

IRS Announces 2025 ACA Affordability Indexed Amount

The IRS recently announced that the Affordable Care Act (“ACA”) affordability indexed amount under the Employer Shared Responsibility Payment (“ESRP”) requirements will be 9.02% for plan years that begin in 2025. This is a significant increase from the 2024 percentage amount (8.39%) but remains below the original 9.5% threshold.

■ Background

IRS Revenue Procedure 2024-35 establishes the indexed “required contribution percentage” used to determine whether an individual is eligible for “affordable” employer-sponsored health coverage under Section 36B (related to qualification for premium tax credits when buying ACA Marketplace coverage). However, the IRS explained in IRS Notice 2015-87 that a percentage change under Section 36B will correspond to a similar change for affordability under section 4980H ESRP requirements.

■ Determining Affordability in 2025

An employer will not be subject to a penalty with respect to an ACA full-time employee (“FTE”) if that employee’s required contribution for 2025 meets one of the following safe harbors.

- **The W-2 safe harbor.**

The employee’s monthly contribution amount for the self-only premium of the employer’s lowest cost coverage that provides minimum value is affordable if it is equal to or lower than 9.02% of the employee’s W-2 wages (as reported on Box 1 of Form W-2). Application is determined after the end of the calendar year and on an employee-by-employee basis. Box 1 reflects compensation subject for federal income taxes, which would exclude amounts such as employee contributions to a 401(k) or 403(b) plan, and towards other benefits through a cafeteria plan.

- **Rate of pay safe harbor.**

The employee’s monthly contribution amount for the self-only premium of the employer’s lowest cost coverage that provides minimum value is affordable if it is equal to or lower than 9.02% of the employee’s computed monthly wages. For hourly employees, monthly wages are equal to 130 hours multiplied by their rate of pay. For salaried employees, monthly wages are equal to their monthly salary.



- **Federal Poverty Level (“FPL”) safe harbor.**

Coverage is affordable if it does not exceed 9.02% of the FPL.

For a 2025 calendar year plan, coverage is affordable under the FPL safe harbor if the employee monthly cost for self-only coverage in the lowest cost plan that provides minimum value is not more than \$113.20 (48 contiguous states), \$141.38 (Alaska), or \$130.11 (Hawaii). Note, this amount may increase (or decrease) when the 2025 FPL guidelines are issued.

■ Employer Action

Employers budgeting and preparing for the 2025 plan year should review these affordability safe harbors when analyzing employee contribution amounts for the coming year.