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FAQ Employer-Sponsored Coverage & PTC Eligibility

Millions of uninsured Americans are eligible for a premium tax credit (PTC) to help them pay for health coverage. The premium tax credit is only available to people without another offer of affordable and adequate coverage; in most cases, this will mean that people with an offer of employer-sponsored coverage will not be eligible for the premium tax credit. The following FAQ explains how employer-sponsored health insurance affects a family's eligibility for a premium tax credit, and when employees and their family members can forgo an offer of employer coverage and purchase coverage in the health insurance marketplace with the help of a premium tax credit.

1 Are employers required to offer health insurance to employees and their family members?

No. Large employers (those with at least 50 full-time employees) have the choice to offer coverage to their full-time employees and their dependents, not including spouses, or to make a shared responsibility payment to the government on behalf of each full-time worker. Small employers (those with fewer than 50 full-time employees) will not make a shared responsibility payment if they fail to offer coverage. Some small employers that do cover their workers will qualify for a tax credit to help pay the employer's share of premiums.

2 Can part-time workers get coverage from their employers?

That decision is made by employers. Employers are not required to offer health insurance coverage or pay a shared responsibility payment for employees who work fewer than 30 hours per week. If an employer does not offer coverage to part-time workers, those employees may be eligible for premium tax credits to help pay for coverage purchased in the marketplace. If an employer does choose to offer coverage to part-time workers, those workers will only be eligible for premium tax credits if the employer's offer of coverage is unaffordable or if it does not meet "minimum value," which is a measure of the health plan's share of expected costs.

3 Can someone who is offered employer-sponsored coverage qualify for a premium tax credit?

In most cases, no. An offer of employer-sponsored coverage generally makes an employee ineligible for a premium tax credit. The exception is if the employer-sponsored coverage is unaffordable or fails to meet the minimum value standard. If the coverage is affordable and adequate, the employee will be ineligible for a premium tax credit regardless of whether the employee chooses to enroll in the employer-sponsored coverage. However, if the employer's health plan does not offer adequate coverage or is not affordable, the employee can choose to enroll in coverage in the marketplace and can qualify for a premium tax credit.

Employer-sponsored coverage meets the minimum value test and is considered adequate if it covers at least 60 percent of the total cost of benefits expected to be incurred under the plan. Employer-sponsored coverage is considered to be affordable if the contribution required to cover the employee is less than 9.12 percent of the employee's household income in 2023. Employer-sponsored coverage must meet both tests; otherwise, the employee may forgo the employer's offer and potentially qualify for a premium tax credit in the marketplace (an event sometimes referred to as "jumping the firewall").

4 How do you measure the adequacy of employer-sponsored coverage?

Employer-sponsored coverage is adequate if it meets the minimum value test. A plan meets this test if it is designed to pay at least 60 percent of the total cost of benefits expected to be incurred under the plan. This is not something that employees can determine on their own — it is a technical calculation usually determined by an actuary. Employees can learn whether their health plan meets minimum value by requesting a Summary of Benefits and Coverage (SBC) from their employer. The SBC is a required plan document and should clearly state whether the plan meets the minimum value requirement.

5 What benefits must employer-sponsored insurance cover?

Every health plan, including all employer-sponsored coverage, is required to meet important standards. First, plans cannot place lifetime or annual caps on coverage. In addition, plans must limit enrollees' out-of-pocket expenses so an individual enrollee will not pay more than a certain amount for in-network care in a calendar year. (In 2023, the maximum out-of-pocket limit is $9,100.) In addition, all plans (except grandfathered plans in place prior to when these standards became effective) must cover preventive services with no cost sharing.

Most small employers that offer coverage purchase it in the small-group insurance market, which requires that every plan cover ten categories of services known as the essential health benefits.

6 How is the affordability of employer-sponsored coverage measured?

Employer-sponsored coverage is considered to be affordable to the employee if the employee's share of the premium is less than 9.12 percent of the employee's household income in 2023, regardless of the cost to cover family members. If coverage is affordable and meets minimum value, the employee is not eligible for a premium tax credit. For example:

- Jose and Alma Reyes are married and have two children. Jose has an annual salary of $25,000. Alma earns $10,000 from part-time work. Jose's share of the premium for his employer-sponsored health insurance is $2,500 per year to cover only him (or 7.1 percent of household income). Jose's health insurance is considered affordable because it costs less than 9.12 percent of Jose and Alma's household income, even though it is 10 percent of Jose's income alone. If their household income decreases — for example, if Alma loses her job — then Jose's insurance would not be considered affordable. In that situation Jose and Alma could "jump the firewall" and become eligible for a premium tax credit. [In either scenario, their children are likely eligible for Medicaid or the Children's Health Insurance Program (CHIP).]

