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Affordability percentage for employer health coverage will shrink in 2023

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The Affordable Care Act (ACA) benchmark for determining the affordability of employer-sponsored health coverage will significantly decrease to 9.12% of an employee's household income for the 2023 plan year — down from the 2022 plan-year level of 9.61%, according to [IRS Rev. Proc. 2022-34](#). This affordability percentage can affect individuals' eligibility for federally subsidized coverage from a public exchange, as well as employers' potential liability for shared-responsibility (or "play or pay") assessments.

Affordability standards

Under the ACA, employer-sponsored minimum essential coverage (MEC) is affordable if an employee's required contribution for the lowest-cost, self-only option with minimum value does not exceed an annually indexed percentage of the employee's household income. Employees and their family members eligible for minimum-value employer-sponsored MEC that meets the affordability standard cannot receive premium tax credits or cost-sharing reductions for public exchange coverage.

To determine liability for play-or-pay assessments, three employer safe harbors allow replacing household income in the affordability calculation with one of these figures:

- Form W-2 wages
- Rate of pay
- Federal poverty line (FPL)

The affordability percentage used in the employer safe harbors is indexed in the same manner as the household income percentage, according to 2015 IRS guidance ([Notice 2015-87, Q&A-12](#)).

Indexing formula

As explained in [Rev. Proc. 2014-37](#), the original 9.5% affordability percentage is annually adjusted after 2014. Before 2020, this adjustment reflected the ratio of the premium growth rate for employer-sponsored health coverage to the national income growth rate in the previous year. For calendar years 2020 and 2021, the method of calculating the “premium adjustment percentage” changed to capture premium increases for both individual-market policies and employer-sponsored health coverage. For calendar years 2022 and beyond, the [Notice of benefit and payment parameters for 2022](#) reverts back to the pre-2020 method of calculating the premium adjustment percentage.

Because the 2023 affordability percentage is indexed based on the rates of premium growth relative to the rates of income growth from 2013 to 2022, using the most recent [National Health Expenditure Accounts](#) (NHEA) income and premium data projections, the 2023 affordability percentage will drop below the 2022 level.

Employer considerations

Employers should review the required employee contribution for 2023 coverage if they plan to meet the ACA’s affordability limit under the applicable safe harbor. For the many plans using the FPL affordability safe harbor, the considerations differ for calendar- and noncalendar-year plans.

FPL safe harbor for calendar-year plans

For 2023 calendar-year plans using the FPL affordability safe harbor, the required employee contribution cannot exceed 9.12% of the FPL for a particular area — \$13,590 for mainland US — or **\$103.28 per month** (slightly up from \$103.15 in 2022), calculated as $(9.12\% \times \$13,590 \text{ FPL for 2022}) \div 12$, rounded to the nearest penny. [Note that we initially projected the 2023 required contribution percentage would be 9.7%, resulting in a 2023 FPL affordability safe harbor contribution limit of \$109.85. This was based on 2021 Centers for Medicare & Medicaid Services [guidance](#), which used NHEA income and premium data projections for 2019–2028. In Rev. Proc. 2022-34, IRS instead uses the most recent NHEA projections for 2021–2030 to determine the required contribution percentage.

FPL safe harbor for noncalendar-year plans

Noncalendar-year plans may use the FPL in effect within six months before the first day of the plan year. That means noncalendar-year plans starting in February to July 2023 (if the 2023 FPL is issued in January) or noncalendar-year plans starting in March to August 2023 (if the 2023 FPL is issued in February) may use either the 2022 FPL of \$13,590 — resulting in a FPL affordability safe harbor of \$103.28 per month — or the 2023 FPL. These noncalendar-year plans would likely benefit from waiting to use the 2023 FPL because it will probably exceed the 2022 FPL and yield a higher FPL safe harbor contribution limit $[(9.12\% \times 2023 \text{ FPL}) \div 12]$. On the other hand, depending on when the 2023 plan year starts and the 2023 FPL is issued, waiting for the 2023 FPL may not be practicable.

The adjusted percentage applies on a plan-year — not calendar-year — basis. This means noncalendar-year plans will continue to use 9.61% to determine affordability in 2023 until their new plan year starts. As described above, noncalendar-year plans won't be able to calculate the likely higher FPL safe harbor contribution limit for plan years beginning after Jan. 1, 2023, until the Department of Health and Human Services issues the [2023 FPL guidelines](#). As a reminder, for 2022 noncalendar-year plans using the mainland US FPL affordability safe harbor, the required employee contribution cannot exceed \$108.83 per month, calculated as $(9.61\% \text{ for } 2022 \times \$13,590 \text{ FPL in } 2022) \div 12$, rounded to the nearest penny.

Related resources

Non-Mercer resources

- [Rev. Proc. 2022-34](#) (IRS, Aug. 1, 2022)
- [Q&As on employer shared-responsibility provisions under the Affordable Care Act — affordability](#) (see Q&A-40) (IRS, May 9, 2022)
- [Poverty guidelines for 2022](#) (HHS, Jan. 21, 2022)
- [Premium adjustment percentage, maximum annual limitation on cost sharing, reduced maximum annual limitation on cost sharing, and required contribution percentage for the 2023 benefit year](#) (CMS, Dec. 28, 2021)
- [Employer shared-responsibility provisions](#) (IRS, Nov. 23, 2021)
- [Final notice of benefit and payment parameters for 2022, Part 2](#) (HHS, May 5, 2021)
- [Notice 2015-87](#) (IRS, Feb. 16, 2015)
- [Rev. Proc. 2014-37](#) (IRS, July 24, 2014)

Mercer Law & Policy resources

- [Mercer projects 2023 figures for ACA affordable employer coverage](#) (Feb. 15, 2022)
- [2022 quick benefit facts](#) (Jan. 19, 2022)
- [Affordable percentage will shrink for employer health coverage in 2022](#) (Sept. 2, 2021)
- [Employers face ongoing liability for ACA play-or-pay assessments](#) (March 2, 2020)
- [IRS outlines how individual-coverage HRAs can meet ACA employer mandate](#) (Oct. 29, 2019)

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