

EMPLOYEE BENEFIT ALERT



AUGUST 3, 2020

2021 "AFFORDABILITY" PERCENTAGE

In Revenue Procedure 2020-36, the IRS increased the affordability percentage from 9.78% to 9.83% for 2021. This percentage determines which applicable large employers may face penalties under §4980H(b) for failure to offer affordable coverage as well as which individuals may qualify for subsidized coverage through a public Exchange.

BACKGROUND

Under §4980H, applicable large employers (50 or more full-time equivalents (FTEs)) must offer coverage to full-time employees that is affordable to avoid potential §4980H(b) penalties. In addition, individuals enrolling for coverage through a public Exchange will not qualify for subsidized coverage if they are eligible for employer-sponsored group health coverage that is affordable.

Coverage is generally considered "affordable" if the employee contribution for employee-only (single) coverage does not exceed a set percentage (9.83% in 2021) of household income. Note – Coverage is considered affordable for dependents as well, regardless of the contribution amount, so long as the employee-only (single) coverage is affordable. Coverage is also considered "affordable" for purposes of satisfying §4980H(b) requirements so long as the employee contribution satisfies at least one of three available safe harbors (i.e., federal poverty level (FPL), rate of pay, or Form W-2).

REQUIRED CONTRIBUTION PERCENTAGE

Originally, for 2014, the required contribution percentage for determining affordability was set at 9.5%. The percentage is adjusted annually. See applicable percentages for each year in the following table.

	2015	2016	2017	2018	2019	2020	2021
Affordability Percentage	9.56%	9.66%	9.69%	9.56%	9.86%	9.78%	9.83%

APPLICATION

Effective for plan years beginning on or after January 1, 2021, the percentage to be used in affordability calculations is 9.83%. This is true regardless of whether the affordability is determined based on household income or using one of the three affordability safe harbors. This percentage is also used to determine whether an employer made a "qualifying offer" for employer reporting purposes on Forms 1094-C and 1095-C.

The increase in the affordability percentage (from 9.78% in 2020 to 9.83% in 2021) will allow employers to impose slightly higher employee contributions for the 2021 plan year and still meet affordability requirements under §4980H(b). For more details about affordability requirements and use of an affordability safe harbor, see our issue brief on affordability found at [benefitcomply.com/%E2%80%A2-affordability-considerations/](https://www.benefitcomply.com/%E2%80%A2-affordability-considerations/).

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