

ACA AFFORDABILITY CONTRIBUTION PERCENTAGE TEST



CONTENTS

Overview	3
What Is the ACA?	4
Understanding ACA Affordability	4
How Is the ACA Affordability Percentage Calculated?	5
What Is the ACA Affordability Test for 2024?	5
What Is the Percentage of Income for the Affordable Care Act?	6
Employer Considerations for Affordability Changes	7
Summary	8
About Wistern	9
Disclosure	10



OVERVIEW

Per [Rev. Proc. 2023–29](#), released by the Internal Revenue Service (IRS), the affordability threshold related to employer-sponsored health plans under the Affordable Care Act (ACA) is lower in 2024 at 8.39% of an employee's household income compared to the 9.12% threshold in 2023. The percentage drop, resulting in the lowest threshold since 2015 when the Affordable Care Act employer mandate began, is likely to have a significant impact on employees and employers.

For instance, it can potentially impact eligibility for subsidized coverage for individuals, alongside possible employer liability concerning shared-responsibility assessments. Organizations should carefully consider the affordability threshold before setting employee premiums to remain [compliant](#) and avoid unnecessary penalties. Read about the ACA affordability contribution percentage test and find out how an insurance management and consulting firm can assist American companies by [reaching out to Wistern](#).



WHAT IS THE ACA?

According to the [Department of Health and Human Services \(HHS\)](#), the Affordable Care Act (ACA), previously known as the Patient Protection and Affordable Care Act (PPACA), refers to legislation that came into force in March 2010 that aimed to make the following changes to healthcare in the United States:

- Subsidize insurance premiums via tax credits to reduce the cost of health insurance for households.
- Expand Medicaid to provide more adults with coverage.
- Foster innovative methods of delivering medical care to reduce [healthcare costs](#).

UNDERSTANDING ACA AFFORDABILITY

The ACA stipulates that the minimum essential coverage (MEC) for employer-sponsored health plans is affordable if and only if the contribution made by an employee for the cheapest plan option, which provides minimum-value coverage, is not greater than a yearly indexed percentage based on the staff members annual household income. Something to note is that any employee, alongside members of their household, that are eligible for employer-sponsored healthcare that is in compliance with the ACA Affordability mandates, cannot obtain cost-sharing decreases or tax credits for coverage acquired via the public exchange (the government-run marketplace for purchasing individual coverage) without the employer incurring a penalty.

Three safe harbors exist concerning affordable coverage provided by employers. The calculation of each affordability percentage utilized by these safe harbors aligns with the determination of the household income percentage. Employers must align employee contributions with one of the following safe harbors to prove that their employees can afford the offered coverage:

- The federal poverty line (FPL)
- Rate of pay
- W-2 wages

HOW IS THE ACA AFFORDABILITY PERCENTAGE CALCULATED?

When the ACA took effect, the affordability percentage was 9.5%, which has changed annually since 2014. In 2021, the [Federal Register](#) shared its method of determining the percentage of premium changes for 2022 onward. Calculating the affordability percentage for 2023 was achieved by

reviewing the growth rates of insurance premiums in relation to income increases over the previous decade. As a result of the forecasts generated by these growth rates, the affordability percentage for 2024 will be substantially less than the prior year, 2023.

WHAT IS THE ACA AFFORDABILITY TEST FOR 2024?

Due to the change in affordability requirements made by the IRS, health plans previously thought to be affordable may no longer be considered affordable coverage. In 2024, affordable plans require that an organization's employees cannot make insurance premium payments that exceed 8.39% of staff members' annual household earnings, or \$101.94 per month for firms utilizing the federal poverty line safe harbor.

Employers not applying the federal poverty line safe harbor can determine affordability based on their employees annual wages. For employees that are paid hourly, employers can calculate affordability by multiplying the employee's hourly rate by 130 hours per month from the initial day of the coverage period and then multiplying that number by the affordability percentage, 8.39%. Employers can determine affordability for salaried staff member's by calculating 8.39% of an employee's monthly salary from the beginning of the period of coverage.

WHAT IS THE PERCENTAGE OF INCOME FOR THE AFFORDABLE CARE ACT?

