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2020 AFFORDABLE PERCENTAGE FOR EMPLOYER HEALTH COVERAGE SHRINKS

*By Mercer's Dorian Z. Smith and Cheryl Hughes
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The Affordable Care Act (ACA) benchmark for determining the affordability of employer-sponsored health coverage will decline to 9.78% of an employee's household income for the 2020 plan year — a small decrease from the 2019 plan-year level of 9.86%, according to IRS [Rev. Proc. 2019-29](#). 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 reduction subsidies 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](#).

INDEXING FORMULA

As explained in IRS [Rev. Proc. 2014-37](#), the original 9.5% affordability percentage is annually adjusted after 2014. For years prior to 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 beyond, the [Notice of Benefit and Payment Parameters for 2020](#) changes the method of calculating the “premium adjustment percentage” to capture premium increases for both individual-market policies and employer-sponsored health coverage.

Because premiums for individual-market and employer-sponsored health coverage increased at a lower rate than the national income growth rate during 2019, the 2020 percentage will drop below the 2019 level.

EMPLOYER CONSIDERATIONS

Employers should review the required employee contribution for 2020 coverage if they plan to meet the ACA’s affordability limit under the applicable safe harbor. For the many 2020 calendar-year plans using the FPL affordability safe harbor, the required employee contribution cannot exceed 9.78% of the [FPL](#) for a particular area — \$12,490 for mainland US — or \$101.79 per month.

The adjusted percentage applies on a plan-year — not calendar-year — basis. This means noncalendar-year plans will continue to use 9.86% to determine affordability in 2020 until their new plan year starts. Noncalendar-year plans won’t be able to calculate the FPL safe harbor contribution limit for plan years beginning after Jan. 1, 2020 until the Department of Health and Human Services issues the 2020 [FPL guidelines](#) in January or February 2020.

RELATED RESOURCES

Non-Mercer Resources

- [IRS Rev. Proc. 2019-29](#) (IRS, June 22, 2019)

Mercer Law & Policy Resources

- [Top 10 Compliance Issues for 2020 Health and Fringe Benefit Planning](#) (June 25, 2019)
- [2020 ACA Cost-Sharing Caps Set, Play-or-Pay Penalties Projected](#) (May 8, 2019)
- [Trump Administration Adjusts Course on ACA Case](#) (March 27, 2019)

Other Mercer Resources

- [2019 Outlook for Healthcare Issues in Congress](#) (Jan. 24, 2019)
- [US Healthcare Blog: Health Law and Policy](#)

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