

# ACA Affordability Safe Harbor Examples



## Rate of Pay Method

Based on rate of pay at beginning of plan year usually. For hourly employee, monthly equals hourly rate of pay times 130 hours / for salaried employee, it is the monthly salary.

## W-2 Method

Based on amount in Box 1 of the W-2 Form. Adjustments are made for those that don't work all year. Determination would be made at end of year. This example projects 170 hours in a month but final is based on actual.

| Single Monthly Premium | Employee Contribution Percentage | Employee Contribution Dollar Amount |
|------------------------|----------------------------------|-------------------------------------|
|------------------------|----------------------------------|-------------------------------------|

| 9.5% of                         | 9.5% of                         | 9.5% of                         | 9.5% of                 | 9.5% of                 | 9.5% of                 |
|---------------------------------|---------------------------------|---------------------------------|-------------------------|-------------------------|-------------------------|
| Rate of Pay Hourly Rate 130 Hrs | Rate of Pay Hourly Rate 130 Hrs | Rate of Pay Hourly Rate 130 Hrs | W-2 Hourly Rate 170 Hrs | W-2 Hourly Rate 170 Hrs | W-2 Hourly Rate 170 Hrs |

| \$10.00 | \$15.00 | \$20.00 | \$10.00 | \$15.00 | \$20.00 |
|---------|---------|---------|---------|---------|---------|
| \$1,300 | \$1,950 | \$2,600 | \$1,700 | \$2,550 | \$3,400 |

Aprx. Monthly Wage --->

Below is what would be "affordable" (9.5%)

| Single Monthly Premium | Employee Contribution Percentage | Employee Contribution Dollar Amount | Rate of Pay Hourly Rate 130 Hrs | Rate of Pay Hourly Rate 130 Hrs | Rate of Pay Hourly Rate 130 Hrs | W-2 Hourly Rate 170 Hrs | W-2 Hourly Rate 170 Hrs | W-2 Hourly Rate 170 Hrs |
|------------------------|----------------------------------|-------------------------------------|---------------------------------|---------------------------------|---------------------------------|-------------------------|-------------------------|-------------------------|
| \$175                  | 25%                              | \$43.75                             | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
|                        | 50%                              | \$87.50                             | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
| \$200                  | 25%                              | \$50.00                             | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
|                        | 50%                              | \$100.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
| \$250                  | 25%                              | \$62.50                             | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
|                        | 50%                              | \$125.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
| \$300                  | 25%                              | \$75.00                             | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
|                        | 50%                              | \$150.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
| \$350                  | 25%                              | \$87.50                             | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
|                        | 50%                              | \$175.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
| \$400                  | 25%                              | \$100.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
|                        | 50%                              | \$200.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
| \$450                  | 25%                              | \$112.50                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
|                        | 50%                              | \$225.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
| \$500                  | 25%                              | \$125.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
|                        | 50%                              | \$250.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
| \$600                  | 25%                              | \$150.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
|                        | 50%                              | \$300.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
| \$700                  | 25%                              | \$175.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
|                        | 50%                              | \$350.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
| \$800                  | 25%                              | \$200.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
|                        | 50%                              | \$400.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
| \$900                  | 25%                              | \$225.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |
|                        | 50%                              | \$450.00                            | \$123.50                        | \$185.25                        | \$247.00                        | \$161.50                | \$242.25                | \$323.00                |

\* A third method uses the Federal Poverty level.

The above is meant to be a summary and believed to be accurate. Please consult with your attorney/tax advisor.

## How to use the 3 Safe Harbors

The Affordable Care Act requires that employers with full time equivalents of 50 or more offer insurance to their employees. Not just any insurance – affordable insurance. But how do you determine what's affordable? **How can you make sure you won't get penalized for inadvertently falling short?**

Let's break this down. According to the ACA, you will not be penalized as long as you offer affordable group coverage to at least 95 percent of the employees (and their dependents) who work a minimum of 30 hours a week for your company.

What's affordable? According to the ACA, if a health care plan costs no more than 9.5 percent of an employee's total household income, it's an affordable plan. However, your employees probably don't share their tax files with you personally. So you probably have no idea what their total household income is. And without that, how can you ensure that the coverage you're offering costs no more than 9.5 percent? An easy solution is to use the Safe Harbors.

**Determine group health coverage affordability by applying one of these three optional Safe Harbors:**

**W-2 INCOME:** The first Safe Harbor is employees' wages. Instead of basing your calculation on their total household income, you can just look at Box 1 of their W-2. As long as they're not paying more than 9.5 percent of Box 1, you're safe. On the downside, this method requires you to calculate coverage one by one, employee by employee. If you've got a team of hundreds (or thousands), that's a tall order. **Also, because Box 1 doesn't include pre-tax figures such as your employees' 401(k) contributions, you could end up safer than you need to be.** While it's great if you choose to offer better coverage, it's still good to know the bottom line of what's required. Finally, since you don't actually know what the number in Box 1 will be until the end of the year, you'll need to plan proactively to make sure the coverage you offer corresponds to your employees' wages.

**RATE OF PAY:** This method is easy to use; you won't have to examine every last employee's W-2 form with this one – you just figure the numbers based on your lowest-paid employee's rate, and you're good. Also, there's no guesswork. You know upfront what the numbers are. You don't have to wait until the end of the year to find out. On the other hand, if your hourly employees end up working more than 130 hours per month, you're not allowed to factor those hours in. And, you can't use this method if you cut your employees' wages during the year.

**FEDERAL POVERTY LINE:** The third Safe Harbor is the Federal Poverty Line (FPL). Take 100 percent of the individual FPL, which is **\$11,670 this year (2014)**, make sure your employees' premiums amount to 9.5 percent or less, and you're safe. This is a very **conservative method**, which means you'll probably pay more per employee than if you were to use one of the other Safe Harbors. That said, it's also refreshingly straightforward and fail-safe. Using the FPL, you can rest assured you'll stay penalty-free even if the amount is less than an employee's actual income.