complaint, audit or IRS notice.
- Employee-relations risk when plan communications, payroll and actual coverage do not agree.

For employees

- The employer's coverage offer may affect Marketplace options and possible premium tax credit eligibility.
- Pre-tax elections can be subject to plan-year and permitted-change rules.
- Incomplete waiver or enrollment information can create confusion about the employee's actual decision.
- Payroll errors can affect take-home pay, coverage status and year-end tax information.

Educate before enrollment

Employees should receive clear, timely information about the benefits offered, contribution requirements, election deadlines, waiver consequences and whom to contact with questions.

THE DEFENSIBLE FILE

If it was not retained, it may be difficult to prove.

Core document categories

- ☐ Current signed or adopted plan documents and amendments
- ☐ Summary Plan Description and required participant disclosures, as applicable
- ☐ Eligibility rules, census data and full-time-status workpapers
- ☐ Employee enrollment elections, medical-plan waivers and permitted-change records
- ☐ Payroll deduction reports and correction documentation
- ☐ Carrier, TPA and payroll implementation records
- ☐ Nondiscrimination testing results and follow-up, as applicable
- ☐ ACA affordability and offer-of-coverage workpapers
- ☐ Forms 1094-C and 1095-C with reconciliation support, when applicable
- ☐ Government correspondence, delivery dates, response files and professional advice

Retention is a process

Assign a record owner, a secure location, a naming convention, an access rule and a retention schedule. Avoid placing Social Security numbers or medical details in general-purpose folders.

MEDICAL-PLAN WAIVERS

Document the decision without overcollecting sensitive data.

A waiver or declination form can help document that an eligible employee was offered coverage and chose not to enroll. The form should be reviewed for the employer's specific plan, reporting obligations and state requirements.

Common fields to consider

- Employee name or internal identifier
- Coverage period or plan year
- Coverage tier declined
- Reason categories, when appropriate and lawfully collected
- Acknowledgment that declining coverage may have consequences
- Employee signature and date or auditable electronic acceptance
- Employer receipt date and authorized reviewer
- Instructions for questions or permitted midyear changes

Privacy reminder

Collect only information needed for administration. Store health, dependent and identifying data using appropriate privacy and security controls.

IRS CORRESPONDENCE

Letter 226J requires organized, deadline-driven review.

IRS Letter 226J is the initial communication advising an Applicable Large Employer that it may owe an Employer Shared Responsibility Payment. The proposed amount is based on employer reporting and information associated with employees who received a premium tax credit.

First-response protocol

1. Date-stamp the letter and preserve the complete envelope and attachments.
2. Identify the response date and the IRS contact information shown in the letter.
3. Notify the designated internal owner and qualified professional advisers immediately.
4. Do not assume the proposed amount is final—and do not ignore the letter.
5. Reconcile employee-month data, Forms 1094-C/1095-C, coverage offers, affordability workpapers, enrollment and waiver records.
6. Prepare the response under the direction of the appropriate authorized professional.
7. Retain the submitted response, proof of delivery and subsequent Letter 227 correspondence.

Timing matters

IRS guidance states that a Letter 226J response is generally due by the date shown in the letter, commonly 30 days from the letter date. Follow the actual notice and obtain qualified assistance promptly.

ANNUAL READINESS CALENDAR

Make compliance review part of the business rhythm.

TIMING	READINESS ACTIONS
90–120 days before renewal	Confirm plan changes, contribution strategy, affordability review, vendors, notices and document amendments.
Before open enrollment	Validate employee communications, eligibility files, enrollment workflow, waivers and payroll mapping.
Immediately after enrollment	Reconcile carrier enrollment, elections, waivers and payroll deductions; document corrections.
Quarterly	Review new hires, status changes, permitted election changes, vendor issues and record completeness.
Before ACA filing	Reconcile workforce, offer, enrollment, affordability and payroll data; document review and approval.
After filing	Retain accepted filings, correction records and employee delivery evidence; monitor correspondence.

EMPLOYER READINESS SCORECARD

Can your team answer “yes” today?

