New ACA Affordability Threshold and Employer Penalties

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The Internal Revenue Service (IRS) recently released new figures for determining affordability for employer-sponsored health coverage and increased employer penalties for failing to comply with the Affordable Care Act's (ACAs) employer shared responsibility mandate.

Affordability Percentage Rises to 10.22%

For plan years beginning in 2027, the ACA affordability threshold increases to 10.22% of household income, up from 9.96% in 2026, and the first time the threshold exceeds 10%. Coverage is considered affordable if the required employee contribution for the lowest-cost, self-only option providing minimum value does not exceed this percentage of the employee's household income. Because employers generally do not know employees' household income, they may use one of three affordability safe harbors: Federal Poverty Line (FPL), Rate of Pay, or Form W-2.

For a calendar-year 2027 plan, the FPL safe harbor may use the 2026 mainland single-person poverty guideline of $15,960, producing a monthly employee contribution ceiling of $135.92 for employee-only coverage ($15,960 x 10.22% / 12). Alaska and Hawaii use different poverty guidelines.

Under the Rate of Pay safe harbor, affordability for an hourly employee generally is tested using the employee's hourly rate x 130 hours x 10.22%; for a salaried employee, the calculation generally uses monthly salary x 10.22%.

The Form W-2 safe harbor generally limits the employee's required contribution to 10.22% of Box 1 wages for a full-year offer. Employers may use different safe harbors for reasonable employee categories if applied uniformly and consistently within each category.

Employer Penalties Increase

Applicable large employers (ALEs),those with 50 or more full-time equivalent employees, must ensure that at least 95% of full-time employees (and their dependents) are offered coverage that meets the applicable employer-mandate requirements, or penalties under Section 4980H(a) may apply. If coverage is offered but is unaffordable or does not provide minimum value, penalties under Section 4980H(b) may apply for affected full-time employees who receive premium tax credits.

For 2027, the indexed Section 4980H penalties increase:

- Section 4980H(a): $3,780 per full-time employee per year, a $440 increase from 2026. The annualized amount is generally applied after excluding the first 30 full-time employees and is calculated monthly.
- Section 4980H(b): $5,670 per affected full-time employee per year, a $660 increase from 2026. The annualized amount is calculated monthly.

Employer Action Items

- Reassess premium contributions.
  Review the cost of your lowest-cost self-only health coverage using the 10.22% threshold and the affordability safe harbor or safe harbors the plan expects to use for 2027.
- Select, test, and document safe harbors.
  Determine whether the Form W-2, Rate of Pay, or FPL safe harbors for reasonable employee categories best fit the workforce, and apply the selected method consistently within each category.
- Update benefit design if needed.
  If employee costs exceed the applicable affordability limit, consider lowering employee premiums, increasing the employer subsidy, or revising plan options to maintain affordable minimum-value coverage.
- Track full-time employee count.
  Monitor ALE status and ensure offers reach at least 95% of full-time employees and their dependents. Reporting and penalty exposure hinge on accurate employee counts and offer data.