



IRS Releases 2025 ACA Affordability Percentage for Employer-Sponsored Health Coverage

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The IRS recently released its annual inflation adjustment to the percentage of household income used to determine whether an employer's offer of health care coverage under the Affordable Care Act (ACA) is affordable. The good news for employers is that the percentage has significantly increased for 2025.

For plan years beginning in 2025, the percentage of household income increases to 9.02%. For comparison, the household income percentage for plans beginning in 2024 was 8.39%. This means that applicable large employers (ALEs) under the ACA (generally employing an average of 50 full-time equivalents (FTEs) in the prior year) can charge employees an annual premium amount not exceeding 9.02% of the employee's household income for 2025 and the coverage will be considered "affordable" for purposes of the employer shared responsibility mandate. In addition, if the employer's offer of minimum essential coverage meets this affordability standard, an individual eligible for that coverage will not qualify for federally subsidized coverage from a public exchange.

Employer Shared Responsibility Mandate

ALEs that do not offer minimum essential coverage (MEC) to at least 95% of their full-time employees and their dependents for any month in a calendar year, and at least one full-time employee receives a premium tax credit for purchasing coverage through a state or federal ACA marketplace, could be subject to penalty under Internal Revenue Code (Code) Section 4980H(a). The penalty for 2024 is \$247.50 per month, or \$2,970 per year, per full-time employee (minus 30).

In addition, Code Section 4980H(b) assesses penalties on a per-violation basis to employers who offer MEC to at least 95% of full-time employees, but the coverage is either unaffordable or does not provide minimum value. In other words, if an employee has inadequate coverage and receives assistance from a state or federal marketplace to buy an individual policy, a penalty may be assessed against the employer. For the 2024 tax year, the 4980H(b) penalty is \$372 a month, or \$4,460 per year, per employee.

Affordability Safe Harbors

Because employers generally will not have access to an employee's household income when setting premium rates for affordability, the IRS has provided employers with three alternative safe harbors that, if met, will excuse an employer from any penalty for a full-time employee who otherwise qualified for a premium tax credit because the coverage was not lower than 9.02% of the employee's household income in 2025.

To determine affordability, household income in the affordability calculation is replaced with one of these figures:

- Form W-2 wages – the annualized premium does not exceed 9.02% of the employee's W-2 wages for 2025.
- Rate of pay – the premium does not exceed 9.02% of the employee's rate of pay as if the employee worked 130 hours each month.
- Federal poverty line (FPL) – the premium does not exceed a certain dollar amount each month based on the federal poverty line income thresholds as described below.

The penalties are evaluated on a calendar year and not a plan year basis, which can be tricky for non-calendar year plans, especially with the FPL safe harbor. For 2025 calendar-year plans using the FPL affordability safe harbor, the required employee contribution cannot exceed 9.02% of the FPL — **\$113.20 per month** in the mainland U.S. (up from \$101.94 in 2024), \$141.39 per month in Alaska and \$130.11 in Hawaii.

Non-calendar-year plans may use the FPL in effect within six months before the first day of the plan year. That means non-calendar-year plans starting in February through July 2025 (if the 2025 FPL is issued in January) or non-calendar-year plans starting in March through August 2025 (if the 2025 FPL is issued in February) may use either the 2024 FPL of \$15,060 or the 2025 FPL, which will likely be higher.

Employer Action Items

Employers should take steps now to prepare for 2025 ALE responsibilities.

- Evaluate your ALE status for 2025 (and prior years, if necessary).
- Confirm that coverage being offered during 2025 is both affordable and provides minimum value to avoid penalties under Section 4980H(b).
- Prepare to comply with the 2024 ACA information reporting requirements that are due in the first quarter of 2025.

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