

EMPLOYEE BENEFITS

Affordability Alert – Indexed Contribution Percentage for an Employer’s Plan Under the ACA

September 2024

On September 6, 2024, the IRS issued [Revenue Procedure 2024-35](#), 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 2025, 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:

- 9.02% of the employee’s household income for the year (a significant increase from the affordability contribution percentage of 8.39% in 2024).

The updated affordability percentages are effective for taxable and plan years beginning January 1, 2025.

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

- **The Box 1 W-2 Safe Harbor:** Under this safe harbor, the offer is affordable if the employee’s 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, 2024, and December 31, 2024, the FPL safe harbor can be used for offers that require the employee to contribute no more than \$105.29 per month ($\$15,060 \div 12 \times 8.39\% = \105.29).¹
 - » For plan years beginning on or after January 1, 2025 (and until six months following the last date for which the 2024 FPL is effective), the FPL safe harbor can be used for offers that require the employee to contribute no more than \$113.20 per month ($\$15,060 \div 12 \times 9.02\% = \113.20).²



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