7 How do you measure the affordability of family coverage offered by an employer?

Employee-only coverage is considered to be affordable if it costs less than 9.12 percent of household income in 2023. If an employer offers family coverage, including self plus-one plans, the coverage is considered affordable if an employee's required contribution is less than 9.12 percent of household income for coverage of the employee and all other individuals included in the employee's coverage who are offered the coverage. Using the earlier example of Jose and Alma Reyes:

- Jose and Alma are married and have two children. Jose and Alma have combined annual income of $35,000. Jose's employer offers employee-only and family coverage. Employee-only insurance costs $2,500 per year (7.1 percent of household income) and coverage for the entire family costs $6,000 per year (17 percent of family income). Family coverage is not considered affordable, because it costs more than 9.12 percent of household income. Because the family coverage offered is unaffordable, Alma and the children are eligible for a premium tax credit.

8 If a family has multiple sources of insurance for which they pay multiple premiums, do those costs factor into the affordability test?

No. Some families pay multiple premiums for multiple sources of insurance. For instance, each spouse may pay a premium for coverage under their respective employers' insurance and the children may be enrolled in CHIP for a premium. The affordability test for eligibility for premium tax credits is limited to the cost of employer-sponsored coverage as compared to the household income, regardless of other insurance or medical costs the family may incur.

9 What if the employer doesn't offer family coverage?

Some employers offer coverage for employees only, or for employees and their children, and do not offer spousal coverage. Large employers will face a penalty for failing to offer coverage to full-time employees and their dependents if at least one employee receives a premium tax credit for marketplace coverage. There is no penalty for failure to offer coverage to the employee's spouse. If no plan offered by the employer covers the spouse or children, the spouse or children may purchase insurance in the marketplace and qualify for a premium tax credit, assuming all other eligibility rules are met.

- It's a new plan year and Jose's employer has changed its coverage options. Now, Jose's employer offers employee-only and employee-plus-children coverage. They've dropped the family coverage option so Alma no longer has an offer of coverage. Employee-only insurance costs $2,500 per year (7.1 percent of income) and coverage for the employee plus children costs $4,500 per year (12.8 percent of income). The "employee plus children" option is considered unaffordable, because it costs more than 9.12 percent of household income. Alma doesn't have an offer of coverage through her own or Jose's employer so she and the children may be eligible for a premium tax credit to purchase coverage in the marketplace.

10 Are part-time workers eligible for a premium tax credit?

The affordability and adequacy of an employee's health plan is measured the same way, regardless of whether the employee is designated as full-time or part-time. If a part-time

worker is offered insurance that costs less than 9.12 percent of household income and meets minimum value, the worker will not be eligible for a premium tax credit. However, if a part-time worker is offered insurance that is unaffordable or is below minimum value — or if he is not offered coverage at all — then he may be eligible for a premium tax credit, assuming all other requirements are met.

11 Does employer-sponsored coverage have to fail *both* the affordability and minimum value tests to allow an employee and dependents to become eligible for a premium tax credit?

No, the offer of employer-sponsored coverage does not need to fail both tests. An employee can qualify for premium tax credits when no plan offered by the employer is both affordable and meets minimum value. For example, if an employer offers a plan that is very low-cost for the employee but has a minimum value of less than 60 percent, the employee can turn down the plan and qualify for a premium tax credit. However, if the employee enrolls in the plan, the employee will not be eligible for a premium tax credit. During the marketplace open enrollment period, an employee who enrolls in an employer plan that is not affordable or not minimum value can drop that plan and enroll in a marketplace qualified health plan (QHP) with a premium tax credit, assuming the employee meets all other eligibility requirements.

12 Is all employer-sponsored insurance required to meet the affordability and minimum value tests?

No, not every plan an employer offers is required to meet the affordability and minimum value tests. For example, an employer could offer three plans: Plan 1 that meets both affordability and minimum value, Plan 2 with comprehensive benefits but high premiums that is not considered affordable for all employees, and Plan 3 that has very low premiums but limited coverage that fails to meet minimum value. The employer can offer, and the employee can select, any of these plans. Regardless of which plan employees choose, they will not qualify for premium tax credits in the marketplace because the employer offers at least one plan (Plan 1) that meets both affordability and minimum value.

