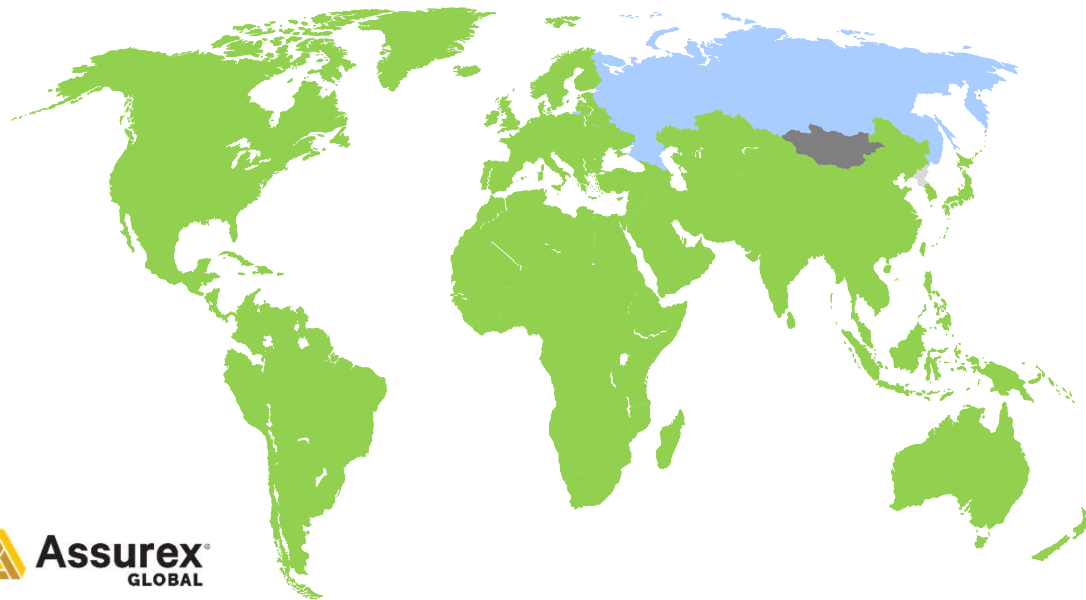


Affordability

Presented by Benefit Comply
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Agenda

- Affordability – What is it and why does it matter?
- Setting employee contributions
- What factors into employee contributions
- Affordability safe harbors



Affordability Definition



Coverage is “affordable” when employee contributions for an employer-sponsored medical plan that provides minimum value don’t exceed a set percentage of household income

- For employees, affordability is based on the required employee contribution for single coverage
- For family members, affordability is based on the required employee contribution for family coverage



The Importance of Affordability

Employer Mandate

Applicable large employers must offer affordable, minimum value coverage to avoid penalties

Marketplace Premium Tax Credits

Individuals offered affordable coverage aren't eligible for premium tax credits

Small Employers v. Applicable Large Employers

Small Employers

- Not required to offer coverage
- If choosing to offer coverage, not required to offer affordable coverage for employees or their family members

