

Benefit affordability measures whether employer-sponsored health insurance and other benefits are reasonably priced for employees.



Under the Affordable Care Act (ACA), affordability is a legally defined term that helps determine whether employees are eligible for subsidized coverage on the Health Insurance Marketplace. For employers, managing benefit affordability is crucial for retaining and recruiting talent while controlling costs.

The ACA Definition of Benefit Affordability:

For 2025, a job-based health plan is considered "affordable" under the ACA if an employee's share of the premium for the lowest-cost, self-only plan option is less than 9.02% of their household income. The affordability percentage is adjusted by the IRS each year. If an employer's plan does not meet this threshold, and if the plan also fails to provide minimum value (covering less than 60% of total allowed costs), the employer may face tax penalties.

Because employers do not have access to an employee's total household income, the IRS offers three "safe harbor" methods to determine if coverage is affordable:

- **W-2 Wages Safe Harbor:** Calculates affordability based on the wages reported in Box 1 of an employee's Form W-2 from the previous year.
- **Rate of Pay Safe Harbor:** Uses an employee's rate of pay at the start of the coverage period to determine affordability.
- **Federal Poverty Line (FPL) Safe Harbor:** Deems coverage affordable if the employee's required contribution does not exceed a set percentage of the FPL for a single individual. In 2025, this sets the maximum monthly employee contribution at \$113.20.

Strategies to Improve Benefit Affordability:

Employers can take several actions to manage costs and make benefits more affordable for their employees:

- **Review and optimize plan offerings:** Analyze current benefits to see which are highly valued and which are underutilized. Consider eliminating or replacing unpopular offerings to save money.
- **Choose cost-effective health plans:** Lower monthly premiums by offering high-deductible health plans (HDHPs) paired with a tax-advantaged health savings account (HSA), which can help employees save for medical expenses.
- **Consider alternative funding:** Large employers can explore alternative funding solutions like level-funding or self-funding to gain greater control over healthcare costs.
- **Increase employee contributions:** While potentially unpopular, shifting a greater share of the premium or increasing deductibles and coinsurance can reduce the employer's cost.

- **Boost employee education:** Ensure employees understand their options and how to use their benefits effectively to get the most value.
- **Offer voluntary benefits:** Providing optional benefits like dental, vision, life, and disability insurance allows employees to customize their coverage while shifting the cost to them.
- **Incentivize wellness:** Promote preventive care and offer wellness programs to encourage healthy habits, which can lower overall healthcare costs in the long run.

Understanding benefit affordability strategies is crucial for both employers and employees. For employers, these strategies can help control rising healthcare costs, making it possible to offer competitive benefits without straining the budget. For employees, a well-designed affordability strategy means access to quality healthcare that won't break the bank. By exploring options like HSAs, HRAs, and tiered network plans, both parties can find a solution that balances robust coverage with financial feasibility.

