Technical Update

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2018 Affordability Percentage Adjusted Downward

The Employer Shared Responsibility mandate of the Affordable Care Act (ACA), requires applicable large employers to offer affordable health coverage that provides a minimum value to at least 95% of full-time employees. Applicable employers are generally those who employ 50 or more full-time and full-time equivalent employees.

Minimum Value

The coverage offered must meet certain minimum value requirements. Under Code section 36B(c)(2)(C)(ii), minimum value is a plan that covers at least 60% of the expected total allowed benefit costs incurred by a standard population. This does not include account premiums, only benefits paid. So, for a plan to meet the minimum value requirement, the average employee pays no more than 40% of the plan's value through coinsurance, deductibles, copayments, or other out of pocket costs. Note, that the calculation is for the average costs, so some individual employees may pay more than 40% depending on their individual health needs.

Affordable Payments

The ACA defines an affordable payment by calculating a percentage of the employee's household income. Because it can be difficult for an employer to know an employee's household income, the ACA offers three methods, referred to as safe harbors, of calculating this amount. These safe harbors are:

- W-2 income for the current tax year (Box 1)
- Monthly rate of pay as of first day of the plan year
- Individual federal poverty line (estimated at $11,990 in 2017) in effect six months prior to the beginning of the plan year

The amount taken from one of these safe harbor numbers is then multiplied by a percentage rate indexed for inflation. The percentage in 2017 is 9.69%. The IRS recently announced that the 2018 rate will fall to 9.56%. This is the first such decrease seen in the annually indexed percentage.

This decrease means that the amount an employee can pay for self-only coverage considered affordable under the ACA will lower. Therefore, an employer must either decrease the cost of insurance through plan changes while still maintaining an acceptable minimum value or assume more of the costs for self-only coverage for full-time employees.

What This Means for Counties

Because the indexed percentage rate has fallen, counties must evaluate their individual coverage to be sure that they are providing coverage that meets both the minimum value and the affordability requirements of the Employer Shared Responsibility mandate. Failure to meet these requirement, can trigger a tax penalty. For more information on how this change in percentage might affect your county, please contact CTSI at 303-861-0507.