

EMPLOYEE BENEFITS

2024 Affordability Alert

Indexed Contribution Percentage for an Employer's Plan Under the ACA

August 2023

On August 23, 2023, the IRS issued [Revenue Procedure 2023-29](#), announcing the indexed contribution percentage applicable in 2024 for determining the affordability of an employer's plan under the Affordable Care Act (ACA).

For plan years beginning in 2024, employer-sponsored coverage will be considered affordable for purposes of the employer shared responsibility penalties (ESRP) if the employee's required contribution for self-only coverage under the lowest-cost medical plan option that provides minimum value (MV) does not exceed:

- 8.39% of the employee's household income for the year (a significant decrease from the affordability contribution percentage of 9.12% in 2023).

The updated affordability percentages are effective for taxable and plan years beginning on or after January 1, 2024.

Because employers will not know each employee's household income to determine whether the offer of coverage is affordable, optional safe harbors may be used. The applicable safe harbors include:

- **The Box 1 W-2 Safe Harbor:** Under this safe harbor, the offer is affordable if the employee's annual contribution for the lowest-cost employee-only coverage option does not exceed the applicable percentage of the employee's Box 1 W-2 earnings.
- **The Rate of Pay Safe Harbor:** This applies the percentage to the employee's base hourly rate of pay at 130 hours a month or the monthly salary of a salaried employee.

- **The Federal Poverty Level (FPL) Safe Harbor:** This applies the affordability percentage to the mainland (or Hawaii/Alaska, if applicable) federal poverty line that is in effect within six (6) months before the start of the plan year.
 - » For plan years beginning between July 1, 2023, and December 31, 2023, the FPL safe harbor can be used for offers that require the employee to contribute no more than \$110.81 per month ($\$14,580 \div 12 \times 9.12\% = \110.81).¹
 - » For plan years beginning on or after January 1, 2024 (and until six months following the last date for which the 2023 FPL is effective), the FPL safe harbor can be used for offers that require the employee to contribute no more than \$101.94 per month ($\$14,580 \div 12 \times 8.39\% = \101.94).²

¹A different calculation applies with respect to employees residing in Alaska or Hawaii.

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Affordability for Family Members

Under IRS final regulations implemented in October 2022, employer-sponsored coverage for certain spouses and dependents (i.e., family members) is considered affordable for premium tax credit purposes if the employee's annual cost of family coverage does not exceed 8.39% of the employee's household income. Family members may now receive a marketplace premium tax credit if an employee's cost for family coverage under an employer's health plan is considered "unaffordable" to the family members, even if the plan's employee-only coverage is considered affordable to the employee.

As a reminder, if the plan's employee-only coverage for the lowest cost plan is considered affordable to the employee, but family coverage (e.g., employee + spouse coverage, employee + dependent children coverage) under the plan is considered unaffordable, the employer would not be subject to penalties for failure to offer affordable coverage to employees' family members under the ACA Employer Mandate so long as the Applicable Large Employer (ALE) is otherwise compliant under the ACA Employer Mandate rules.





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