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Affordable percentage will rise for employer health coverage in 2021

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The Affordable Care Act (ACA) benchmark for determining the affordability of employer-sponsored health coverage will rise to 9.83% of an employee's household income for the 2021 plan year — a small increase from the 2020 plan-year level of 9.78%, according to IRS [Rev. Proc. 2020-36](#). 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 ([Notice 2015-87, Q&A-12](#)).

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 greater rate than the national income growth during 2020, the 2021 affordability percentage will be higher than the 2020 level.

Employer considerations

Employers should review the required employee contribution for 2021 coverage if they plan to meet the ACA’s affordability limit under the applicable safe harbor. For the many 2021 calendar-year plans using the FPL affordability safe harbor, the required employee contribution cannot exceed 9.83% of the FPL for a particular area — \$12,760 for mainland US — or **\$104.53 per month**, calculated as $(9.83\% \times \$12,760 \text{ FPL for 2020}) \div 12$, rounded to the nearest penny.

The adjusted percentage applies on a plan-year — not calendar-year — basis. This means noncalendar-year plans will continue to use 9.78% to determine affordability in 2021 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, 2021, until the Department of Health and Human Services issues the 2021 [FPL guidelines](#) in January or February 2021. As a reminder, for 2020 noncalendar-year plans using the mainland US FPL affordability safe harbor, the required employee contribution cannot exceed \$103.99 per month, calculated as $(9.78\% \times \$12,760 \text{ FPL for 2020}) \div 12$, rounded to the nearest penny.

Related resources

Non-Mercer resources

- [IRS Rev. Proc. 2020-36](#) (IRS, July 21, 2020)
- [Employer shared-responsibility provisions](#) (IRS, April 3, 2020)
- [Q&As on employer shared-responsibility provisions under the Affordable Care Act — affordability](#) (see Q&A-40) (IRS, Feb. 18, 2020)
- [Poverty guidelines for 2020](#) (HHS, Jan. 15, 2020)

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- [Notice 2015-87](#) (IRS, Feb. 16, 2015)
- [Rev. Proc. 2014-37](#) (IRS, July 24, 2014)

Mercer Law & Policy resources

- [Top 10 compliance issues for health and leave benefits in 2021](#) (July 20, 2020)
- [2021 ACA out-of-pocket maximums, ESR penalties, other changes ahead](#) (June 3, 2020)
- [Employers face ongoing liability for ACA play-or-pay assessments](#) (March 2, 2020)
- [Healthcare law and policy outlook for 2020](#) (Feb. 18, 2020)
- [Updated 2020 federal poverty levels can impact ESR affordability](#) (Jan. 22, 2020)
- [Latest ACA case: Appeals court rules individual mandate unconstitutional](#) (Dec. 19, 2019)
- [IRS outlines how individual-coverage HRAs can meet ACA employer mandate](#) (Oct. 29, 2019)
- [2020 affordable percentage for employer health coverage shrinks](#) (July 23, 2019)

Other Mercer resources

- [US Health News: Health law and policy](#)

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