

# Client Alert



Applies To: Self-Funded, Fully-Funded, Large Group, and Small Group

SEPTEMBER 20TH, 2024

## ACA Affordability Percentage Increases For 2025

On September 6, 2024, the IRS announced that the Affordable Care Act (ACA) affordability percentage for 2025 is 9.02%, an increase from the 2024 percentage of 8.39%. The increase is good news for employers subject to the ACA employer mandate because it means a decrease in the minimum cost at which self-only coverage under a group health plan must be offered to avoid the possibility of an employer penalty.

### The Employer Mandate and ACA Affordability Requirement

Under the ACA, an applicable large employer (50+ full-time or full-time equivalent employees) must offer each full-time employee and his/her dependents the opportunity to enroll in minimum essential coverage that (i) meets the "minimum value" standard and (ii) is "affordable" or be potentially exposed to penalties.

ACA affordability is based on the lowest-cost, self-only coverage option under a health plan. The employee contribution for this option must not exceed an amount calculated using the applicable affordability percentage. The affordability limit is a percentage (i.e., the affordability percentage) of the employee's household income. Because of obvious difficulties in determining employee household income, the IRS provided three safe harbors for employers. These safe harbors include:

- W-2 Safe Harbor:** Coverage is affordable if the employee cost for the lowest-cost, self-only coverage that provides minimum value does not exceed the affordability percentage of the employee's Form W-2 wages for the applicable calendar year.
- Rate of Pay Safe Harbor:** Coverage is affordable if the employee's monthly contribution is equal to or less than the applicable affordability percentage of monthly wages, using IRS methodology. For hourly employees, monthly wages are determined by multiplying the employee's hourly rate by 130. For salaried employees, an employee's monthly salary is used.
- Federal Poverty Line Safe Harbor:** An employer satisfies this safe harbor if the employee contribution for the lowest-cost, self-only coverage that provides minimum value does not exceed the affordability percentage of the federal poverty line for a single individual for the year (using the 2025 affordability percentage, this amount will be \$113.20, a slight increase from the 2024 amount of \$101.94.)

### Penalties

If an applicable large employer fails to offer affordable coverage for one or more full-time employees, then the employer may be subject to the ACA penalty if one or more employees obtains subsidized Marketplace coverage. Like the affordability threshold, this penalty amount is indexed for inflation. For 2025, the §4980H(a) annual penalty amount will decrease to \$2,900, while the §4980H(b) annual penalty amount will decrease slightly to \$4,350. Remember that while the penalty is stated as an annual amount, it is determined on a monthly basis. Employers should take the 2025 affordability percentage into account in setting 2025 employee contribution rates.

Please visit [www.moreton.com/news-events/](http://www.moreton.com/news-events/) for more information and to view other client alerts. This Client Alert was written by Carolyn Cox, who provides our clients with compliance services. For additional questions, please contact Carolyn at 801-715-7110 or [ccox@moreton.com](mailto:ccox@moreton.com).

© 2024 by Moreton & Company. This Client Alert is intended to alert recipients to recent legal developments. It does not constitute the rendering of legal advice or recommendations and is provided for your general information only. If you need legal advice upon which you can rely, you must seek an opinion from your attorney.