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More than three years after it was first signed into law, the Patient Protection and Affordable Care Act is ready for prime time. On Jan. 1, 2014, major provisions of the landmark law will go into effect. This includes implementation of a state-level insurance marketplace and new requirements, penalties, and tax subsidies for individuals and employers designed to ensure compliance.

Whether you're the owner of a large construction business or run a relatively small subcontracting company, these changes will affect how you choose and implement health care benefits for your employees.

Large businesses: Play or pay

The biggest change that will hit Jan. 1 is the requirement for "large" businesses to provide "minimum essential coverage." Under the law, every company that employs the equivalent of 50 or more full-time workers must offer a federally regulated amount of health insurance to their employees or face a $2,000 penalty per full-time employee.

This "play or pay" fine will be levied for each full-time employee exceeding the first 30. For example, a homebuilder that either provides no health insurance or coverage not meeting the minimum requirements to its 60 full-time employees would be required to pay $60,000 annually in fines starting in 2014.

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A large employer could face an even higher penalty of $3,000 per employee if:

- Its minimal essential coverage doesn't meet the affordability standards, and
- The workers in question receive federal subsidies to obtain health insurance through the new state-based exchanges.

For instance, a 75-employee plumbing contractor employs 15 full-time, single, childless laborers who earn $38,000 annually and pay roughly 11% of their salaries to obtain health care benefits through an employer-sponsored plan. Starting in 2014, these workers would likely qualify for federal subsidies under the health care act to buy insurance from a state-based exchange.

If just one employee uses a subsidy to obtain such coverage, the plumber would be fined $250 a month for each worker who procures insurance from an exchange. Why? Because its plan exceeded the maximum 9.5% affordability threshold for an individual making less than 400% of the federal poverty level.

Small businesses: Exemptions and credits

Compared with large construction companies, small ones face a lighter burden when it comes to complying with the health care act. Employers with fewer than 50 full-time employees are exempt from requirements to provide minimum essential coverage and the penalties for not doing so.

In addition, starting on Jan. 1, many small contractors may be eligible for a tax credit of up to 50% to defray the cost of providing employee health insurance. The new small business health insurance tax credit represents a dramatic increase over current levels. For example, from 2010 to 2013, eligible small businesses were allowed to take only a maximum 35% credit for health insurance costs.

Strict eligibility guidelines apply. To qualify, your total payroll can't total more than the equivalent of 24 full-time employees who must make, on average, less than $50,000 per year. If eligible, you may apply the credit to past and future tax bills.

Employees: A mandate

Like employers, individuals will soon be required to obtain minimum essential coverage as well. The aforementioned state-run exchanges, some of which may be run by the federal government, were set up to meet this directive.

In 2014, employees who don't obtain baseline health insurance through their employers or an exchange will be fined the greater of $95 or 1% of their income. (Certain limits apply.) Under this "individual mandate," penalties increase to the greater of $325 and 2% in 2015, and $625 and 2.5% in years thereafter.

The individual mandate may increase participation in your employer-provided plan. In turn, its costs could rise. So carefully weigh your coverage expenses going forward against not offering health insurance and incurring the penalties, assuming you're subject to them.

Your job: Homework

Make no mistake, the health care act's complexity can be daunting. But don't let that keep you from doing your homework on it. Ask your financial and benefits advisors for help determining whether your construction company could be subject to any penalties and how you should approach providing employees with health care benefits. ■

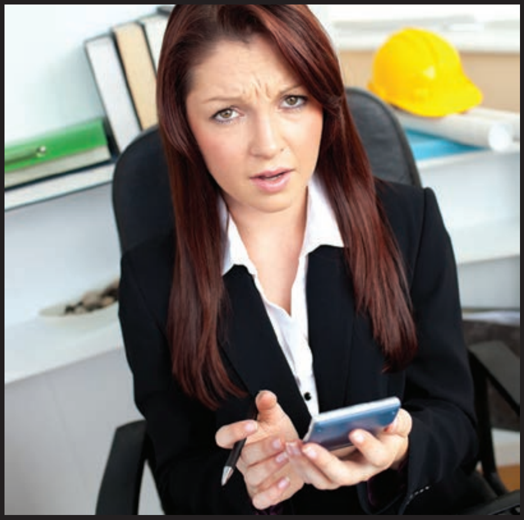
Defined-contribution health plans gaining traction

A recent study by the Kaiser Family Foundation and the Health Research and Educational Trust showed that health care premiums increased by 9% in 2011 and 4% in 2012. Moreover, the average plan nearly doubled in cost to almost $16,000 between 2002 and 2012, according to the same study.

Businesses faced similar inflationary pressures on employee benefits decades ago, when the costs of operating defined-*benefit* programs (better known as pensions) began to rise sharply. As a solution, many companies turned to defined-*contribution* plans such as 401(k)s, which remain popular today.