☐	We know whether the organization is an ALE and retain the supporting calculation.
☐	We separately evaluate MEC, Minimum Value and affordability.
☐	Our written benefit documents match current eligibility and payroll practices.
☐	We can retrieve employee elections, waivers and coverage-offer evidence.
☐	Payroll deductions are reconciled to authorized elections.
☐	We have assigned owners for ACA reporting and reviewed vendor responsibilities.
☐	We maintain a secure, organized compliance file.
☐	Government correspondence is routed to a designated person immediately.
☐	We know which qualified advisers to contact for legal, tax and reporting questions.
☐	We conduct and document an annual compliance-readiness review.

How to interpret your result

8–10 yes: maintain and test the process. 5–7 yes: prioritize the missing controls. 0–4 yes: schedule a structured readiness review and involve the appropriate professional advisers.

QUESTIONS FOR PROFESSIONAL PARTNERS

Good coordination starts with specific questions.

Payroll provider

How are pre-tax codes mapped? • Who audits election-to-deduction accuracy? • How are retroactive corrections documented?

Broker or benefits adviser

Which plans provide MEC and Minimum Value? • What employee contribution is used for affordability analysis? • Which notices and enrollment communications are provided?

TPA or administrator

Which plan document is current? • How are permitted election changes documented? • When is nondiscrimination testing completed?

ACA reporting vendor

Which data elements come from each system? • Who validates coding and corrections? • How are accepted filings and employee delivery retained?

ERISA counsel or tax adviser

Which rules apply to the employer's specific facts? • What remediation is appropriate? • Who is authorized to respond to a government inquiry?

CONTINUE THE LEARNING

Become benefits-advisor ready—with an executive-level perspective.

The Nexus125™ HR Partner Program develops connected, employer-facing knowledge in employee benefits, Section 125 cafeteria plans, ACA employer compliance, MEC, Minimum Value, ERISA documentation, nondiscrimination testing awareness, enrollment administration, voluntary benefits integration, IRS correspondence and employer consulting methodology. The curriculum also strengthens the strategic perspective needed to support leadership teams, assess cross-functional gaps and contribute confidently in benefits-advisory and fractional executive engagements.

Program value

- Six structured training modules with knowledge checks
- Practical employer scenarios and documentation resources
- Final examination with an 80% passing standard
- Self-paced online, live webinar and onsite classroom options
- Professional education designed for employers, HR teams, payroll companies, insurance professionals and benefits advisers

Program-issued credential

The Nexus125™ credential recognizes completion of the private program's requirements. It is not a government license, academic degree, legal authorization or claim of third-party accreditation unless expressly stated.

TAKE THE NEXT STEP

Request enrollment or employer support.

Choose the path that fits your goals: individual professional education, an employer team experience, a live webinar, onsite classroom training, a compliance-readiness conversation or fractional employee benefits and compliance executive support.

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Nexus125 HR Partnership Program, LLC
Founded and led by Debbie Kaglear, M.Th.

IMPORTANT DISCLOSURES AND SOURCES

Use current guidance and qualified advice.

This publication is for general professional education only. It is not legal, tax, accounting, actuarial or investment advice; it does not guarantee compliance or a particular outcome. Laws, agency guidance, thresholds, forms and enforcement practices change. Employers are responsible for decisions affecting their plans and should consult qualified professionals regarding their facts.

Selected official references

IRS — Employer Shared Responsibility Provisions
https://www.irs.gov/affordable-care-act/employers/employer-shared-responsibility-provisions

IRS — Questions and Answers on Employer Shared Responsibility
https://www.irs.gov/affordable-care-act/employers/questions-and-answers-on-employer-shared-responsibility-provisions-under-the-affordable-care-act

IRS — Understanding Letter 226J
https://www.irs.gov/individuals/understanding-your-letter-226-j

IRS — Publication 15-B, Employer's Tax Guide to Fringe Benefits
https://www.irs.gov/publications/p15b

U.S. Department of Labor — Health Plan Information
https://www.dol.gov/general/topic/health-plans/planinformation