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Mercer projects 2023 figures for ACA affordable employer coverage

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Mercer projects the "required contribution percentage" that determines the affordability of employer-sponsored health coverage under the Affordable Care Act (ACA) will rise to 9.7% of an employee's household income — or an applicable employer shared-responsibility (ESR) affordability safe harbor — for the 2023 plan year. This marks an increase from the 2022 plan-year level of 9.61%. This ACA affordability percentage can affect individuals' eligibility for federally subsidized coverage from a public exchange, as well as employers' potential liability for ESR (or "play or pay") assessments. Mercer also projects that the 2023 play-or-pay federal poverty line (FPL) affordability safe-harbor amount for calendar-year plans will increase to $109.85 per month — a fairly significant hike from the 2022 amount of $103.15.

About the projections

The projected ACA affordability percentage is based on figures in the recent Centers for Medicare & Medicaid announcement of how much the premium growth rate exceeded the income growth rate for 2013 to 2022. This projection assumes the Build Back Better Act (or some slimmed-down version of the bill) either isn't enacted or doesn't include the provision reducing the ACA affordability percentage to 8.5%. The official IRS announcement of the ACA affordability percentage will come later this year.

The projected 2023 play-or-pay FPL affordability safe harbor amount for calendar-year plans reflects the 2022 poverty guidelines recently released by the Department of Health and Human Services. Those guidelines set the 2022 FPL at $13,590 (up from $12,880 in 2021) for a person living in the mainland US, but $15,630 in Hawaii and $16,990 in Alaska. The 2023 projection of the monthly FPL affordability safe harbor amount for calendar-year plans is calculated as (9.7% x $13,590 FPL for 2022) ÷ 12, rounded to the nearest penny.

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

The ACA 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).

Federal poverty line

Under the ACA, the FPL can affect play-or-pay assessments in two ways:

- **Premium tax credits.** Individuals with household incomes between 100% and 400% of the FPL are potentially eligible for premium tax credits for health coverage purchased through a public exchange. ACA full-time employees' receipt of subsidized exchange coverage can trigger play-or-pay assessments. (Note that for 2021 and 2022, the American Rescue Plan Act (Pub. L. No. 117-2) expanded premium tax credit eligibility to individuals earning more than 400% of FPL.)
- **Affordability testing.** Employers can use the FPL under one play-or-pay affordability safe harbor to test whether their lowest-cost, self-only MEC with minimum value is affordable to employees. When conducting this test, an employer may use the FPL in effect within six months before the start of the plan year.

2022 play-or-pay FPL affordability safe harbors. HHS issued updated FPL figures effective Jan. 12 that will apply for 2023 calendar-year plans and plans with a 2022 noncalendar-year. Employers with calendar-year plans can't rely on those higher FPLs for 2022 affordability testing. Instead, 2022 calendar-year plan sponsors must use the 2021 FPL amounts. As a result, the 2022 FPL affordability safe-harbor monthly employee contribution limits for the lowest-cost, self-only MEC with minimum value are as follows:

- **Noncalendar-year plans beginning in 2022:** $108.83, calculated as (9.61% x $13,590 FPL for 2022) ÷ 12, rounded to the nearest penny

- **2022 calendar-year plans:** $103.15, calculated as (9.61% x $12,880 FPL for 2021) ÷ 12, rounded to the nearest penny

Related resources

Non-Mercer resources

- HHS poverty guidelines for 2022 (HHS, Jan. 12, 2022)
- Premium adjustment percentage, maximum annual limitation on cost sharing, reduced maximum annual limitation on cost sharing, and required contribution percentage for the 2023 benefit year (CMS, Dec. 28, 2021)
- Employer shared-responsibility provisions (IRS, Nov. 23, 2021)
- Q&As on employer shared-responsibility provisions under the Affordable Care Act — Affordability (see Q&A 40) (IRS, July 21, 2021)
- Annual update of the HHS poverty guidelines for 2021 (Federal Register, Feb. 1, 2021)
- Notice 2015-87 (IRS, Dec. 16, 2015)

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- Affordable percentage will shrink for employer health coverage in 2022 (Sept. 2, 2021)
- 2021 federal poverty levels can impact ESR affordability (Jan. 27, 2021)
- Employers face ongoing liability for ACA play-or-pay assessments (March 2, 2020)

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