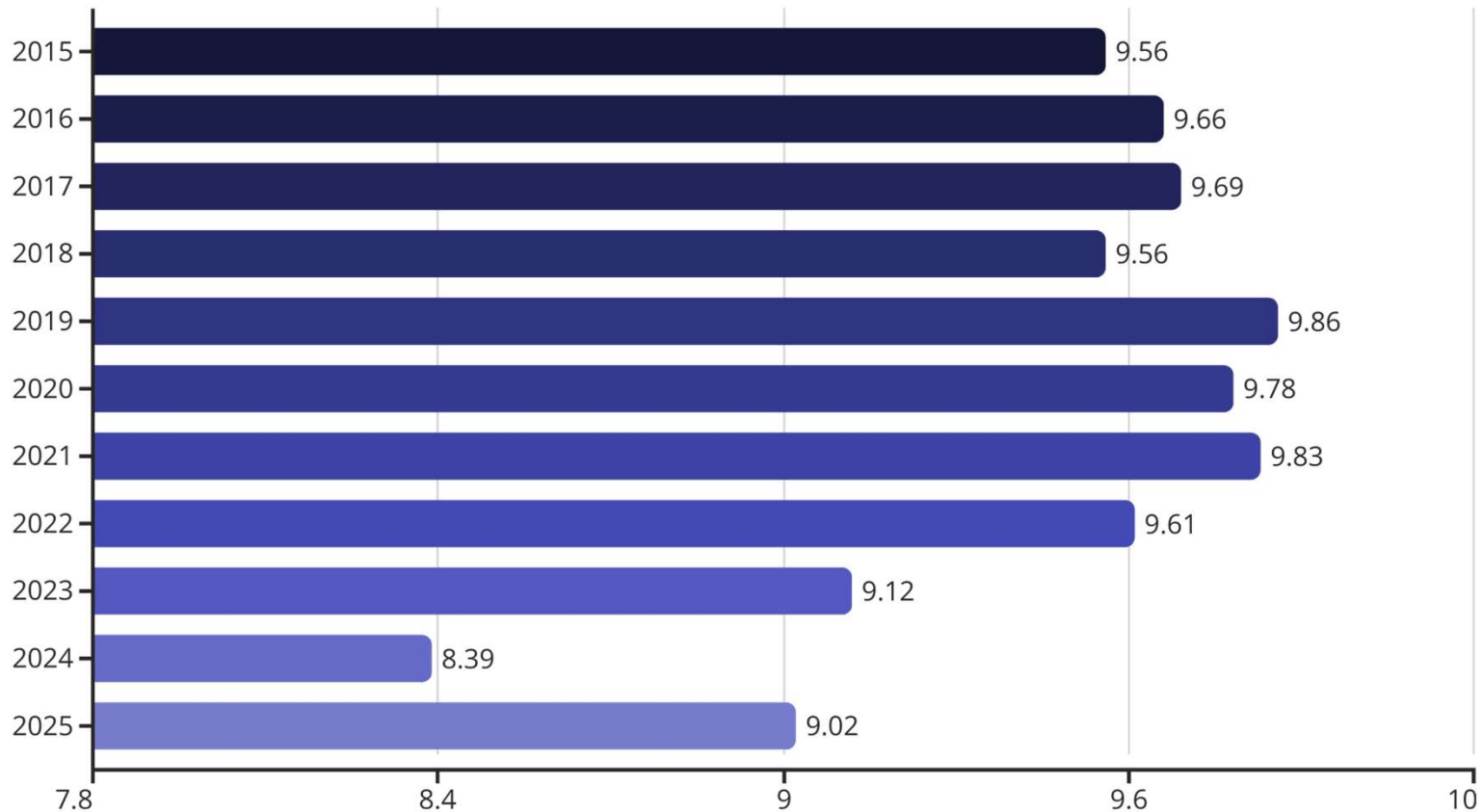
Applicable Large Employers (50 or more FTEs)

- Must offer affordable coverage to full-time employees
- Not required to offer affordable coverage to part-time employees
- Not required to offer affordable coverage for spouses or dependents



Affordability Percentage

The affordability percentage started at 9.5% in 2014 and is adjusted annually





Affordability Percentage - Plan Year Considerations

Applying the Correct Percentage

The affordability percentage applies to "plan years beginning in..."

