Health Care Reform
Bulletin

IRS Increases Affordability Percentage Under Employer Mandate for 2015

Provided by Stellar Benefits Group

Quick Facts

- Applicable large employers (ALEs) that do not offer affordable health coverage to their full-time employees may be subject to penalties, beginning in 2015.
- New IRS guidance increases the affordability percentage from 9.5 percent to 9.56 percent for 2015.
- ALEs should review whether their health plans comply with the increased percentage.

For plan years beginning in 2015, the health coverage affordability percentage under the ACA's "pay or play" rules will increase slightly, from 9.5 percent to 9.56 percent.

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Starting in 2015, the Affordable Care Act (ACA) requires applicable large employers to offer affordable, minimum value health coverage to their full-time employees (and dependents) or pay a penalty. The employer penalty rules are also known as the employer mandate or the "pay or play" rules.

Also, effective for 2014, affordability of health coverage is used to determine whether an individual is:

- Eligible for a premium tax credit for a health plan purchased through an Exchange; and
- Exempt from the penalty for not having minimum essential coverage.

On July 24, 2014, the IRS released Revenue Procedure 2014-37 to index the ACA's affordability percentages for 2015.

For plan years beginning in 2015, an applicable large employer's health coverage will be considered affordable under the pay or play rules if the employee's required contribution to the plan does not exceed **9.56 percent** of the employee's household income for the year.

Applicable large employers can use one of the IRS' affordability safe harbors to determine whether their health plans will satisfy the 9.56 percent requirement for 2015 plan years, if requirements for the applicable safe harbor are met.

This adjusted affordability percentage will also be used to determine whether an individual is eligible for a premium tax credit for 2015. Individuals who are eligible for employer-sponsored coverage that is affordable and provides minimum value are not eligible for a premium tax credit.

Also, Revenue Procedure 2014-37 adjusts the affordability percentage for the exemption from the individual mandate for individuals who lack access to affordable minimum essential coverage. **For plan years beginning in 2015**, coverage is unaffordable for purposes of the individual mandate if it exceeds **8.05 percent** of household income.

EMPLOYER MANDATE

The pay or play rules apply only to applicable large employers. An "applicable large employer" is an employer with, on average, at least 50 full-time employees (including full-time equivalents) during the preceding calendar year.

Many applicable large employers will be subject to the pay or play rules starting in 2015. However, applicable large employers with fewer than 100 full-time employees may qualify for an additional year, until 2016, to comply with the employer mandate.

Affordability Determination
The affordability of health coverage is a key point in determining whether an applicable large employer will be subject to a penalty.

For 2014, the ACA provides that an employer's health coverage is considered affordable if the employee's required contribution to the plan does not exceed **9.5 percent** of the employee's household income for the taxable year. The ACA provides that, for plan years beginning after 2014, the IRS must adjust the affordability percentage to reflect the excess of the rate of premium growth over the rate of income growth for the preceding calendar year.

As noted above, the IRS has adjusted the affordability percentage for plan years beginning in 2015 to 9.56 percent. This adjusted affordability percentage will also be used to determine whether an individual is eligible for a premium tax credit for 2015.

The affordability test applies only to the portion of the annual premiums for self-only coverage and does not include any additional cost for family coverage. Also, if an employer offers multiple health coverage options, the affordability test applies to the lowest-cost option that also satisfies the minimum value requirement.

Affordability Safe Harbors
Because an employer generally will not know an employee's household income, the IRS created three affordability safe harbors that employers may use to determine affordability based on information that is available to them.

The affordability safe harbors are all optional. An employer may choose to use one or more of the affordability safe harbors for all its employees or for any reasonable category of employees, provided it does so on a uniform and consistent basis for all employees in a category.

The affordability safe harbors are:

- The Form W-2 safe harbor (affordability determined based on Form W-2 wages from that employer)
- The rate of pay safe harbor (affordability determined based on an employee's rate of pay)
- The federal poverty line (FPL) safe harbor (affordability determined based on FPL for a single individual)

INDIVIDUAL MANDATE
Beginning in 2014, the ACA requires most individuals to obtain acceptable health insurance coverage for themselves and their family members or pay a penalty. This rule is often referred to as the "individual mandate." Individuals may be eligible for an exemption from the penalty in certain circumstances.

Under the ACA, individuals who lack access to affordable minimum essential coverage are exempt from the individual mandate. For purposes of this exemption, coverage is affordable for an employee if the required contribution for the lowest-cost, self-only coverage does not exceed **8 percent** of household income. For family members, coverage is affordable if the required contribution for the lowest-cost family coverage does not exceed **8 percent** of household income. This percentage is to be adjusted annually after 2014.

For plan years beginning in 2015, Revenue Procedure 2014-37 increases this percentage from 8 percent to **8.05 percent**.