

# IRS Publishes 2020 Indexed Affordability Threshold

*July 2019*

The Internal Revenue Service (IRS) published Revenue Procedure 2019-29, updating the indexed 2020 contribution percentage used for determining whether employer-sponsored health insurance is affordable under the Affordable Care Act's (ACA's) employer mandate.

The applicable adjusted percentage for 2020 is 9.78%, down from 9.86% for 2019. The lower percentage for 2020 means that 2019 employee contributions just meeting the affordability safe harbor threshold may have to be lowered for 2020.

## Affordability Safe Harbors

An applicable large employer must offer ACA full-time employees affordable, minimum-value health insurance or, potentially, pay a penalty under the ACA's employer mandate. Health insurance is affordable for an employee if the monthly contribution is less than or equal to one of three affordability safe harbors: the Form W-2 safe harbor, the Rate of Pay safe harbor, and the Federal Poverty Level safe harbor. The 2020 monthly affordability safe harbor amounts are:

- Form W-2 Safe Harbor: 9.78% of the employee's income as reported in Box 1 of the Form W-2, divided by twelve months.
- Rate of Pay Safe Harbor:
  - Hourly: 9.78% of the employee's hourly rate of pay multiplied by 130 hours; or
  - Salaried: 9.78% of the employee's annual salary, divided by 12 months.
- Federal Poverty Level Safe Harbor: 9.78% of the 2019 Federal Poverty Level, divided by 12 months:
  - The 2019 Federal Poverty Level is \$12,490; and
  - The threshold is  $\$12,490 \times 9.78\% / 12 \text{ months} = \$101.79/\text{month}$ .

Employers with non-calendar year plans whose contributions are at the 2019 safe harbor limit should consider adjusting contributions in 2020 to ensure the contributions meet the potentially lower 2020 safe harbor limits.

## Resources

Revenue Procedure 2019-29 if available [here](#).

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