

Benefits Bulletin: Health & Welfare Plans – August 2022

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ACA's Affordability Percentage Decreases for 2023

The IRS recently published its annual inflation adjustment to the percentage of household income used to determine whether an employer's offer of health care coverage under the Affordable Care Act (ACA) is considered affordable in the 2023 plan year.

By way of background, the ACA requires applicable large employers to offer full-time employees with affordable minimum essential coverage that provides minimum value, or face steep penalties.

In the 2022 plan year, the cost of self-only coverage could not exceed 9.61% of an employee's household income to meet the affordability test under the ACA. For the 2023 plan year, the affordability benchmark has decreased to 9.12% of an employee's household income. If an employer chooses, it can rely on one of the ACA safe harbors when determining an employee's household income because an employer may not know the employee's total household income. The three safe harbors are: (i) the employee's W-2 Box 1 wages, (ii) the employee's hourly rate of pay multiplied by 130, or (iii) the Federal Poverty Line (FPL) for a household of one.

Winston Takeaway: As a result of this reduction in the affordability percentage, employers should review the employee's lowest-cost self-only coverage premiums/contributions for their health coverage offerings and make any required adjustments to premiums/contributions prior to open enrollment for 2023 in order to ensure compliance with the ACA's affordability requirements.

Kristine Lofquist, a Senior Paralegal in Winston's Chicago office, assisted with this briefing.

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