CTSI

TECHNICAL **UPDATE**

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IRS RAISES AFFORDABILITY THRESHOLD FOR 2025

The Internal Revenue Service (IRS) has recently announced an important update regarding the affordability percentage used under the Affordable Care Act (ACA) for 2025. This percentage, a crucial factor for determining whether employer-sponsored health coverage is affordable, **will increase to 9.02% in 2025, up from 8.39% in 2024.** This change is particularly relevant for Applicable Large Employers (ALEs), who must offer affordable healthcare to their full-time employees to avoid penalties under the ACA.

WHAT IS THE AFFORDABILITY PERCENTAGE?

Under the ACA's employer mandate, ALEs—defined as employers with 50 or more full-time employees—must offer health coverage that meets minimum value standards and is deemed affordable. If an ALE fails to meet these requirements, it faces potential penalties. The affordability percentage is adjusted annually and determines the maximum contribution an employee can make for self-only coverage without exceeding the affordability threshold. For 2025, the IRS has increased the affordability percentage to 9.02%, which means that the cost of self-only health coverage for employees cannot exceed 9.02% of their household income. Since employers typically do not have access to an employee's total household income, there are three safe harbor options to calculate affordability:

1. **Form W-2 Wages:** Based on the employee's actual wages.
2. **Rate of Pay:** Calculated using the employee's hourly or monthly pay rate.
3. **Federal Poverty Guidelines:** Based on the federal poverty level for a single individual.

IMPACT ON EMPLOYERS

This increase in the affordability percentage gives employers more flexibility when determining employee contributions for healthcare coverage. In previous years, lower affordability percentages meant employers had to cover more healthcare costs to remain compliant. However, with the 9.02% threshold, employers can require employees to contribute slightly more toward their health insurance premiums while still meeting affordability requirements.

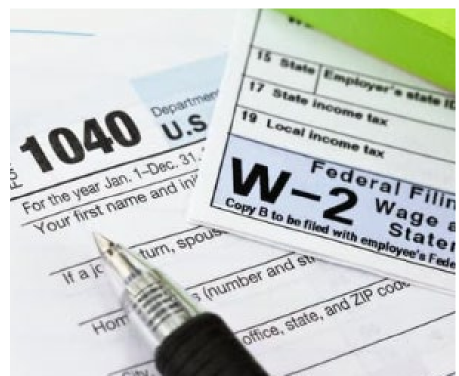
SAFE HARBOR CONSIDERATIONS

Many ALEs use the Federal Poverty Line Safe Harbor to determine affordability based on the federal poverty guidelines for a single individual. For 2025, the required contribution for the lowest-cost self-only coverage cannot exceed $113.20 per month, compared to $101.94 in 2024. This modest increase ensures that healthcare coverage remains affordable for lower-income employees, but it also provides employers with a small margin to adjust contributions.

NEXT STEPS FOR EMPLOYERS

Employers should begin preparing for this change by reviewing their healthcare contribution structures for the 2025 plan year. While the increase in the affordability percentage allows more flexibility, employers must ensure employee contributions remain within legal limits. Failure to comply with ACA requirements can result in penalties. Critical considerations for ALEs include:

- **Reviewing Contribution Models:** Employers should evaluate whether to adjust contributions in light of the new percentage, which allows room for higher employee contributions while maintaining compliance.
- **Using Safe Harbors:** Employers should decide which safe harbor method (W-2 wages, rate of pay, or federal poverty level) best determines affordability for their workforce.
- **Consulting Advisors:** Verifying that any changes meet ACA requirements through legal and financial advisors ensures compliance and avoids penalties.



WHAT THIS MEANS FOR COUNTIES

The increase in the IRS affordability percentage to 9.02% for 2025 provides ALEs greater flexibility in managing healthcare costs while remaining compliant with the ACA's employer mandate. Counties should take this opportunity to review their healthcare contribution strategies and ensure they meet affordability thresholds without facing penalties. Employers can better balance healthcare costs with their operational needs by leveraging available safe harbors and adjusting contribution models. For questions, contact CHP Staff at (303) 861-0507.

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