Determining AFFORDABILITY

Is the employee contribution amount for your group health insurance considered affordable?

When offering employer-provided health care to your employees, you must ensure the amount (monthly or annual) the employee is required to contribute to their premium is considered "affordable," or risk a penalty if that employee is verified as eligible for a subsidy for health insurance purchased on the marketplace.

Under the ACA, employer coverage is considered **affordable** if the employee's required contribution for employee-only coverage **does not exceed 9.5 percent of the employee's household income for the taxable year.**

So, how do you determine an employee's household income for the taxable year? Regulators have provided employers with three safe harbor methods to calculate affordability:

W-2 Safe Harbor

Determine affordability by referring to an employee's wages reported in box 1 of Form W-2. This can be done one of two ways:

1. After the calendar year on an employee-by-employee basis. Determine whether you met the Form W-2 safe harbor for 2014 by looking at an employee's wages reported on the 2014 Form W-2 that is out in January 2015. EXAMPLE 1: $11,700
2. You may also use this safe harbor ***prospectively*** at the beginning of the year, to set the employee contribution so it would not exceed 9.5 percent of that employee's Form W-2 wages for that year. To do this, instruct your payroll processor to deduct exactly 9.5% from the employee's W-2 wages each pay period.

EXAMPLE 1: 9.5% of $11,700 = $1,111.50/12 months = $92.63 per month
If the employee's monthly contribution is equal to or less than $92.63 per month, it is considered affordable.

Federal-Poverty-Line Safe Harbor

An employer may rely on a safe harbor using the current 2014 federal poverty line for a single individual, which is an annual salary of **$11,670** for the year 2014.

Employer-provided coverage is affordable if the employee's cost for employee-only coverage under the plan does not exceed 9.5 percent of the federal poverty line for a single individual.

EXAMPLE: 9.5% of $11,670 = $1,091.55/12 = $90.96 per month
If the employee's monthly contribution is equal to or less than $90.96, it is considered affordable.

Rate-of-Pay Safe Harbor

You may apply this safe harbor to an hourly employee even if the employee's rate of pay is reduced during the year. In this situation, the rate of pay is applied separately to each calendar month, rather than to the entire year and the employee's required contribution may be treated as affordable if it is affordable based on the lowest rate of pay for the calendar month multiplied by 130 hours.

- Take the hourly rate of pay for each hourly employee who is eligible to participate in the health plan as of the beginning of the plan year. EXAMPLE: $7.50 per hour
- Multiply that rate by 130 hours per month (the benchmark for full-time status for a month under the ACA).
- Determine affordability based on the resulting wage amount.

Under this safe harbor, the employee's monthly contribution amount is affordable if it does not exceed 9.5 percent of the monthly wages. For salaried employees, use monthly salary instead of an hourly salary multiplied by 130.

EXAMPLE: $7.50 x 130 = $975 | 9.5% of $975 = $92.63
If the employee's monthly contribution is equal to or less than $92.63, it is considered affordable.

EXAMPLE 2: Employee receives pay increase to $8.50 x 130 = $1,105 | 9.5% of $1,105 = $104.98
If employee's monthly contribution for those months is equal to or less than $104.98, it is considered affordable.

Employer Reporting (Section 6065) will require employers to indicate which safe harbor method they used.

Questions? Call Health+ at 866-696-3225 or email healthplus@namgllc.com.

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