

COMPLIANCE ALERT

ACA Employer Mandate Affordability Percentage Increases for 2025

September 12, 2024

Action Required:

- Employers and plan sponsors should review their proposed 2025 medical plans and ascertain if they meet the ACA's minimum standards and affordability requirements.

The IRS recently announced in [Revenue Procedure 2024-35](#) that the new ACA affordability percentage for 2025 will be 9.02%. This increase (up from the 8.39% affordability percentage for 2024) has reversed the trend from previous years where this affordability percentage was reduced. The new affordability percentage could potentially reduce the penalties that employers and plan sponsors receive from the IRS, as this rise in the affordability percentage allows employers to shift more of the premium payment obligation to employees for 2025.

What Should Employers and Plan Sponsors Do Next?

As open enrollment season is just around the corner (for most plans), employers and plan sponsors should begin the process of reviewing their planned 2025 offers of medical coverage, determine if they meet the ACA's minimum standards and affordability requirements, and assess how to proceed based on the new affordability standards. If your organization needs assistance with understanding the ACA's Employer Mandate rules, or with calculating whether your offer of medical coverage will be affordable, please contact your Corporate Synergies Account Manager. ■

↓ **Full Explanation Follows** ↓

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How will the New Affordability Percentage Impact Employers and Plan Sponsors?

With the new affordability percentage rising for the first time in two years, employers and plan sponsors get a reprieve from the rising amount of employer contributions for premiums needed to avoid an ACA penalty for unaffordable coverage. While the rise in the affordability percentage this year is still below the original 9.5%, this year's change will allow plan sponsors to shift more premium contribution responsibility to employees.

As background, this ACA affordability percentage is used for determining if the coverage an employer offers is affordable under one of three ACA Employer Shared Responsibility ("Employer Mandate") affordability safe harbors. Specifically, for 2025, an employer's offer of medical coverage will be deemed to be affordable for purposes of the Employer Mandate penalty rules only if the required employee contribution for the lowest cost "self-only" or "employee-only" tier option offered by the employer does not exceed 9.02% of the applicable safe harbor amount. The three safe harbors that measure affordability are based on an employee's Form W-2 wages, an employee's rate of pay or the federal poverty line for a single individual.

What are the Employer Mandate Penalty Amounts for 2025?

The ACA Employer Mandate penalty amounts for 2025 for failing to offer coverage (the "large penalty"), and for failing to offer coverage that meets the ACA's minimum standards and affordability requirements (the "small penalty"), were previously released in [Revenue Procedure 2024-14](#) and are as follows:

- For the "large penalty" for failing to offer Minimum Essential Coverage to at least 95% of the ACA-defined "full-time employees" and their dependent children (under Code § 4980H(a)), the penalty is \$2,900 (down from \$2,970 in 2024); and
- For the "small penalty" for failing to offer coverage that meets the ACA's minimum standards of minimum value and affordability (under Code § 4980H (b)), the penalty is \$4,350 (down from \$4,460 in 2024).

The large penalty, if applicable, is multiplied by every full-time employee in the organization (minus the first 30 employees) if a single employee qualifies for and receives a premium tax credit on an ACA Exchange. The small penalty, if applicable, is applied on a per-employee basis for each full-time employee that qualifies for and receives a premium tax credit on an ACA Exchange.

When does the new Affordability Percentage go into Effect?

The new affordability percentage for 2025 will go into effect for plan years beginning in the 2025 calendar year (that is, plan years beginning on or after January 1, 2025).

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**If you have any additional questions,
please call your Corporate Synergies
Account Manager or 866.CSG.1719.**