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IRS Increases Affordability Percentage for 2025

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The Internal Revenue Service (IRS) recently announced that the affordability percentage used to determine whether coverage offered by employers is affordable for 2025 will be 9.02%. The affordability percentage applies to applicable large employers (ALEs) which are employers with 50 or more full-time and full-time equivalent employees.

Background

Under the Patient Protection and Affordable Care Act (ACA) Employer Mandate, ALEs must offer affordable health coverage that meets minimum value requirements to full-time employees or face potential penalties. The affordability percentage, which is adjusted annually, is used to determine the threshold, at or below which the cost of coverage will be considered affordable. Generally, coverage offered to a full-time employee will be considered affordable if the employee's contribution for self-only coverage does not exceed 9.02% for 2025 (8.39% for 2024) of the employee's household income for the taxable year. Because employers have no actual knowledge of their employees' household incomes, the rules provide for three affordability safe harbors: (1) employee's Form W-2 wages; (2) employee's rate of pay; and (3) the federal poverty guidelines for a single individual. An employer may use one or more of these safe harbors for all employees or any reasonable category of employees, as long as it is done on a uniform and consistent basis.

Impact on Applicable Large Employers

An increase in the percentage means that the amount an employee can be required to pay for self-only coverage and still be considered "affordable" can also increase which is a departure from previous years that have typically resulted lower employee contribution amounts. Meaning employers would need to shoulder more of the cost of self-only coverage offered to full-time employees to avoid an Employer Mandate penalty. Beginning in 2025, employers can choose to increase employee contributions, so long as they remain affordable under the ACA.

Example 1: For the 2025 plan year, an employer decides to leave employee contributions for its employer-sponsored healthcare coverage offered to full-time employees the same as it was in 2024 - \$200 per month for self-only coverage. Based

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upon the affordability percentage of 8.39% for 2024, this level of employee contribution for self-only coverage is considered affordable for employees making \$28,605.48 or more per year (\$2,400 / 8.39%). However, in accordance with the newly announced affordability percentage for 2025 (9.02%), an employee would need to make at least \$26,607.53 per year (\$2,400 / 9.02%) so that the \$200 monthly employee contribution for self-only coverage is deemed affordable.

Self-only Contribution	Affordability Threshold Monthly Wage		Affordability Threshold Annual Wage		Annual Change
	2024	2025	2024	2025	
\$200 per month	\$2,383.79	\$2,217.29	\$28,605.48	\$26,607.53	\$1,997.95

The increase means employers may have more flexibility in cost-sharing for affordability purposes.

Example 2: For the 2025 plan year, the employer will determine whether employee contributions are affordable using the federal poverty line safe harbor. An ALE satisfies the federal poverty line safe harbor if the employee's required contribution for the lowest cost self-only coverage that provides minimum value does not exceed 9.02% (for 2025) of the federal poverty line for a single individual for the applicable calendar year, divided by 12. For a calendar year plan that uses the 2024 federal poverty line, the safe harbor for 2025 will be: $\$15,060 \times 9.02\% = \$1,358.41$ (or \$113.20 per month). This means that employees cannot be required to pay an employee contribution more than \$113.20 for coverage and be considered affordable. For 2024, using the 2023 federal poverty line and 2024 affordability percentage (8.39%), the monthly safe harbor amount was $\$14,580 \times 8.39\% = \$1,223.26$ (or \$101.94 per month).

Next Steps

ALEs should consider reviewing contribution structures for the 2025 plan year. Some employers may be able to decrease employer contributions, however it is a small margin so employers will want to ensure calculations to avoid penalties.

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The intent of this article is to provide general information on employee benefit issues. It should not be construed as legal advice and, as with any interpretation of law, plan sponsors should seek proper legal advice for application of these rules to their plans.