



Benefits Bulletin



Increased ACA Affordability Percentages for 2021

Last week, on July 21, 2020, the IRS released [Rev. Proc. 2020-36](#), which announced the 2021 indexing adjustments for two important percentages under the Affordable Care Act (ACA).

- **Affordability Percentage Increased to 9.83%.** Under the employer shared responsibility provisions (ESRP) of the ACA, an applicable large employer (ALE) that sponsors a group health plan must offer “minimum essential coverage” (MEC) to at least 95% of its full-time employees (and their dependents), and such coverage must meet affordability and minimum value requirements under the Code. If at least one full-time employee qualifies for a subsidy and buys health insurance in the Health Insurance Marketplace, the employer may face one of two potential penalties under Code §4980H(a) or Code §4980H(b), commonly referred to as the “A” and “B” penalties.

Employer-sponsored coverage is considered “affordable” if the portion that the employee is required to pay for the lowest cost, self-only MEC does not exceed a certain percentage of the employee’s household income. **For 2021, this percentage has increased from 9.78% in 2020 to 9.83% in 2021.** Because employers generally do not know the employee’s household income, the IRS has provided **three safe harbors** for ALEs to determine whether an offer of coverage is affordable: **Federal Poverty Line (FPL), rate of pay, and Form W-2.**

- **Premium Tax Credit Eligibility.** Individuals eligible for the premium tax credit must contribute a certain percentage of their household income to the cost of Exchange coverage. For 2021, the adjusted percentages range from 2.07% to 9.83% (the percentage increases as the taxpayer’s household income increases, determined by household income bands). The contribution percentages have increased from both the baseline and the 2020 percentages.

Action Items. ALEs should take steps to develop their contribution strategy for 2021, including determining the affordability safe harbor that works best for their plan. The higher 2021 affordability percentage means that employers will be able to charge employees a slightly increased price for their health coverage. **For example, employers who use the Federal Poverty Line (FPL) safe harbor can increase the affordable employee contribution amount from \$101.79 per month (2020) to \$104.52 per month in 2021.**