Examples

A 2025 calendar year plan would use 9.02% for 2025

A July-June plan would use 8.39% for July 2024 - June 2025 and 2025 and 9.02% for July 2025 - June 2026



Setting Employee Contributions



Strategic Decision

Balance affordability against employer costs

Weigh employer cost of affordability against potential penalties

For small employers, consider whether Marketplace subsidies may be a better option



Penalty Analysis

For ALEs: \$362.50/month (2025) for FT employees who waive AND enroll in subsidized Marketplace coverage

For small employers (<50 FTEs), no penalty risk

Contribution Flexibility



Employee & Dependent Categories

§4980H allows different contribution rates for different employee categories

Employers not required to offer affordable coverage to dependents and dependents may qualify for Marketplace subsidies even if employee coverage is affordable



Individual Assessment

Affordability evaluated on employee-by-employee basis



Nondiscrimination Rules

Must consider rules restricting favorable treatment of highly compensated individuals

Determining Employee Contributions

Required Employee Contribution

- Amount employee pays for lowest-cost minimum value single coverage
- This amount is reported on Line 15 of Form 1095-C
- Consider how the following benefits may impact the required employee contribution



HSA



HRA



Flex Credits



Opt-Out Incentives



Wellness Incentives

HSAs & HRAs Do Not Impact Affordability

HSAs

HSA contributions do not impact affordability because HSA funds are generally not available to reimburse premiums

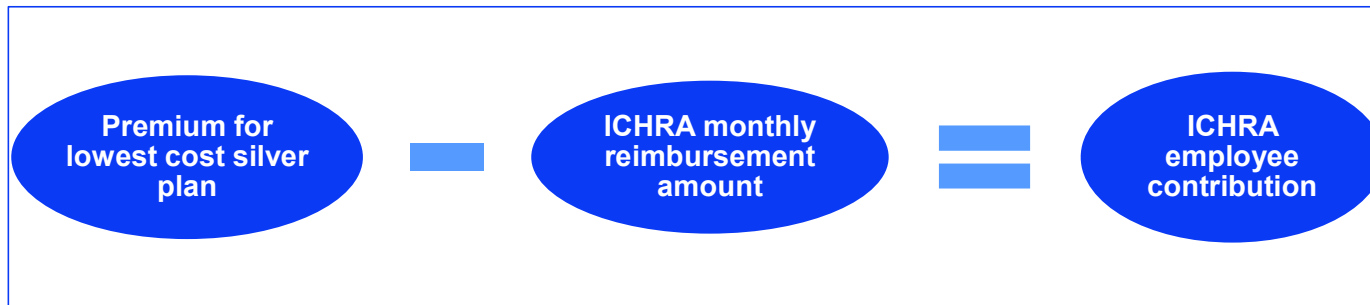
HRAs

HRA funding does not impact affordability because it typically typically isn't available to reimburse premiums (they are more are more often designed to offset plan cost-sharing)

HRA funding may contribute toward meeting minimum value

Individual Coverage HRA (ICHRA) Affordability

Employee Contribution



Affordability

Employee contribution cannot exceed 9.02% (in 2025) of household income (or an affordability safe harbor)

Affordability is tied to the lowest cost silver plan available on the Marketplace

- Marketplace plan premiums vary by age and location
- Can base affordability on primary site of employment or employee's residence

Flex Credits

Flex Credits (Defined Contribution)

Employer provides \$XX/month that can be used toward benefits offered through a cafeteria plan

Usage Restrictions

Can credit be used toward all benefits?

Can unused credit be cashed out?

Affordability Impact

Flex credits restricted to health coverage (e.g., medical, dental, vision or health FSA) will decrease the employee contribution

Flex credits that can be used for non-health coverage or cashed out do not decrease the employee contribution



Flex Credits Example

Scenario

- Employee's cost for single medical coverage: \$500/month
- Employer provides: \$300/month in flex credits

Health-Restricted Credits

Credits usable only for medical, dental, vision, or health FSA

Required employee contribution = \$200 (\$500-\$300)

Unrestricted Credits

Credits usable for non-health benefits (life, disability, DCAP, cash)

Required employee contribution = \$500 (full amount)

Opt-Out Incentive

Opt-Out Incentive (Cash-In-Lieu of Benefits)

Choice between medical coverage and taxable cash

Usage Restrictions

Available to all who waive?

