

Federal Poverty Level Announced for 2024—What Does This Mean for Employer Shared Responsibility Rules?

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In January, the 2024 federal poverty level (FPL) was announced as \$15,060. This is an increase from \$14,580 in 2023. The annual FPL will impact ACA affordability calculations when using the FPL safe harbor to determine affordability.

The ACA requires applicable large employers (ALEs) to offer full-time employees affordable minimum essential coverage that provides minimum value, or otherwise face steep penalties. In the 2023 plan year, to satisfy the affordability test, the lowest cost of single employee coverage could not exceed 9.12% of an employee's total household income (total household income includes incomes from everybody in the household who is required to file a tax return). For the 2024 plan year, the lowest cost of single employee coverage has decreased; it cannot exceed 8.39% of an employee's total household income.

Because employees' total household income is generally unknown by employers, ALEs can utilize one of the three safe harbors to determine whether they meet the 2024 affordability requirement: FPL, W-2, and Rate of Pay. Under the 2024 FPL safe harbor, coverage will be affordable if the cost to employees for self-only coverage on the lowest-cost of single employee coverage offered is less than 8.39% of the FPL.

Employers are permitted to use the FPL guidelines in effect six months prior to the beginning of the plan year to calculate affordability under the FPL safe harbor. This is because the annual FPL amount is generally not released until after the calendar year begins, so calendar year plans generally rely on the prior year's FPL. While the 2023 FPL can be used to determine the FPL safe harbor for plan years that begin before July 1, 2024, the 2024 FPL must be used for plans that begin on or after July 1, 2024.

WINSTON TAKEAWAY:

As a result of this change, employers whose plan years begin on or after July 1, 2024, and who expect to rely on the FPL safe harbor should review their single employees' lowest-cost coverage premiums/contributions for their medical coverage offerings and make any required adjustments to premiums/contributions in order to ensure compliance with the ACA's affordability requirements.

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