

Calculating AFFORDABILITY under the ACA Employer Mandate in 2020

The Affordable Care Act's (ACA) Employer Mandate is still in effect for Applicable Large Employers (ALEs). These ALEs must provide coverage that is "affordable" to all eligible full-time employees.

Employer's cannot charge employees more than 9.78% of their "household income," which is difficult to determine...so **3 Safe Harbor Options/Rules** are available to provide alternatives to calculate "affordability."

1. The **W-2 Safe Harbor Method**: Using this safe harbor alternative, coverage is deemed affordable if the employee is charged no more than 9.78% of current year wages as indicated in Box 1 of their W-2 form. Because you have to use *current*-year wages, which aren't known until the end of the year, this seemingly simplistic alternative can delay knowledge of whether the plan is affordable until after the year has completed. An example of the W-2 method is as follows:

Example: John works at ABC Company for the entire year and is offered coverage for all 12 months. Box 1 on his W-2 form shows his wages to be \$40,000. The formula to determine affordability is: $\$40,000 \times .0978$ divided by 12 months = \$326.00 per month. ABC Company will be considered to offer affordable coverage if John is not charged more than \$326.00 per month for coverage.

2. **Rate of Pay Safe Harbor Method**: With this method, coverage is deemed to be affordable if the employee is charged no more than 9.78% of their *monthly* rate of pay at the start of the coverage period, where, for hourly employees, 130 hours is used to determine the monthly rate of pay. The *actual number of hours worked is not relevant under this method*. The rate of pay method should not be used for employees who receive wages by virtue of tips or employees who are paid solely by commissions. An example using the rate of pay method is as follows:

John works for ABC Company and is paid \$15 per hour at the start of the plan year. The formula to determine affordability is $\$15.00 \times 130 \text{ hours} = \$1,950 \times .0978 = \$190.71$ per month. ABC Company coverage will be affordable provided John is not charged more than \$190.71 per month for coverage.

3. **Federal Poverty Level (FPL) Safe Harbor Method**: Coverage is deemed affordable if the employee is charged no more than 9.78% of the *most recently published mainland FPL for a household of one*. A simple example of this is as follows:

The current mainland FPL for a household of one is \$12,490. ABC Company will be considered to offer affordable coverage to employees who are not charged more than \$101.79 per month. The formula below is $\$12,490 \times .0978$ divided by 12 = \$101.79 per month.

2020 Employer Mandate Penalties: As they do each year, the Department of Health and Human Services (HHS) calculates the health insurance premium growth rate. That rate is then used to adjust the amount of the ACA employer mandate penalties. The 2020 employer mandate penalties will be \$2,570 for the (a) penalty, and \$3,860 for the (b) penalty.

For more information or questions contact

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