

ACA COMPLIANCE BULLETIN



2025 Federal Poverty Levels Impact Employer Liability Under Pay-or-Play Rules

The U.S. Department of Health and Human Services (HHS) updates federal poverty levels (FPLs) each year to determine eligibility for certain programs and benefits. HHS' new [guidelines](#) set the 2025 FPL for an individual at \$15,650 (up from \$15,060 in 2024) in the 48 contiguous states and the District of Columbia. For Alaska and Hawaii, FPLs for an individual are \$19,550 and \$17,990, respectively (up from \$18,810 and \$17,310 in 2024).

FPLs may impact an applicable large employer's (ALE) potential liability under the Affordable Care Act's (ACA) "pay-or-play" rules in two ways:

1. ALEs may use the FPL safe harbor to determine the affordability of their health plan coverage; or
2. FPLs are used to determine eligibility for premium tax credits for health insurance purchased through an ACA Marketplace.

An ALE is only liable for a pay-or-play penalty if one or more of its full-time employees receives a premium tax credit for health insurance purchased through a Marketplace. Individuals cannot receive these if they are eligible for affordable, minimum-value health coverage through their employer, regardless of whether their income meets FPL guidelines.

Action Steps

To avoid pay-or-play penalties, ALEs should confirm their health coverage will be affordable before the start of each plan year. ALEs that use the FPL safe harbor to determine affordability should apply FPL guidelines in effect within six months before the first day of the plan year. ALEs with calendar-year health plans should use the [2024 FPL guidelines](#) for the 2025 plan year, while ALEs with noncalendar-year health plans may use the new 2025 FPL guidelines.

Highlights

- ALEs may be subject to pay-or-play penalties if they do not offer affordable, minimum-value health coverage to their full-time employees.
- These penalties are only triggered when a full-time employee receives a premium tax credit for Marketplace coverage.
- FPLs impact the ACA's pay-or-play rules because they can determine the affordability of an ALE's health coverage and whether an individual is eligible for a premium tax credit.

Important Dates

Jan. 15, 2025

FPL guidelines for 2025 became effective.

Jan. 11, 2024

FPL guidelines for 2024 became effective.

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Affordability of Health Coverage—FPL Safe Harbor

The ACA's pay-or-play rules require ALEs to offer affordable, minimum-value health coverage to their full-time employees (and dependent children) or risk tax penalties. An ALE's health coverage is considered affordable if the employee's required contribution to the plan does not exceed 9.5% (as adjusted) of the employee's household income for the taxable year. For plan years beginning in 2025, the affordability percentage is 9.02% (up from 8.39% for plan years beginning in 2024).

Because an employer generally will not know an employee's household income, the IRS has provided three optional safe harbors that ALEs may use to determine affordability, including the FPL safe harbor. The FPL safe harbor can be very useful because it provides ALEs with a predetermined maximum amount of employee contribution that, in all cases, will result in the coverage being deemed affordable. It is also relatively easy to apply and is considered the most predictable of the three safe harbors, as it does not require any employee-specific data. However, it often requires the largest employer contribution toward the cost of health coverage.

Employer-provided coverage is considered affordable under the FPL safe harbor if the employee's required contribution for the calendar month for the lowest cost self-only coverage that provides minimum value does not exceed 9.5% (as adjusted) of the FPL for a single individual for the applicable calendar year, divided by 12. ALEs may use any FPL guidelines that are in effect **within six months before the first day of the plan year**. This provides employers with time to establish premium amounts in advance of the plan's open enrollment period. However, because HHS does not typically release the updated FPL for the year until January, employers with calendar-year health plans generally use the prior year's FPL.

The following calculations apply to employers using the FPL safe harbor to determine affordability for plan years beginning in 2025.

Calendar-year Health Plans

Health plans that have the calendar year as their plan year should apply the 2024 FPL guidelines to determine affordability for the plan year beginning on Jan. 1, 2025. To calculate this safe harbor, take the 2024 FPL for an individual (\$15,060), multiply it by 9.02% and then divide it by 12. This formula is: $(\$15,060 \times 9.02\%) / 12 = \113.20 . In general, if employee contributions for the lowest-cost, self-only coverage do not exceed **\$113.20 per month**, the health coverage meets the ACA's affordability standard.

Calendar-year health plans will apply the 2025 FPL guidelines to determine affordability for the plan year beginning on Jan. 1, 2026. They will also need to use the inflation-adjusted affordability percentage for plan years beginning in 2026, which has not been released by the IRS yet.

Noncalendar-year Health Plans

Health plans that operate on a plan year other than the calendar year may use any FPL in effect within six months before the start of the plan year. Using the 2025 FPL guidelines, the maximum employee contribution is **\$117.64 per month**: $(\$15,650 \times 9.02\%) / 12 = \117.64 . Because this monthly contribution limit is greater, employers that have a choice between using the 2024 FPL guidelines and 2025 FPL guidelines should use the 2025 guidelines to determine affordability.

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Premium Tax Credits

Individuals with household incomes between **100% and 400% of FPL** may qualify for premium tax credits to purchase health insurance through an ACA Marketplace. Due to a temporary eligibility expansion in effect through 2025, individuals with household incomes above 400% of FPL may also qualify for a premium tax subsidy. An ALE is only liable for a pay-or-play penalty if one or more of its full-time employees receives a premium tax credit for Marketplace coverage. Employees eligible for employer-provided health coverage that is affordable and provides minimum value are not eligible for premium tax credits.

FPL Guidelines for 2024/2025

FPL Guidelines for the 48 Contiguous States and District of Columbia*		
Family Size	2024 Income	2025 Income
For individuals	\$15,060	\$15,650
For a family of 2	\$20,440	\$21,150
For a family of 3	\$25,820	\$26,650
For a family of 4	\$31,200	\$32,150
For a family of 5	\$36,580	\$37,650
For a family of 6	\$41,960	\$43,150
For a family of 7	\$47,340	\$48,650
For a family of 8	\$52,720	\$54,150
For a family of 9+	Add \$5,380 for each additional person	Add \$5,500 for each additional person

*Different FPL guidelines apply to Alaska and Hawaii.