

# IRS Decreases ACA Affordability Percentage for 2020- What does this mean for the Employer Shared Responsibility Rules?

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In the recently issued Revenue Procedure 2019-29, the Internal Revenue Service (IRS) reduced the applicable contribution percentage for the 2020 plan year. This percentage is used for purposes of determining whether an employer's health insurance coverage is affordable under the Affordable Care Act (ACA).

## Background

Under the ACA, an applicable large employer will not be subject to an employer shared responsibility payment (ESRP) with respect to a full-time employee as long as the employee is offered affordable, minimum value, minimum essential coverage. Employer-provided coverage is considered affordable for an employee and related individuals only if the portion of the annual contribution/premium the employee must pay for self-only coverage does not exceed the required contribution percentage (adjusted annually) of the employee's household income. The required contribution percentage has been the following during the below plan years:

- 9.5% for 2014;
- 9.56% for 2015;
- 9.66% for 2016;
- 9.69% for 2017;
- 9.56% for 2018; and
- 9.86% for 2019.

Since employers do not have access to information about employees' household income, the ACA regulations create three safe harbors based on information an employer can easily access. These are the rate of pay safe harbor, the Form W-2 wages safe harbor, and the federal poverty line safe harbor. The above contribution percentage is also used when utilizing these safe harbors.

### **Rev. Proc. 2019-29**

The adjusted percentage for 2020 is 9.78% of the employee's household income. This is a decrease from plans

beginning in 2019, which was 9.86%. Under the guidance, employer-offered health coverage will be considered affordable if the required employee contribution for the lowest cost self-only health coverage option providing minimum value does not exceed 9.78% of the employee's household income, or as applicable in one of the available safe harbors.

## Winston Takeaway

As a result of this decrease, employers with a low-paid workforce may have to lower their employee contributions/premiums for the lowest cost self-only health coverage option for 2020 to meet the adjusted percentage. Alternatively, these employers may instead increase employee compensation for these low-paid workers. Failure to comply with the ACA's employer shared responsibility requirements can be a costly mistake. Employers should review their health coverage offerings to ensure they are in compliance with the ACA's requirements.

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