



Understanding Affordability and Safe Harbors

This guide details the three safe harbor provisions and explains affordability related to the Affordable Care Act (ACA) employer shared responsibility provision.

The Affordable Care Act (ACA) employer shared responsibility provision (“employer mandate” or “play or pay”) requires applicable large employers (ALEs) to offer health coverage to full-time employees.

See [Employer Guide to ACA Play or Pay Rules](#) for definitions and a discussion of who is a full-time employee, and see [ACA: Applicable Large Employer](#) for a definition and overview of ALE.

Affordability and Penalties

If a full-time employee receives a government subsidy for individual insurance through an Exchange (Marketplace) due to the employer’s failure to offer adequate coverage, the employer may be assessed with one of two penalties.

A large penalty may apply if the employer fails to offer coverage to at least 95% of all full-time employees and their dependent children. A smaller penalty may apply if the employer did offer coverage, but the coverage did not meet ACA standards for minimum value and affordability.

Affordability is based on the employee’s required contribution for self-only coverage, divided by the employee’s income. The IRS sets the maximum allowable percentage annually (adjusted for inflation):

- For plan year beginning in 2025: 9.02% of income
- For plan year beginning in 2026: 9.96% of income

Safe Harbors Methods

Because most employers do not know an employee’s actual household income, the ACA allows employers the use of three optional safe harbor methods to measure affordability:

- Federal poverty level
- Rate of pay
- W-2 wages

Employers may use any one of these methods or apply different methods to distinct classes of employees, provided the method is applied uniformly within the class, (e.g., using rate of pay for hourly employees and W-2 wages for salaried employees, or applying one method to a specific location or job category).

Extensive details are available as published in the *Federal Register*: [Shared Responsibility for Employers Regarding Health Coverage](#).



Safe Harbor #1: Federal Poverty Level

Using this safe harbor, annual income is defined as the federal poverty level (FPL) for a one-person household, as published by the Department of Health and Human Services (HHS). Most employers use the mainland U.S. FPL amount, regardless of where the employee is located. For 2025, a calendar year plan would use \$15,060, and a non-calendar year plan should use \$15,650. This method is simple, but uses the lowest assumed income, which results in the lowest maximum affordable employee contribution (i.e., the strictest affordability threshold), making affordability harder to meet.

The HHS updates the FPL each year in mid to late January, so the new amount cannot be used for a calendar year plan that had already started a few weeks earlier on January 1. In that case, employers may use the FPL chart that was in effect within six months prior to the start of the plan year. This approach provides adequate time to establish contribution amounts in advance of the plan's open enrollment period.

Example Calculation

For a calendar year plan beginning January 1, 2025, coverage is automatically deemed affordable if the employee's cost for self-only coverage does not exceed \$113.20 per month ($[\$15,060 \times 0.0902]/12$ months).

For a non-calendar year plan beginning on or after February 1, 2025, employers should use the 2025 FPL of \$15,650. In that case, coverage is considered affordable if the employee's cost for self-only coverage does not exceed \$117.61 per month ($[\$15,650 \times 0.0902]/12$ months).

View the current [HHS Poverty Guidelines](#). **Note:** When using the FPL safe harbor, an employee's actual earnings, or any changes in earnings during the year, are not relevant.

Safe Harbor #2: Rate of Pay

This safe harbor bases affordability on the employee's rate of pay at the beginning of the coverage period (i.e., plan year).

For salaried employees, **rate of pay** means the employee's monthly salary amount. This method cannot be used if the monthly salary is reduced.

For hourly employees, **rate of pay** means the employee's hourly rate times 130 hours per month, regardless of the actual hours worked. Many employers will find this method to be the most convenient way to determine income in order to calculate

affordability, particularly for employees paid on an hourly basis. This method should not be used for tipped or commissioned employees.

The rate of pay method does not require monitoring actual earnings or hours worked, as long as the employee's hourly rate (e.g., \$11/hour) does not decrease. If an hourly employee's pay rate decreases during the year, the applicable rate of pay would be the lowest rate of pay in effect at the start of the plan year or the month being reported.

Hourly Wage	Maximum Affordable Monthly Cost: 2025 Plan Year*	Maximum Affordable Monthly Cost: 2026 Plan Year*
\$7.25	\$85.01	\$93.87
\$12.00	\$140.71	\$155.38
\$15.00	\$175.89	\$194.22

*Maximum affordable monthly cost = hourly wage × 130 hours × 9.02% (2025) or 9.96% (2026)

Safe Harbor #3: W-2 Wages

Under this safe harbor, income is defined as the amount reported in Box 1 of the employee's Form W-2 for the current year. Note that pre-tax § 125 contributions and § 401(k) or § 403(b) deferrals are not included in the Box 1 amount. As a result, this method may understate the employee's actual household income.

