

LEGAL UPDATE



HIGHLIGHTS

- The IRS has announced the affordability percentage that will apply under the ACA's pay-or-play rules for plan years beginning in 2026.
- This percentage (9.96%) is a significant increase to the affordability threshold.
- ALEs will need to consider this affordability percentage in developing their health plan contribution strategies for the 2026 plan year.
- Due to this change, employers may be able to increase employee contributions while still meeting the ACA's affordability requirement.

Pay-or-Play Affordability Percentage Will Increase for 2026

On July 18, 2025, the IRS released [Revenue Procedure 2025-25](#) to index the contribution percentage in 2026 for determining the affordability of an employer's health plan under the Affordable Care Act (ACA). For plan years beginning in 2026, employer-sponsored coverage will be considered affordable under the ACA's "pay-or-play" rules if the employee's required contribution for self-only coverage does not exceed **9.96%** of their household income for the year.

Affordability Test

The ACA's pay-or-play rules require applicable large employers (ALEs) to offer affordable, minimum-value health coverage to their full-time employees (and dependents) or risk paying a penalty. The affordability of health coverage is a key point in determining whether an ALE may be subject to a penalty. An ALE's health coverage is considered affordable if the employee's required contribution to the plan does not exceed 9.5% (as adjusted annually) of the employee's household income for the taxable year. This percentage is adjusted each year based on health plan premium growth rates in relation to income growth rates.

In recent years, the affordability percentage has been adjusted to:

- 9.12% for plan years beginning in 2023;
- 8.39% for plan years beginning in 2024;
- 9.02% for plan years beginning in 2025; and
- 9.96% for plan years beginning in 2026.

For purposes of the pay-or-play rules, the affordability test applies only to the portion of the annual premiums for self-only coverage and does not include any additional cost for family coverage. Also, if an employer offers multiple health coverage options, the affordability test applies to the lowest-cost option that provides minimum value.

Because an employer generally will not know an employee's household income, the IRS has provided three optional affordability safe harbors that ALEs may use to determine affordability based on information that is available to them: the Form W-2 safe harbor, the rate of pay safe harbor and the federal poverty level safe harbor.

Affordability Percentage for 2026

For 2026, the affordability percentage increases to 9.96%. This means that an ALE's health coverage for the 2026 plan year will be considered affordable if a full-time employee's required contribution for self-only coverage under the lowest-cost option does not exceed 9.96% of their income. This is a significant increase from the affordability contribution percentage for 2025 and the highest this percentage has ever been. As a result, employers may be able to increase employees' health coverage contributions for 2026 while still meeting the adjusted affordability percentage.