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GUIDE

Employer Coverage & Premium Tax Credit Eligibility

An offer of employer coverage generally (but not always) makes employees and their tax dependents ineligible for the premium tax credit (PTC).

A PERSON IS NOT ELIGIBLE FOR PTC ("FIREWALLED") IN ANY OF THESE CIRCUMSTANCES:

- Any eligible employer-sponsored plan *offered* to the employee is both affordable & meets minimum value.
  - * Former employees offered COBRA or retiree coverage and non-tax-dependent family members offered coverage are firewalled only if they enroll in employer coverage.
- The person is offered coverage as a family member on the tax return of an employee whose *family coverage* is affordable and minimum value.
- The person *enrolls* in the eligible employer-sponsored plan, even if it isn't affordable or minimum value.

What is eligible employer-sponsored coverage?

Only an eligible employer coverage offer disqualifies an employee and their family from PTC eligibility.

Eligible employer-sponsored coverage is:

- An insured (including grandfathered) plan in the small or large group market;
- A self-insured group plan; or
- A government employee plan (except VA and certain Department of Defense coverage)

Do not consider:

- Limited benefit plans, such as indemnity or short-term plans, primary care arrangements, or health care sharing ministries; or
- Ancillary benefits, such as stand-alone vision and dental, coverage limited to a specific disease or illness, or workers' compensation coverage.

Is coverage affordable and minimum value?

A plan is affordable if:

- The *required contribution* is less than or equal to 8.39% of the employee's household income (in 2024; this figure is updated every year). The required contribution is the employee's share of the premium for the lowest-cost, employee-only plan.
- Affordability for the employee is based on the premium for employee-only coverage. Affordability for the spouse and dependents is based on the premium for spouse/family coverage.

A plan is minimum value if:

- The plan pays at least 60 percent of the cost of allowed benefits (sometimes referred to as actuarial value).
  - * The plan's Summary of Benefits and Coverage (SBC) will indicate whether the plan meets minimum value. Employers are required to provide this document upon request.

Special rules that reduce the required contribution

Several rules can reduce the employee's required contribution, making PTC eligibility less likely. Account for those in the HealthCare.gov application when asked for the employee's share of the premium. (See Details & Examples)

- **Wellness incentives.** In the HealthCare.gov application, enter the premium an employee would pay if they got the maximum discount for any tobacco-related incentive. Don't include other incentive programs.

- **Health reimbursement arrangements (HRAs).** There are several distinct types, including:
  - → **Offered with group health coverage:** The employer's HRA contribution reduces the employee's required contribution if it can be used to pay premiums. Enter the reduced premium in HealthCare.gov.
  - → **Offered by a small employer and used in the marketplace:** An employer's contribution to a Qualified Small Employer HRA (QSEHRA) can be used to reimburse an employee for marketplace premiums. Coverage is affordable if the second-lowest cost silver plan premium for self-only coverage minus the maxium self-only QSEHRA amount is less than 8.39% of income (in 2024). If affordable, PTC is not allowed for the employee or their family members, even if they choose not to enroll in the QSEHRA. If not affordable, the PTC is allowed but the premium must be reduced by the total (self or family) QSEHRA amount. Calculate affordability using the HealthCare.gov calculator available here: healthcare.gov/job-based-help
  - → **Offered by employers of any size and used in the marketplace:** The employer's contribution to an Individual Coverage HRA (ICHRA) reduces the employee's required premium contribution for a marketplace plan. Coverage is affordable if the lowest-cost self-only silver plan premium minus the maximum self-only ICHRA value is less than 8.39% of income (in 2024). If it's affordable, PTC is not allowed for the employee or their family members, even if they choose not to enroll in the ICHRA. If it's unaffordable, the employee and their family members can choose to opt out of the ICHRA and enroll in marketplace coverage with PTC. In this situation, use the standard PTC calculation. Calculate affordability using the HealthCare.gov calculator available here: healthcare.gov/job-based-help
  - → **Offered by employers and used to reimburse medical expenses:** An excepted benefits HRA (EBHRA) is a limited HRA that an employer can offer in addition to a traditional group health plan to reimburse medical expenses. It doesn't affect the PTC calculation. This is similar to certain other tax-free accounts, explained later.

When does the employee safe harbor apply?

- ▹ If the marketplace determines an employer plan is not affordable, the marketplace's determination stands, even if the plan appears to be affordable at the end of the year.
- ▹ However, this protection does not apply if the applicant provided incorrect information with intentional or reckless disregard of the facts. The employee may be responsible for repayment of the PTC.
- ▹ At redetermination, the employee must affirmatively respond to the employer coverage questions with current information. They should not use auto-reenrollment.

