ICHRA
Employer Affordability Guide

What is the affordability requirement?

The Affordable Care Act's (ACA) affordability rule represents the highest percentage of an employee's household income or rate of pay that they can pay for their monthly premium to be considered affordable. The rule bases this on the least expensive qualified employer-sponsored plan offered by an organization that meets minimum essential coverage and is offered to at least 95% of its full-time employees and their dependents.

The rule ensures that employees have access to affordable health coverage through their employer. In 2025, the affordability standard is 9.02%. So that means for a plan to be considered “affordable” employees can't be expected to pay more than 9.02% of their household income for their health coverage.

Employers have no way of knowing what their employees' household income is, so the ACA established “safe harbors” as benchmarks. Safe harbors help employers determine if their plans are affordable. The most commonly used safe harbor for affordability determination is the federal poverty level (FPL) safe harbor.

The FPL safe harbor gives employers a maximum premium amount for employee contributions for that year. For 2025, the FPL safe harbor dictates that an employee must pay no more than $113.20 per month for the health plan to be affordable.

As long as employers can show that they used a safe harbor, they aren't subject to the employer mandate penalty for unaffordable coverage.

What changes did the IRS make to the affordability requirement for 2025?

While the affordability requirement for 2025 is 9.02%, the IRS has raised it to 9.96% for 2026. That means the IRS expects employees to contribute more in 2025. Employers don't need to offer as much for an employer-sponsored plan to be considered affordable. This is different from previous years when the affordability requirement decreased.

This changed the FPL safe harbor amount from $113.20 per month for the employee's maximum contribution to a monthly health insurance premium to around $129.89 for the mainland U.S.

As long as employees aren't paying more than $129.89 per month for their premium in 2026, the plan will be affordable according to the ACA's standards.

If you have a non-calendar year plan, you'll continue to use the 9.02% affordability threshold to determine affordability in 2026 until your new plan year starts in 2026.

That also means that non-calendar year plans won't be able to calculate the FPL safe harbor contribution limit for plan years beginning after January 1, 2026, until the Department of Health and Human Services issues the 2026 FPL guidelines. This usually happens in January or February each year.

Year	Affordability %
2026	9.96%
2025	9.02%
2024	8.39%
2023	9.12%
2022	9.61%
2021	9.83%

What does the IRS raising the affordability requirement mean?

In order for your plan to be considered affordable in 2026, you'll need to ensure that your plan doesn't require any of your employees to pay more than 9.% of their annual household income, rate of pay (or $129.89 per month if you're using the FPL safe harbor).

If you're not using the FPL safe harbor, you can calculate affordability based on your employee's rate of pay. This is the hourly rate multiplied by 130 hours per month as of the first day of the plan year or, for salaried employees, 9.96% of the monthly salary as of the first day of the 2026 coverage period.

How to calculate ICHRA affordability

To be considered affordable according to the ruling, the cost of health insurance for an employee must not be more than 9.96% of the employee's W-2 income. You'll use the lowest-cost Silver plan on the local exchange as the standard for the calculation. You'll also subtract an employer's ICHRA contributions from the premium.

That means the monthly premium for the lowest-cost Silver plan, minus the ICHRA monthly allowance being offered, shouldn't exceed 9.96% of the employee's household income for the month. If this requirement is met, the ICHRA is considered affordable. Once you have determined the employee cost per month, you'll want to adjust your employer contribution based on what is considered affordable for that employee.

Let's take a look at the calculation.

Formula:

Lowest-cost Silver plan - employer contribution = employee's monthly cost for the offered ICHRA plan

Rate of pay x 130 hours x 0.0996 = what is considered affordable for this employee (the employee's monthly cost must be equal to or less than this amount)

Example:

Derrick, an employee at Big Build Construction, has a rate of pay that equals $15 per hour. His employer is offering an ICHRA. The lowest-cost Silver plan in his area is $550 and the employer is contributing $300 towards the employee's ICHRA. The calculation for affordability in this case is:

$550 - $300 = $250 (total monthly cost for the employee under the ICHRA plan)

$15 per hour x 130 hours x 0.0996 = $194.22

In this scenario, the employee affordability threshold is $194.22. The total cost for the employee under the ICHRA plan is $250. This plan is NOT considered affordable. To be affordable, the employer needs to increase their contribution to $356. This would reduce the employee cost to $194 and now the plan is affordable.

You can use this formula to calculate the affordability of any allowances your company is considering for a specific employee class. You can group employees by varied ages to adjust contribution amounts based on age, however the ICHRA contribution cannot vary by more than a 3:1 ratio between the oldest and youngest employee.

Example:

Employees aged 18-29 receive $200 per month
Employees aged 30-49 receive $400 per month
Employees aged 50-64+ receive $600 per month

$200 and $600 are a 3:1 ratio so the plan is compliant.

Additional resources are available for you to help determine the cost of the Silver plan. Cost is determined based on the age of the employee and location of their worksite. If an employee works remotely, it would be their remote ZIP code and county. If the employee works in the office, it would be the employer's ZIP code and county.

For states in the federal marketplace: https://www.cms.gov/marketplace/employer-initiatives

For states not in the federal marketplace: https://www.healthcare.gov/marketplace-in-your-state

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DISCLAIMER:
The information provided in this document is for informational purposes only and employers should seek legal counsel in determining affordability.