13 How will the marketplace confirm whether an applicant for the premium tax credit has employer-sponsored insurance?

When a person fills out the marketplace application, they are asked questions about any offers of employer-sponsored coverage. The application asks if insurance is offered, whether it meets minimum value, its cost, and whether any waiting period applies to determine whether the employee is eligible for a premium tax credit despite having an offer of coverage. The marketplace will use information to determine whether the offer bars eligibility for PTC. Employers share data with the marketplace and the IRS to identify the people who have been offered employer-sponsored insurance (and insurers prepare a similar report that identifies who was enrolled in coverage).

If the person doesn't have that information readily available, they can request download a form called the Employer Coverage Tool to be completed by the applicant's employer or with the employer's help. If the employer doesn't assist in completing the document, the applicant can try to find this information in other ways. For example, the employee can find premium

costs in information provided during their most recent open enrollment period. In addition, the minimum value of every plan should be on its Summary of Benefits and Coverage (SBC), a document that all plans — including employer-sponsored plans — are required to produce.

14 Does an offer of retiree coverage prevent someone from receiving a premium tax credit?

A person who is eligible for retiree coverage does not have to demonstrate that the retiree coverage offer was unaffordable or failed to meet minimum value to qualify for a premium tax credit. The retiree will be eligible for a credit if he meets all other criteria for eligibility. This is in contrast to other offers of employer-sponsored coverage which disqualify an employee from receiving a premium tax credit whether or not the coverage is accepted (assuming the coverage meets the affordability and minimum value tests). However, if the retiree actually enrolls in the retiree plan, it is considered minimum essential coverage and becomes a barrier to receiving premium tax credits. People who are enrolled in retiree coverage generally must wait until the marketplace open enrollment period to drop that coverage and enroll in a QHP with a premium tax credit.

15 If an employer offers retiree coverage, but does not extend it to the retiree's spouse, will the spouse be eligible for a premium tax credit?

Yes, assuming that other requirements are met, the spouse will be eligible for a premium tax credit in the marketplace. The retiree's eligibility for retiree coverage will not affect the spouse's eligibility for a premium credit.

16 Does an offer of COBRA coverage prevent someone from receiving a premium tax credit?

COBRA is continuation coverage that is available to workers and their families after certain circumstances make them no longer eligible for the worker's employer plan. The same rules that apply to people who are eligible for retiree coverage apply to people who are eligible for COBRA. Like retiree coverage, an offer of COBRA does not bar someone from being eligible for a premium tax credit. It is only a barrier to receiving the credit if the person actually enrolls. During the marketplace open enrollment period, an individual enrolled in COBRA could drop that coverage and enroll in a marketplace plan with a premium tax credit, if otherwise eligible.

17 Does an offer of domestic partner coverage for unmarried, cohabitating couples create a firewall from premium tax credit eligibility?

Some employers offer health coverage for domestic partners (whether of the same or opposite sex). In most cases, the offer of coverage would not prevent the domestic partner from being eligible for premium tax credits. A person who is offered coverage because of his or her relationship to an employee, but who does not file a joint tax return as a spouse or is not claimed as a dependent on the employee's tax return, may turn down the offer of coverage and be eligible for a premium tax credit, if all other tests are met. However, an employee's spouse or dependent who is offered coverage through the employer cannot qualify for a premium tax credit unless the coverage is unaffordable or fails to meet the minimum value test.

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If an employer gives employees a stipend for coverage instead of providing health insurance, are those employees still eligible for a premium tax credit?

Yes. Some employers offer a cash "stipend" instead of offering health insurance. This cash stipend is taxable income, similar to a bonus or a pay raise, and cannot be conditioned on the purchase of health insurance or made through payroll deductions. This type of employer assistance does not disqualify a person from receiving a premium tax credit. Employers cannot reimburse employees for the cost of their marketplace premiums using pre-tax dollars.

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Can someone who is self-employed qualify for a premium tax credit?

Yes. A person who is self-employed can enroll in coverage through the marketplace and potentially qualify for a premium tax credit. A self-employed person who has employees (other than independent contractors) can purchase coverage for employees in the Small Business Health Options Program (SHOP) marketplace.

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Can a person enroll and qualify for a premium tax credit if he or she was offered employer-sponsored coverage but missed the employer's open enrollment period?

In general, no. Some people may have missed their opportunity to enroll in their employer-sponsored plan. However, if the insurance offered by the employer was affordable and met minimum value, that employer offer still counts as an offer of minimum essential coverage that prevents a person from being eligible for a premium tax credit. A person in this position may enroll in marketplace coverage during an open or special enrollment period but will be ineligible for financial help.