The W-2 method may be used for both hourly and salaried employees, but using the rate of pay safe harbor for hourly employees is generally more reliable and accurate.

Annual Salary	Maximum Affordable Monthly Cost: 2025 Plan Year*	Maximum Affordable Monthly Cost: 2026 Plan Year*
\$16,000	\$120.26	\$132.80
\$25,000	\$187.92	\$207.50
\$60,000	\$451.00	\$498.00

*Maximum affordable monthly cost = (annual wages/12 months) × 9.02% (2025) or 9.96% (2026)

Box 1 wages are annual amounts, but affordability must be determined monthly based on the number of months the employee was employed and required to be offered coverage.

This method requires the employee contribution to remain a consistent percentage or amount throughout the calendar year.

Contribution Design Considerations

Employers sometimes ask whether contribution amounts can be adjusted midyear to maintain affordability. Generally, this is not permitted because health plans are usually offered under a cafeteria plan subject to rules under § 125 of the Internal Revenue Code, which restricts midyear changes. Therefore, to accomplish the employer's objective, the plan document should describe contributions as a percentage of W-2 wages, capped at a fixed monthly dollar amount. For example, for the 2026 plan year, the plan could state that the self-only employee contribution is 9.96% of W-2 Box 1 monthly wages, not to exceed \$250 per month.

Partial Year Offers of Coverage

If an employee was not employed for the full calendar year, affordability must be prorated by multiplying the employee's W-2 wages for the year by the number of months the employee was offered coverage divided by the number of months the employee was employed (W-2 wages x [months offered coverage ÷ months employed]).

Example Calculation

Nahal is hired by Acme Co. on May 15, 2026, and is offered coverage after their waiting period is completed on August 1.

- W-2 Box 1 wages: \$20,000
- Months employed: 8 (May–December)
- Months offered coverage: 5 (August–December)

Since Nahal was not employed for the entire year and was subject to a waiting period before coverage was offered, the calculation is as follows:

$\$20,000 \times (5 \div 8) = \$12,500$ adjusted wages

Affordable monthly cost = $(\$12,500 \times 9.96\%) \div 5 = \249

Acme Co. offers affordable coverage if Nahal's monthly contribution is no more than \$249.



Frequently Asked Questions About Affordability

How does an employer decide which safe harbor to use?

There are pros and cons to each safe harbor depending on the employer and employee demographics. Key considerations include:

- Employer budget and ability to subsidize premiums
- Payroll and benefits administration support
- Base pay levels for lowest paid employees (hourly and salary)
- Hourly employee turnover rates
- Whether hourly employees consistently work 40 hours per week
- Whether hourly employees qualify as full time primarily by averaging 30 hours per week
- Whether hourly employees have busy seasons with overtime opportunities

If you offer multiple health plan options, you only need to test the lowest-cost option offered to full-time employees.

If employee contributions are too high to qualify under the FPL safe harbor, consider using the W-2 or rate of pay method for different classes of employees (e.g., hourly, salaried).

The [ACA Safe Harbor calculator](#) can help you gauge whether your self-only coverage meets affordability requirements under the available safe harbors, using your employees' income data. This calculator is for illustrative purposes only and should not be relied on as a determination of affordability.

When reporting data on Forms 1094/1095-C, how does an employer determine which safe harbor was used for cost-sharing, if they don't know?

You must have set the cost sharing (employee contribution rates) before the start of the plan year (e.g., at renewal). You will need to do an analysis to determine which safe harbor applies and/or which would be most advantageous for the largest number of employees. Also, review the considerations listed in the previous question when making this determination. Mineral cannot make this determination for employers.

Are there any special cases related to affordability that employers should be aware of?

Yes. Certain plan features can affect affordability calculations:

- Wellness program rewards that reduce employee contributions are disregarded for affordability purposes, except when tied to tobacco use. In that case, assume all employees qualify for the reward before determining affordability.
- Flex credits or [cash-in-lieu benefits](#) may affect affordability depending on how they are structured. Employers with cafeteria plans offering flex credits or cash-in-lieu arrangements should consult legal counsel to confirm treatment.