Details & Examples

Wellness Plans

Tobacco incentives are considered "earned," meaning they reduce the employee's cost of coverage for the affordability determination whether or not the employee qualifies for the discount. Other types of incentives are not factored into the required contribution.

- → ***On HealthCare.gov:*** Enter the premium a person would pay if they got the maximum discount for any tobacco-related incentive. Don't include other incentive programs.

<u>Example</u>: The employer offers an eligible employer-sponsored plan with a wellness program. Employees must pay a premium of $4,000 per year to enroll in coverage, but the wellness program reduces that by $300 for employees who do not use tobacco products or who complete a smoking cessation course. Since tobacco incentives are considered "earned," the annual premium for determining affordability is $3,700, whether or not the employee uses tobacco products or completes a smoking cessation course.

<u>Example</u>: The employer instead offers a $200 discount for completing a cholesterol screening. Since non-tobacco incentives are considered "unearned," the premium is $4,000, whether or not the employee completes the cholesterol screening.

HRA with a Group Health Plan

Some employers make contributions to HRAs in addition to providing group health plans. If the employer's HRA contribution can be used to pay premiums for the group health plan (even if it can also be used for other medical expenses), it reduces the amount of the employee's contribution in determining the affordability of the coverage offer. The amount of the HRA contribution must be stated up-front by the employer prior to enrollment.

→ ***On HealthCare.gov:*** Enter the employee's premium minus the HRA contribution to determine whether the plan is affordable.

Example: The employee contribution for health coverage under the employer's health plan is $200 per month. The employer also contributes $1,200 to an HRA that the employee may use to pay the employee share of the premium, cost-sharing, or the cost of vision or dental coverage. The employer's HRA contribution reduces the employee's required contribution to $100 per month, whether or not the employee uses the funds toward the premium.

QSEHRA with a Marketplace Plan

Small employers that do not offer health insurance may contribute tax free to a QSEHRA to reimburse employees who enroll in minimum essential coverage, including a marketplace plan for premiums and other medical expenses. The maximum employer contribution is $5,850 per employee ($11,800 for a family) for 2023. The QSEHRA's affordabilty is measured in reference to the cost of a marketplace plan, instead of the cost of a traditional group health plan. No PTC is permitted if the QSEHRA makes the employee-only second-lowest-cost silver marketplace plan (employee SLCSP) affordable If the plan is not affordable PTC is allowed but must be reduced by the maximum QSHERA the employee is eligible to receive.

→ ***On HealthCare.gov:*** To determine if the QSEHRA is affordable, use the calculator at healthcare.gov/job-based-help. If the QSEHRA is affordable, no PTC is allowed, but the employee (and family) may enroll in a marketplace plan without financial assistance. If the QSEHRA is not affordable, calculate the PTC. When the marketplace asks how much to pay on the applicant's behalf, reduce the allowed PTC amount by the highest QSEHRA amount the employee could get, which might be a family QSEHRA. (State-based marketplace enrollees may have other tools available to calculate QSEHRA affordability.)

Example: A small employer contributes $2,000 to a QSEHRA for an employee or $4,000 for a family. The household income is $30,000, and the employee has a family of three. The expected contribution is $2,517 ($30,000 x 0.0839). The employee-only SLCSP premium is 3,200. To determine if the health plan is affordable, subtract the self-only QSEHRA amount from the employee SLCSP premium ($3,200 - $2,000 = $1,200). The premium is affordable since it is less than the expected contribution ($1,200 < $2,517), no matter how much family coverage costs. The employee and their family are ineligible for a PTC. The family can enroll in marketplace coverage without financial assistance (or the child may be eligible for Medicaid or CHIP) and use the QSEHRA to defray costs.

Example: This time suppose the employee-only SLCSP premium is $5,200. Coverage is unaffordable because the required contribution of $3,200 (the $5,200 SLCSP minus the $2,000 QSEHRA) exceeds $2,517 ($30,000 x 0.0839). The employee and family enroll in marketplace coverage (or the child in Medicaid or CHIP), and they are determined eligible for a PTC of $10,000 for the year. They must ask the marketplace to reduce the amount of PTC they receive by $4,000 (the value of the family QSEHRA). They are eligible for a PTC of $6,000 ($10,000 PTC - $4,000 employer contribution to the *family* QSEHRA).

