National Retail Federation
The Voice of Retail Worldwide

Affordable Care Act Implementation
Definition of "Affordability" Penalty

An applicable employer[1] who offers qualifying coverage[2] to full-time employees can still be penalized[3] if that coverage fails a two-part "affordability[4]" and "minimum value[5]" test

Coverage must be "affordable." The employee's cost for coverage (self-only coverage) must not exceed 9.5% of family income.

A potential regulatory safe harbor under consideration for employers would base this on 9.5% of the employee's current W-2 wages.

Low-income employees not eligible for Medicaid or Exchange tax credits may be able to access catastrophic or limited benefit coverage.

The question of dual income/coverage households has not yet been addressed.

Coverage must also be of "minimum value." The plan's share of total allowed benefit cost must be more than 60 percent.

This is generally understood to be a 60% actuarial value test. The Departments of Treasury and Health and Human Services are considering several approaches to defining the standard, including: a minimum value calculator; a safe-harbor checklist; and actuarial certification.

Actuarial value is based on plan payments for a standard population and charges minus individual share of premiums, co-insurance and co-pays.

1) Employer with 50 or more full-time or full-time equivalent employees.
2) Essential health benefit coverage (based on state benchmarks) will be offered in the individual insurance exchange, small business (SHOP) exchange and the surrounding small group insurance market. Large self-insured plans do not have to offer essential health benefit coverage but still must meet a different minimum value standard.
3) Lesser of $3,000 per applicable employee or $2,000 times every full-time employee, minus the first 30.
4) http://www.irs.ustreas.gov/pub/irs-drop/n-11-73.pdf
5) http://www.irs.ustreas.gov/pub/irs-drop/n-12-31.pdf

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