



Affordable percentage will shrink for employer health coverage in 2022

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The Affordable Care Act (ACA) benchmark for determining the affordability of employer-sponsored health coverage will shrink to 9.61% of an employee's household income for the 2022 plan year — a decrease from the 2021 plan-year level of 9.83%, according to IRS [Rev. Proc. 2021-36](#). This affordability percentage can affect individuals' eligibility for federally subsidized coverage from a public exchange, as well as employers' potential liability for shared-responsibility (or "play or pay") assessments.

Affordability standards

Under the ACA, employer-sponsored minimum essential coverage (MEC) is affordable if an employee's required contribution for the lowest-cost, self-only option with minimum value does not exceed an annually indexed percentage of the employee's household income. Employees and their family members eligible for minimum-value employer-sponsored MEC that meets the affordability standard cannot receive premium tax credits or cost-sharing reductions for public exchange coverage.

To determine liability for play-or-pay assessments, three employer safe harbors allow replacing household income in the affordability calculation with one of these figures:

- Form W-2 wages
- Rate of pay
- Federal poverty line (FPL)

The affordability percentage used in the employer safe harbors is indexed in the same manner as the household income percentage, according to 2015 IRS guidance ([Notice 2015-87](#), Q&A-12).

Indexing formula

As explained in IRS [Rev. Proc. 2014-37](#), the original 9.5% affordability percentage is annually adjusted after 2014. Before 2020, this adjustment reflected the ratio of the premium growth rate for employer-sponsored health coverage to the national income growth rate in the previous year. For calendar years 2020 and 2021, the method of

calculating the “premium adjustment percentage” changed to capture premium increases for both individual-market policies and employer-sponsored health coverage. For calendar years 2022 and beyond, the [Notice of Benefit and Payment Parameters for 2022](#) reverts back to the pre-2020 method of calculating the premium adjustment percentage.

Because premiums for employer-sponsored health coverage increased at a lower rate than the national income growth during 2021, the 2022 affordability percentage will drop below the 2021 level.

Employer considerations

Employers should review the required employee contribution for 2022 coverage if they plan to meet the ACA’s affordability limit under the applicable safe harbor. For the many 2022 calendar-year plans using the FPL affordability safe harbor, the required employee contribution cannot exceed 9.61% of the [FPL](#) for a particular area — \$12,880 for mainland US — or **\$103.15 per month**, calculated as $(9.61\% \times \$12,880 \text{ FPL for 2021}) \div 12$, rounded to the nearest penny.

This will mark the first time that the FPL safe-harbor *dollar amount* has decreased for calendar-year plans (down from \$104.53 in 2021). As a result, employers that use this safe harbor will need to reduce the employee contribution for the lowest-cost, self-only option for the 2022 plan year. The same is possible for noncalendar-year plans beginning in 2022, depending on the 2022 FPL amounts issued in January or February 2022.

The adjusted percentage applies on a plan-year — not calendar-year — basis. This means noncalendar-year plans will continue to use 9.83% to determine affordability in 2022 until their new plan year starts. Noncalendar-year plans won’t be able to calculate the FPL safe harbor contribution limit for plan years beginning after Jan. 1, 2022, until the Department of Health and Human Services issues the 2022 [FPL guidelines](#) in January or February 2022. As a reminder, for 2021 noncalendar-year plans using the mainland US FPL affordability safe harbor, the required employee contribution cannot exceed \$105.51 per month, calculated as $(9.83\% \times \$12,880 \text{ FPL for 2021}) \div 12$, rounded to the nearest penny.

Related resources

Non-Mercer resources

- [Rev. Proc. 2021-36](#) (IRS, Sept. 2, 2021)
- [Q&As on employer shared-responsibility provisions under the Affordable Care Act — affordability](#) (see Q&A-40) (IRS, July 21, 2021)
- [Poverty guidelines for 2021](#) (HHS, Feb. 1, 2021)
- [Employer shared-responsibility provisions](#) (IRS, Dec. 29, 2020)
- [Notice 2015-87](#) (IRS, Feb. 16, 2015)
- [Rev. Proc. 2014-37](#) (IRS, July 24, 2014)

Mercer Law & Policy resources

- [Top 10 compliance issues for health, fringe and leave benefits in 2022](#) (July 30, 2021)
- [2022 ACA cost-sharing caps and other changes set; ESR penalties projected](#) (May 18, 2021)
- [2021 federal poverty levels can impact ESR affordability](#) (Jan. 27, 2021)
- [2021 quick benefit facts](#) (Jan. 21, 2021)
- [Affordable percentage will rise for employer health coverage in 2021](#) (July 22, 2020)
- [Employers face ongoing liability for ACA play-or-pay assessments](#) (March 2, 2020)
- [IRS outlines how individual-coverage HRAs can meet ACA employer mandate](#) (Oct. 29, 2019)

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