



ACA IRS Reporting Toolkit
Applicable Large Employer
Affordability Safe Harbor Testing
Rate of Pay Option



Background:

The ACA defines full time as an employee that works 30 hours a week or more, for the purpose of identifying the employees who must be offered affordable group health plan coverage or potentially face the assessment of penalties. Below this hour threshold, the employer can offer health coverage but there is no ACA premium affordability requirement. In other words, regardless of the employee's premium share, the employer is not required to test or report to the IRS on affordability for employees who work less than 30 hours per week.. (Small employers do not to test or report on affordability to the IRS for any employees.)

While there are three safe harbor options to meet the affordability test, the “rate of pay” method is most likely to benefit applicable large employers by requiring less administrative work than the other two options and provide more favorable outcomes. The employer must complete an annual affordability calculation in order to complete the 1095 forms required by the IRS.

Calculation:

The calendar year calculation determines if the employer can demonstrate the employee's monthly premium share for employee-only coverage, if they were enrolled in the single silver CDHP (the least expensive option available), is affordable under the “rate of pay” safe harbor. This is the test regardless of the plan and tier the employee elects to enroll in.

The basic calculation is below:

$$\begin{array}{|c|} \hline \text{Hourly Pay of} \\ \text{lowest paid FT} \\ \text{EE*} \\ \hline \end{array} \times \begin{array}{|c|} \hline 130 \text{ Hours} \\ \hline \end{array} \times \begin{array}{|c|} \hline 9.86\%^{**} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Safe Harbor Testing} \\ \text{Value} \\ \hline \end{array}$$

* Use the hourly rate of the lowest paid employee in the classification you are testing. If their rate of pay changes during the calendar year, use the lowest rate of pay.

** The Affordability Threshold (percent) is determined by the IRS months in advance of the January effective date each year.

In instances where the employer prorates the employer share of premium for employees that work less than full time by contract, but are considered full time under the ACA, the premium percentage should be determined ahead of open enrollment. Be sure to use the

single silver CDHP premium for the year they are enrolling, the current year's Affordability Threshold, and their rate of pay as of the upcoming January 1, (Vermont minimum wage is indexed) since the final safe harbor calculation will be made based on the upcoming calendar year data.

Examples for Calendar Year 2020 (2021 data is not yet available):

2020 Vermont Minimum Wage: \$10.96

Affordability Threshold released mid-2019: 9.78%

Silver CDHP Single Tier Premium as of July 1, 2019[^]: \$636.61

[^] Since VEHI premiums change on July 1 of each year, use the higher premium for the calendar year.

$$\boxed{\$10.96} \times \boxed{130 \text{ Hours}} \times \boxed{9.78\%} = \boxed{\$139.35}$$

An employee making minimum wage in 2020 who is responsible for paying 21% of the Silver CDHP single premium, or \$133.69 a month, will pass the safe harbor test in 2020, as this amount is less than the calculated safe harbor value of \$139.35. At 22% of the premium, or \$140.05 per month, the employee share **fails** the safe harbor test.

For a prorated employee required to pay 40% of premium of the single silver CDHP, or \$254.64 per month, their hourly rate of pay in 2020 will need to be at least \$20.03 to pass the safe harbor test.

$$\boxed{\$20.03} \times \boxed{130 \text{ Hours}} \times \boxed{9.78\%} = \boxed{\$254.66}$$

An Affordability Calculator is available to assist you in checking affordability for your plans. Refer to the next page for more information. You can link to the calculator [here](#).

Using the VEHI Affordability Calculator

The VEHI Affordability Calculator assists School Districts and Supervisory Unions to determine the ‘affordability’ of group health plan coverage under the Affordable Care Act. The calculator will need limited maintenance, but must be updated each calendar year. The updates required are (see the image on the next page):

1. The Silver CDHP Single Tier Premium
2. The Federal Affordability Threshold

Determining Affordability for the Upcoming Calendar Year

To ensure your SD/SU complies with making an offer of affordable coverage use the Affordability Calculator before the beginning of the calendar year to verify coverage is affordable.

1. Ensure the correct monthly premium is entered in the box labeled “Silver CDHP Single Tier Premium”.
2. Determine the hourly rate of pay for the lowest paid full-time employee and enter in the box labeled “**Hourly Rate of Pay, Lowest Paid EE**”.
3. The worksheet will automatically calculate the maximum monthly contribution for employee only coverage that meets the ACA affordability requirements.
4. If your SD/SU offers health plan coverage to employees working less than full-time but averaging at least 30 hours of service and their contribution is prorated because of the reduced hours, locate the contribution % in the “**Maximum Contribution Cost Sharing - %**” matrix located on the lower section of the calculator. The amount of pro-rated contribution may have to be reduced to avoid exceeding the affordability maximum. Remember to enter the employee’s hourly rate of pay in the appropriate box. When you change the rate of pay the worksheet will automatically recalculate the maximum cost sharing in the matrix.

Using the VEHI Affordability Calculator



VEHI Affordability Calculator

Year: **2020**

ACA Rate of Pay Calculation	
Silver CDHP Single Tier Premium	\$636.61
Affordability Threshold for Current Calendar Year:	9.78%
Hourly Rate of Pay, Lowest Paid EE	\$12.97
130 Hours	\$1,686.10
ACA - Full-Time Maximum Monthly Employee-Only Contribution	\$164.90

Maximum Contribution Cost Sharing - %

Percent	\$	Percent	\$
10%	\$63.66	30%	\$190.98
15%	\$95.49	31%	\$197.35
20%	\$127.32	32%	\$203.72
21%	\$133.69	33%	\$210.08
22%	\$140.05	34%	\$216.45
23%	\$146.42	35%	\$222.81
24%	\$152.79	36%	\$229.18
<u>25%</u>	<u>\$159.15</u>	37%	\$235.55
26%	\$165.52	38%	\$241.91
27%	\$171.88	39%	\$248.28
28%	\$178.25	40%	\$254.64
29%	\$184.62		