According to [HealthCare.Gov](https://www.healthcare.gov), the following factors contribute to whether employment-based health plans in 2024 are affordable:

- An organization's lowest-cost health plan must also achieve the ACA minimum value standard. A plan meets the minimum value standard if it pays a minimum of 60% of all medical service costs for a typical population and if the benefits include significant inpatient hospital and physician service coverage.
- The 8.39% affordability calculation for a salaried employee takes into account all of the earnings from the people within that staff member's household who are legally required to complete tax returns.
- For employees, affordability calculations are only based on the premium paid by the employee for individual coverage.
- Regarding coverage beginning January 1, for individuals provided with employment-based coverage via the job of another household member, affordability hinges on the premium necessary to cover all household members.



EMPLOYER CONSIDERATIONS FOR AFFORDABILITY CHANGES

Employers relying on the FPL safe harbor (a category which includes a large number of organizations), should carefully review employee contributions related to 2024 health plans to ensure their policies remain compliant. Employers should also note that employee contributions for the cheapest, self-only coverage option have fallen from the previous year.

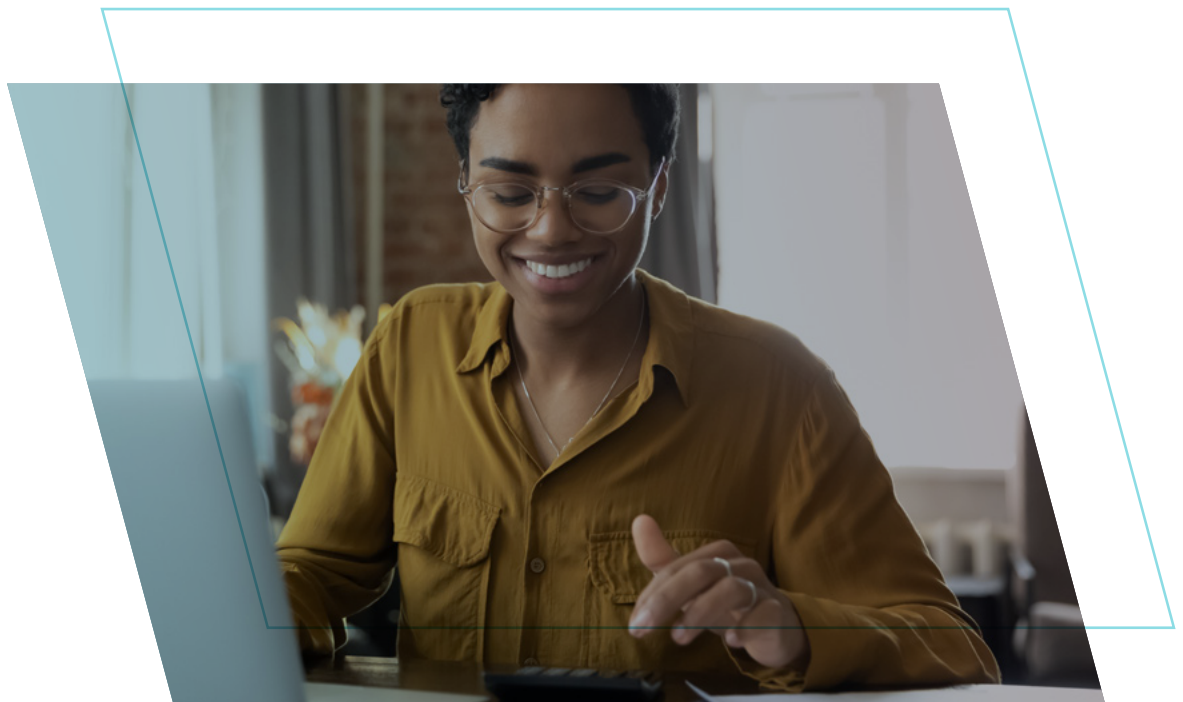
The considerations for plans applying the FPL safe harbor vary depending on whether the employer opts for non-calendar- or calendar-year plans. Below is a summary of these differences:

- **Calendar year health plans:** Calendar year health plans in 2024 that employ the FPL safe harbor cannot have employee contributions greater than 8.39% of the federal poverty line for that specific area or \$101.94 a month.
- **Non-calendar year health plans:** A non-calendar health plan can utilize the FPL currently in place no later than six months prior to the initial day of the health plan's year, meaning non-calendar year health plans could potentially use either the 2024 or 2023 FPL depending on when the coverage begins.



SUMMARY

To meet regulatory standards regarding the affordability of the employer-sponsored health insurance policies they offer, employers must demonstrate that their employees can afford the coverage they provide by meeting one of the specified safe harbors. When preparing a strategy for meeting the Affordable Care Act affordability safe harbor requirements, consider seeking advice to help stay compliant.



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