

IRS Lowers ACA Affordability Percentage

Under the employer mandate of the Affordable Care Act, large employers 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 to a self-only health plan is less than a set percentage of their household income. For 2023, that percentage is 9.12, down 0.49% from the 2022 percentage. The 2023 affordability threshold was announced in [Revenue Procedure 2022-34](#).

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 decreases in 2023, the amount that a full-time employee can be asked to pay for self-only coverage that is still considered affordable will also go down. Therefore, employers may have 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.

Using the federal poverty line safe harbor (\$13,590 for a household of one), employer-offered plans that cost \$103.28 per month for employee-only coverage meet the affordability threshold in 2023; the same plan could not cost more than 103.15 in 2022 to meet the threshold, a difference of \$0.13 per month.

WHAT THIS MEANS FOR COUNTIES

A 0.49% decrease is fairly insignificant in terms of a dollar amount; however, counties may be subject to a significant IRS penalty if this decrease places employee-paid contributions over the affordability threshold. 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.