Available only to those with certain other coverage (e.g., group coverage, Medicare)?

Affordability Impact

If available to all who waive (i.e., an unconditional opt-out), the incentive increases the employee contribution

If limited to those with other non-individual health insurance (i.e., an “eligible opt-out arrangement”), then the incentive is ignored



Opt-Out Incentive Example

Scenario

- Employee cost for health coverage: \$125/month
- Opt-out credit available: \$50/month

Unconditional Opt-Out

Available to any employee who waives coverage

Affordability contribution: \$175 (\$125+\$50)

- Exception: Grandfathered arrangements before December 2015

Eligible Opt-Out Arrangement

Only available with proof of other non-individual coverage for employee and all of tax family

Affordability contribution: \$125 (unchanged)

Wellness Incentives



Non-Tobacco Incentives

Use higher contribution amount for affordability



Tobacco-Related Incentives

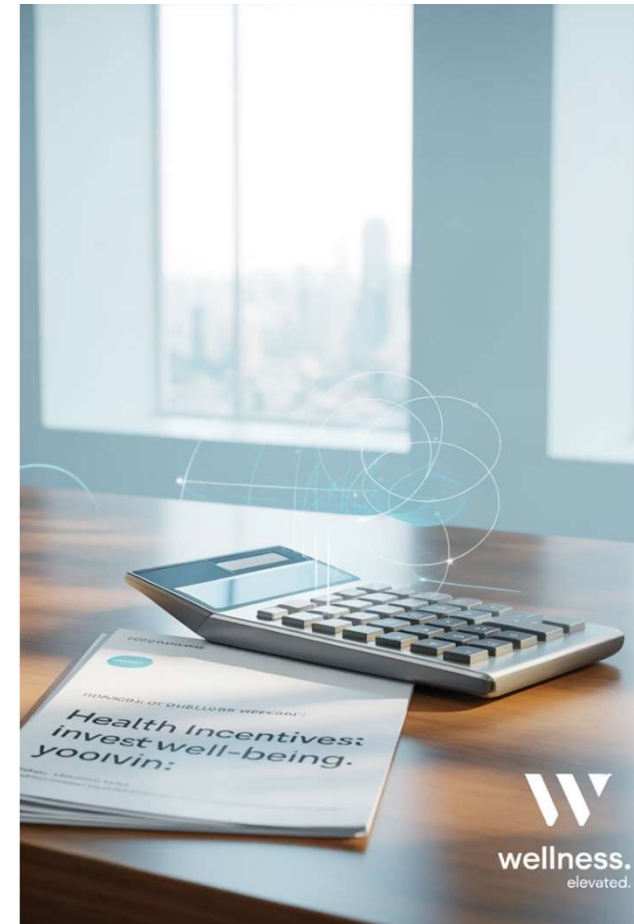
Use lower contribution amount for affordability



Example

\$200 standard rate, \$150 with wellness discount

Non-tobacco: Use \$200 / Tobacco: Use \$150



Affordability Safe Harbors

The Challenge: Household Income Unknown to Employers

The Solution: Safe Harbors Created

IRS provided three safe harbors for more predictable affordability determinations

- Federal Poverty Line (FPL), Rate of Pay, and Form W-2
- Meeting any safe harbor protects employers from §4980H(b) penalties
- May apply different safe harbors for reasonable categories of employees (e.g., job class, compensation type, geographic location)

Safe Harbor Flexibility

1

Annual Selection

Can use different safe harbors for each reporting year

2

Use to Set Employee Contributions

Use to determine what employee contribution will result in affordable coverage for most full-time employees

