



New Regulation to Satisfy Affordable Care Act in 2020

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The IRS announced that the ACA affordability percentage for the 2020 calendar year will decrease to 9.78% from 9.86%.

While employers are not required to provide health benefits, the Patient Protection and Affordable Care Act (PPACA) does impose penalties, in some cases, on larger employers (50 or more workers) that elect not to provide coverage for their employees, or that provide insurance that is unaffordable.

Employer-sponsored health coverage will meet the Affordable Care Act (ACA) affordability requirement in 2020 if the employee's required contribution for the lowest-cost, self-only health plan offered does not exceed 9.78% of his household income.

This limit is down from 9.86% in 2019. The rate is equated to the household income for the taxable year. It is likely that employers wouldn't know an employee's household income, so there are many safe harbors to determine said affordability. One such safe harbor is reliance on Form W-2 wages. Others include the hourly rate of pay safe harbor and the federal poverty level (FPL) safe harbor.

- The employee's W-2 wages, generally as of the first day of the plan year
- The employee's rate of pay, hourly wage rate multiplied by 130 hours per month as of the first day of the plan year
- The individual FPL, which is the FPL as of six months prior to the beginning of the plan year, since the FPL isn't published until January for a given year.

The affordability contribution rate, or the employee's maximum contribution percentage is adjusted annually. The number is drawn from the ratio of premium growth to income growth in the prior calendar year.

Employer's should pay special attention to the cost-sharing limits for group health plan coverage. The reduction in the percentage may mean some employers must reduce what their employees pay for employee-only coverage. Steep penalties may be incurred if affordable coverage isn't offered with minimum value to full-time employees and their dependents.

Be sure to look into your lowest-cost employer-sponsored health plan to ensure compliance with the ACA and avoid any unnecessary fees.