Now, to meet the new coverage requirements of the Patient Protection and Affordable Care Act and control costs, defined-contribution health care plans are gaining traction. Similar to 401(k) plans, these arrangements allow employers to contribute a set amount for employees' health care expenses. Participants can supplement this fixed amount with their own money or opt for pared-back plans that still meet their needs but at much lower costs.

Such a plan might be just what the doctor ordered for contractors seeking to provide benefits without breaking the bank.



Have you considered lean construction lately?

It's not new, yet it's hardly outdated. The term "lean construction" was coined back in the early 1990s to describe an adaptation of certain manufacturing principles to building. In today's technology-driven world of making everything as efficient as possible, the concept is worth considering (or reconsidering).

The big picture

Lean construction is a production-management-based approach to project delivery that requires tight coordination among all workers, empowering them to do their jobs well within tight deadlines. The process focuses on eliminating problems before they arise by identifying how one activity affects the next. In other words, the project is more about the whole than its pieces.

A simple way to stay lean is to track productivity and percent-of-plan-completed every day.

With traditional construction, projects are first broken into activities, with the activities placed in a logical order. Estimates for time and resources are then prepared for each activity. To reduce overall project costs, contractors try to reduce the cost of each piece in the schedule. Safety, quality, time and cost are measured in terms of negative variance from standards.

The problem with that approach is that it tends to ignore the big picture. Lean construction focuses on improving total project performance rather than merely reducing the cost or increasing the speed of any activity. It requires a fundamental shift in how planners, designers and contractors conceive and manage projects. There must be a shared understanding of common goals and an equitable distribution of risk and profit.

Teamwork, not top-down

A lean project emphasizes teamwork from concept through delivery. The owner, builder, architect and subcontractors are treated as equals, unlike in a traditional "top-down" project management approach, where a project manager plans and controls schedules.

With a lean approach, general contractors and subcontractors discuss their plans for executing a project with an architect during conceptualization. Ideally, the information they share is integrated into the project's design to minimize the need for change orders later on.

As the project moves forward, the goal is to maximize value and reduce waste. If the project owner is willing to pay for something, it's value. If not, it's waste. Valueless aspects of a job typically include duplications of effort, idle time, and unnecessary movement of materials or workers.

A simple way to stay lean is to track productivity and percent-of-plan-completed every day. Implement a schedule board that lists each crewmember's assignment and target completion time. The board can also include space for recording results of actual production hours against the plan. This approach helps clarify workers' responsibilities, gives them feedback on the physical and financial progress of the job, and encourages them to identify and resolve problems.

Another lean technique is to integrate just-in-time delivery of materials to avoid on-site inventory buildup. Centralizing supplies in an easily accessible location can also help you get lean because it reduces the number of trips that workers must make to get materials.

Lean in action

How about a hypothetical example? A commercial general contractor had identified two significant obstacles impeding the completion of her projects:

1. Inefficient supply of materials, which slowed job progress, and
2. Incomplete design information, which caused frequent redesigns.

The contractor eliminated these problems by going lean. First, she developed and adhered to a reliable weekly work plan. Central to the plan were requirements that work had to be assigned in the right sequence — and in an amount that matched labor and equipment capacity. Doing so greatly improved materials flow.

Second, she invested in a computerized, three-dimensional design system so she and her project managers could be in on the ground floor of the design process. This helped her generate better construction information from the get-go, substantially reducing the number and severity of redesigns.

By putting such lean construction principles into action, this contractor was able to complete projects more quickly and profitably without adding staff.

Practical applications

Lean construction isn't a cure-all for every industry malady. But if you've been struggling with efficiency and workflow, it probably wouldn't hurt to examine some lean principles and see whether any could be practically applied to your jobs. ■

Why *now* is a good time to review your estate plan

Many construction companies are family-run businesses. Whether yours is or not, you must plan for how you'll pass the wealth you've gained from your company to your heirs — if not ownership of the business itself.

Until earlier this year, careful estate planning required keeping up with a long-running Capitol Hill policy debate that included everything from temporary fixes to full repeals to the threat of abrupt rate hikes. The American Taxpayer Relief Act of 2013 (ATRA) finally brought some certainty to this area. So now is a good time for contractors to review their estate plans.

Increasing the rates

Under ATRA, the top estate tax rate has gone from 35% to 40%. Your heirs, therefore, may eventually face a higher tax bill than under previous law. That 5% bump is, however, much smaller than the 20% leap that had been set to occur before the act's passage.

Another important aspect of ATRA is that it made the "portability" of the estate tax exemption permanent.

Still more good news is that ATRA permanently set the estate tax *exemption* at an annually inflation-adjusted $5 million. So, for 2013, it's $5.25 million. This will provide significant tax savings over the $1 million exemption that had been scheduled to return for 2013. As a business owner, you can continue to transfer up to that combined amount to your heirs while you're alive or bequeath up to that amount upon your death.