ICHRA with a Marketplace Plan

An employer (of any size) that does not offer traditional group coverage can fund an Individual Coverage HRA (ICHRA) that the employee pairs with an individual market plan, including a marketplace plan, or Medicare. There is no maximum employer contribution. Funds can be used to reimburse premiums and medical expenses but only if the employee (and family members) are enrolled in individual market coverage or Medicare. The required contribution for an ICHRA is the lowest-cost employee-only silver plan (*not* the second-lowest cost plan) minus the employer's ICHRA contribution. If the ICHRA makes the lowest-cost silver plan affordable, no PTC is permitted. If the ICHRA does not make the plan affordable, PTC is allowed if the employee opts out of the ICHRA. Unlike with the QSEHRA (but like traditional employer coverage), an employee cannot get both the ICHRA and the PTC. Employers are required to provide a written notice to the employee with the ICHRA amount.

Important exception: Some employers that offer an ICHRA may do so through a "cafeteria plan" to allow employees to pay the balance of their individual market plan premium with tax-free dollars through what is known as a salary reduction arrangement. If an employer does this, *the employee's cafeteria plan funds cannot be used toward the purchase of a marketplace plan*. Instead, they'll need to enroll in an off-marketplace individual market plan.

- → ***On HealthCare.gov:*** Calculate the affordability of the ICHRA using the calculator available here healthcare.gov/job-based-help. If the ICHRA is not affordable, the employee may be eligible for PTC, as when traditional employer coverage is unaffordable, but they must opt out of the ICHRA. If the ICHRA is affordable, no PTC is permitted. The employee may enroll in marketplace coverage (unless the employer offers the ICHRA through a cafeteria plan) but isn't eligible for PTC. In HealthCare.gov, indicate that you don't want financial assistance or reduce the PTC to zero.

Example: An employer offers an ICHRA with a $3,500 contribution for an employee and $5,000 for a family. The employee's household income is $40,000. The family's expected contribution is $3,356 ($40,000 x 0.0839). Determine whether the ICHRA is affordable. The employee's lowest-cost silver plan in the marketplace is $6,000. The employee-only ICHRA brings the lowest-cost silver plan premium to $2,500 ($6,000 - $3,500); since the plan costs less than $3,356, the ICHRA is an affordable employer coverage offer. The employee and her family are not eligible for a PTC, even if family coverage costs more.

Example: Instead, suppose the employee-only ICHRA is only $2,000. The employee's contribution would be $4,000 (the $6,000 lowest-cost silver plan minus the $2,000 ICHRA contribution). The coverage is not affordable ($4,000 > $3,356). The employee and her family are eligible for a PTC in the marketplace but must opt out of the ICHRA. An employee cannot have both.

Example: An employer offers an ICHRA and sets up a cafeteria plan to allow the employee to contribute money through a salary reduction arrangement to cover the balance of the premium (after accounting for the employer's HRA contribution) tax free. First determine whether the HRA is affordable. If it's not affordable, the employee is free to enroll in marketplace coverage with PTC (so long as they opt out of the ICHRA). If the ICHRA is affordable, the employee could choose to enroll in marketplace coverage, but they could not also use the salary reduction arrangement. If the employee wants to use the salary reduction arrangement, they will need to purchase individual coverage outside the marketplace.

Excepted Benefits HRA (EBHRA), HSA, or FSA

Employees may be offered several other types of account-based health benefits.

- An excepted benefits HRA (EBHRA) is a limited HRA that an employer can offer in addition to a traditional group health plan to reimburse medical expenses, even if the employee chooses not to enroll in the group health plan. The EBHRA is limited to $2,100 in 2024 (see irs.gov/pub/irs-drop/rp-23-23.pdf). Separately from EBHRAS employers can offer HRAs that may be only for excepted benefits. Neither of these types of HRA can be used to reimburse premiums for group or individual coverage or Medicare. Their availability does not affect PTC eligibility.
- A health flexible spending arrangement (FSA) reimburses employees for expenses incurred for certain qualified health benefits.
- A health savings account (HSA) is a savings account that lets you set aside money on a pre-tax basis to pay for qualified medical expenses.
  - → ***On HealthCare.gov:*** Enter the employee's required contribution for group coverage. Don't factor in the value of these other benefits.

Example: An employee is offered traditional employer coverage with an employee-only premium of $4,000 per year. The employer also contributes $500 to an EBHRA. Calculate the affordability of employer coverage using the $4,000 premium only.