

IRS Raises Affordability Percentage for Employer-Sponsored Healthcare

Under the employer mandate of the Affordable Care Act, applicable large employers, those with more than 50 employees, must offer affordable health coverage. The IRS uses a formula to help determine what constitutes affordable coverage. This formula uses an annually adjusted percentage rate to measure whether a full-time employee's contribution for a self-only health plan is less than a set percentage of their household income. For 2021, that percentage is 9.83; this is up 0.05% from the 2020 percentage.

Determining Affordability

Because it would be difficult to determine affordability based on each individual's household income, the rule offers three different affordability safe harbors on which employers can base employee-paid contributions: (1) the employee's Form W-2; (2) the employee's rate of pay; and (3) the federal poverty guidelines for a single individual. Use of the safe harbors is optional. If employers choose to use the safe harbors to set employee contributions, they can choose to apply them to all employees or any reasonable category of employees, such as administrative or full-time hourly employees.

Avoiding a Penalty

Because the affordability percentage increases in 2021, the amount that a full-time employee can be asked to pay for self-only coverage that is still considered affordable will also go up slightly. Therefore, employers may ask employees to pay a bigger share of the premium. Failure to provide a plan that falls within the affordability rule and that also meets the minimum coverage criteria may incur the Employer Shared Responsibility penalty from the IRS. View

the following table for an example of how the decrease may impact whether a premium is considered affordable.

Affordability Percentage Using Rate of Pay Safe Harbor	2020	2021
Affordability Percentage	9.78%	9.83%
Employee Contribution for Self-Only Coverage	\$200 per month	\$200 per month
Annual Salary at Which Employee Contribution is Affordable	\$24,539.88	\$24,415.08
Annual Change	\$124.80	

The table shows that for an employee making \$24,539.88 annually this year, a contribution of \$200 per month is considered affordable. The increase in 2021 means that a \$200 contribution next year will be considered affordable for employees making \$24,415.08. A change this small is unlikely to impact most employees but may allow some employers to shift more of the cost of monthly premiums to employees without incurring a penalty.

What This Means for Counties

A 0.05% decrease is fairly insignificant in terms of a dollar amount; however, employers should verify that employee contributions are within the threshold and adjust the employer contribution if necessary. Remember that the affordability coverage rule applies only to full-time employees paying for a self-only plan. For more information or if you have questions about the affordability percentage, contact CTSI at 303 861 0507. [ctsi](https://www.ctsi.org)