Rules regarding unlimited wealth transfer to surviving spouses remained unchanged with the new law.

Looking at an example

How could these estate tax changes affect the owner of a construction company? Say a retiring telecommunications contractor decides to sell his business to the management team for $5 million in upfront cash and $1 million per year for the next 10 years. Under the new estate tax law, all of the sale's proceeds could be transferred to a surviving spouse tax-free upon the business owner's death.

Following the spouse's death, up to an inflation-adjusted $10 million — the combined amount for both spouses using the baseline exemption amount — could be transferred to the couple's only child tax-free, while the remainder of the estate could be taxed as much as 40%.

Noting other provisions

The amounts we've mentioned thus far — the 35% to 40% rate jump and inflation-adjusted $5.12 million figure (again, $5.25 million in 2013) — also apply to the gift tax rate and the generation-skipping transfer (GST) tax. The former refers generally to gifts you make during your lifetime, while the GST tax is designed to capture tax revenue from gifts specifically to grandchildren.

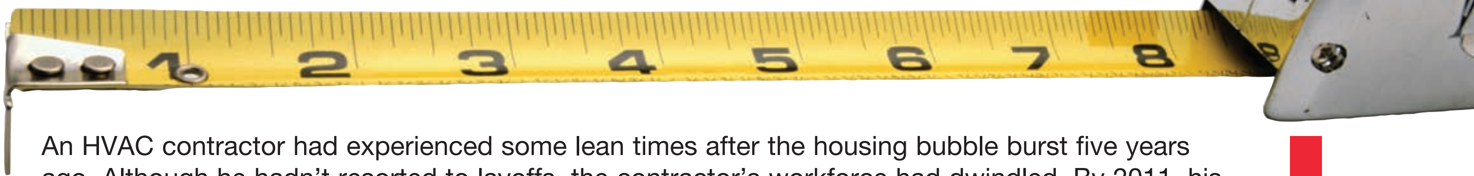
Another important aspect of ATRA is that it made the "portability" of the estate tax exemption permanent. This means that, if one spouse dies with part (or all) of his or her exemption unused, an estate may elect to permit the surviving spouse to use the deceased spouse's remaining exemption. (Note: Portability doesn't apply to the gift or GST tax, and some states don't recognize it at all.)

Giving as you please

You may have spent most of your adult life building the value of your construction company. (Or maybe it just seems that way.) Work closely with your tax advisor and attorney to ensure your assets will be given to heirs as you please and that the tax impact to your loved ones will be minimized. ■

Construction Success Story

HVAC contractor cools down employee burnout



An HVAC contractor had experienced some lean times after the housing bubble burst five years ago. Although he hadn't resorted to layoffs, the contractor's workforce had dwindled. By 2011, his company was back to 2005 revenue levels — but with a staff of 35, not 50. An HR survey revealed that trying to do more work with fewer people was causing widespread employee burnout. With the economy still uncertain, the contractor didn't want to add staff just yet. So he met with his financial advisor to discuss cost-effective ways to cool down his burned-out workers.

Promote collaboration

The advisor began by noting that the flames of burnout are often fanned by poor communication. Indeed, many service calls were taking longer than they should because most technicians insisted on working alone. What's worse, company culture tacitly discouraged employees from asking for help.

To promote collaboration and facilitate a culture shift, the advisor suggested establishing common goals and reconfiguring workers into teams. The goals should be reinforced in meetings and internal communications, and team productivity must be closely tracked.

Provide clear direction

Day-to-day communication with employees had also languished, leaving expectations unclear and staff frustrated. The advisor suggested that every manager conduct weekly update meetings with his or her teams. And the contractor should find ways to recognize employee accomplishments — such as thank-you notes and office celebrations.

Beyond that, he and his managers needed to keep staff informed about the company's financial position. Following the recession, the contractor had reduced compensation across the board. The advisor suggested he assure employees that salaries and wages would rise when business was more stable. In addition, he should keep workers updated on the company's backlog but not allow production to slow if jobs started to dwindle.

Create a training program

The advisor went on to point out that, with 35 employees doing the work of 50, training was more important than ever. The contractor admitted that, because budgets were tight and his workforce had thinned, he hadn't kept up with the latest HVAC techniques and equipment.

To solve this critical issue, the advisor recommended taking a "skill set inventory" of his staff and devising a six-month training plan for every position. He and the contractor could look over his financials for ways to budget for the training *and* equipment upgrades, maximizing any tax incentives available.

Get a boost

A year later, there was progress. Another HR survey showed that morale had improved. Meanwhile, teams were completing service calls more quickly and with fewer customer complaints. The resulting profitability boost was well on its way to covering the costs of training and better equipment. ■