

IRS Increases ACA Affordability Percentage for 2021

By: Lyndsey Barnett on July 22, 2020 on graydon.law

If you are a large employer required to provide health plan coverage to avoid the shared responsibility penalties, it is prudent to reevaluate your contribution structure each year before open enrollment to ensure that your plan is still “affordable.” Most employers were diligent about calculating affordability in the first few years the shared responsibility penalties were in effect and you want to ensure you are still considering this each year. A failure to consider whether your plan is affordable when passing through any premium increases could result in an unintended penalty for each employee who enrolls in exchange coverage and qualifies for assistance. The IRS has not yet announced the 2021 penalty amounts, but the 2020 penalty for employers that do not offer affordable, minimum value coverage is \$3,860 per employee that enrolls in exchange coverage and qualifies for assistance.

The IRS adjusts the affordability percentage each year and just issued the new affordability percentage in [Rev. Proc. 2020-36](#). For 2021, the cost of single coverage must be less than 9.83% of an employee’s household income in order to be affordable. This is up from the 2019 affordability percentage of 9.78%, but still not back to the 2018 percentage which was 9.86%. The 9.83% is also the percentage that employers can rely on for 2019 under either the federal poverty limit, rate of pay or Form W-2 safe harbor.

If you have any questions about whether your plan is affordable, please reach out to any of Graydon’s employee benefits team.

