Compliance Alert

IRS Increases ACA Affordability Percentage to 10.22% for 2027 Plan Years

PROVANT

Affordability Percentage Increased to 10.22% for Plan Years

July 21st, 2026

On July 21, 2026, the IRS announced a **10.22% affordability percentage for plan years starting in 2027** *(an increase from 9.96% for plan years starting in 2026)*. This increase is partially due to a recent change in the indexing methodology.

This affordability percentage is used by applicable large employers (ALEs) to determine whether the **lowest-cost single medical plan providing minimum value** is affordable for each full-time employee. ALEs do not have to be affordable on additional plan options that cost more and do not have to be affordable for dependent coverage tiers.

There are 3 affordability safe harbors an ALE can use to determine whether coverage is "affordable" for each full-time employee. The 3 safe harbor methods include:

- Rate of Pay (most common)
- W-2 (hardest to use, typically reserved for commission or tipped employees)
- Federal Poverty Line (FPL is easiest to use, and provides advantages for the employer)

A calendar year 2027 plan will be FPL affordable at $135.92/mo (which is $6.03/mo more than the $129.89/mo for 2026 calendar year FPL affordability). If coverage costs $135.92 or less, the employer's offer of coverage for the lowest cost plan for the self-only tier is automatically affordable for all employees eligible for that rate, regardless of their rate of pay or hours. While a non-calendar year plan beginning in 2027 can also use this figure, updated Federal Poverty Guidelines are expected in the third week of January, which typically provides an even higher threshold for plans that subsequently renew. An alert will be sent when that new figure becomes available (probably on or around January 22, 2027).

As an example of the rate of pay safe harbor, if the lowest paid full-time employees make $12 per hour, the employer would use 130 hours per month times $12 per hour (which is $1,560 per month).

- For the plan year that began in 2026, to be considered rate-of-pay affordable the hourly employee could pay no more than $155.37/mo (9.96% of $1,560).
- For the plan year beginning in 2027, to be considered rate-of-pay affordable the hourly employee could pay no more than $159.43/mo (10.22% of $1,560).

Note, plan years starting in 2026 would need to use the 2026 affordability percentage, which is 9.96%, for the entire plan year. Therefore, an ALE needs to decide which affordability safe harbor(s) they will use and ensure premium contributions are designed properly before the plan's start date, and NOT wait to figure it out during ACA reporting.

IRS Rev. Proc. 2026-26: https://www.irs.gov/pub/irs-drop/rp-26-26.pdf

WHAT'S NEW

- **The ACA affordability percentage will increase to 10.22%** for plan years beginning in 2027 (up from 9.96% in 2026).
- **Calendar-year plans using the Federal Poverty Line safe harbor can charge up to $135.92/month** for self-only coverage while remaining affordable in 2027.
- **Employers should set employee premium contributions before the start of the 2027 plan year,** based on their chosen affordability safe harbor (Rate of Pay, W-2, or Federal Poverty Line).

TAKEAWAY

ALEs should review their 2027 contribution strategy now to ensure their lowest-cost self-only medical plan remains ACA affordable before the plan year begins.