3

Reporting

Final safe harbor choice can be made when preparing Forms 1094-C and 1095-C



Federal Poverty Line (FPL) Safe Harbor

Simple Calculation

Affordable if employee cost doesn't exceed % of FPL for a single individual

Guarantees affordability for all employees regardless of income

FPL Timing

Use FPL in effect within six months of the plan year

HHS generally updates the FPLs each January

2025 Thresholds

Calendar year plans: \$113.20/month or less

Non-calendar year plans: \$117.64/month or less

NOTE: The FPL for Alaska and Hawaii is higher than the mainland FPL

Rate of Pay Safe Harbor: Hourly Employees



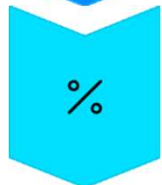
Identify Hourly Rate

Use employee's hourly rate as of the first day of the coverage period



Multiply by 130

Multiply hourly rate by 130 hours (not actual hours worked)



Apply Percentage

Calculate 9.02% (in 2025) of this amount



Compare Contribution

Employee's monthly contribution must not exceed this amount

EXAMPLE: Employer has full-time employees paid \$14/hour and up

\$164.16/month or less is affordable
(130 X \$14 X 9.02% in 2025)

Rate of Pay Safe Harbor: Non-Hourly Employees



Monthly Salary

Use employee's monthly salary as of the first day of the coverage period



Apply Percentage

Calculate 9.02% (in 2025) of the monthly salary



Limitations

Safe harbor not available if salary is reduced or for tipped/commission-only employees

Form W-2 Safe Harbor



Box 1 Wages

Includes taxable wages, bonuses, tips, and other compensation as defined in Code §3401(a)

Does not include non-taxable benefits (e.g., 401(k) or 401(k) or pre-tax cafeteria plan salary reductions)



Apply Percentage

Calculate 9.02% (in 2025) of 2025 Box 1 wages



Compare Contribution

Employee's annual contribution must not exceed this amount



Limitations

Required contribution must remain a consistent amount or % of Form W-2 wages during the year

EXAMPLE 1: Offered All 12 Months

Employee Box 1 wages of \$30,000

\$225.50/month or less is affordable
($\$30,000 \times 9.02\% / 12$ in 2025)

EXAMPLE 2: Offered Partial Year

Employee Box 1 wages of \$18,000

Employed 7 months, offered coverage 5 months

\$231.94/month or less is affordable
 $5/7 \times \$18,000 \times 9.02\% / 5$ in 2025)

Choosing a Safe Harbor

Step 1: Use FPL safe harbor if it applies

Step 2: Look to Rate of Pay or Form W-2 safe harbor if FPL safe harbor doesn't apply

- Rate of pay safe harbor is good for hourly, variable hour employees and guarantees affordability if hourly rate doesn't decrease; can be used with certainty at the beginning of the plan year
- Form W-2 safe harbor is good for employees who work >30 hours per week and/or earn bonuses, tips or commission; will not be known until the end of the year when Form W-2 wages are determined



Affordability Paradox

Household Income vs. Safe Harbors

Coverage can be affordable under a safe harbor but unaffordable based on household income

Subsidy Eligibility

Employees may qualify for Marketplace subsidies based on household income

Employer Protection

Employers meeting any safe harbor avoid §4980H(b) penalties regardless of subsidy eligibility

Affordability Paradox

Employer Calculation

Rate of pay: $\$12/\text{hour} \times 130 \text{ hours} \times 9.02\% =$
 $= \$140.71 \text{ monthly contribution}$

Employee Situation

Employee earns \$1,600/month but pays \$300 alimony,
reducing household income to \$1,300

Actual Affordability

\$140.71 is 10.06% of household income (\$1,300), making it unaffordable

Result

Employee may qualify for Marketplace subsidy, but employer faces no penalty

Key Takeaways



Affordability Matters

Critical for §4980H compliance and employee subsidy eligibility



Contribution Factors ion

Flex credits, opt-outs, and wellness incentives may affect employee contribution contribution



Safe Harbor Protection

FPL, rate of pay and Form W-2 safe harbors provide penalty protection even if unaffordable based on household income



Strategic Approach

Balance affordability compliance with cost management and employee needs



Questions